Presentation by the S.C. Press Association
in support of continuation of sales tax exemptions
on the sale of newspapers and on newsprint
Nov. 12, 2009

As the TRAC commission begins its studies, we would like to offer the following arguments in support of continuing the newspaper and newsprint exemptions.

Newspapers were among the first categories exempted when South Carolina enacted a general sales tax in 1951. In enacting this exemption, legislators recognized the importance of the principle that dates to the founding of our democracy – newspapers and the information they contain should not be taxed. Since our birth as a nation, there has been great reluctance to tax newspapers because such a levy would constitute taxing the information they hold.

- The removal of the newspaper exemption amounts to <u>taxing readers for information and news, and to imposing a fee for the acquisition of knowledge,</u> which is vital to the proper exercise of the rights of South Carolina citizens.
- <u>A newspaper is an information service in print</u>. No reader buys a newspaper for its weight in newsprint and ink.
- <u>No other media covers the news of government and a community like the newspaper.</u>
- <u>Newspapers are educational</u>.
- <u>A free press is one of the cornerstones of a free nation and is guaranteed in our federal and state constitutions</u>. Taxing the purchase of newspapers would be a tax on free speech.
- <u>A circulation tax would start us down the slippery slope of encumbrance and regulation of a free press</u>. We may not always agree with everything newspapers print, but taxation is not the way to silence them.

This tax would be a <u>severe hardship on all newspapers, especially the smaller ones</u> already endangered by the economy.

- There are also smaller newspapers on very tight budgets that sell nothing but their own copies and therefore do not currently have sales tax accounts established.
- These are family-run small businesses and group newspapers who service the rural parts of our state. South Carolina has nearly 100 weekly newspapers.
- One weekly publisher said the cost of administering sales tax payments may be as costly as the sales tax itself for her newspaper.
- Small newspapers have small staffs, and the staff time it takes to track and administer this added tax would be a big problem, especially when some newspapers are already stretched thin in their ability to produce the newspaper with an increasingly limited staff.
- It would cause some of the state's smaller papers to go out of business, which would further erode the economic situation.

- Many of the smaller weeklies would pay less than $5,000 a year in taxes.
- Yearly tax revenue from weekly newspapers would likely be less than $500,000 in total.

Without an exemption, <u>newspapers would be the only mass medium taxed at the consumer level.</u>

- Singling out newspapers as the <u>only</u> mass media for which the public would pay a tax would be patently unfair and would put newspapers at a disadvantage in the market place.
- There is no tax to watch television news, surf the internet, listen to the radio, check your Blackberry or watch a TV program.
- Consumers pay no taxes to receive advertising messages from the broadcast media.
- There is no tax on direct mail or free shoppers.
- The current exemption provides a level playing field for newspapers to compete with other media.

Taxing newspaper circulation is a <u>highly inefficient tax</u>.

- The time, money and effort needed to administer and collect a sales tax on newspapers will be high compared to the limited return to the state. The removal of the exemption would only bring in about $9 million yearly.
- Depending on the newspaper, anywhere from 25 % to 75 % of newspaper copies are sold wholesale to thousands of teenagers, retirees and housewives as carriers. At present, these distributors resell newspapers without the burden of collecting sales tax. If the exemption were removed on newspapers, these are the people who would be paying the sales tax. Most of them would have the administrative burden of learning how to set up tax accounts, working under unknown deadlines, and complying with the sales tax law.
- Collecting a 7% tax from newspaper racks is virtually impossible, as they are programmed to accept only certain coins. The reprogramming of newspaper boxes to accept change to include a sales tax would cost approximately $500 for each box.
- Removing this exemption is far more complicated than a newspaper's writing a check to DOR – thousands of new accounts would have to be set up just to collect newspaper subscription taxes. Thousands of boxes would have to be redone.

This tax would <u>alter the level playing field</u> with other states.

- Subscriptions to out-of-state newspapers such as the *New York Times* and the *Wall Street Journal* would not be taxed.
- Border-state newspapers such as the *Augusta Chronicle*, the *Charlotte Observer* and the *Savannah Morning News* would not be taxed while our in-state newspapers would be.

This tax would be **a** <u>new tax on the citizens of the state</u> since newspapers, like other businesses, must pass a sales tax on to the end consumer.

- This new tax would hit the low-income citizens especially hard.

- A press association survey confirms that a vast majority of newspapers would be forced to pass the tax on to the readers.
- Some smaller newspapers that could not pass on the increase could fold.

This tax would decrease newspaper readership.

- Most newspapers would have to pass this tax on to the reader. Historically, increases in the price of a newspaper subscription have meant a loss in circulation. Adding 5% to 7% to the cost of your local newspaper readership would impact readers, including senior citizens on a fixed income.
- At a time when newspaper readership is declining or static, adding a new tax on readers would cost newspapers their customers and render them less effective in serving their communities.

Newspapers are vital tax-paying components of the communities.

- A typical 12,000 circulation newspaper last year paid nearly $34,000 in personal property, sales/use and real estate taxes. A daily newspaper with 20,000 circulation paid $65,000 in taxes.
- By reducing newspaper readership, a sales tax would certainly impact a newspaper's bottom line and could reduce other taxes they are now paying.

The tax exemption on newspapers is consistent with what a majority of the states do.

- Thirty-six states have such exemptions.

Concerning the proposal to remove the exemption on newsprint, please consider the following:

- We are seeing a growing trend of newspapers being distributed free in many communities. A newsprint tax would hit these smaller newspapers of South Carolina very hard. A typical small newspaper with 12,000 circulation would pay an estimated $19,000 a year in taxes on newsprint. A larger paper with a 20,000 circulation would pay an extra $45,000 a year. One free upstate newspaper group would pay more than $35,000 yearly in new taxes. This could be the end for some smaller newspapers and the end of their service to their communities.

- Taxing newsprint for free newspapers is a tax on our free press, which is ultimately a tax on our society.
- *The Fort Mill Times, The Columbia Star, The Florence News Journal, The Goose Creek Gazette, The Daniel Island News, The Simpsonville Tribune-Times, The Charleston City Paper, The Free Times* and the *Moultrie News* in Mt. Pleasant are all free information services to their communities. A tax on them is a tax on information, which violates our constitutional right to a free press.
- Newsprint is part of the manufacturing process...and we have been told by the Department of Revenue that they believe as such it would not be imposed on newspapers that will be sold. However, if this exemption is removed, it could open the door for later problems.
- Even with the manufacturer's exemption intact, this will be a tax on TMC's (Total Market Coverage publications), a service by the newspaper to citizens and

advertisers. TMC's are sent to all consumers in a market area who do not receive the paid newspaper. It is a way for advertisers to reach all consumers in a market. TMC's are different at each newspaper. Some are completely advertisements and some have editorial content.

A tax exemption on newsprint is almost universal:

- None of the 13 Southern states tax newsprint when the product is used in newspapers.
- 49 states and the District of Columbia have an exemption on newsprint. Hawaii is the only exception.

While the removal of this exemption would have little impact on the state budget, it would have a significant impact on the hometown newspapers of our state.

If you have questions, please feel free to contact Bill Rogers at SCPA. If you, or any TRAC staff members, would like to tour a newspaper, we would welcome your visit.

UNIVERSITY OF
SOUTH CAROLINA

SCHOOL OF JOURNALISM & MASS COMMUNICATIONS

October 19, 2009

Burnet R. Maybank, III, Esq.
Nexsen Pruet

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(HAND DELIVERED)

Re. A note on opposition to taxes on newspaper readers

Dear Burnie,

I have been advised that at the most recent TRAC meeting you asked a representative of the Department of Revenue for information on the philosophy behind the exemption from the retail sales tax for newsprint and newspapers, and the representative was unable to provide any information. Please allow me to share with you my perspective on the exemptions.

In 1765 the Crown urged and Parliament adopted a tax on paper to be used in the North American colonies. Payment of the tax was indicated by a stamp on the paper. Paper on which the tax had been paid was known as "stamped paper." Under the Stamp Act of 1765 legal documents, pamphlets, magazines and newspapers were required to be printed on "stamped paper."

The Stamp Act was decidedly unpopular in all colonies but Georgia. The opposition to the revenue measure was so extreme and so pervasive that almost all of the collectors of the tax resigned their office. When the "stamped paper" arrived in North America outraged citizens organized boycotts and refused to utilize the paper.

The British Army commander in New York boasted that he would force stamped paper down the throats of the colonists if he had to do it on the point of his sword. In response a mob destroyed the commander's residence.

The political response included the calling of the "Stamp Act Congress" which many credit with planting the seeds for the American Revolution. Representatives of nine of the 13 colonies attended and adopted resolutions in opposition to the Stamp Act and other grievances against the Crown.

Opposition to the Stamp Act focused not only on the taxation without representation argument familiar to all of us, but as well on the notion that a tax on a newspaper was a tax on the dissemination of knowledge. In colonial times, as today, the reporting on the activities of government and government officials is a primary function of newspapers. In colonial times, as today, a tax on newspapers was seen quite accurately as a tax on persons who were most interested in the affairs of government, to wit: the readers of newspapers. The repeal of the existing exemptions would have the same effect today as the Stamp Act had in 1765—the imposition of a tax on the citizens most interested in public affairs.

When South Carolina first adopted a tax on retail sales of personal property the General Assembly surely must have recognized the philosophical and historical opposition to taxation on newspapers and the paper on which they are printed, and this recognition led to the exemptions that remain in effect today. It is safe to conclude that the exemption from sales tax for newsprint and newspapers is firmly rooted in history. In fact the exemption is rooted in history that antedates the Revolution, and the philosophical foundation for the exemption is an awareness that citizens should not be taxed for obtaining information regarding the society in which they live.

I am writing to provide an academic perspective on efforts to tax newsprint and newspapers in our little part of North America, and my use of University letterhead and academic title are for purposes of identification only. The notation of my academic affiliation does not indicate that my comments are in any way to be attributed to the school as they are mine alone.

With my warmest regards, I am

Yours very truly,

Jay Bender
Reid H. Montgomery
Freedom of Information Chair
School of Journalism and
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