Shaw
where great floors begin

Comments to Special Council on Tax Reform and Fairness for Georgians
October 27, 2010
Dalton, GA

Members of the Special Council, Ladies and Gentlemen:

My name is Karen Tallon and I am the Tax Director of Shaw Industries headquartered here in Dalton. We understand you have traveled throughout Georgia gathering input about Georgia's revenue structure and how it can be enhanced to retain existing jobs and attract investments that result in job creation. We appreciate your holding this meeting in Dalton.

Shaw is the world's largest carpet manufacturer and a dominant manufacturer of hardwood and laminate flooring. We employ over 18,000 associates in Georgia and are the largest manufacturing employer in the state. Our 94 Georgia locations house over 23 million square feet of space. In 2009, we paid $17 million in Georgia property tax and $9.4 million in Georgia sales and use tax.

We recognize the difficult task you face as you make proposals to the legislature to revamp Georgia's revenue structure. We appreciate Georgia's recognition of the importance of floorcovering and other manufacturing in the state through its support of items such as the integrated plant theory for sales tax exemptions associated with manufacturing machinery and equipment, single factor sales apportionment, income tax credits for creating jobs, making investments, performing R&D activities and retraining our associates, and the recognition that carpet samples given to customers should not be taxed at their full cost.

We understand you have already heard numerous comments about removing the state sales tax on energy used in manufacturing, and we do not wish to belabor the point other than to voice our support and emphasize that the total price of energy <u>does</u> plays a significant role in our investment decisions.

The idea of taxing services has been mentioned often. While we support a general expansion of the tax base with a lowering of tax rates, we encourage you to adopt as a guiding principle that all business inputs (including services for businesses) are exempt from sales tax. One goal of a tax system should be transparency. Taxing business inputs means that individuals are paying taxes that they do not know they are paying. This is not transparency. Also, we agree with the comments by the Council on State Taxation that "(t)axing business inputs raises production costs and places businesses within a state at a competitive disadvantage to businesses not burdened by such taxes".

Our other recommendations include:

- Georgia is losing millions in sales tax revenue because Internet sellers like amazon.com do not collect sales tax, yet they compete against our Georgia bricks and mortar businesses. The state should become more aggressive toward Internet sellers. States like New York, North Carolina and Colorado are pursuing Internet sellers in an attempt to force them to collect sales tax. Shaw Industries is required to self-assess use tax on any taxable purchase on which it does not pay sales tax to the vendors. Individuals have the same requirement. But, relying on individuals to self-assess use tax on Internet purchases is a poor substitute to having the Internet seller collect the tax at the point of sale.

- The federal government provides tax incentives to domestic manufacturers in the form of bonus depreciation and the manufacturer's deduction, which Georgia disallows. We ask that Georgia provide these incentives to manufacturers.

- The carryover period for several income tax credits (including investment, jobs and R&D) is 10 years while the carryover period for net operating losses is 20 years. We recommend that the carryover period for income tax credits be extended to 20 years to ensure taxpayers can fully utilize the benefit they have received from investing in Georgia.

- With regard to the income tax credit for job creation, taxpayers claim the credit over 5 years beginning in the year the jobs are created. The carryover period (currently 10 years) is based on when the job is *created* so taxpayers have a shortened carryover period. For instance, the credit claimed in year 5 for a job created in year 1 can only be carried over 5 years. We ask that the carryover period be based on when credit is claimed, not on when job is created.

- Income tax credits such as those for job creation and investments can offset 50% of the tax liability to the point that 100% of the tax liability can be offset when multiple credits are used. The R&D credit, on the other hand, can only offset 50% of the company's tax liability remaining after all other credits have been applied. We recommend that the R&D credit be treated in the same fashion as the other tax credits.

- Companies should pay sales tax on leased personal property only on property actually located in the state. Right now, if the property first comes to Georgia and is later shipped to another state, Georgia gets all the sales tax on the lease payments. This is very difficult for the lessor to understand. For example, a lessor ships a leased computer to a Shaw location in Georgia where it is configured and then shipped to Texas. Why should the lessor collect Georgia tax on a leased computer located in Texas?

- Lowering tax rates has been mentioned as a possible result of this tax reform initiative. A partial offset to lowering the corporate income tax rate would be to require the addback of all state income taxes when calculating the corporate income tax. Georgia is one of a very few states that does not require the addback of ALL state income taxes (Georgia only requires the addback of Georgia taxes). Georgia is out of sync with other states and this would help offset the effect of a lower tax rate.

We welcome the opportunity to have input into a process that will make Georgia more competitive while protecting manufacturing jobs, and we will be pleased to provide additional input to the Council if needed.

Thank you for your time.