

Advertising Market and Advertising Taxes Overview

Prepared for the California Senate Committee on Revenue and Taxation's Informational Hearing on
Sustaining Journalism in California: Tax and Tax Credit Options

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My background and disclosures

This presentation is not written to represent any point-of-view except my own.

1. **Meta**: Employment (2006 - 2023)

- a. Relevant roles: managing ads and payments engineering teams (2007-2012); VP for Facebook Groups and other products (2016-2018); Head of Health (2019-2023)
- b. I am no longer employed or compensated by Meta. I continue to hold some shares of Meta stock.

2. Board member at **Civic News Company** (2015 - ongoing)

3. Advisor to **Rebuild Local News** (2023 - ongoing)

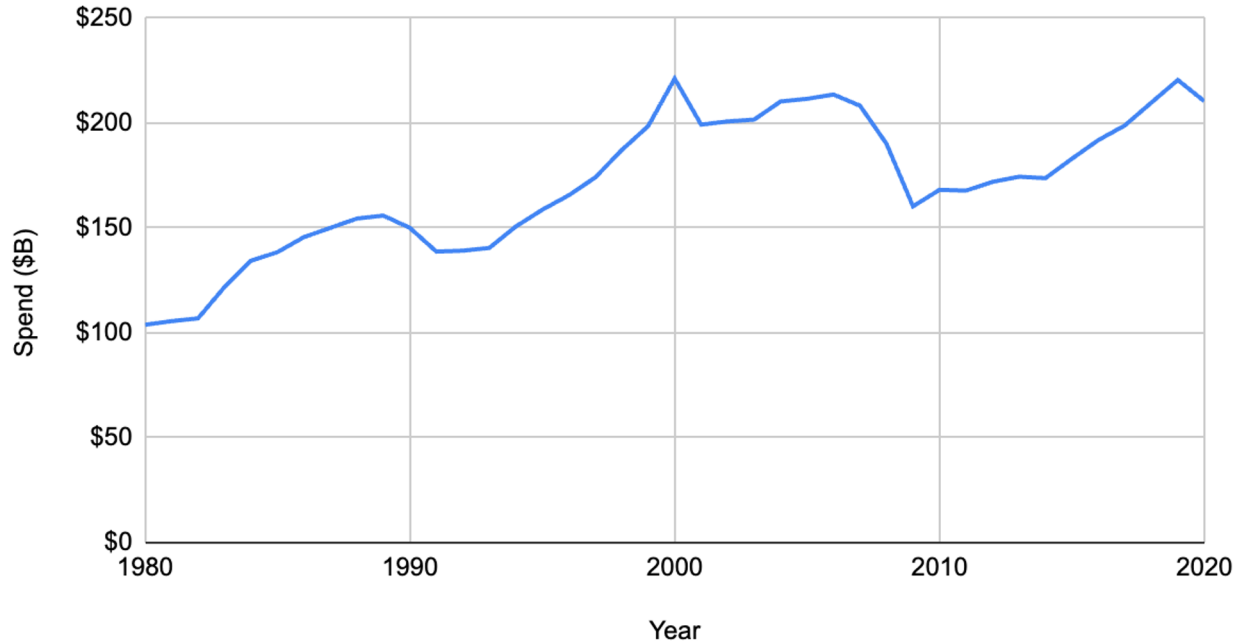
Goals of this presentation

1. **Historical trends of ad spend** in the United States, including for the newspaper sector and digital advertising.
2. **Current state of digital advertising**, with estimates of revenues by company for the United States and California and operating margins.
3. **Existing ad taxation approaches**, including potential revenue sizing for California and potential economic trade-offs.

1. Historical trends

1.1: How have advertising revenues changed over time?

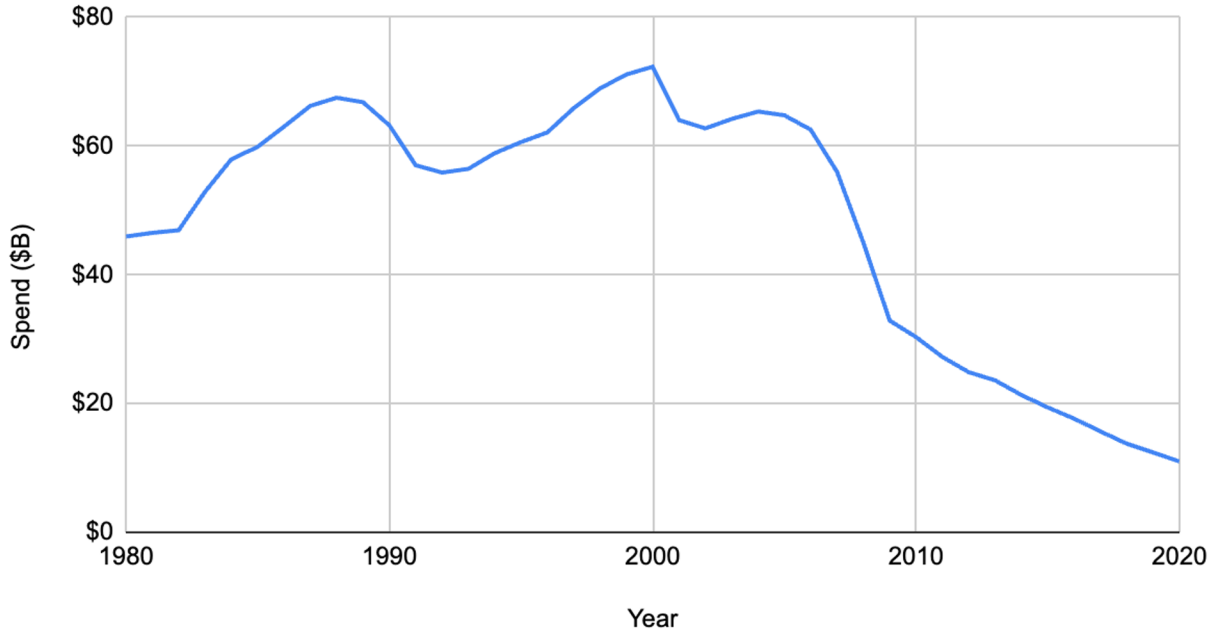
US total ad spend, 1980 - 2020 (inflation adjusted)



Total US advertising spend increased **~2x** (inflation adjusted; **~5x** unadjusted) from 1980-2020

1.2: How have newspaper ad revenues trended over time?

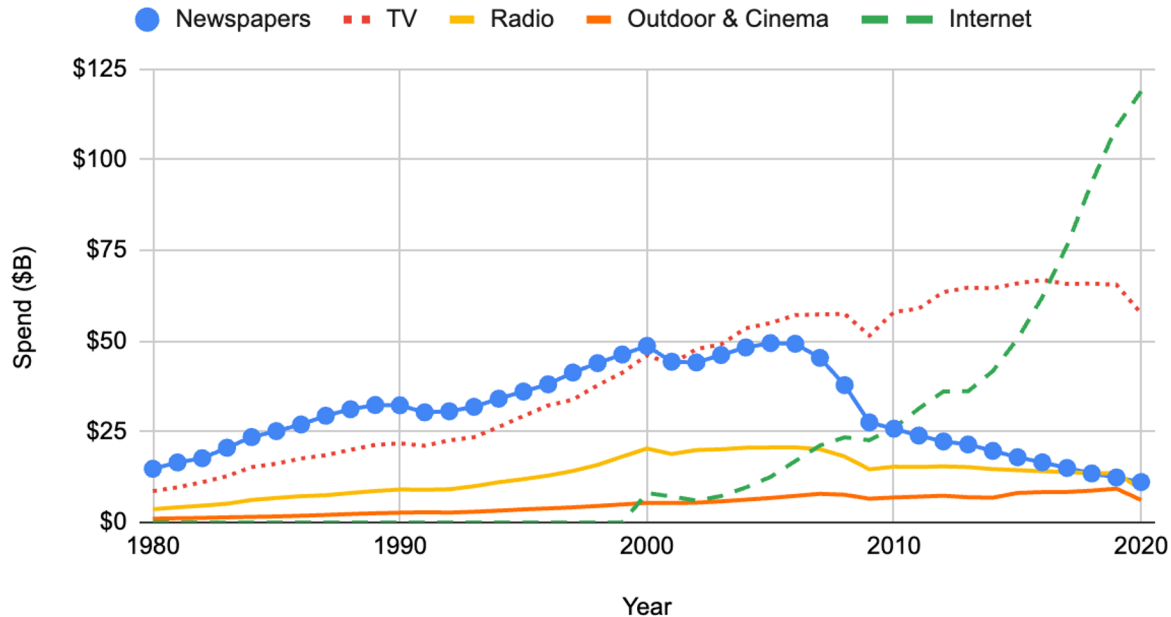
US total newspaper ad spend, 1980 - 2020 (inflation adjusted)



Newspaper advertising revenues in the US peaked in **2000** (inflation adjusted; 2006 unadjusted), and have since been in decline.

1.3: How has newspapers' advertising revenue share trended over time?

US ad spend by channel, 1980 - 2020 (unadjusted)



Newspapers' share of overall advertising spend has been declining since ~1990. Initially this was coincident with faster growth in TV, and after ~2000, Internet channels

1.4: What are the drivers for the decline post ~2000?

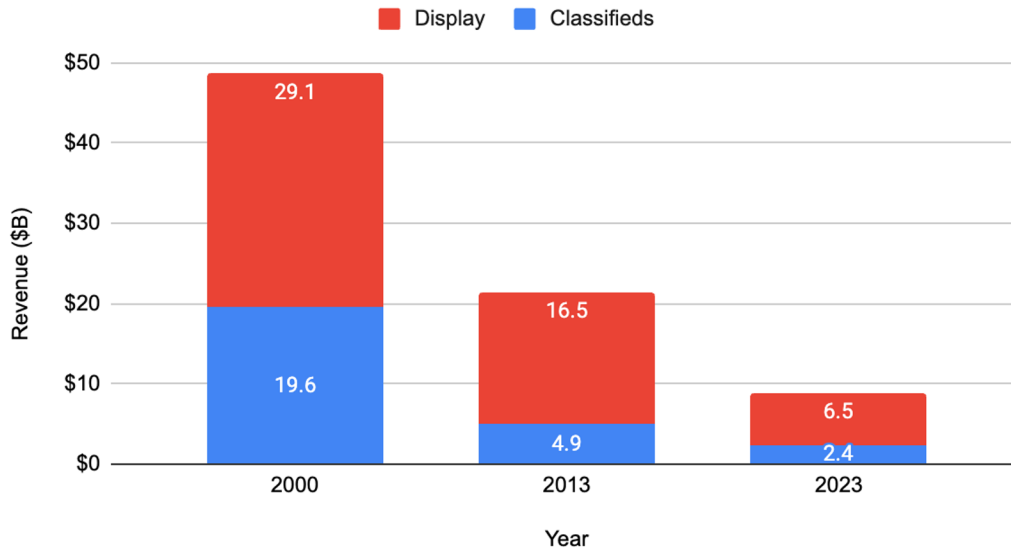
The Internet made it cheaper and easier for sellers and buyers to reach each other

Marketing options available, over time



1.5: What are the drivers for the decline post ~2000?

US newspaper revenues, display vs. classifieds (unadjusted)



Est. circulation revenues were ~\$10.5B in 2000, and ~\$11.6B in 2022.
Ad Source: WARC. 2013 and 2023 figures include both online (digital) and print revenues for each advertising type.
Circulation Source: [Pew](#)

Businesses shifted advertising spend from newspapers to the Internet.

From 2000 to 2023, total newspaper ad revenue declined ~\$40B (-82%). Circulation revenues were ~flat.

Classifieds declined more steeply first; the decline continued as the largest ad platforms (e.g. Google, then Facebook) grew.

1.6: How do digital ad platforms work?

Seller →

Ad Platform

← User

Inputs

1. **Objective**
“I want to sell a car”
1. **Audience (can include seller data)**
“To people in California” (who visited my website)
1. **Price/Budget**
“And will pay \$5 for a lead”

Takes seller and buyer inputs and attempts to efficiently match sellers to buyers and maximize value to users (potential buyers), sellers, and the platform.

Ad placements can include: **Search** (e.g. Google, Amazon) and **Display** (e.g. Facebook News Feed, YouTube, TikTok, Reels)

Increased user **reach/time spent**, increased **data**, and improved **algorithms** can increase seller return-on-investment.

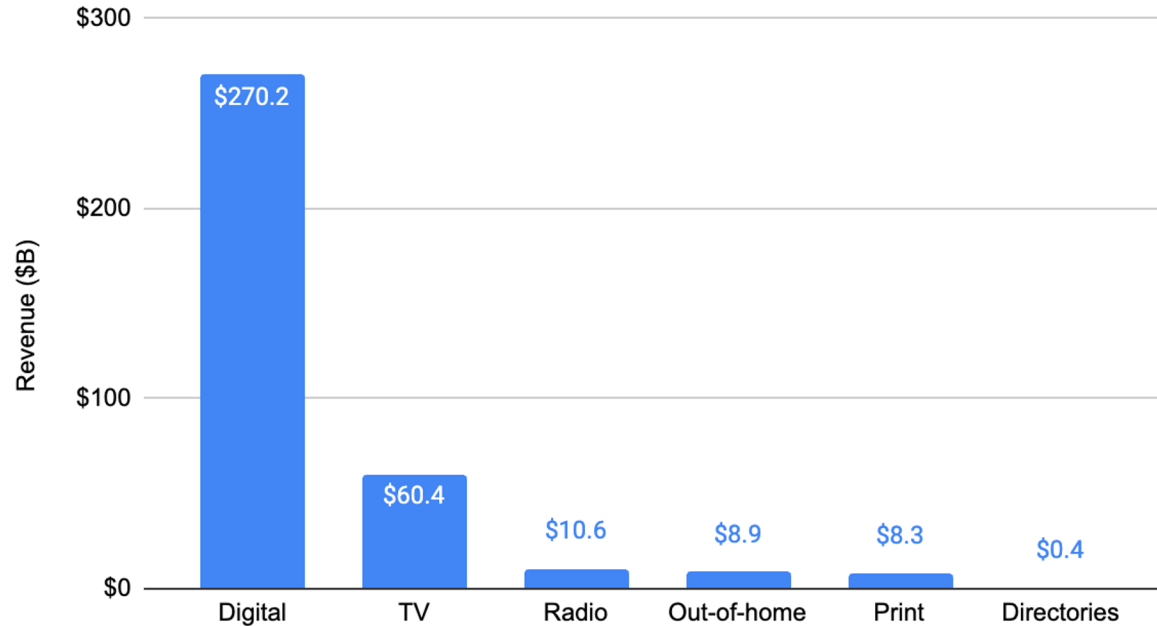
Inputs

1. **Time spent**
(I use the platform’s services)
2. **Data (can be implicit)**
“I live in California”
(and am searching for cars)

2. Where we are today

2.1: How much is spent on advertising in the US/year?

2023 US ad spend, by medium



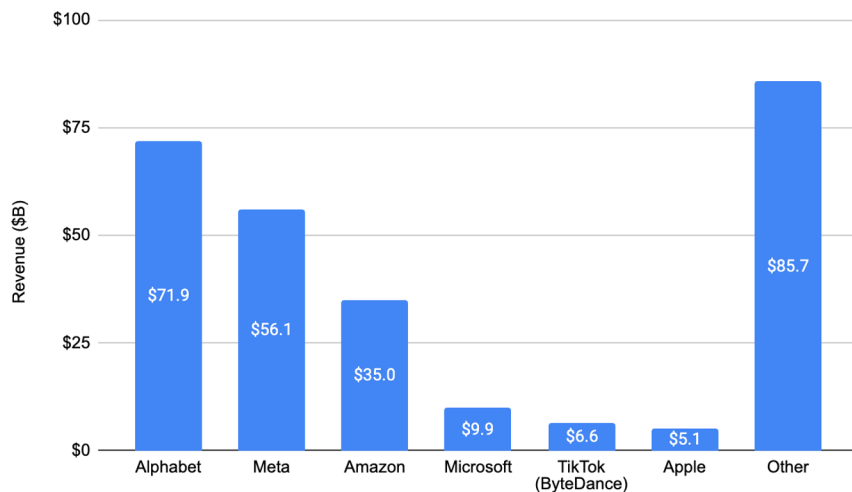
In 2023, **65-75%** of the \$310-\$360B in advertising spend in the US was digital.

Note: All numbers are estimates. Source: eMarketer.

Some other analyst and industry estimates are ~10-20% lower in aggregate; however, relative totals and trends over time are consistent.

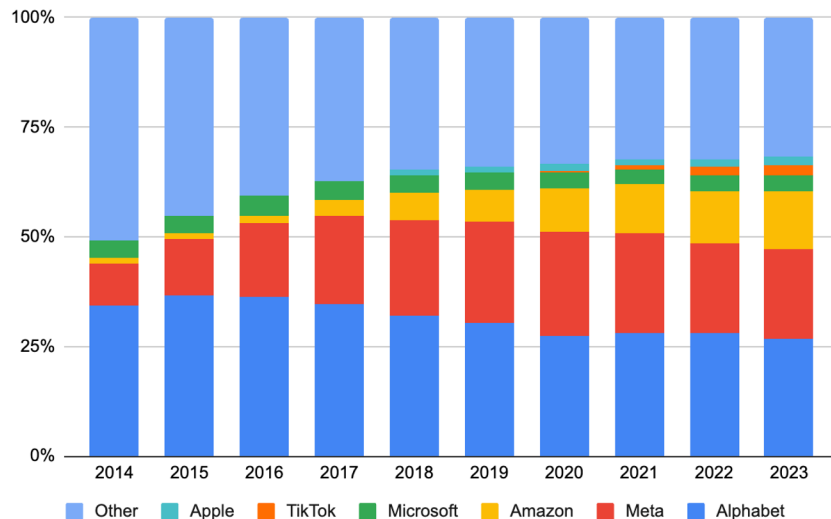
2.2: Within digital, what is US revenue by platform?

2023 US digital ad revenues, by company



Note: All numbers are estimates. Source: eMarketer.

Share of US digital advertising, by company

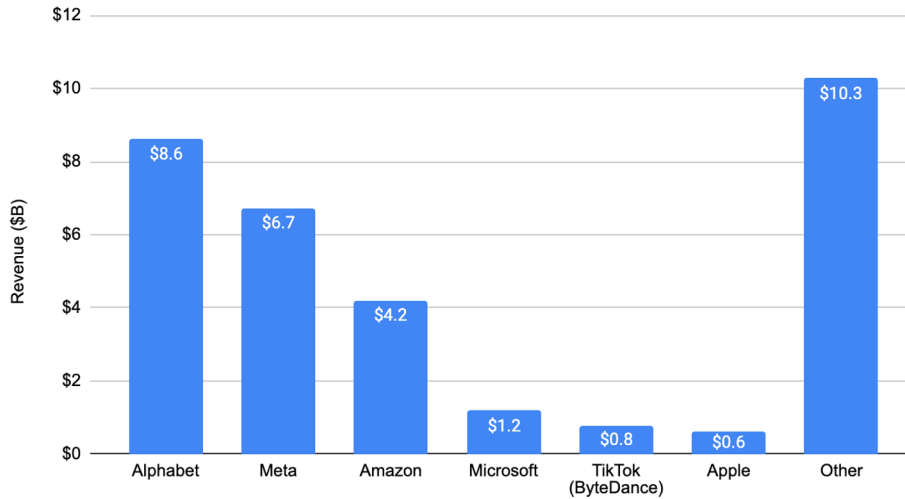


Note: All numbers are estimates. Source: eMarketer.

Alphabet (\$71.9B), Meta (\$56.1B), and Amazon (\$35.0B) are ~60% of 2023 digital spend; Alphabet and Meta's combined share has been declining, and Amazon's growing.

2.3: Within digital, what is California revenue by platform?

Estimated 2023 California digital ad revenues, by company

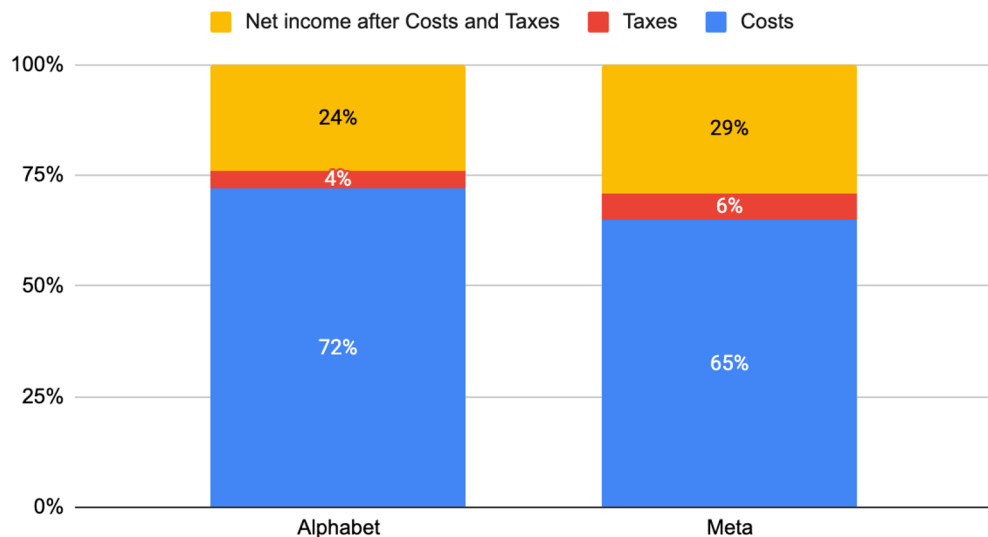


Note: All numbers are estimates. Source: 12% of eMarketer US estimates.

These figures are not publicly reported by state, but assuming California revenue is proportional to its share of population (12%) would suggest total advertising revenues derived from viewers in California of \$32.4B/year in 2023 (~\$830/person/year), with a top 3 of **Alphabet (\$8.6B)**, **Meta (\$6.7B)** and **Amazon (\$4.2B)**.

2.4: What % of platform revenue is net income (after costs, taxes)?

Global % net income after costs and taxes, Alphabet and Meta



Source: 2023 [Alphabet](#) and [Meta](#) 10-Ks. Inclusive of all business lines (vs. advertising only)

~24-29% of global 2023 revenue for Meta and Alphabet was net income, after taxes and costs.

Margins for their ad-specific businesses were likely higher (e.g. **Meta's global ads business had ~47% margins** before taxes; analyst estimates are similar for Alphabet and Amazon).

The platforms do not consistently split these out by country or state.

3. Overview of ad taxation mechanisms

3.1: What are ad taxes, and where have they been implemented?

Jurisdiction	Rate	Effective
Maryland (US)	2.5 to 10% of digital ad revenues	2022
New Mexico (US)	4.9% of all ad revenues (incl. digital)	2023 (digital)
Austria	5% of all ad revenues (incl. digital)	2020 (digital)
Turkey	7.5% of digital ad, goods, and services revenues	2020
India	6% of digital ad revenues (non-resident companies)	2016

Others not shown include: France, Kenya, Kyrgyzstan, Italy, Nepal, Portugal, Spain, Tanzania, UK. Attribution and tax base calculation methods vary.

Sources: [Maryland Comptroller](#), [Sales Tax Institute](#), [EU Tax Observatory](#), [Tax Foundation](#).

Ad taxes: Taxes on corporate ad revenues (before costs) apportioned to a jurisdiction. Typically implemented progressively, with minimum corporate revenue thresholds.

Two US states and ~12 countries currently tax digital ad revenues. A subset of these also tax all ad revenues (e.g. including non-digital).

Separately, ~half of all US states tax sales of at least some digital goods.

3.2: How much could be raised in California by advertising taxes? (illustrative example, estimates are approximate)

A 0.5-4% progressive tax on advertising revenues from companies with >\$2B in California-attributable annual revenue could raise \$67.5M-\$540M/year.

A similar amount could be raised via a \$/California platform user fee assessed to companies above certain user size and revenue thresholds.

	Tax Rate on Revenue >\$2B			
	0.5%	1%	2%	4%
Est. tax revenue/year	\$67.5M	\$135M	\$270M	\$540M

Assumes 3 companies currently qualify over the \$2B California threshold, and a total annual taxable base (after excluding the first \$2B per company which is taxed at 0%) of \$13.5B. Corporate ad revenue figures using eMarketer estimates for US and a 12% California apportionment rate.

3.3: Why consider ad taxes in the context of local news?

- 1. Precedent:** Taxes are an established way to address externalities and promote public goods.
 - a. The Universal Service Fund (assessed on % of revenues of telecoms to fund universal service initiatives) is an example.
 - b. The rise of the Internet undercut the existing ad-supported-funding model for local news, creating a societal cost; this approach would directly address it.
- 2. Trade-offs:** Ad taxes may have different trade-offs from other approaches of extracting revenue from the sector.
 - a. One potential benefit relative to bargaining code approaches is the ability to consistently generate revenues from a broader set of platforms with fewer collateral distribution or speech side-effects, and with different sets of legal considerations.

3.4: What are some economic considerations of ad taxes?

1. Businesses could withdraw from a market instead of paying the taxes.
 - a. This has not happened in practice for digital ads taxes. Offline advertising has also been taxed in some jurisdictions for 20+ years (e.g. Austria).
2. If businesses choose to shoulder tax costs, this reduces their net income.
 - a. Given the net income for large platforms is $\geq 25\%$ of revenue (and $\sim 2x$ higher for their ad-specific business), a 0.5-4% tax would still leave platforms with net income of $\geq 20\%$.
3. If businesses choose to pass tax costs through to ad customers, this increases the cost of advertising, potentially reducing ad spend.
 - a. Alphabet and Amazon have chosen to do this in many digital sales tax markets today.
4. Businesses may stop or reduce other efforts to fund the news sector.
 - a. The amount raised via any tax – and its associated allocation mechanism – would need to be more impactful for local news than the status quo for this to be net positive for local news.

Note: These are the same considerations for any form of new government-mandated business costs, including platforms covered by bargaining codes, who could choose to withdraw links, shoulder costs, pass costs through to customers, and/or reduce voluntary efforts.

3.5: What are some legal considerations for ad taxes?

In the US, the Maryland digital ads tax is being challenged on a few dimensions:

1. Discriminatory against digital ads? (Internet Tax Freedom Act)
 - a. Levying on all forms of ads (but with same revenue thresholds) may address.
2. Tying taxes to global revenues regulates extraterritorial activity? (Commerce Clause)
 - a. Not having a global threshold (but with same local revenue thresholds) may address.
3. Restricting ability to pass through fees restricts speech and/or extraterritorial conduct? (1st Amendment, Commerce Clause)
 - a. Crafting to ensure focus is on behavior (pass-through) vs. speech (labeling) may address some of the issues. Or, just accept that businesses may pass through.

Internationally, some US policymakers have argued that digital ads taxes are discriminatory against US corporations, especially if same rules do not apply to non-US corporations.