Rescuing Local News Through Tax Credits: A review of policy in the U.S. and Canada

Issie Lapowsky and Jason White
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Acknowledgments

This report was wholly funded through the support of the John S. and James L. Knight Foundation. As noted in the Center’s ethics statement, the substance of the Center’s work is independent from its funders. The report’s findings and recommendations are the authors’ own. We would also like to thank Rebuild Local News for helping with our research.
Executive Summary

Lawmakers in the U.S. and abroad are looking for policy solutions that will bring new sources of funding into the long flailing news industry, which has suffered from decades of consolidation, competition from new forms of media, and, more recently, the rise of digital platforms. Internationally, Australia has already implemented its News Media Bargaining Code, requiring large platform companies like Meta and Google to pay for news content, and Canada is currently considering a version of it. In the U.S., New York City is requiring local government agencies to spend a portion of their advertising budgets on local media. And in New Jersey, the state created a nonprofit consortium to distribute public funding to local newsrooms and other community organizations.

One other set of ideas for boosting the news industry that's been gaining ground at both the state and federal level in the U.S. is tax incentives. Congress pursued this approach through the Local Journalism Sustainability Act, which would have provided payroll tax credits to local newsrooms, subscription tax credits to individuals, and credits for small and mid-sized businesses that advertise with local media. While that bill ultimately failed to pass, elements of it are likely to be reintroduced. In the meantime, at least seven states, from New York to Oregon, have pursued tax levers for news in one form or another. Though none have passed yet, supporters said they also are likely to be revived in future legislative sessions.

To evaluate how tax incentives might work at the state and federal level in the U.S., we explore the example set by Canada, which recently enacted this approach. In 2019, the country announced a $595 million plan to fund the news industry through three different tax interventions: a labor tax credit, a subscriber tax credit, and a new quasi-charitable status for nonprofit newsrooms.

This report provides an overview of journalism tax measures that have been proposed in the U.S., a deep dive on Canada's tax credits for journalism, and an analysis of their impact and shortcomings. We also provide a set of six recommendations, based on Canada's experience, to inform U.S. policymakers pursuing tax strategies to support local news:

1. Structure payroll tax credits with the smallest newsrooms in mind.
2. Implement subscription tax benefits at the point of sale.
3. Impose transparency measures to allow for public accountability.
4. Experiment with different tiers of credits for employee retention and growth.
5. Continue to prioritize local news over national.
6. Provide tax credits for local news advertisers.

We present tax credits not as a cure all or substitute for other legislative initiatives aimed at uplifting the news industry, but as an idea worthy of experimentation. Efforts to support healthier information ecosystems at the local level have implications for many stakeholder groups, from lawmakers to tech platforms to news producers to consumers.
Background: The decline of local news, and recent policy approaches

For much of the 20th century, local news organizations in the U.S. operated from a position of economic strength. They had healthy businesses that were built around the fact that they owned or were significant parts of the means of information distribution in their communities. This enabled them to build robust advertising and subscription businesses, which helped fund the journalism that they produced.

Then came a cascade of disruptions. The rise of television and radio brought new competition to the space. Deregulation and market pressures increased concentration (Franklin & Murphy, 1998, p. 2). Social trends began to undercut the centrality of local communities (Nielsen, 2015, p. 5). And the growth of the consumer internet in the 1990s and beyond fundamentally changed the market. Once consumers could access news and information from anywhere at any time, the market position of local media was greatly affected, with devastating impacts on local newspapers in particular, according to the U.S. Census Bureau’s Service Annual Survey. No longer were local news organizations the dominant way for consumers to get information about their community, and no longer were they the main vehicle through which local advertisers could reach their customers.

Local newsrooms struggled to replicate their success online, due in no small part to the relatively low cost of digital ads compared to print ads. While cheaper ads were good for consumers and businesses, they hit the bottom line for local news, according to a study from Management Science. A growing share of news organizations were bought by private equity firms over this period, which led to less coverage of local civic institutions and a decline in the number of reporters and editors, according to a working paper from the National Bureau of Economic Research. All of this led to a steady slide in the economic prospects for local media and local journalists, as news organizations cut back and consolidated.

The changes in the local print media landscape in the U.S. have impacted news distribution, economics, and labor:

- **Circulation:** Weekday circulation of daily newspapers in the U.S. topped out at 63,340,000 in 1984, according to data from Pew Research Center. That figure dropped by 61% to 24,299,333 in 2020, despite a growing U.S. population.
- **Revenue:** Ad revenue reached its peak later than circulation, hitting a high of $49 billion in 2005. It dropped to an estimated $9.6 billion in 2020, Pew found.
- **Journalists:** As the economic prospects for local media suffered, so did employment for local journalists, according to Pew: from a high of 74,410 newsroom employees in 2006 to 30,820 in 2020.

Over this same period, roughly one quarter of America’s newspapers closed entirely, according to a report from Penelope Muse Abernathy, a professor of journalism at Northwestern University, and many of the remaining 6,700 newspapers are what she calls “ghost newspapers.” That means they are still printed and distributed and still have advertising, but there is no longer any or much local content. (The research was published while Abernathy was at the Hussman School of Journalism and Media at UNC.) This decline coincided with an increase in ownership by private equity and hedge funds and consolidation into fewer companies. Consolidation has been shown to have a negative impact on local coverage.

Various studies have shown that when local news coverage decreases or disappears in a community, the impacts can be profound for the health of that community:

- Participation in local elections declines as local reporting takes up a small share of the news that is covered, according to a National Bureau of Economic Research study.
- Citizens’ political knowledge and participation declines in concert with a decline in local news, according to a study in the University of Chicago’s Journal of Politics.
- The closure of newspapers leads to higher borrowing costs for communities, according to a Brookings Institution study.
- Corporate misconduct in an area goes up when newspapers close, according to a paper in the Journal of Financial Economics.
While the situation is dire, there are areas of promise. Some entrepreneurs have started new digital-first newsrooms in their communities, such as Richland Source in North Central Ohio and Lookout Local in Santa Cruz, CA. But these outlets are typically much smaller than what they replaced, and like other kinds of startups, they don’t all succeed. Nonprofit news organizations, which are nonprofits that provide news coverage as a public service, have seen significant growth as well, with 184 nonprofit news organizations currently focused on local journalism and another 104 split between state and regional coverage, according to the Institute for Nonprofit News. Still there is no question that a yawning gap remains between the amount of community journalism produced two decades ago and what is produced today.

Policy Approaches
In recent years, the decline of local news has caught the eyes of industry advocates and lawmakers in the U.S. Legislative remedies have included:

- The Journalism Competition and Preservation Act, which would force large digital platforms to pay for the news they host or link to. JCPA has been introduced in multiple congressional sessions. In June of this year, it passed out of the Senate Judiciary Committee.
- The California State Assembly passed legislation that requires platforms to pay a news usage fee to news organizations in the state.
- Washington and California both approved fellowship programs to place recent graduates with news organizations.

Lawmakers also have increasingly considered using tax levers to improve the economic prospects for local media. The primary legislative vehicle for this approach in the U.S. has been the Local Journalism Sustainability Act. The bipartisan House version of the bill was first introduced in 2020 by Reps. Ann Kirkpatrick (D-AZ) and Daniel Newhouse (R-WA). It was reintroduced the following year, along with a Senate version of the bill, introduced by Commerce Committee Chair Maria Cantwell (D-WA) and fellow Democratic senators Ron Wyden (D-OR) and Mark Kelly (D-AZ).

The bill, which we will outline in further detail below, took a three-prong approach to propping up local news through a payroll tax credit for local newsrooms, a subscription tax credit for individual taxpayers, and a tax credit for businesses that advertise with local news organizations. The House version of the bill had 77 co-sponsors across party lines, and the legislation more broadly received support from major industry groups like the News Media Alliance, as well as smaller public interest groups, like Report for America. But the bill ultimately died in committee.

Now, states across the country, including Wisconsin, New York, and Virginia, are pursuing pieces of that bill on a more local level. Publishing associations and advocacy groups say they expect new federal legislation as well, with elements of the LJSA folded into it. As U.S. lawmakers consider ways to support the news industry through the tax code, they can develop a better understanding of the costs and benefits of this policy mechanism by studying how it has worked in practice. They should look to Canada for guidance, where the country is already engaged in an ambitious experiment in using tax credits to fund journalism.
Our Research and Key Questions

In this paper, we explore tax measures not as a panacea for the decline in local news or as a replacement for other policy approaches, but as one way lawmakers might be able to improve the prospects for local media. We are focused on tax measures for a few reasons:

1. Tax policy proposals are actively being considered by policymakers. They have already been introduced in Congress and state legislatures and are likely to be reintroduced in revised form.
2. They have already been implemented in other jurisdictions, so we have the opportunity to examine how they work in practice. Canada provides a real world example to gauge their impact.
3. Because tax policy touches every business, no matter how small, these credits are scalable to the hyperlocal level in ways that other policies may not be.

Through interviews and roundtable discussions with publishers, advocacy groups, think tanks, industry experts, and lawmakers, as well as a review of relevant government data and legislation, we sought to answer three questions:

1. What are the features and challenges of U.S. tax policy proposals aimed at strengthening local news?
2. What impact have Canada’s journalism tax credits had on newsrooms?
3. How could lawmakers learn from Canada’s experience to improve the journalism tax credit model?
Overview of U.S. Tax Incentive Proposals

At both the state and federal level, there are three main tax incentives that have been under consideration. In Congress, the policies are wrapped together in the Local Journalism Sustainability Act (LJSA). The state proposals typically include one or two of these measures, and lawmakers are currently working on a revamped version of LJSA, which could also include some of these measures.

The tax changes that would benefit local news organizations, as laid out in the LJSA, include:

1. **Tax credits for individuals who subscribe to a publication.**
   - **Goal:** To incentivize more people to purchase subscriptions by lowering the cost of subscribing. If successful, this would accelerate growth in a part of the publishing business – digital subscriptions – that is already growing.
   - **How it would work:** A subscriber would receive a tax refund for 50-80% of the cost of a subscription, up to $250 refund per year.

2. **Refundable tax credits for publishers who hire journalists.**
   - **Goal:** To enable local news organizations to retain newsroom employees or hire new ones by lowering the cost of employing journalists.
   - **How it would work:** The credit is for 50% of an employee’s salary up to $50,000 in compensation in the first year, so a newsroom may claim a maximum credit of $25,000 per employee. In subsequent years, the value of the credit is reduced to 30%, reducing the maximum credit to $15,000.

3. **Tax credits for local businesses that advertise with local media.**
   - **Goal:** To encourage small businesses to direct more of their spending on ads to local media, as opposed to other potential ad vehicles, such as digital platforms.
   - **How it would work:** The credits would go to small businesses of fewer than 50 full-time employees that buy advertisements in their local media outlets, whether print, digital or TV and radio. The credit is worth up to 80% of a company’s advertising costs with local media in the first year and 50% in subsequent years. The credit is capped at $5,000 in the first year and $2,500 in following years.

The payroll and subscription tax credits would apply only to local newspapers, defined as print and digital publications that meet the following four criteria:

- The primary content is original content.
- The publication serves the needs of the local community or region.
- The publication employs at least one journalist who lives in that community.
- The publication employs no more than 750 people.

The advertising tax credit would apply to local broadcast TV and radio, as licensed by the Federal Communications Commission, and also print and digital publishers as defined above.

One of the core elements of the LJSA – the payroll tax incentive for newsroom employees – had a chance of passage when it was included in the Build Back Better plan. When that plan stalled, so too did the LJSA.

As federal legislation seemed less likely, publishers and industry associations shifted their attention to getting individual pieces of the legislation approved in different states. Rather than try to pass all three tax credits at once, state lawmakers have been taking more targeted approaches, according to Rebuild Local News, a nonprofit organization that advances policy solutions to revitalize community journalism. The chart below outlines tax reform proposals that have been introduced by state lawmakers in recent years. None of the policy proposals described below have been passed by state lawmakers as of the date of this report.
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<th>State</th>
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<tr>
<td>Colorado</td>
<td>Subscription tax credit, and advertising tax credit</td>
<td>Credit equal to 50% of the amount paid to a local news organization in the form of a subscription or donation, with the credit capped at $250. Advertising tax credit equal to 50% of a small business’s advertising spending with local broadcasters or newspapers, with the credit capped at $2,500.</td>
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<td>Maryland</td>
<td>Advertising tax credit</td>
<td>Credit for small- and medium-sized businesses of fewer than 50 employees that advertise through news media based in the state. The credit is capped at $1,000 for the first year and $500 in subsequent years.</td>
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<td>Massachusetts</td>
<td>Subscription tax credit</td>
<td>Credit up to $250 for paid subscriptions to one or more local community newspapers.</td>
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<td>New York</td>
<td>Payroll tax credit</td>
<td>Payroll tax credit payable to news organizations for newsroom employees up to 50% of $12,500 in wages each quarter.</td>
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<td>Oregon</td>
<td>Subscription tax credit</td>
<td>Credit for the cost of subscriptions to local or regional publications. Credit capped by income of the taxpayer.</td>
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<td>Virginia</td>
<td>Payroll tax credit, and advertising tax credit</td>
<td>Tax credit for 10% of wages paid to local news journalists up to $5,000, and in subsequent years, the lesser of 5% of wages or $2,500. Local advertising tax credit of 80% of the amounts paid for qualified local media advertising expenses, capped at $4,000. The credit would decrease in subsequent years.</td>
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<td>Wisconsin</td>
<td>Advertising tax credit</td>
<td>Local advertising tax credit for 50% of a business’s advertising expenditures, limited to a credit of $5,000. Businesses with fewer than 100 full-time employees and under $10,000,000 in revenue would be eligible.</td>
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The Wisconsin legislation, which includes a version of the advertising tax credit, is being sponsored by state Rep. Todd Novak, a Republican and former newspaper editor. In an interview, Novak said he saw an opportunity to help small businesses market themselves while also improving ad revenue for local publishers. He also liked the politics of this policy, saying he could build a broad coalition behind it, because the credit would go to all kinds of small businesses, not just news organizations.

“The most powerful lobbying group in the state of Wisconsin is the tavern league,” said Rep. Novak. “And they jumped on board, and it really caught people’s attention.”

A downside of this big tent approach is that it can be expensive – initially estimated at $50 million for this legislation. Rep. Novak said he made changes that brought it down to $40 million, which was still too expensive for many. As of June 23, the bill had not moved out of committee.

In New York, Assemblywoman Carrie Woerner, a Democrat, has advocated for a refundable tax credit for news organizations that retain or hire local journalists. “At our local board meeting, it goes from three or four news outlets, printed newspaper outlets, sending reporters to city council meetings and town board meetings, to nobody covering city councils and town board meetings. And I don’t think that that’s good for democracy,” she said in an interview.

Like in Wisconsin, cost has been one of the main areas of concern for the New York legislation, which came with an estimated price tag of $150 million. Within the news industry, one of the key discussion points around the legislation was who would benefit from it and by how much. The draft legislation ultimately included a $1 million per newsroom limit – which could still result in sizable payouts for chains and private equity firms that own multiple newsrooms.

From New York to Congress to Canada, who benefits is a key question that can pit legacy news organizations against digital startups, newspapers against broadcasters, large companies against small ones. Typically a more expansive vision has resulted in more political support as it helps generate a larger coalition in support of the legislation.

But that doesn’t mean everyone agrees it is the best way to spend limited taxpayer funds.

“They shouldn’t be helping those that are making millions and millions of dollars,” said Elinor Tatum, publisher of New York Amsterdam News, which is based in Harlem. “Should there be a company that’s making $20 million a year being able to get these credits? No, I don’t think that’s reasonable.”

Challenges to Implementation

There are three main areas of pushback that advocates for tax incentives to support local news have faced at both the state and federal level in the U.S.:

1. **Cost and prioritization:** Tax credits and incentives mean forgoing revenue for the government that is implementing them. For example, the federal payroll tax credit alone would have cost an estimated $1.67 billion. As state and U.S. lawmakers consider all of the needs of the voters they represent, interview subjects reported it has been difficult for news organizations to make the case that they are a higher priority than any other constituency. This is one reason why legislation like the Journalism and Competition Preservation Act — which requires digital platforms to pay for news content they host — can be attractive to lawmakers, as it wouldn’t directly hit government budgets like tax incentives would.

2. **Partisanship:** While many Republicans have endorsed policy changes to support news at both the state and federal level, such policies have been more often associated with Democrats. Trust in media among Republicans hovers around 14%, according to Gallup, compared to 70% for Democrats. This means that the policies can be caught up in partisan fissures, at a time when those fissures are deeper than ever.

3. **Role of government:** There is a deep strain of skepticism in the U.S. about government funding of news organizations, particularly among Republicans. Because tax credits do not involve a direct government investment in news, they are potentially a way through this skepticism. Nonetheless, advocates for news sustainability policies face the unique challenge of convincing some lawmakers that public policy tools should be used in news – nevermind what the right approach might be.
The Canada Experience

Four years ago, Canada changed its tax code to provide incentives aimed at improving the sustainability of news organizations. Here, we explore the evolution of the policy, its implementation, and lessons learned.

In 2017, the Ottawa-based think tank Public Policy Forum published a 108-page report, titled The Shattered Mirror, painting a bleak picture of Canadian newsrooms’ worsening reality. The report had been commissioned by the Canadian government, which was growing increasingly interested in the decline of media and its impact on democracy.

Between 2006 and 2015, revenue for Canadian daily newspapers had declined by 40%. The report also pointed to data from the Canadian Media Guild, showing that waves of layoffs had led to 12,000 lost media jobs by 2016, 1,000 of which had disappeared in the year leading up to The Shattered Mirror’s publication. Polling conducted by Public Policy Forum for The Shattered Mirror report found that the majority of Canadians viewed the potential collapse of the industry as a threat to a functional democracy.

The following year saw a nationwide discussion about whether and how the government could financially support local news. This momentum culminated in the creation of a $595 million plan, introduced in Canada’s 2019 budget, to support both national and local news organizations through three new tax measures. The goal of the measures was to boost newsroom investments in journalists, incentivize consumers to subscribe to news, and increase donations to nonprofit newsrooms.

Those measures include:

- **A refundable labor tax credit**: Qualified Canadian Journalism Organizations (more on QCJOs below) can receive a refundable tax credit amounting to 25% of their employees’ salaries or wages. The credit is capped at a $55,000 CAD salary, meaning the maximum credit is $13,750 CAD per employee per year. These employees must spend at least 75% of their time on “original written news content.” This credit is similar to, but smaller than, the payroll tax credit proposed in the U.S.

- **A digital news subscription income tax credit**: Individuals can claim a 15% income tax credit on up to $500 CAD worth of digital subscriptions to QCJOs, amounting to a maximum credit of $75 CAD annually. This credit applies only to “primarily written news.”

It is similar to the subscription tax credit proposed in the U.S., except it is smaller and only applies to digital subscriptions.

- A new **“qualified donee” status**: Nonprofit newsrooms that are designated as QCJOs and also meet certain additional eligibility criteria can become Registered Journalism Organizations (More on RJOs below). RJOs receive benefits similar to charities, including income tax-exempt status, the ability to accept gifts from registered charities, and the ability of donors to get tax write-offs on their contributions. This is a new category for newsrooms in Canada. In the U.S., newsrooms can already be nonprofits (for instance, the Texas Tribune is a nonprofit).

While it is not the focus of this paper, it’s worth noting that, in addition to these tax incentives, the government also set up a five-year, $50 million program called the Local Journalism Initiative, which pays for the deployment of journalists in underserved communities.

Criteria for Qualified Canadian Journalism Organization (QCJO) and Registered Journalism Organization (RJO) Status

Key to distributing these tax credits was figuring out which news organizations would actually qualify. To figure that out, the Canadian government convened an eight-member panel, composed of a cross section of media organizations, to come up with a list of criteria for Qualified Canadian Journalism Organizations (QCJO).

The final list of criteria is long, but requires, among other things, that QCJOs must:

- Be corporations, partnerships, or trusts that are based in and operational in Canada.
- Produce original news content.
- Cover general interest topics and current events.
- Adhere to journalistic processes and principles, including, among other things, verifying information, offering a right to rebuttal, and correcting errors.
- Employ two or more arm’s-length employees, meaning they are not related or married and generally have separate interests.
The Canada Revenue Agency is in charge of administering QCJO status. But in order to limit the number of judgment calls the government would make single-handedly, it also set up an independent advisory board of journalism experts to review applications.

Once a news organization has been approved as a QCJO, it can also apply for income tax-exempt status as a Registered Journalism Organization (RJO). These organizations must meet additional criteria, including, but not limited to:

- Operating exclusively for the purpose of creating journalism.
- Not accepting gifts from one source amounting to over 20% of revenue in any given year.
- Not giving any part of their income to a single individual for their personal benefit.

**Criticisms: Accusations of political bribery and favorship of legacy media**

This intervention by the Canadian government hasn’t been without controversy. Even before these tax measures were introduced, Public Policy Forum noted in its Shattered Mirror report that “we encountered resistance to the very notion that public policy be applied to the news.” That report answered such criticism by noting Canada’s already long record of government involvement in journalism. To protect national media from foreign competition, Canada has given Canadian businesses a tax break for advertising in Canadian media. And the Canadian Broadcasting Corporation is wholly owned by the government, though it operates independently.

Still, with the Liberal party supporting the proposals, Conservatives accused the Liberals of trying to buy the media’s favor. “What Justin Trudeau is telling you is: Here’s a half billion dollars; don’t bite the hand that feeds you,” Conservative party leader Pierre Poilievre told reporters in 2018.

But the critiques of the tax credit approach weren’t purely political. The package quickly came to be referred to as a “bailout” for legacy newspapers, including major publishers like Torstar and Postmedia, the latter of which is majority-owned by the New Jersey hedge fund Chatham Asset Management. Critics pointed to a meeting between “press barons,” including Postmedia’s CEO Paul Godfrey, as evidence that incumbent players, responsible for so many journalism layoffs, were using the policies to enshrine the power of legacy newspapers to the detriment of smaller upstarts. News Media Canada, a top industry trade association, was also represented on the panel that drafted criteria for QCJOs.

Much of the criticism came from leaders of startup newsrooms, including Jesse Brown, publisher and editor-in-chief of the podcasting company Canadaland. Brown denounced the exclusion of audio and video journalism and the requirements that newsrooms have at least two employees and cover general interest topics to qualify. “I launched Canadaland solo & did it part-time for a year before I started hiring. The bailout could have encouraged dozens more individuals to do the same, but explicitly excludes them instead,” he tweeted in 2019 when the QCJO guidance was released.

Others, like Erin Millar, then CEO of Discourse Media, which has benefitted from the tax credits, objected to the idea that there was no cap on the amount of money a single publisher could collect, meaning giant media conglomerates could accumulate unlimited tax credits for employing journalists one year, then lay them off the next. Millar put forward her own set of proposals, but was ultimately disappointed with where the government landed. “My view is that this sort of propped up and held in place an old model, because people are really scared of change,” said Millar, who is now CEO of Indiegat Media. “I think it’s inevitable, and so we shouldn’t be delaying that, but we should be making investments in the future.”

**Successes and failures of implementation**

The three prongs of Canada’s approach to tax incentives for journalism have had varied levels of success. We consider each of them individually.

1. **Labor tax credit:** The credit has resulted in tax savings for both large and small publishers. Last year, Postmedia reported receiving $8.3 million over the course of the year from the credit. We interviewed smaller publishers to understand the impact of the tax credit on their revenue. Village Media, which runs a network of hyperlocal newsrooms; The Tyee, a nonprofit newsroom based in Vancouver; and The Narwhal, a site devoted to environmental news, reported generating 5-10% of their revenue from the labor tax credit. All three publications said the credit has increased their ability to hire.
As Jeff Elgie, CEO of Village Media, put it, “It’s impossible to say that it has not made a significant positive impact on us.”

“It’s definitely been meaningful for us,” said Jeanette Ageson, publisher of The Tyee. This year, Ageson expects to claim $200,000 in credits, which amounts to approximately 10% of the publication’s roughly $2 million budget.

Even some of the program’s critics, including Millar of The Discourse, say their newsrooms have benefited. According to the most recent data reported by the Canada Revenue Agency, about 440 individuals and 100 corporations claimed the credit in 2020.

But the implementation of the program hasn’t been without issue. Some of the hurdles we identified include:

- **Resource constraints on Advisory Board:** The QCJO approval process is a highly manual one that often requires the Advisory Board to thoroughly read the news outlets they’re judging to determine if they do original reporting, adhere to journalistic standards, and meet other criteria for qualification. This is a time consuming process for a Board that is currently understaffed; the Board is supposed to have seven members, but currently has just four. Complicating matters, the Board is sometimes called upon to assess media outlets written in languages that none of the Board members understand.

- **Delays in funding disbursement:** The goal of the labor tax credit is to help newsrooms invest in hiring and retaining journalists. But for small organizations with limited cash flow, it has been challenging to plan for new hires when there is a gap between hiring and reimbursement.

- **Exclusion of audio and video journalists:** The Canada Revenue Agency stipulates that QCJOs can only claim tax credits for newsroom employees who spend “at least 75% of their time engaged in the production of original written news content,” excluding journalists who produce audio or visual journalism, without accompanying text.

- **Lack of transparency:** One reason for continued skepticism about the labor tax credit is the limited public visibility into who’s benefiting, how much has been spent on the program, and whether it’s actually creating net new jobs amid industry layoffs.

- **Funding limitations:** According to Glassdoor, the average salary for a journalist in Canada is around $55,000 CAD, which is the salary cap set under the labor tax credit. But because many journalists make more than that, groups like News Media Canada told us they are pushing to raise the salary cap to $85,000 CAD. In an interview, News Media Canada also expressed concerns that newsrooms that accept other forms of government funding, including a postal subsidy for print publishers, have to deduct that funding from whatever they receive from the labor tax credit. Those deductions reduce the amount that publishers actually collect from the labor tax credit.
2. **Digital subscription tax credit:** Interviews with experts and data released by the Canadian government suggest this credit has been largely unsuccessful in driving new subscribers to publications and is even viewed by some as a giveaway for affluent individuals who already subscribe to news. One independent publisher in our interviews described the program as “a flop.”

The credits apply to subscriptions to publications produced by **nearly 200 news organizations.** According to the Canada Revenue Agency, **just 1%** of tax-filing Canadians applied for the credit in 2020. The Reuters Institute for the Study of Journalism, which tracks digital news subscriptions in Canada, has shown a slight increase in Canadians who say they subscribe to digital news — from **13%** in 2021 to **15%** in 2022 — but digital subscriptions have been **growing** worldwide, making it impossible to attribute the growth in Canada to its tax incentives.

Some of the hurdles we identified include:

- **Gap between point of sale and reimbursement:** People who already subscribe to qualified news organizations may be happy to claim a small credit when they file their taxes. But new subscribers do not receive an immediate reimbursement when they subscribe to a new publication. They may not even know about the existence of the tax credit when they are considering purchasing a subscription.

  For the tax incentive to convert someone to a paying subscriber, that person must know about the tax program at the point of sale and must see that future reimbursement as an incentive to subscribe. That structure requires substantial forward thinking from individuals who may already be reluctant to pay for news.

- **Size of benefit:** The benefit is just **15%** of a subscription price. Even for a major daily newspaper like The Toronto Star or The Globe and Mail, that amounts to less than $20 CAD in credit. The credit is also capped at $75 CAD, limiting its benefit for subscribers to multiple publications. A small benefit likely correlates to a small incentive to purchase a new subscription.

- **Exclusion of video and audio news:** The benefit applies only to publications that produce “**primarily written news,**” preventing audio and video-based publications from offering the credit to subscribers.

3. **Qualified donee status:** To date, there are **nine Registered Journalism Organizations** that can issue donation receipts to contributors and accept charitable funding. For those few organizations, opening up a new lane of revenue that didn’t exist before, coupled with income tax savings, has been positive.

One nonprofit newsroom, The Narwhal, **reported** in 2021 that in its first week after becoming the country’s first English language RJO, nearly 300 readers became paying members and more than 230 existing members increased their donations.

And yet, the fact that just nine publishers are RJOs speaks to the program’s challenges. Some of the hurdles we identified include:

- **Cap on funding from single source:** RJOs may not accept more than **20%** of their revenue from any single funder, a stipulation that’s meant to prevent what one publisher referred to as “the Elon Musks of the world from buying a soapbox” and then receiving a government subsidy.

  But this restriction has also prevented nonprofit newsrooms like The Tyee from getting registered. The Tyee is predominantly member-funded, but it still accepts more than **20%** of its funding from a single donor. “Our major donor frontloaded a lot of cash for many years to help us scale, and now he’s working his way down, but it looks like we still might be a year or two away from being at that level,” Ageson of The Tyee said.

- **Limited market for philanthropic funding of news:** Because journalism wasn’t previously considered a philanthropic cause in Canada, the country doesn’t have as **robust** a network of journalism-focused philanthropists as the U.S. does. This is less a design flaw of the policy than it is a challenging market reality.
The future of Canada’s journalism tax credits

Canada’s subscription tax credit is set to expire after the 2024 tax year. While the labor tax credit has no expiry date, its future may depend on the party in power. Conservative party leader Pierre Poilievre, the main rival to current prime minister Justin Trudeau, has been an outspoken critic of the package from the outset. The outcome of this political debate could have a significant impact on local news in Canada. The possibility that the labor tax credit could disappear under a new government has contributed to uncertainty among publishers who have relied on these credits to hire.

Still, many of our interview subjects, including Public Policy Forum CEO Edward Greenspon believe the program will continue. “I don’t see this government backing out of this,” Greenspon said.

There are other big questions hanging over the program, like whether it has actually helped stave off the collapse of newsrooms. Even with a multi-million dollar tax windfall, Postmedia said in January it would lay off 11% of its editorial staff. The QCJO application process has also been criticized for being too lenient on frequent purveyors of misinformation, given the program’s underlying goal of protecting democracy.

Beyond the journalism tax credits, the Canadian government is also pursuing other sources of funding for the news industry through its Online News Act, which is backed by News Media Canada, and modeled after Australia’s News Media Bargaining Code. The Online News Act would require large platforms like Meta and Google to pay qualified news organizations for content and would allow for collective bargaining.
Implications for Policymakers

Canada’s experiment with journalism tax credits offers important lessons for U.S. lawmakers. Tax solutions have already been considered by Congress and states as a mechanism for strengthening local news. Canada’s experience can help U.S. lawmakers to improve upon Canada’s model and develop a policy approach that is even more likely to achieve its objectives, while minimizing costs.

Even so, the Canadian model is not a perfect comparison for the U.S. As previously mentioned, the country has a more established history of government investment in news. Canadians are also somewhat less politically polarized than the U.S. and somewhat more trusting of the media. All of this makes the possibility of issuing tax credits to news organizations slightly more politically palatable up north. To be effective in the U.S., lawmakers should aim to ensure the benefits of tax incentives are widespread, sustainable, and free from government interference in the production of news.

In light of Canada’s experience and taking account of the differences between the two countries, we offer six recommendations for U.S. lawmakers to consider as they develop their own proposals:

- **Structure payroll tax credits with the smallest newsrooms in mind:** Policymakers should ensure diverse perspectives are represented when drafting criteria for who should qualify for tax credits. These criteria should be content-neutral and should consider models of journalism beyond written news. This diversity should also be represented in whatever entity ultimately decides who qualifies for tax credits. The voices of major publishers are important, since they are also major employers in the news industry. But the voices of smaller newsrooms must be heard as well.

  To avoid locking the smallest newsrooms out of these benefits, qualifying criteria should focus not on a minimum number of employees, but on adherence to journalistic norms and commitment to original reporting. Canada’s Independent Advisory Board, while under-resourced, offers a model of this style of vetting.

- **Implement subscription tax benefits at the point of sale:** Tax credits for subscriptions require substantial forward thinking for readers at the point of sale. Policymakers should consider approaches that offer more immediate benefit to consumers. The think tank Democracy Policy Network has proposed a **voucher model**, where local governments offer residents a set amount of money which they can elect to distribute to the newsroom of their choice. Another approach being considered on Capitol Hill would be to offer tax credits directly to newsrooms for increasing subscriptions, so publishers could offer a discount at the point of sale. To increase awareness of the subsidy, publishers might also consider providing notice to users about the tax credit on their subscription pages and in their marketing.

- **Imposition transparency measures to allow for public accountability:** To enable independent assessments of the program’s efficacy and fairness, lawmakers should seek to share as much information publicly as possible with regard to how much money is being spent, the size of the entities claiming the tax credits, and other aggregate data that could illustrate the program’s impact. Governments should publish this data in an annual report. They might also consider appointing independent review boards — made up of representatives from industry, nonprofits, and academia — to publish regular reports on the costs and benefits of the program.

- **Experiment with different tiers of credits for employee retention and growth:** One of the challenges facing lawmakers is how to encourage new investment in the local media industry. To address this challenge, lawmakers should consider offering payroll tax credits that are tiered based on whether publishers are simply retaining employees or whether they’re adding new journalists to their teams. Newsrooms that are adding net new journalists would be eligible for a payroll tax credit at a much higher percentage of employees’ salaries.

- **Continue to prioritize local news over national:** Unlike in Canada, legislation in the U.S. has been primarily focused on community news, which is the right approach due to the deep challenges in that space. Legislation should restrict the publishers that can take advantage of the tax benefits to newsrooms that (1) produce original news and (2) that serve the needs of the local community. The Local Journalism Sustainability Act is one example of a proposal that includes these limitations.
This approach is likely to weed out not only better resourced national players, but also “pink slime” journalism that is often politically motivated and may not be considered “true” local news. Focusing on local media may also be more politically feasible. According to recent polling by Knight Foundation and Gallup, while just 35% of Americans felt they could rely on national news, support is much higher for local news, with 52% of Americans saying they find local news reliable.

- **Test tax credits for local news advertisers:** Lawmakers should experiment with tax credits for businesses that advertise with local news organizations, as proposed by the Local Journalism Sustainability Act. There are several benefits to offering small businesses a tax credit for advertising in local media. If the ads themselves are effective in driving business, advertisers may see an upside in continuing to advertise with local media, even if government funding expires or runs out. It is also likely to be more politically appealing. At the federal level, lawmakers have framed news tax credits as key to protecting democracy through a healthy press. This is a worthy goal, but given widespread partisan mistrust of the press it is unlikely to be broadly appealing across party lines. A potentially stronger framing would be to cast the credits as a benefit for small business owners and the broader community.

> There are potential costs as well, as detailed above. This approach may be expensive for taxpayers relative to its benefits, it could advantage large companies relative to smaller ones, and it could even shift ad spending from digital startups to local incumbents. Policymakers should track the implementation of this policy to measure how these costs and benefits play out in practice – which suggests it might be best if a state or two tried this policy first before national adoption.

Canada’s model shows that journalism tax credits can have a meaningful impact on newsrooms, but need to be constructed thoughtfully. As U.S. lawmakers think through ways to support local news, they would do well to consider Canada’s experience and examine the recommendations in this paper.
Rescuing Local News Through Tax Credits: A review of North America’s approaches

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