



California's New Online Advertising Tax Would Cost The Average Business as Much as \$14,000 Annually

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California is currently considering [SB 1327](#) by Senator Steve Glazer, which seeks to fund news organizations by imposing a 7.25% tax on advertising sales of companies engaged in 'data extraction transactions'.

A data extraction transaction is [defined](#) in the bill as “a transaction where a taxpayer sells user information or access to users to advertisers and the taxpayer engages in a barter by providing services to a user in full or partial exchange for the ability to display advertisements to the user or collect data about the user”.

In simpler terms, data extraction transactions are transactions that take place between platforms and advertisers who wish to show ads to the platform's users. The tax applies to companies with at least \$2.5 billion in gross receipts derived from data extraction transactions in a single year, i.e. platforms of Google, Amazon, and Meta.

The bill aims to help local journalism by offering tax credits to news organizations that serve local communities in California. The goal of the credit is to, “increase employment of local journalists in local news organizations”. The credit amount is equal to up to 40% of wages for existing full-time employees plus 10% of wages for new employees.

The funding mechanism for the legislation places a tax on advertising revenue for platforms like Google, Amazon, and Meta. Large platforms dominate the online advertising space and thus likely have enough market power to pass the increased cost from the tax onto their customers - businesses advertising online. Now, businesses advertising on these platforms could face higher prices if platforms pass on the increased cost of the tax.

Access to online advertising is vital to growing businesses. Google's Chief Economist [estimates](#) that businesses that advertise on Google's platform receive 8 times the return on their investment. One way businesses could respond to advertising price increases is to advertise less, which could hurt revenue. They could also respond by increasing prices for their customers, which could also hurt revenue depending on the market.

To determine the impact of this advertising tax on California businesses that advertise through Google, Meta, and Amazon, I gathered available information on advertising sales and the number of businesses advertising on each platform. I then produced a rough estimate of how much the tax will cost the average business owner who advertises on Google, Amazon, or Meta platforms.

Analysis

SB 1327 taxes the gross receipts of data extraction transactions, and section 5(b)(2) of the bill describes which transactions are counted towards gross receipts of data extraction transactions, stating,

“Gross receipts shall be deemed to be serviced from data extraction transactions if they derive from the sales of advertising services on a digital interface, including, but not limited to advertisements in the form of banner advertising, search engine advertising, interstitial advertising, and other comparable advertising services that use personal information about the people to whom the ads are being served.”

The tax equals 7.25% of the advertising revenue platforms receive from these data extraction transactions. For companies that are online platforms, all of their advertising revenue is likely to be counted as gross receipts from data extraction transactions since their advertising revenue models rely on advertising to their users (i.e., selling access to users as described in Section 5(b)(1)(A)).

To estimate the additional cost businesses advertising on these platforms could incur, I estimated the U.S. advertising revenue for these platforms. Using information from 10-K and Quarterly Filings for [Google](#), [Meta](#), and [Amazon](#), I first examined each company's worldwide advertising revenue.

Worldwide Advertising Sales by Company

Company	Worldwide Advertising Sales (\$ Millions)
Google	\$269,365
Amazon	\$46,906
Meta	\$131,948

Table: Kaitlyn Harger, Chamber of Progress • Source: Company 10-K Filings • Created with Datawrapper

Google’s advertising sales are the largest, followed by Meta and Amazon.

Next, I adjusted worldwide revenue to reflect only the advertising revenue of the United States since the tax is on California revenue. Filings from each company list the portion of worldwide revenue attributable to the United States.

Proportion of Revenue Attributable to U.S.

Company	U.S. Revenue Share
Google	47.00%
Amazon	68.83%
Meta	39.20%

Table: Kaitlyn Harger, Chamber of Progress • Source: Company 10-K Filings • Created with Datawrapper

I take these proportions and apply them to worldwide advertising revenue to estimate U.S. advertising revenue.

Estimated U.S. Advertising Revenue

Company	Estimated U.S. Ad Revenue (\$ Millions)
Google	\$126,602
Amazon	\$32,286
Meta	\$51,730

Table: Kaitlyn Harger, Chamber of Progress • Source: Company 10-K Filings • Created with Datawrapper

These calculations left me with a rough estimate of U.S. advertising revenue for each company. However, the tax would apply only to advertising sales attributable to California. The bill outlines how sales are attributed to California in Section 21202(b)(1), which states, “Gross receipts derived from data extraction transactions shall be apportioned based on the location of the user.”

Since most of the U.S. population uses Google, Meta, and Amazon's platforms, the percentage of the population located in California serves as a proxy for the percentage of

users in California, as virtually all Californians use these services. According to the [U.S. Census](#) and [California Department of Finance](#), California contains roughly 12% of the U.S. population. I multiply this percentage by the U.S. advertising revenue in the previous table to develop an estimate of California advertising revenue.

Estimated California Advertising Revenue

Company	Estimated CA Ad Revenue (\$ Millions)
Google	\$15,192
Amazon	\$3,874
Meta	\$6,208

Table: Kaitlyn Harger, Chamber of Progress • Source: Company 10-K Filings • Created with Datawrapper

Next, I estimated the tax due using the abovementioned numbers and applying the 7.25% tax rate. Since the tax proposed in SB 1327 is a gross receipts tax, it taxes advertising revenue, *not* advertising profit. The table below shows the estimated tax due on California advertising revenue.

Estimated New Tax Due Under Bill

Company	Estimated New Tax Due (\$ Millions)
Google	\$1,101
Amazon	\$281
Meta	\$450

Table: Kaitlyn Harger, Chamber of Progress • Source: Company 10-K Filings • Created with Datawrapper

Of course, due to a new tax, these companies' taxes will increase. How will these platforms react to this tax increase? They will likely pass some or all of the additional cost onto their customers - businesses advertising on their platforms.

How much of the tax will get passed on is dependent on elasticity. If advertisers are price-sensitive and have many available substitutes, these companies could lose money by passing on too much of the tax. However, many businesses rely on advertising to generate revenue online. Substituting away from the three major online advertisers, Google, Amazon, and Meta, may harm businesses if they depend on these platforms for generating sales.

I could not find an estimate of how price-elastic the demand for online advertising is. However, the three leading advertising platforms are all subject to the tax, demand will likely be more price inelastic since consumers, in this case, businesses wanting to advertise, have fewer substitutes. Thus, platforms may be able to raise the prices of their advertising services without seeing a significant decrease in sales.

Without available data on elasticity, I estimate three scenarios showing business outcomes depending on how much of the tax businesses pay. I consider Scenario 1, where 50% of the tax is passed on; Scenario 2, where 75% is passed on; and Scenario 3, where 100% is passed on.

To estimate how much extra the average California business would pay, I first determined how many businesses in California use these advertising services. Google's economic impact reports provide information on the number of businesses that use their advertising services. Google's Economic Impact [Report](#) from 2018 is the latest year that includes this information. According to that report, 226,000 businesses in California used Google's advertising services in 2018. To be conservative, I assume this level has stayed the same since 2018. This number has undoubtedly increased since 2018, but without information on the businesses using advertising services, it is difficult to estimate the growth rate between 2018 and today reliably. Thus, this number is an underestimate of the actual number of advertisers.

Meta does not provide information on the number of businesses in California that use its advertising services. However, I found [information](#) on the number of advertisers using Meta globally, an estimated 3 million businesses. The article also mentioned that 70% of those businesses are outside the United States. Thus, roughly 900,000 businesses in the United States use Meta's advertising tools. Without information on the number of businesses in California specifically, I used information from Google to estimate the number of California businesses advertising on Meta's platforms.

In 2018, Google reported 226,000 businesses using advertising tools in California. During the same year, there were 1.3 million businesses using Google's advertising in the U.S. This means that 17% of businesses advertising on Google in the U.S. were located in California. Without available information on the number of businesses advertising on

Meta's platforms in California, I assumed Meta follows a similar pattern to Google. By that logic, Meta would have 156,462 advertisers in California.

Amazon's Small Business Empowerment [Report](#) includes an interactive [map](#) that lists the number of Amazon sellers in California as 77,000. According to [Jungle Scout](#), a seller software firm that helps businesses on Amazon scale their sales more quickly, roughly 58% of sellers on Amazon advertise on e-commerce platforms like Amazon. Thus, the available data suggest that approximately 44,660 sellers on Amazon in California use Amazon ads.

The table below summarizes the estimated number of California businesses advertising on each platform.

Estimated California Advertisers by Company

Company	California Businesses Advertising
Google	226,000
Amazon	44,600
Meta	156,462

Table: Kaitlyn Harger, Chamber of Progress • Source: Company Reports, Jungle Scout • Created with Datawrapper

These companies would likely pass on some portion of the tax, and I consider three scenarios - a scenario where 50% of the additional cost is passed on, a scenario where 75% of the tax is passed on, and a scenario where 100% of the tax is passed on.

Average Additional Tax Per Business by Scenario

Company	50% Passed On	75% Passed On	100% Passed On
Google	\$2,437	\$3,655	\$4,874
Amazon	\$3,149	\$4,724	\$6,298
Meta	\$1,438	\$2,157	\$2,876
Total	\$7,024	\$10,536	\$14,048

Table: Kaitlyn Harger, Chamber of Progress • Source: Company filings • Created with Datawrapper

Under the first scenario, 50% of the tax is passed on to consumers. In this case, a consumer using all three platforms for advertising would face an additional cost of \$7,024 annually. The second scenario considers 75% of the tax getting passed onto businesses. In that case, the additional tax would be just over \$10,000. Finally, the third scenario depicts the results if 100% of the tax were passed onto businesses advertising on these platforms. If 100% of the tax were passed on, a business advertising on all three platforms would have an estimated cost increase of \$14,048.

Conclusion

SB 1327 imposes a tax on advertising that will affect small, medium, and local businesses. My calculations suggest that the average business using all advertising platforms would face an additional annual cost of \$14,048. While this bill helps local journalism via the tax credit, it harms other businesses.