

Maryland's Tax on Big Tech's Ad Revenue

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Overview

- Key Questions
- Maryland's Budget
- Digital Advertising on the Rise
- The Bill
- Potential Responses/Effects
- Importance of Economic Modeling
- Model Demonstration
- Q&A



About Us

Regional Economic Models, Inc. (REMI) was founded in 1980 on a transformative idea: *government decision-makers should test the economic effects of their policies before they're implemented.* We are the nation's leader in dynamic local, state and national policy modeling. Our clients use REMI models to perform rigorous economic analysis that critically influences local, state and national policies.

OUR CLIENTS:

Sandia National Laboratories • Ernst & Young • Texas Comptroller
University of Michigan • Tennessee Valley Authority • National Education Association
South Coast Air Quality Management District • North Carolina Department of Commerce
Wyoming Department of Administration & Information

Key Questions

- How can states address revenue shortages as COVID relief spending slows down?
- How will a new tax on digital ad revenue effect market players?
- Will Maryland serve as model for the rest of the United States?
- What role can economic modeling play in helping decision makers draft legislation?

Maryland Budget Funding

- Federal funds account for a large portion of MD's budget
- COVID funds dropped from \$1.5 billion in 2020 to \$1.79 million for FY 2022
 - When COVID funding comes to halt, how can a state maintain its budget?

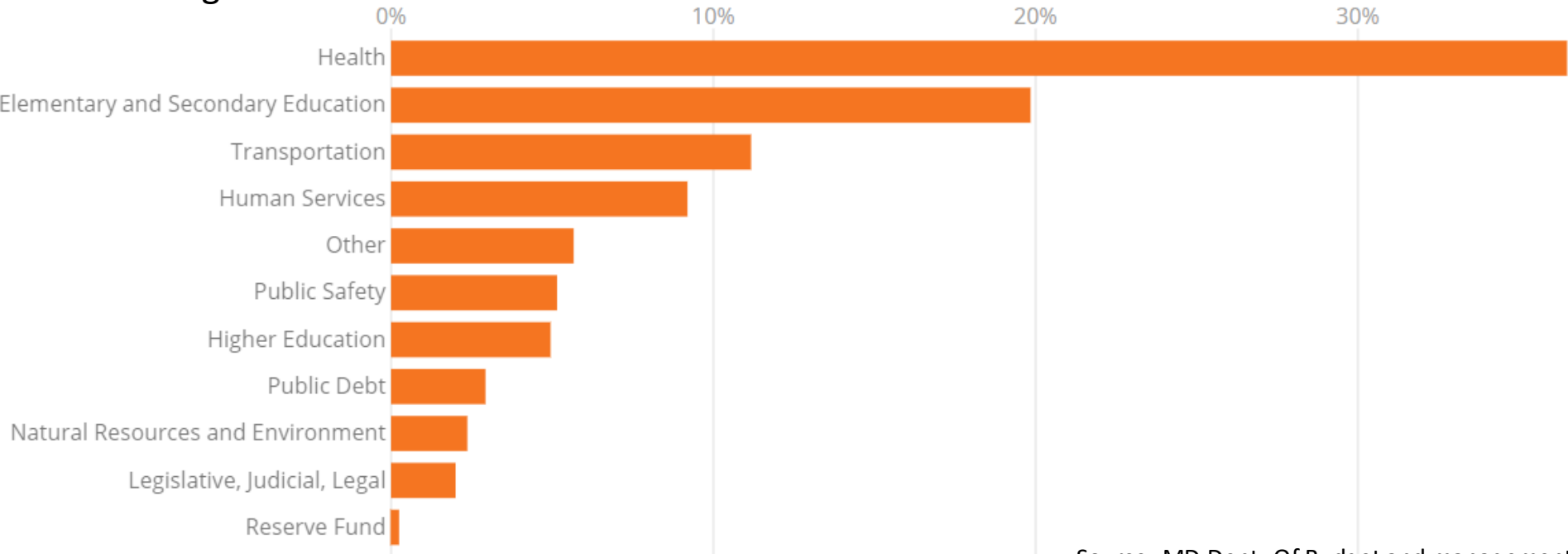
FY 2021 Budget Funding

Fund	Amount (\$)	Percent (%)
General Funds	\$18,965,517,205.00	41.28%
Federal Funds	\$16,510,419,800.00	35.93%
Special Funds	\$9,949,699,684.00	21.65%
Federal Funds (COVID)	\$522,623,772.00	1.14%

Maryland Budget Allocation

- Health and education spending lead the way at 36.49% and 19.84%, respectively
- Record education funding supported by federal COVID relief

FY 2021 Budget Allocation



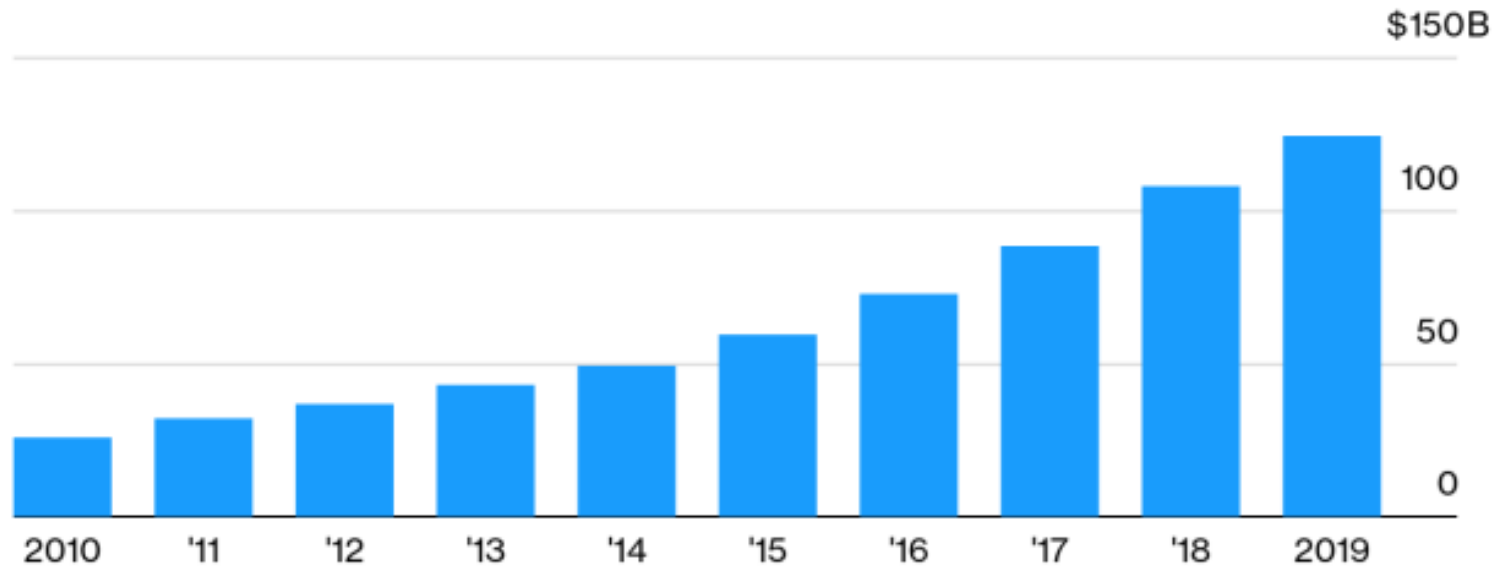
Digital Advertising Revenues



- Up to \$139.8 Billion in 2020 for the entire United States

A Decade of Growth in Digital Advertising Revenues

Revenues surge at a 19% compound annual rate since 2010



Source: Interactive Advertising Bureau

Bloomberg Tax

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Advertising in Maryland

- 14.6% of economic activities in MD generated by advertising
- Advertising helps produce 14.9% of all jobs in MD
- Advertising plays a large role in the Maryland economy and any changes around it should be thoroughly investigated
- As digital ads become more prominent in the US, MD will follow

Source: MD Gen. Assembly

14.6%
\$101.5 B

Advertising helps generate \$101.5 billion or 14.6% of economic activity in Maryland



14.9%
393,667 Jobs

Advertising helps produce 393,667 or 14.9% of all jobs in Maryland



Every **\$1 million** spent on advertising supported



82 Maryland Jobs

The Bill

- Maryland is the first state to approve a tax on Big Tech's ad revenue
 - State legislature overrode the Governor's veto
- Following Europe's footsteps (France (3%), Austria (5%))
- Response to COVID trends
 - States saw revenues fall while Big Tech saw a major digital push
- Opposition from Big Tech
 - Internet Tax Freedom Act (ITFA)
 - MD Lawsuit filed

Paul Romer's Op-Ed

- Nobel Laureate for Economics
- Alternative to antitrust laws
 - To avoid associated externalities (e.g. price gouging, "stifling innovation and undermining the institutions of democracy")
- State level sales tax / federal level corporate income tax
- "The bigger they get, the more they know"
 - He suggests the need for a response to big tech's unchecked power
 - As they can be havens for misinformation

Progressive Tax

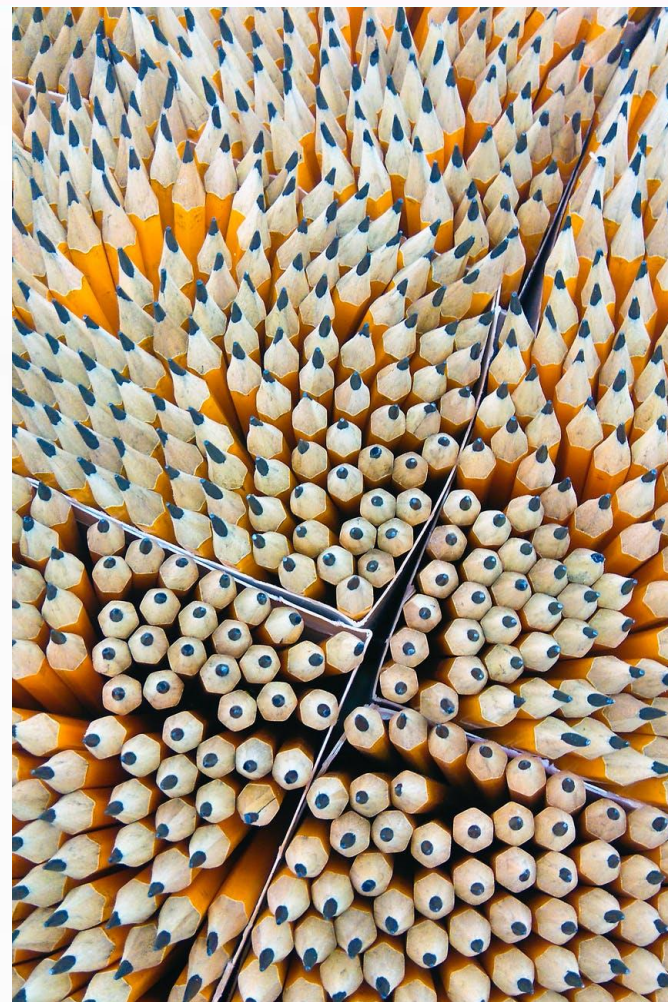
- Progressive tax – higher rates to larger companies
- Larger companies bear the brunt allowing new companies to enter the market
- Discourage mergers while encouraging dispersal
 - Thus, acting as an antitrust law
- 2.5% for companies making between \$100 million and \$1 Billion
- 10% for companies that make more than \$15 billion a year

Vagueness of the Bill

- Who is subject to the tax?
 - Ambiguity could lead to tax pyramiding
- What transactions are subject to the tax?
 - The bill defines digital advertising in such a way that it invites taxpayers to challenge its boundaries
 - catch-all term - “and other comparable advertising services.”
- What constitutes digital advertising “in the state”?
 - The comptroller is the decision-maker

Revenue Allocation

- Expected to generate \$250 million in revenue the first year
- Pumped directly into K-12 Education
- Long term economic benefits of education investment
 - Educated workforce
 - Higher wages
 - More equal oppportunities



Big Tech's Potential Adjustments



- Current model: Ad supported model
 - Cost burdened onto local businesses
- New model: ad-free subscription service
 - Cost put on consumers



what does **REMI** say? sm

Potential Effects of the Bill

- Ad costs increase
 - Advertisers pay more
 - Higher business costs
 - Less affordable for local businesses
- Less competitive with neighbouring states
 - Potential out migration of companies to states w/o sales tax
- Potential revenue loss due to less advertising and exposure
- Increased cost to consumers
 1. Higher business cost will be passed on to consumers
 2. Through ad-free subscription model – also decreases consumer choice (preference for free services)

Others on Trend

- Though Maryland is the first state in the U.S. to enact such legislation, there are several others making moves. Those states include:
 - Connecticut
 - Indiana
 - Montana
 - New York
 - Washington

Importance of Economic Modeling

CLARIFY

You need a *software solution* that simplifies the complex relationships between policies and your economy.

CALCULATE

Macroeconomic policy models allow you to *analyze* and *quantify* inherently complex policy issues and solutions.

COMMUNICATE

You can explain a *quantitative narrative* to policy makers and the general public.

- ✓ Get policy right
- ✓ Pass/Block legislation
- ✓ Modernize and advance your agency
- ✓ Formalize your decision-making process

Model Scenario



Cost: Digital Advertising Tax

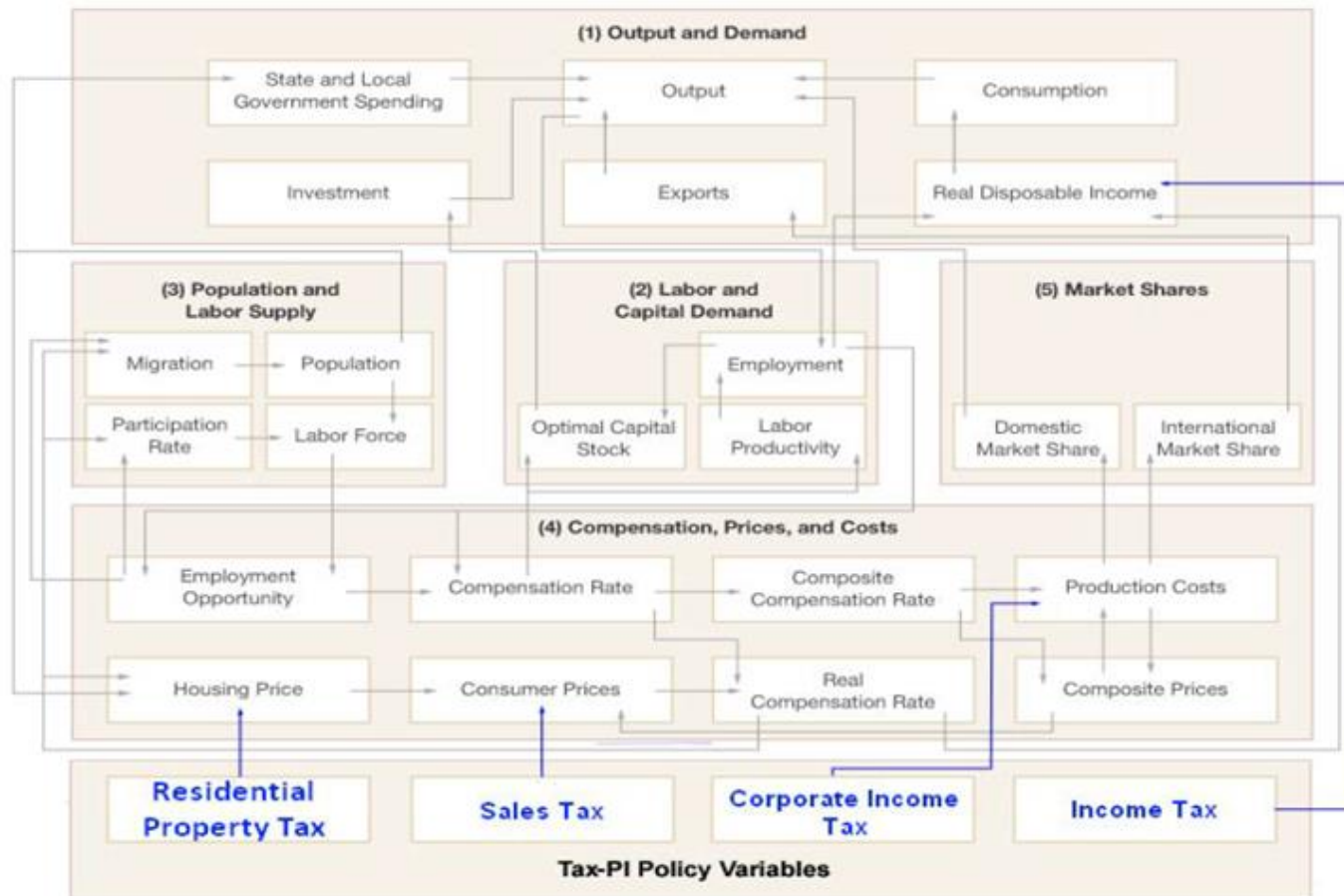
- Business costs increase
- Higher consumer prices



Benefit: State Revenue Allocation

- New state revenue
- Reinvest in education

Model Structure



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Model Methodology

- Single Region Connecticut Tax-PI Model
- Baseline: March RSQE Macroeconomic forecast
- Simulations with State Budget:
 - Increase business costs for all sectors
 - Increase overall consumer price
 - Reinvest approximately 250 million new state revenues in educational services
- Year: 2021-2030

MODEL DEMONSTRATION

Conclusions

- New legislation can fill the gaps created by COVID relief
- Potential effects could raise costs for both businesses and consumers
- Economic Benefits: new state revenue to be re-invested into education or other sectors
- Economic Cost: decreased GDP, job losses, less competitive region
- The country is watching Maryland as a case study



Q&A

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