



Legislature must think twice before taxing digital ad revenue

Summary: With the state budget deadline on the horizon, the House of Representatives recently passed a [bill](#) that would expand the commonwealth’s gross receipts tax (GRT) to encompass digital advertising revenue. The proceeds of the tax would fund additional school property tax relief for seniors.

Background

According to Pennsylvania’s Tax Compendium, the GRT is “levied on the gross receipts from business transacted within Pennsylvania by specified companies owned, operated or leased by corporations, associations, or individuals.” However, the tax is only imposed upon the following: “private bankers; pipeline, conduit, steamboat, canal, slack water navigation and transportation companies; telephone, telegraph and mobile communications companies; electric light, water power and hydroelectric companies; express companies; palace car and sleeping car companies; and freight and oil transportation companies.”

The current tax rate is 5 percent (50 mills) on each dollar of the gross receipts the aforementioned entities receive from (1) passengers, baggage, oil and freight transported within the state; (2) telegraph or telephone messages transmitted wholly within the state, including for the purpose of interstate commerce and (3) mobile telecommunications services sourced to the commonwealth. Gross receipts from the sales of electric energy within the state and certain sales made outside of the state are subject to a tax rate of 59 mills. The governor’s proposed 2026-27 budget anticipates total GRT collections of \$1.45 billion.

The bill would extend the 5 percent rate to the gross receipts of entities deriving income from “digital advertising services displayed to a user on a digital interface wholly within this Commonwealth, including banner advertising, search engine advertising, interstitial advertising and comparable advertising services that utilize the personal information of the users to whom the advertisements are served.” The tax is intended for large tech companies which rely on digital advertising revenue; exemptions are included for broadcast and news media entities.

Property tax relief

The collections would be deposited into a special account within the “Property Tax Relief Fund” established by Act 1 of 2006. Anyone who resides in a homestead and is at least 65 years of age (or lives with someone who is) would be eligible to claim the rebate offered with a limit of one claimant per household. The rebate could be claimed in addition to the existing property tax and rent rebate for seniors – which is based on income – established by Act 1 of 2006 and expanded by Act 7 of 2023. It’s unclear if the proposal will adopt the same income-based requirements or how funds will be ultimately doled out.

The House Fiscal Note attached to a prior, but similar, version of the bill estimated the tax would generate \$329.4 million. It also states that “[t]he amount of the rebate is equal to the difference in the claimant’s local school real estate taxes in the current fiscal year and the fiscal year in which the claimant (or person living in the same household as the claimant) turned 64 years of age.”

Other considerations and concerns

Interestingly, the proceeds of the tax supporting property tax relief was an amendment added after the bill had made it out of the House Finance Committee. Some committee members raised two primary concerns regarding implementation of a digital advertising tax that were later echoed on the House floor.

The first major concern was over the legality of expanding the GRT to cover digital advertising. Testimony provided at the April 29 committee meeting noted that Maryland passed a similar tax in 2021 but that it has been mired in litigation. A provision in the law preventing a surcharge or line-item specifically denoting an entity raising prices due to the tax (passing on to consumers) was struck down for violating the First Amendment.

The rest of the tax remains in place but is facing legal scrutiny on other fronts. Opponents allege the Maryland measure also violates, among other things, the federal Internet Tax Freedom Act, which established “a moratorium on the imposition of state and local taxes that would interfere with the free flow of interstate commerce over the internet.” Other states have similarly faced legal challenges in implementing a tax on digital advertising – meaning a protracted legal battle would be inevitable should the measure pass in Pennsylvania.

The other concern was the impact of taxing digital advertising. Some members pushed back on the notion that the effects of the tax would be confined to wealthy tech corporations. The GRT is not levied against the consumer directly but can be passed on to the consumer; lawmakers mentioned that some utilities and phone carriers already subject to the GRT explicitly do so.

As such, businesses which advertise on the affected platforms may be forced to bear the burden of the tax through higher prices, which could then be passed on to the consumer. This would be more detrimental to smaller businesses and those with lower profit margins that cannot as easily absorb the cost increase. Note, too, that some advertisements for services directed at seniors would likely be affected, including medical, healthcare, and financial services. That could lead to a situation where prices rise in tandem with property tax and rent rebates. Furthermore, continuing to tax and regulate businesses, large or small, is only going to dampen business activity and investment in the commonwealth.

Alternative solutions

The Legislature has rightly recognized the need for more school property tax relief. However, there are ways of doing so without expanding the GRT.

Another option would be to reevaluate the purpose of gaming tax revenues. General school property tax relief is primarily funded by a 34 percent levy on the gross terminal revenues for retail and internet slot machines. The American Gaming Association's 2026 State of the States [report](#) notes Pennsylvania received roughly \$2.85 billion in total gaming tax revenue in 2025. \$545.6 million of that was allocated to local governments, \$188.5 million was distributed to the horse racing industry and \$135.2 million was appropriated to the Pennsylvania Gaming Economic Development and Tourism Fund. A little less than \$2 billion was retained by the state, a significant chunk of which is used for property tax relief. Prior *Policy Briefs* have questioned the use of gaming money for [economic development](#) and [sporting projects](#), including subsidies for Pittsburgh International Airport and the heavily taxpayer-funded stadiums.

On June 15, the Pennsylvania Supreme Court ruled that "skill games" are classified as slot machines under state law. The ruling was accompanied by a 120-day window of delayed enforcement, and that the General Assembly "remains free at any time to take whatever legislative action it may deem appropriate," including how the machines will be taxed and regulated and where the revenue will go.

Additionally, reining in expenditures in the state's general fund would free up more revenue elsewhere to be put toward property tax relief. *Policy Brief Vol. 26, No. 11*, highlighted that the governor's proposed 2026-27 budget – which the House passed as is on April 14 – contains a 6.3 percent spending increase from the year prior despite the commonwealth facing a deficit of \$4.6 billion, which will be plugged by raiding 58 percent of the state's rainy-day fund. About \$424 million in gaming tax revenue is projected to go into the general fund.

Examining the state's targeted subsidies and incentives would also be more prudent than introducing a new tax. For example, the governor's 2026-27 budget proposal projects that a data center equipment sales-tax exemption could cost more than \$1.7 billion over the next five years. As the Allegheny Institute has repeatedly reiterated, relying on taxpayer-

funded corporate handouts to attract investment is poor public policy and indicative of an unwelcoming business environment.

Lastly, it's also worth mentioning the excessive spending by school districts, which undoubtedly contributes to significant property tax burdens in the first place. For example, *Policy Brief Vol. 26, No. 21*, underscored the fact that state taxpayers are already funding thousands of dollars more per pupil beyond the state average in just a few districts in Allegheny County, despite little, if any, discernable academic improvements.

Conclusion

While the idea of enacting additional senior school property tax relief is commendable, expanding the GRT to do so raises concerns ranging from legality to the impact on business activity.

Ideally, the Legislature should be focused on reducing spending and looking to improve the state's business and regulatory climate as part of state budget considerations. *Policy Brief Vol. 26, No. 19*, highlighted Pennsylvania's woeful economic performance and desperate need for population and job growth. Implementing pro-growth strategies to bolster the tax base would be a more sensible and sustainable solution to fund school property tax relief in the commonwealth.

As a result, the state – and local governments – would be less reliant on gaming revenues – or new tax sources – to shore up finances.

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