

## TAXATION OF SOCIAL MEDIA ADVERTISEMENTS

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### Abstract

Today, the use of Internet and in particular social media as advertising tools brings the question of how the advertisement in social media should be taxed. This is not only seen as a problem in our country, but in the international platform as well.

In the first part of the study, the definition of social media is given; in the second part, Social Media Brand Communities and Fun Pages are discussed; in the third part, a comparison of Social Media Contents and Public Goods, Global Public Goods and Club Goods is made; in the fourth part that Conclusion and Suggestions how social media is taxed is discussed.

**Keywords:** Social Media, Taxation of Social Media, Brand Communities, Internet Advertisement.

## SOSYAL MEDYA REKLAMLARININ VERGİLENDİRİLMESİ

### Özet

Günümüzde internetin özellikle de sosyal medyanın da artık markalar tarafından birer pazarlama aracı olarak kullanılması sosyal medya ortamlarındaki reklamların nasıl vergilendirileceği sorusunu da beraberinde getirmektedir. Bu sorun sadece ülkemizde değil uluslararası platformda da bir sorun olarak görülmektedir.

Çalışmanın ilk bölümünde; sosyal medyanın tanımı yapılmakta, ikinci bölümünde; Sosyal Medya Marka Toplulukları ve Fun Page'ler, Üçüncü bölümünde; Sosyal Medya İçerikleri ile Kamu Malları, Küresel Kamu Malları ve Kulüp Mallarının karşılaştırılması, dördüncü bölümün olan sonuç ve öneriler bölümünde ise sosyal medyanın nasıl vergilendirilebileceği tartışılmaktadır.

**Anahtar Kelimeler:** Sosyal Medya, Sosyal Medya Vergilendirmesi, Dijital Reklam Verileri, Marka Toplulukları.

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## **I. WHAT IS SOCIAL MEDIA ?**

With the development of the Web 2.0 technology, which allows users to make comments and share things seen as a revolution in the use of Internet, social media has stopped being a luxury for brands and has become a necessity.

Brands' displaying themselves in social media environments such as Facebook and Twitter necessitates them to give advertisements in these social media platforms as well. As it is known, the income models of newspapers and television and mass communication tools are ratings and circulation, the primary advertisement income model in Internet environments is determined by click rates. Besides this, there are income models which act in accordance with user likes and inter-corporate partnerships such as affiliate marketing, e-trade models (B2B,B2C,C2C, B2G), Facebook likes, retweets, sponsored tweets, hash tag, boosting of posts in Facebook (boosting a message in return for a fee), e-mailing, pre-scrolling etc as well. However, the greatest problem in Internet advertising is the taxation of these advertisements. This problem emerges especially in social media platforms such as YouTube and Twitter which make broadcasts which are foreign country based. It would more accurate to define social media prior to dealing with the issue of advertisement taxation.

The freedom of making comments and sharing things brought to the users by the Web 2.0 technology has allowed users to generate content and in a way take the position of sources as well. According to Kaplan and Haenlein this new media content defined as User Generated Content has three basic characteristics [1]. Firstly, it should be published in a web site or social network which is accessible by a group of people. Secondly, a creative effort should be spent. Finally, it should be created outside professional work and routines. In the initial condition, content sent and received through e-mails or instant messaging is excluded; in the second of these conditions, the existing content is just repeated (for instance, an already published newspaper article's exact copy can be posted on a personal blog as it is and with no comments); and in the third condition, the whole of the content in question is created by taking a specific commercial market into consideration.

Social media has more than one definition. However, the first thing which comes to the mind is news shared in medias such as Facebook, Twitter. Wikinvest has stated that popular social network sites such as Facebook, Friendstar, etc. are sites in which users share content, media, etc., while sites such as YouTube, Instagram, Flickr are sites in which rather photographs and videos are shared; in sites such as Digg, Wikipedia news is collected and online reference sources are used and micro-blogging sites such as Twitter can also be defined within the term social media [2].

Within the framework of these definitions, when we take into consideration that user generated content is created in particular through Web 2.0 and by sharing share news about brands, news and all the other issues on the agenda and by recreating content through comments they

make, we cannot conclude that there is a clear way of classifying social media applications. However, Kaplan and Haenlein state that they feel the need to make such a classification when they take the income state of newspapers into consideration and at that point, they rely on social processes such as media studies and the presentation of the self which are the two elements of social media and expressing oneself [1].

Considering Web 2.0 in technological terms while defining social media, user generated content explains why people make use of social media in all aspects. When the term social media is uttered, the first thing that comes to our mind is making comments on various contents through the Web 2.0 technology. Within the framework of these definitions, we can define all kinds of Internet media which allows making comments and sharing these as *social media*.

Publishing of content in web site or a social network accessible by a selected group of people, which is the first characteristic of UGC, displays similarities with club goods which are an important term in the area of economy. Before dealing in detail with the concept of club goods and social media content, Social Media Brand Communities and Fun pages should be defined.

## II. SOCIAL MEDIA BRAND COMMUNITIES AND FUN PAGES

Kane et. al state that although social media is rather adapted to the majority of users, social media applications have organizational purposes such as marketing, information management as well [3]. “Social networking sites have stimulated new ways of interacting, shaping new forms in which people communicate, make decisions, socialize, collaborate, learn, entertain themselves, interact with each other or even do their shopping” [4]. “social media in a manner supporting this as customers, sellers and communicating with the public in various platforms as Facebook, Twitter and MySpace in which social media is defined as external parties by many organizations” [5].

In the online environment, brands come to life as a result of participant activities being perceived as fun and rewarding by community members. In this light, brand communities are those which are formed as a consequence of the common interests of people. A brand community is defined as a “specialized, non-geographically bound community based on a structured set of social relations among admirers of a brand” [6]. We see that users in the digital media follow brands they like and are addicted to and that the groups formed by these brands or themselves come together in a common platform for these brands.

“Brand communities – as any other community – are characterized by common norms, values, beliefs and behavioral patterns, but are special in the sense that they are informal, geographically unbound communities organized around a sole focal product and/or brand which most often can be referred to as love brands” [7]. In this case, brand meanings are directly co-created within these groups by the users as much as by the focal firm. Participation in brand communities (e.g. Facebook brand pages) focuses on acts of consumption, reflected

through brand stories, anecdotes, symbols; moreover the groups possess an own, brand-specific language all of which to mark the group's cohesion [7].

Consumers' writing and sharing of their views in brand communities and social media reaches many users independent from time and space. In this manner, the value of brands through comments and shared things rises as well. These medias, which are defined as fun pages in social media also display similarities with *club goods in economy*. As it has been expressed above, club goods means the opportunity for people who are members of a certain group to provide benefits for the people in that group from a product or service for low prices; in fact, brand communities provide information about goods and services to their faithful customers and have the chance to develop themselves with their comments.

### **III. COMPARISON OF SOCIAL MEDIA CONTENT WITH PUBLIC GOODS AND CLUB GOODS**

The end of World War II and the increase in consumer media related to marketing activities after 1945, the significant steps taken within the scope of transportation after 1970's and the implementation of neoliberal policies internationally after 1980's, the world has begun to turn into a global market. With this transformation, a single country's dealing with factors such as global warming, natural disasters and economic crisis will not be sufficient.

According to the fans of "Cambridge School" (Partial Balance Approach) market economy by itself cannot be successful and sufficient in terms of the efficient distribution of sources and preservation of general economic balance; therefore, according to the advocators of this approach which is regarded as a significant contribution to Classical economic thought base the failure and insufficiency of market economy on four reasons. These are: i) the failure to realize the pure competition model, ii) Public goods, iii) Scale economies and iv) exogeneity [8]. In our study, since social media is dealt with in the axis of public goods and club goods, we will be concentrating only on concept of *Public Goods* and *club goods* in the continuation of the study.

In economy, public goods generally are defined as goods which do not have a competing edge in consumption whose usage cannot be excluded and since there is no competition, it is expressed as an individual's consuming of goods reduces the consumption of the good by other people and if its usage is non-exclusive, then no one can be de facto excluded from using a product. Although the individuals who live within society do not actively take part in the production of the goods and services in question, they benefit from their consumption equally. Therefore, one of the most significant characteristics of public goods as separability allows all of the individuals which make up the society to benefit from these goods and services equally [9].

However, with the globalization of the use of these state goods and expanding outside country borders, the concept of *global goods* has taken its place in literature. In this framework,

by taking the speedy population increase of *global state goods* in the world, the integration of world economy, use of international agreements and new communication devices in the production of goods and services, increase in environmental problems and expansion of goods and services outside international borders, it is stated in literature about *state goods* that it includes *concepts of global, international and regional state goods* [10]. While Mutlu defines *National State Goods* as the use of benefit within a country's borders, *Regional Public Goods* are defined as emerging in cases where they expand to a single region or countries which are located in that region, he defines *International state goods* as being used by more than one country in case they are affected and that when the dangers which the whole world is subject to due to the depletion of the ozone layer and the precautions taken and the consequences provided to the whole world by the improvement in the ozone layer are taken into consideration, when exclusions (benefits or damages) are realized for real in the global scale, there are defined as global goods [10].

The main characteristic of global public goods which were named "Global Public Goods" through the United Nations Development Program for the first time in 1999, is the expansion of its benefits to the whole world since they offer a public characteristic and each individual benefitting from these goods and services [11]. In the axis of these definitions, for instance if cures can be found for global warming or diseases such as AIDS or cancer, people from the different parts of the world can benefit from this situation. Similar to these goods, known documents such as civil aviation, postal services and telecommunications or international passport regime carry the significant global public space characteristics [13]

According to the generally definition accepted in economy, global public goods have two important characteristics. The first of these is that the consumption of a public good by an individual not decreasing the consumption of the same good by another individual or not preventing its consumption and the second one is for instance goods in question such as everyone's benefitting from fresh air and an individual's breathing the air not having an effect on the others' consumption of air are open for the benefit of everyone [16]

As a result of all these definitions, it is possible to define *global public goods* as the needs of existing and future generations living in the world today which are met with a global administration [13] In identifying the place of *global public goods* within public economy, depending on whether buyers can price these goods or not, Alici states that a dual distinction takes place and in accordance with these distinctions, while *global public goods which cannot be priced display a full public goods characteristic, global public goods which can be priced have a semi-public, club, virtuous-unvirtuous goods characteristic* [9] While semi-public, *club*, virtuous-unvirtuous or priceable global public goods which display common goods characteristics display divisibility characteristic contrary to fully public goods, competition and exclusion are in question in terms of their consumption [9]

Within the framework of these definitions, it will be an accurate approach to define the Internet as a *public good*. Meanwhile, England has defined the *tweets* sent as a result of the complaint of Sarah Baskeville, who works in the Ministry of Transportation, due to the publications of her messages in the Independent and Daily Mail newspapers, as public goods [14]. When we define *global goods* as needs met with global management and take into consideration that firstly users log in to the system in Twitter, become members and read the tweets with the wish to be informed about what is happening around them, it will be an accurate approach to define Twitter as *Global Public*. We had stated that global public goods also carry the characteristic of club goods in the definition above. Buchanan (1965) defined *club goods* which he has added to literature completely as the gap between private and public goods [15]. Through the welfare state point of view, no one can be held responsible from the use of public goods and best example which can be given to that is the breathing of air. However, in terms of how the use of air can be a rival Tutic states that air can be a rival by not considering it in terms of the number of people in an academic conference room and the rooms not being of a particular dimension; he further explains that the main theme of *club goods* are *optimal club size* through a similar example that the European Union, sports clubs and city clubs accept a certain amount of members [15]. In addition, club goods also have the characteristic of being rivals as is the case in the air example. While Varian (1992) defines club goods as rival goods, he expresses that this competition is not of a similar level to special public goods [15].

In cases where a person or brand requires a special request to be followed, Twitter displays the *Club Goods* characteristic of global public goods. On the other hand, it is possible to be rivals in *Twitter* through the number of brands or people and retweeting characteristic. It will be an accurate approach to define *Twitter* as a *club good* due to characteristics of being rivals and optimal size. Similarly, when we take Facebook's characteristic of being able to add a maximum of 5000 people or clicking its like button to be informed about brand communities (no people limit) or the fact that we need to be a member of a group (no person limit) into consideration, *Facebook* displays the *club good* characteristic due to the state of being rivals. People can expand their friend list by sending friend add requests from LinkedIn which is another social media platform. What makes LinkedIn different from Facebook is that it has a limit of 5000 people. The main reason for this is that, although Facebook is a friend platform and acts with the logic that a person cannot have more than 5000 people, there is the view that within the framework of a person's co-workers there are no limits to the number of friends in LinkedIn. However, the request to add friends in LinkedIn displays a *club good* characteristic due to its characteristics such as being a member of a group in order to obtain information about people or brands. In certain cases, people make their tweets close to others, prevent everyone from reading their tweets and thus a request is needed to be sent to follow that person and be able to read his/her tweets. When we take into consideration that brand and corporations view social media as an environment of competition and the number of followers or retweeting characteristic increases the fame for the brand, it will be accurate to define Twitter as a *Club Good* which has the competition and exclusion characteristics.

Within the framework of definitions about social media and the club goods definition, we may express social media as the production and consumption of media content by special groups. Today, Facebook, Twitter, LinkedIn and Pinterest can be listed among the most widely used social networks. In social networks, people share the contents they like, comment on these and allow these contents to reach more people. Brands get the chance to introduce themselves to these communities which emerge as a result of this free of time and space. While brands introduce themselves, those who give advertisements are able to get speedier and more efficient results for lower prices from the advertisements in comparison to the advertisements they would give to classical channels. We can easily say that a new economy has emerged with social media. McKinsey estimates that “the economic impact of social media on business could exceed \$1 trillion, most of which is gained from more efficient communication and collaboration within and across” [3]. This brings along the problem of the taxation of advertisements in Turkey, as well as throughout the world. Russia has developed the search engine called Sputnik.ru with the justification that in general Western states and in particular the USA intelligence services use the Internet for their own national interest and has both secured its own intelligence service and has aimed at taking Internet advertisement under surveillance [12].

In the interview conducted with Sözcü Newspaper’s strategic reporting manager Mr. Reha Başoğul on 06 April, 2015 on how Internet advertisement investments are carried out in Turkey, he has stated that in general advertisement givers in Turkey do this over the media, however since the budget allocated for Internet visibility can be fully defined by firms such as Medyanet, they steer towards buying advertisements from Google and since Google’s advertisement prices are lower than the prices of Turkish firms such as Medyanet, the advertisement givers gradually direct all of their advertisement budgets to Google. In relation to this situation, it is even more difficult to inspect advertisement taxes in Internet media such a Google, Facebook and Twitter in Turkey. Ortaç and Akçay (2015) express the basic problems related to the taxation of Internet advertisements as follows:

“An ambiguity concerning how web based incomes between countries should be evaluated and be subject to which taxation regime; the argument on whether the foreign customers of hosting firms which host the sites of the server computer which includes the web site be tax payers; differences existing in terms of taxation of web server countries; the prevention of competition due to the ambiguity concerning the inclusion of data communication infrastructure into national and international competition; the need for the preparation of laws which will protect the privacy rights of people in the electronic media; and the servers being regarded as offices [12]

Ortaç and Akçay (2015) suggest solution suggestions which are being discussed today as taxation per byte and REM (Registered Electronic Mail), or in other words, safe electronic mail service where the sender and receiver identities are known, time sent and content cannot be changed, which has legal validity in cases of conflict [12]

#### IV. CONCLUSION AND SUGGESTION

It has been observed that, primarily in our country and in the international platform that various solution suggestions are being brought forward such as taxation per byte and rem. Among these, rem, or safe electronic post mail which suggests that receiver identities and contents should be followed will be the subject of discussion with the justification that this service will breach the privacy of personal life. Besides all these, foreign origin Internet firms such as Facebook, Twitter and Google to open offices in our country should be encouraged by decreasing their tax obligations. Besides the solution suggestions, as it has been explained in our study, there are such as problems as servers being regarded as offices, there being differences in terms of the taxation of web servers between countries as well.

On the other hand, the tax legislation should be arranged in a manner to include this kind of advertisement activities. In addition, the infrastructure of the Ministry of Finance should be reorganized to be able to control the advertisements in social media.

Along with all these, when it is firstly taken into consideration that social media contents are shared and read by many people and that these contents thus create advertisement income over the number of times they are viewed and followed, it will be an accurate approach to define the contents in question as club goods as it has been stated in the study as well. In this manner, social media contents will form the subject of VAT just like buying and selling of goods and services.

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