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Amortizing half of costs U.S. businesses spend on advertising would place at risk 1.7 million U.S. jobs and $456 billion in sales

Tax Reform Discussion Drafts in the Senate Finance and House Ways and Means Committees would allow U.S. businesses to deduct only half of their advertising costs in the year they purchase the advertising. It would require them to amortize the other half over five (Senate) or ten (House)-years. Advertising under current law is treated as an ordinary and necessary business expense just like salaries, rent, utilities, and office supplies. Businesses have been able to deduct the full cost of their advertising for the 100-year life of the Tax Code.

Advertising drives $5.8 trillion of the $33.8 trillion in U.S. economic output and supports 21.1 million of the 136.2 million jobs in the United States, according to the world-renowned economic consulting firm IHS Global Insight.

The tax on advertising proposed by the Committees would eliminate millions of American jobs. IHS Global Insight estimates that every $1 spent on advertising generates nearly $22 in economic activity (sales) and every million dollars in advertising supports 81 American jobs. Nobel Prize-winning economists who have studied the tax treatment of advertising confirm that making advertising more expensive would cause a decline in spending on advertising.

The Finance discussion draft would place at risk 1.7 million U.S. jobs and $456 billion in sales. The IHS Global Insight projections are based on a macroeconomic model initially created by Nobel Prize-winning economist Dr. Lawrence R. Klein.

The net effect of the drafts is to increase a company's taxable income for every year in which a business purchases advertising. The portion of ad spending that is not immediately deductible would be treated as income for tax purposes. At first glance, it might appear that advertisers would "catch up" the full value of their deduction in five or ten years, but companies would pay significantly more taxes under the Discussion Drafts.

Why was this tax on advertising included in the Discussion Draft? Advertising Age quoted a Senate Finance Committee aide as saying "there are very few places we can go to find this kind of revenue." There was no mention that this policy is counter to generally accepted tax and economic policy. Two of the leading economic experts on the role of advertising in the economy – Dr. Kenneth Arrow and Dr. George Stigler – previously have written, "Proposals to change the tax treatment of advertising are not supported by the economic evidence." Drs. Arrow and Stigler were awarded the Nobel Prize for Economic Science in 1972 and 1982 respectively for their research and writing on the important role of information in the U.S. economy.

IRS has confirmed that the current deduction of advertising costs is the correct treatment. The only thesis for amortizing ad costs is that ads are durable and produce sales beyond the current year. In response to a 1992 case (*INDOPCO Inc. v. Commissioner, 503 U.S. 79)*, the IRS issued a Revenue Ruling that confirmed the ability of businesses to deduct the cost of advertising in the year it is incurred – that remains the law today and nothing has been offered as a rationale to change it.

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