Luxury Daily®
The News and Intelligence You Need on Luxury

MOBILE

Eliminating ad tax deduction could hasten move to mobile advertising

November 18, 2015

Longchamp Autumn 2015 campaign

By STAFF REPORTS

While a tax reform proposal that would eliminate advertising as a standard business expense deduction could thwart the economy according to a new report from the Association of National Advertisers it might also benefit the mobile marketing industry.

The in-depth analysis concludes that advertising industry is a major contributor to the gross domestic product, national employment and labor income. Eliminating companies' ability to deduct advertising expenses could result in higher advertising costs and lower overall advertising volumes, but with mobile marketing a strong contender for picking up some of the slack.

"A reduction or elimination of the tax deductibility would make advertising more expensive," said Matt Nitzberg, chief growth officer at ThinkVine. "This will put even more pressure on marketers to spend wisely.

"Some marketers may respond by pushing more budget dollars into lower cost channels, platforms, and vehicles in order to maintain input' measures like GRPs and impressions," he said. "This could accelerate the movement of dollars from TV to digital, including mobile.

"Other marketers, with a greater focus on outcomes vs. inputs, will shift more spending into the channels, platforms, and vehicles which are most effective at engaging their audiences and driving sales, visits, and other key business metrics."

Advertising supports US economy

A proposal making its way through congress would change how businesses deduct advertising expenses if passed. In the first year, companies would be able to only deduct 50 percent all annual advertising expenses with the balance to amortized over five years.

Key members of the advertising industry undertook the study to show that the proposal could cause more harm to the economy than any perceived benefit from the country's ability to generate more tax dollars.

The study was commissioned by the ANA and The Advertising Coalition, which together represent leading advertisers, advertising agencies and media companies.

A key finding is that advertising contributed $3.4 trillion to the U.S. GDP in 2014, comprising 19 percent of the nation's total economic output.

Other findings include that advertising expenditures generated $5.8 trillion in overall consumer sales including direct, indirect and induced expenditures, with the expenditures representing 16 percent of all sales activity in the U.S.

"Proposals to amortize advertising would fall heavily on mobile marketers," said said Dan Jaffe, group executive vice president of government relations at the ANA. "This is one of the fastest growing sectors of advertising.

"Advertising within this sector is often highly targeted and focused on very short time horizons and durations of campaigns," he said. "To treat these ads as if they have an effective life of as much as ten years is totally inaccurate and inappropriate both on tax policy and public policy grounds."

Future impact

If left as is, advertising is also expected to continue to be an integral part of the U.S. economy over the next years.

The report forecasts advertising spending will increase at an average annual rate of 3.3 percent through 2019. At that time, advertising will directly and indirectly foster $7.4 trillion in U.S. economic activity.

The advertising industry is also a big driver of jobs, according to the report, supporting 20 million American jobs in 2014. The research determined that the advertising industry supported $1.9 trillion in salaries and wages, or 17 percent of the total labor income in the U.S. last year, with every job in advertising supporting another 34 American jobs in other sectors.

By 2019, the report forecasts that advertising will help support more than 23 million U.S. jobs.

Mobile momentum
If businesses' advertising investments are taxed, marketers may consider shifting more of their dollars to mobile because costs here are still relatively less expensive and it is known that consumers are spending a significant amount of time consuming content on their smartphones. This, in turn, could hasten the development of solutions to some of the challenges in mobile marketing, including how to deliver creative on small screens that is impactful without being too intrusive and how to accurately measure the effectiveness of mobile impressions.

The end result could benefit both upper funnel and lower funnel mobile marketing.

"Mobile could grow under either scenario," Mr. Nitzberg said. "To grow to under the effectiveness' scenario, marketers will need to be confident of mobile's role in driving business results."

Final Take

Chantal Tode is senior editor on Mobile Marketer, New York