April 15, 2015

The Honorable John Thune
Chair
Business Income Tax Working Group
United States Senate
Washington, DC 20510

The Honorable Benjamin Cardin
Vice Chair
Business Income Tax Working Group
United States Senate
Washington, DC 20510

Dear Chairmen Thune and Cardin:

On behalf of the nearly 13,000 full power, commercial local radio and television stations across the country, the National Association of Broadcasters (NAB) is pleased to provide its comments to the Business Income Tax Working Group on tax reform. We appreciate the opportunity to submit written comments on the potential impact of tax reform on free, over-the-air radio and television broadcasters.

NAB urges you and other members of the Senate Finance Committee to refrain from including in tax reform legislation any proposal to alter the deductibility of advertising as an ordinary and necessary business expense. As discussed below, making advertising more expensive for businesses by changing its deductibility would reduce advertising, hamper economic activity and, thus, employment, and significantly harm media outlets reliant on advertising, particularly those that provide free services to the public.

Advertising Should Continue to be Treated as an Ordinary and Necessary Business Expense

Advertising has long been recognized and protected as an essential part of daily business operations since the tax code was adopted. For over 100 years, advertising has been treated as an ordinary and necessary business expense, no different than the costs of employee salaries, rent and utilities. Any measure that would alter or eliminate the current law permitting businesses to deduct the full cost of advertising in the year it is incurred would have widespread, significant adverse impacts.

Moreover, advertising's effectiveness is short lived. Economic evidence simply does not support the argument that the benefits derived from advertising are long-term, and advertising should be treated like a durable expense.[1] The reason is simple, consumer demands and buying habits are always changing. There is no sound public policy rationale that supports amortizing that expense over years.

[1] "Economic Analysis of Proposed Changes in the Tax Treatment on Advertising Expenditures." Lexecon Inc. Chicago, IL (August 1990).

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Local Broadcasters Rely on Advertising Dollars to Fund Their Programming

Broadcasters disseminate local news and weather, high-quality entertainment and sports programming and vital emergency information free of charge to every local community in the country. Radio and television broadcasters are integral parts of the towns and cities they serve and make diverse and valuable contributions to local communities. Stations give a voice to local groups and organizations, provide exposure for public service announcements and political debates, invest in newsrooms that report on local events, offer in-depth investigative journalism and serve as the vehicle by which local businesses advertise their goods and services to consumers.

Local radio and television stations rely predominately on advertising revenue to produce expensive entertainment, sports and news programming. In all cases, advertising is the primary source of revenue for local stations, and for some it is the only source of revenue. According to the media research firm BIA Kelsey, approximately 91 percent of broadcast television[2] and 90 percent of broadcast radio[3] revenues are directly attributable to advertising. Advertising is the means by which broadcasters are able to offer video and audio services free of charge to the public.

Local broadcasting is also a driver of significant economic activity and a generator of jobs, with the 12,747 full-power, commercial radio and television broadcast stations employing over 300,000[4] Americans across the country. The overall stimulus broadcasting provides to the U.S. economy is captured in a study by Woods and Poole Economics that estimates local commercial radio and television stations annually contribute $1.24 trillion of Gross Domestic Product and 2.65 million jobs in the American economy across all sectors, including automobile, manufacturing, banking and retail, just to name a few.[5]

Advertising is an Engine that Fuels the U.S. Economy

Beyond the impact to broadcasting, the importance of advertising across the U.S. economy as a whole cannot be exaggerated. In 2015, advertising is projected to support 20.8 million U.S. jobs and $6.2 trillion in U.S. sales, according to a study by the economic consulting firm IHS Global Insight, Inc.[6] This study further shows that the indirect economic impact of advertising spending is also significant: every dollar of advertising spending generates $19 of economic activity. As the U.S. economy is just beginning to emerge from the recent economic downturn, making advertising more expensive could very well jeopardize the growth we are seeing in this current rebound.

As the Senate Finance Committee begins work on reforming this country’s tax laws,

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[2] BIA/Kelsey 2014

[3] NAB Analysis of SNL Kagan/Radio Advertising Bureau data.

[4] Woods & Poole Economics, *Local Broadcasting: An Engine for Economic Growth 2014.*

[5] Woods & Poole Economics, *Local Broadcasting: An Engine for Economic Growth 2014.*

[6] “The Economic Impact of Advertising Expenditures in the United States, 2012-2017.” IHS Global Insight, Inc. (June 2013).

NAB asks that the Committee refrain from including any changes that would be harmful to advertising generally, and broadcasting specifically, including changes to the deductibility of advertising. Advertising is the lifeblood of radio and television broadcasting and supports the production of our diverse and locally-focused programming provided free over the air. As a result, any change to the treatment of advertising would not only reduce advertising, but would also harm broadcasters' ability to serve your constituents.