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December 19, 2013

The Honorable Max Baucus
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Orrin Hatch
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Baucus and Ranking Member Hatch:

We are members of the CFO Council at the Interactive Advertising Bureau (IAB), the leading trade association for the more than 600 media and technology companies that serve and sell digital advertising. Digital advertising is not only the product of an innovative and thriving industry, but chiefly responsible for the diverse, and free, Internet content and services available to consumers today. As chief finance executives for major U.S. corporations, we know that reform of the U.S. taxation system is imperative to long-term economic and deficit reduction goals; and, we support your efforts to develop a comprehensive reform bill that addresses these needs.

With these goals in mind, we write to ask that you give careful consideration to changes made to the treatment of advertising expenses. Advertising sales help support 20 million jobs, or 15% of all jobs in the U.S. Any change would have a direct impact on one of the few growth sectors in the U.S. today, and the overall consumer-driven economy. In fact, the economic consulting firm IHS Global Insight estimates the proposed change to advertising expenses could place 1.7 million U.S. jobs at risk.

Similar to employee payroll, office rent, and other business expenditures, advertising is considered a standard deduction under applicable U.S. Internal Revenue Service tax rules. Today, businesses may deduct 100% of the cost of their advertising. Recent reform proposals would end the treatment of advertising expenses as ordinary or necessary;

allowing instead a deduction of only a fraction of the expense with a longer term amortization schedule.

The short-term benefits of advertising are especially evident in online advertising. Internet advertisements are never more than several clicks away from an online shopping cart. As a result, advertisers often focus on short-term, direct response campaigns with the goal of generating immediate sales. As evidence of this behavior, online advertisers are often cognizant of the time of day during which their ads are displayed, knowing that if the user does not *immediately* interact with the ad, the chance of generating a sale significantly decreases.

Defenders of this change argue advertisers would be "made whole" at the conclusion of the amortization schedule; however, this does not take into account the lost value of that deduction over time. These proposals do not consider that companies buy new advertising each year and would feel the brunt of this tax annually. Consider an advertising campaign for a newly released mobile device such as the iPhone 5C. Under an amortized schedule, Apple® would still be deducting advertising expenses for the 5C, long after it is no longer sold or available to consumers because four more generations of the device were since released.

Not only would advertisers have less money to spend on advertising year after year, but our companies would be directly impacted as advertisers would be forced to reduce their ad buys. To make advertising more expensive would only cause a decline in the ad spending that affords consumers a free and diverse Internet experience – all at the cost of job creation.

According to researchers at the Harvard University Business School, employment in the ad-supported Internet ecosystem from 2007 - 2011 doubled to 5.1 million – making it "one of the most dynamic sectors in the recessionary American economy." In 2011, homegrown industries supported by the digital advertising industry added more than $530 billion to the U.S. GDP. Since 2011, digital advertising revenues have grown more than 25%, and the value-add to the U.S. GDP is expected to follow suit.

Simply put, the amortization of advertising expenses would lead to:

- *Reduced ad buys*
- *Reduced availability of free Internet content and services*
- *Reduced consumer spending in the market*
- *Reduced job creation*

The 100% advertising expense deduction achieves tax policy goals for economic growth, and is not a loophole for tax avoidance. We welcome the opportunity to sit down with your staff to answer any questions and discuss this in greater detail. Please contact Mike Zaneis of the IAB, mike@iab.net for more information.

Thank you for your time and consideration on this issue.

Sincerely,

Raj Chauhan
President, North America & Europe
Adslot

Jason Balk
Chief Financial Officer
Adtegrity

Annie Wayne
Chief Financial Officer
Bizo

Ron Will
Chief Financial Officer
BrightRoll

Rich Spaulding
Chief Operating Officer
Earth Networks

John Rettig
Chief Financial Officer
Exponential

Thomas Callahan
Chief Financial Officer
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Scott Kidder
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