

**Good Afternoon Members of the Special Council, Ladies and Gentlemen:**

**My name is Ed Schleper, and I am the Vice President of Tax for Mohawk Industries headquartered in Calhoun, Georgia. I have over 25 years of progressive tax experience in both public and private industry and have been with Mohawk for just about two years.**

**Mohawk employs over 12,500 people in approximately 30 different facilities located throughout Georgia including Calhoun, Chatsworth, Dalton, Milledgeville, Sugar Valley, and Summerville and our Georgia payroll approaches half a billion. The company's manufacturing operations include the extrusion of resin and post-consumer plastics into polypropylene, polyester, nylon fiber, yarn processing, backing, tufting, weaving, dyeing, coating, and finishing. Our process involves purchasing raw materials, machinery and equipment, energy, a myriad of business services, and other supplies from thousands of vendors who employ a substantial number of fellow Georgians.**

**Mohawk competes in a marketplace that knows no boundaries. Our competition is fierce and is located as near as across neighboring state lines and as distant as across oceans. At least insofar as our domestic competitors are concerned we are competing at a disadvantage in terms of our cost of energy and tax burden.**

**To be able to compete in today's fiercely competitive global marketplace Mohawk must offer to its customers the lowest cost, highest quality product. Our customers have other options if we cannot deliver on these terms.**

**Mohawk's ability to invest in new technology to secure the jobs of our existing workforce and to hopefully expand in Northern Georgia will depend on the company being the low cost manufacturer. And I am concerned that we are losing our ability in that regard.**

**A recent report from the U.S. Bureau of Labor Statistics revealed that Georgia lost more non-farm jobs than 48 other states over the past 12 months. Meanwhile, a majority of states have more jobs today than they did a year ago according to BLS data. Georgia is losing good paying manufacturing jobs to the Carolinas, Tennessee, and Alabama.**

**The work of the Special Council on Tax Reform could not come at a more critical time for my company and Georgia's manufacturers. I have followed the work of the Council since its inception and have done a fairly good job of keeping up with the information posted on the Council's web-site.**

**I have reviewed and endorse the draft basic principles that are intended to guide the Council in its work. That "Growth Enhancing" is the first of these principles is particularly encouraging. I am also encouraged by the recognition of the importance of manufacturing to Georgia's economy and of the need to address what may be shortcomings in the current tax structure that work against investment, job retention, and job creation.**

**I have also reviewed Dr. Tutterow's presentation on the shift in Georgia's economy and his earlier "white paper" on why manufacturing matters to Georgia. I agree that the tax base needs to reflect a changed economy with Dr. Tutterow's assessment of the importance of a strong manufacturing base to Georgia's economy.**

I was also impressed by Dr. Ries' presentation on tax reform initiatives in other states and agree with her view that Georgia's economy could best be stimulated by a tax structure with lower taxes and fewer distortions.

I applaud the Council for the process that has been put into place and for the apparent determination to develop a set of recommendations consistent with a set of well-defined guiding principles.

Turning to specifics, I agree with Dr. Ries' view that taxing business inputs is counterproductive to the goal of encouraging investment and economic growth. I commend the General Assembly for passing legislation that provides for, and the Georgia Department of Revenue for developing a rule that implements, the "integrated plant theory". By so doing, Georgia moved from a non-competitive position with regard to taxing certain business inputs to a model for other states.

Georgia remains non-competitive with its neighboring states, and nearly all states, by taxing energy used in manufacturing. This taxing of a business input places Georgia's manufacturers at a distinct disadvantage with competitors across state lines. Because energy is second only to labor as a cost of conversion in the manufacturing process this added tax burden is significant. Because energy costs are such a large component of manufacturing they influence decisions regarding investment in new technology, plant expansions, curtailments, and workforce realignments. This is particularly true for companies with manufacturing operations in multiple states. Decisions on where to expand operations to meet growing demand and where to curtail operations during times such as we've just experienced are based upon the cost of production and the operations with the lowest costs of production will be favored. The 4 percent state sales tax on energy used in manufacturing, coupled with electricity costs that are generally higher than those in Alabama and the Carolinas, work against Georgia manufacturers.

I hope that the Council will recommend that business inputs, including energy used in manufacturing, will not be subject to the state sales tax. As an interesting aside, sales tax is not levied on the cost of natural gas used to generate electricity, but it is levied on the cost of coal. The electric utilities recover the cost of the sales tax paid on the coal and the customers of the utilities pay a sales tax on that fully recovered tax. Hence, what we have here is a tax pyramid scheme, which is not generally regarded as sound tax policy.

Again, thank you for the opportunity to address the Council and thank you for giving of your considerable talents to undertake such an important initiative. Georgia has the potential to recapture its economic leadership in the region if the Council's recommendations follow its guiding principles and the General Assembly passes legislation that incorporates those recommendations.