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supported service option.

Aug. 23, 2022

The image shows the Netflix logo, which consists of the word "NETFLIX" in a bold, red, sans-serif font. The letters are slightly irregular and have a hand-drawn feel. The logo is centered against a solid black background.

*By **Toby Bargar**.*

After years of saying it would absolutely, positively — **well, probably** — never air ads during its programming, Netflix now is moving in the opposite direction and viewers could see an ad-supported Netflix option before the end of 2022.

The reason is simple: Now that pandemic restrictions have eased, fewer people are stuck at home binge-watching “Stranger Things” or “Bridgerton.” That’s led to **falling subscriber numbers** — and revenue.

The change has been talked about since Netflix’s **first quarter earnings report**.

What hasn't been talked about much is how this change could affect state and local

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Exactly what it will look like **is unclear**. Most observers think the logical approach would be a partnership with a company that specializes in digital advertising.

Industry watchers say **the streaming market is saturated** and the only way to sustain revenues is to offer subscribers a lower-cost ad-supported option. HBO did this with its HBO Max streaming service. Today you can watch it ad-free for one monthly rate, or pay less to watch programs with breaks for advertising.

Netflix leaders had opposed such a move in the past. They argued that **building up an advertising business** to take on giants like Google, Facebook, and Amazon, which dominate the digital advertising space, would complicate their business and take focus away from their core mission of developing must-see streaming content.

However, industry analysts seem to think this is the future of streaming services: offering viewers the ability to opt for commercial-free services or those with commercials. HBO Max made the move about a year ago; Disney+ has announced plans for a lower-cost, ad-supported option. Peacock, Paramount+, and Discovery+ all came into the market with these sorts of mixed premium and ad-supported options.

Meanwhile, rumors are flying about who the potential Netflix partner could be. NBC Universal and Google are two getting mentioned a lot. Another reported candidate is The Trade Desk; former Netflix CFO David Wells is on the board of directors for the digital marketing company.

Free ad-supported streaming services gain subscribers

Another factor facing Netflix and its premium rivals is the growth of **fully ad-supported services** that stream free content.

There are a mix of business models for these free services: Some are affiliated with

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supported services are gaining new subscribers faster, [some recent data indicates](#). And that's not terribly surprising: With all the economic uncertainty right now, canceling a premium streaming service that we're not watching as much as we did in 2020 is an easy way to save money, especially when we can find potentially interesting shows on a free-to-watch ad-supported service.

Changes in streaming service revenues could affect tax collections

States and local jurisdictions still are adjusting to the way streaming services have [cut into the tax revenues](#) they had come to expect from cable television service providers. We've written about this often in recent years, as American states and Canadian provinces [enacted new taxes](#) on streaming services, or went to court in attempts to extend existing taxes to cover the new technology.

Now, just as some of that seems to have been settled, changes in the industry and our broader economy are combining to bring streaming service revenues down, which means communications taxes that are attached to revenues from subscriptions are no longer going to bring in as much as governments anticipated.

States and local jurisdictions may have to go back to the drawing board (again), which likely will create new uncertainty and complexity for players in the industry.

We have a whitepaper that can help companies understand the way to help [minimize the risk of communications taxes](#). For a deeper dive, check out our on-demand [webinar about streaming tax complexity](#).

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