Maryland Approves Country's First Tax on Big Tech's Ad Revenue.

Analysts estimate that the tax will generate up to $250 million for schools in the state in the first year. It will also probably face fierce legal challenges.

State politicians, struggling with yawning budget gaps from the pandemic, have made no secret about their interest in getting a bigger piece of the tech industry's riches.

Now, Maryland's lawmakers are taking a new slice, with the nation's first tax on the revenue from digital advertisements sold by companies like Facebook, Google and Amazon.

The State Senate voted on Friday to override the governor's veto of the measure, following in the footsteps of the state's House of Delegates, which gave its approval on Thursday. The tax will generate as much as an estimated $250 million in the first year after enactment, with the money going to schools.

The approval signals the arrival in the United States of a policy pioneered by European countries, and it is likely to set off a fierce legal fight over how far communities can go to tax the tech companies.

Other states are pursuing similar efforts. Lawmakers in Connecticut and Indiana, for example, have already introduced bills to tax the social media giants. Several other states, like West Virginia and New York, fell short of passing new taxes on the tech giants last year, but their proponents may renew their push after Maryland's success.

The moves are part of an escalating debate about the economic power of the tech giants as the companies have grown, become gatekeepers for communication and culture and started to collect reams of data from their users. In the United States, law enforcement agencies brought multiple antitrust cases against Google and Facebook last year. Members of Congress have proposed laws to check their market power, encourage them to moderate speech more carefully and protect their users' privacy.

Maryland's tax also reflects the collision of two economic trends during the pandemic: The largest tech companies have had milestone financial performances as social distancing moved work, play and commerce further online. But cities and states saw their tax revenues plummet as the need for their social services grew.

"They're really getting squeezed," said Ruth Mason, a professor at the University of Virginia's law school. "And this is a huge way to target a tax to the winners of the pandemic."

Lobbying groups for Silicon Valley companies like Google and Facebook joined other opponents of the law — including Maryland Republicans, telecom companies and local media outlets — in arguing that the cost of the tax would be passed along to small businesses that buy ads and their customers. Doug Mayer, a former aide to Gov. Larry Hogan who now leads a coalition backed by industry opponents of the tax, said at a news conference last week that the law's supporters were "using this bill to take a swing at out-of-state, faceless big corporations."

"But they're swinging and missing and hitting their own constituents in the mouth," he said.

The Maryland tax, which applies to revenue from digital ads that are displayed inside the state, is based on the ad sales a company generates. A company that makes at least $100 million a year in global revenue but no more than $1 billion a year will face a 2.5 percent tax on its ads. Companies that make more than $15 billion a year will pay a 10 percent tax. Facebook's and Google's global revenues far exceed $15 billion.

Bill Ferguson, a Baltimore Democrat who is president of the State Senate, was a main driver behind the bill. He said he was inspired by an Op-Ed essay from the economist Paul Romer proposing taxing targeted ads to encourage the companies to change their business models.

"This idea that one outsider can exploit and use the personal data of another area and pay nothing for its use, that doesn't work in the long run," Mr. Ferguson said.

Maryland's Democratic-controlled legislature passed the tax with veto-proof majorities last March. But Mr. Hogan, a moderate Republican, vetoed the measure in May.

"With our state in the midst of a global pandemic and economic crash, and just beginning on our road to recovery, it would be unconscionable to raise taxes and fees now," Mr. Hogan said in a letter explaining his reasoning.

Late last year, industry groups helped to form a lobbying organization to try to stop the legislature from overriding Mr. Hogan's veto.

For months, the organization, Marylanders for Tax Fairness, backed by some of Silicon Valley's top lobbying groups, has warned Maryland lawmakers in spots on cable news and local radio that a proposed tax on digital advertisements is a "bad idea" at a "bad time."

The New York Times

By David McCabe

Feb. 12, 2021