March 8, 2021

The Honorable John Fonfara, Co-Chair
The Honorable Sean Scanlon, Co-Chair
Joint Committee on Finance, Revenue, and Bonding
Room 3700
Legislative Office Building
Hartford, CT 06106-1591

RE: HB 5645 - An Act Establishing a Tax on Social Media Provider Companies

Dear Chairpersons:

Internet Association (IA) is the unified voice of the internet economy, representing the interests of leading Internet companies and their global community of users. It is dedicated to advancing public policy solutions that foster innovation, promote economic growth, and empower people through the free and open Internet.

IA respectfully opposes **HB 5645** that would establish a tax on social media provider companies on the apportioned annual gross revenue derived from social media advertising services in the state. IA has significant concerns with the constitutionality of this bill. In addition, the bill purports to only tax internet-based social media companies, which would violate the Federal Permanent Internet Tax Freedom Act (PITFA) that was established in 2016.

The digital advertising ecosystem benefits entities of every type across the entire spectrum of Connecticut's economy. For example, ad publishers like newspapers, small blogs, and small business sites, as well as advertisers such as local small businesses, charitable organizations, and common consumer brands all derive immense benefits from modern online advertising through social media.

Other states have attempted similar taxation schemes that have resulted in immediate legal challenges, most notably to a recently enacted Maryland law that would assess a graduated gross revenues tax on digital advertising in the state. Because of legal challenges the law was expected to bring, the General Assembly and Office of Legislative Services in Maryland did not budget for the money the tax was expected to generate upon implementation. Should Connecticut pass similar legislation, it should not earmark any expected revenue for the purposes of balancing a budget. Rather it should expect to incur expenses and allocate resources to defending the law in court for several years.

Although the intent of this legislation is laudable in providing a mechanism to fund worthy programs; due to significant legal infirmities, it is unlikely to survive litigation and will not

achieve its intended goal.

For these reasons and more, IA is opposed to **HB 5645** and urges the committee not to advance this legislation. If you have any questions regarding IA's position on this bill, I can be reached at olsen@internetassociation.org or 518-242-7828.

Sincerely,

John Olsen
Director, State Government Affairs Northeast Region

Cc: Members of the Joint Committee Finance, Revenue, and Bonding