MACPA
MID-ATLANTIC COMMUNITY PAPERS ASSOCIATION

Mid-Atlantic Community Papers Association Comments Re: HB 1776

to the Pennsylvania House Finance Committee

June 4, 2012

Dear Chairman Benninghoff, Chairwoman Mundy, and Members of House Finance Committee:

The hometown publisher members of the Mid-Atlantic Community Papers Association respect the herculean efforts exhausted in the comprehensive legislative work product encompassed in HB 1776. We applaud the noble aim of attempting to remedy real and serious harms resulting from our Commonwealth's current local property tax as local school funding source mechanism. We are well aware that the preventable casualties of property loss befall our neighbors in many of the communities we serve, and remedy is overdue for the inequities inherent in the system.

The above stated, we have questions and serious concerns about aspects of the approach offered in this legislation. As with any comprehensive overhaul of the status quo, in this case multiple taxing structures, there will be a recalibration of net impacts and ultimate effects. From our vantage on Main Street, PA, and focus on local commerce as communications engines that drive sales, we believe that the proposed treatment of advertising and interdependent services will yield outcomes counter to the noble intent of the authors and sponsors. Further, as small businesses serving small businesses, we also fear a realignment of obligations now shared relatively proportionately across all businesses to a new, disproportionate burden placed on smaller enterprises.

It is unclear in the legislative language the extent to which the ultimate implementation and enforcement will directly capture our members' collective services. Our current focus is on the proposed changes to the Tax Reform Code at 204, Current Exclusions, specifically the modifications to (30) Newspapers, (35) Direct Mail, and limitations on Advertising introduced under (76), services narrowed to business to business transactions. At the first public hearing on this complex and sweeping legislation, the Prime Sponsor reiterated the underlying philosophy of retaining exemptions for services rendered between enterprises and adding new tax liabilities for same if client is a member of the general public.

Under stated goals, we can be certain that personal classified advertising, including yard sales and used cars, would become ripe for taxation. However, the removal of exemptions for the sale at retail of "newspapers" and the ambiguous category of "direct mail advertising literature or materials" opens the door to future taxation of advertising, along with components of manufacturing and production. Common sense and past experience dictates that an entity charged with filling the state's coffers will err on the side of maximizing collections in both rulemaking and compliance enforcement. For our industry, this means paralyzing uncertainty, combined with the loss of valuable time and expense wasted in efforts to clarify and comply. The unintended outcome of such new taxes will most likely result in a net loss of revenues for our publishers, their small business advertisers, as well as to the state of Pennsylvania.

The reason for the net loss of revenues to our Commonwealth and schools under the proposed new taxes is found in the multiplier effect of advertising. For every dollar invested in this discreet economic stimulation, a compounded return of four-to-ten-times is realized in the broader economy. Conversely, taxing or artificially discouraging these economic multiplier investments leads to less advertising. Depressed advertising weakens consumption of goods and services, which directly corresponds with diminished collections of sales and use taxes. Further, any direct impediments to the economic multiplier effect of advertising throw a wet blanket over the entire supply chain, where lost sales mean lost jobs.

The bottom line: Any gains from these new taxes would be more than offset by the combination of lost sales taxes from interrelated businesses, lost income taxes from lost jobs and lower corporate tax receipts. The appreciation of these counter-intended fiscal outcomes is the reason why states universally do not tax advertising and related services. Even those that dabbled in such mischief were quick to learn, and ultimately repealed the counterproductive tax schemes.

Beyond the broader economics outlined above, we have an industry-specific concern about disproportionate costs of compliance. Should these provisions be enacted, our publishers will almost certainly be staring at a minefield of taxable and non-taxable events in their daily operations. The extraordinary efforts to sort, clarify and comply would be a nightmare considering we don't have a simple cash register to reprogram. Instead, we have highly specialized, proprietary software that integrates the complex system of orders, production, layout, distribution, billing and on. Our industry-customized software will need reprogramming at the least, and upgrades or entirely new systems at the worst.

The costs anticipated from the handful of vendors that cater to our industry will start in the thousands of dollars and can easily exceed tens of thousands of dollars and more. This fortune of real dollars and unproductive energy would need to be spent by our publishers before they even try to collect the first penny for the state's coffers. This scenario would still occur even if the ultimate scope of taxation was personal classified advertising, with the cruel irony for many being immediate outlays to comply being far greater than ultimate tax collections carried into the foreseeable future.

To summarize, we believe that the proposed taxes on advertising services will likely lead to net lost revenue for the state and our schools. At the same time, the counterproductive outcome would needlessly place disproportionate costs of compliance on the Free Community Paper Industry. Further, the range of new taxes will have an asymmetric impact on small businesses and otherwise depress discretionary consumption in a still-fragile economic recovery. For these reasons, we have strong reservations about HB 1776 in whole, and otherwise urge at least stripping the damaging provisions relating to advertising.

Respectfully submitted,

Jim Haigh
Government Relations Consultant
Mid-Atlantic Community Papers Association
427 Ridge Street
Emmaus, PA 18049
(o) 610.965.4032
(c) 610.504.2010
jimhaigh@fast.net