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## Don't select digital service taxes

Dubious legality, unfair burdens

By James M. Hohman | July 2025

Gov. Gretchen Whitmer has asked for digital service taxes, and House Bill 4142 would create those taxes. It would charge companies such as Alphabet (Google) and Meta (Facebook, Instagram) for their sales of digital advertisements, adding a tax of 2.5% to 10% to the price of each ad. The rate levied would depend upon the taxpayer's global sales, which raises important legal questions. HB 4142 could also create an unfair penalty for one kind of advertiser and not others. Because this kind of preference is prohibited by a federal law, similar taxes imposed by other states are being challenged in court.

Only Maryland and Washington have, to date, authorized a special tax on online advertising. Washington just added its tax earlier this year, and litigation to stop it is likely. Maryland's tax is still facing a court challenge. The federal Internet Tax Freedom act bans state and local governments from

taxing internet businesses and not other similarly situated businesses.

Another problem is that the proposal would charge companies different rates based on their global sales. Finally, it's dubious whether states can increase taxes on companies based on their activity outside of the state.

Whitmer argued that big tech companies need to pay their share to fix the roads. But the fair share for road funding comes from people who use roads. Digital advertisements aren't delivered over pavement.

Michigan collects more revenue from its taxes than ever before, and state spending has increased by \$13.8 billion from FY 2019-20 to FY 2024-25, a 14% increase when adjusted for inflation.

Increased spending supported by increased revenue means that lawmakers don't need to play with a tax of questionable legality. The Mackinac Center has signed on to a coalition letter with groups to oppose the digital service tax.

Available online at: [www.mackinac.org/v2025-19](http://www.mackinac.org/v2025-19)



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