Push To Scrap GA Energy Tax Gains Support

Ray Henry, Russ Bynum, Associated Press

ATLANTA (AP) — For manufacturing giant Shaw Industries, producing carpet in north Georgia costs the company millions of dollars in sales taxes that it wouldn't have to pay in most parts of the nation.

That's because Georgia is one of the few remaining states that requires manufacturers to pay sales tax on electricity, natural gas and other energy they consume to produce goods — whether they're building Gulfstream business jets in Savannah or brewing Miller beer in Albany.

Gov. Nathan Deal has made scrapping the energy tax on manufacturing plants one of his priorities for the 40-day session of the state Legislature that began Jan. 9. Deal says the tax exemption would save companies about $157 million a year. But it's still unclear how the state — and likely local governments — would make up for the lost revenues when budgets are still lean from years of recession.

In the heart of north Georgia's "carpet capital," Whitfield County commission chairman Mike Babb said he fears the state risks losing jobs by keeping the tax on the books. However, with more than half the county's 53,500 jobs tied to manufacturing, local officials also rely on the taxes those businesses pay.

"Because there is so much manufacturing here and they use so much energy, that goes to the bottom line of our budgets," Babb said. "But we also need to make sure that we keep manufacturing here. And right now we're not competitive with our surrounding states."

Only 14 states including Georgia still tack sales tax onto the utility bills of manufacturing plants, according to the National Conference of State Legislatures. The four other Southern states that still use the tax — Alabama, Arkansas, Mississippi and Tennessee — either give companies reduced rates or offer exemptions for specific industries or fuel types.

Georgia manufacturers pay a full 4 percent sales tax to the state plus an additional amount to local governments, typically 3 percent. That means for every $1 million a plant pays in electric bills, it would typically owe $70,000 in sales taxes.

"It wouldn't be unusual for a major manufacturer to have an annual energy cost of $2 million," said Roy Bowen, president of the Georgia Association of Manufacturers.

Manufacturing accounts for about 10 percent of Georgia jobs, employing 345,600 statewide. Even before the recent recession, manufacturing was already declining in the state. Georgia has lost an estimated 198,000 manufacturing jobs in the last decade.

Industry advocates say the energy sales tax may not be a deal breaker, but it's certainly watched by firms counting every nickel. Not only does the tax discourage new manufacturers from locating to Georgia, they say, but it also gives those already here little incentive to increase production — and boost jobs.

James Jarrett, group director of manufacturing for Dalton-based Shaw Industries, said energy is easily among the company's top five costs and is something its executives consider when deciding whether to expand in Georgia or go to one of its neighbors — Tennessee, Alabama or South Carolina.

"In our case the benefit would be in the millions" of dollars, Jarrett said, if Georgia exempted Shaw from its energy sales tax.

Georgia homeowners and non-industrial businesses pay the same sales tax on utilities.

Industry groups have lobbied Georgia lawmakers to exempt their factories from the energy sales tax since the mid-1990s, but had to settle for a temporary — and now expired — cap on their maximum tax bills passed in 2008 to offset a spike in energy prices.

The tax exemption may have a better chance this year. With Georgia showing signs of an economic recovery, Deal said he's ready to expand some of the state's tax incentives aimed at luring new business, including the energy sales tax.

"Georgians cannot compete for jobs that go elsewhere when employers make the decision that a neighboring state is a better place to do business," the governor said in his State of the State speech last week.

House and Senate leaders said they've heard little dissent among the Republican lawmakers who control both chambers.

"It's almost, as far as tax reform is concerned, the one issue that everyone agrees on," said Senate Majority Leader Chip Rogers, R-Woodstock.

However, the specifics of Deal's proposal to end the tax are still being hammered out. And a couple of key details remain unsettled.

First, the governor didn't account for the revenue losses that would result from the tax cut in his proposed budget last week. By law Georgia has to have a balanced budget. Lawmakers would either have to raise taxes or make additional budget cuts to pay for the tax break.

Alan Essig, executive director of the nonpartisan Georgia Budget and Policy Institute, said perhaps the fairest way to pay for Deal's proposal would be to repeal other business tax breaks that haven't proven effective at helping recruit and retain industry.

"We're still in recovery mode and you can't assume that normal revenue growth is

going to pay for them," Essig said. "There are lots and lots of other tax breaks and exemptions that are on the books."

Another unknown is whether lawmakers will try to roll back the local portion of the sales tax — typically about 43 cents of every tax dollar manufacturers pay for energy. The total cost to local governments is estimated at about $108 million per year.

Deal spokesman Brian Robinson said the administration only anticipates ending the state's portion of the sales tax. A decision on eliminating the local sales tax would be left to local governments. However, the Georgia Association of Manufacturers and other business groups want to scrap both the state and local shares.

"My opinion is we're going to have a mixed reaction among our members on it," said Clint Mueller, government affairs director of the Association County Commissioners of Georgia.

Even counties that most want state lawmakers to repeal the tax may not be so willing to see their local portion cut.

In Albany and surrounding Dougherty County, where Procter & Gamble employs about 1,300 people making paper towels and toilet paper and Miller Brewing Co. has about 650 workers making beer, local officials say eliminating the state energy tax is critical to protecting local jobs. The southwest Georgia county has lost three of its major manufacturers in the last five years.

However, asked in an interview if local officials would consent to giving up their 3 percent share of the sales tax, Commission Chairman Bodine Sinyard said: "Quite frankly that has not come up at all."

He said many of the major incentives Georgia now uses to lure industry are property tax breaks — which are funded at the local level.

"The local counties and cities are doing their fair share," Sinyard said.

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