The hidden cost of Georgia's sales tax on energy used in manufacturing

By Chuck Eaton

Georgians have made it clear that attracting and retaining jobs should be the No. 1 priority of every elected official. Removing this tax as an impediment to job growth and creation is a great first step.

Late last fall, my colleagues on the Georgia Public Service Commission and I sent a letter asking the Georgia General Assembly to consider removing the sales tax manufacturers pay on energy, including electricity, used in the manufacturing process. Governor Nathan Deal supports this idea, as do Lt. Gov. Casey Cagle and Speaker David Ralston.

Manufacturing is of major significance to the economy of Georgia, employing hundreds of thousands of skilled workers. Georgia, like virtually every other state, does not tax raw materials used in manufacturing. Instead, one sales tax is applied to the finished product to avoid a pyramiding scenario where sales tax is paid on top of embedded sales tax. Georgia is one of only ten states, and the only state in the Southeast, to charge full sales tax on energy.

This places Georgia at a competitive disadvantage when it comes to attracting new jobs and investment. The hidden cost of Georgia's tax on energy also puts existing manufacturing jobs at risk by increasing production costs.

Before I was elected to the Public Service Commission, I worked in LaGrange as a manufacturing representative. I traveled the Southeast, calling on companies while selling our products. You could say I was on the frontline of the free market. In preparing proposals, I noticed that even within our own company, different plants could produce the same product for different costs. This not only impacted whether our company got certain contracts, but dictated where the actual manufacturing took place when we won an order. Higher-cost plants would inevitably lose out to lower-cost producers.

Georgia-based manufacturing plants face external and internal competition. Many corporations look at various facility costs daily, shifting business to a different state's facility just as quickly. Less business means reduced payroll hours and smaller paychecks for the remaining employees. While plant closings garner much media attention, the lead-up to the closing can be more painful and less publicized, as business is shifted away and jobs are slowly cut.

A large industrial plant's electrical cost can rival payroll as its biggest expense, so the competitive effect of the sales tax is significant. While Georgia's electric rates are competitive with other states, the added sales tax can change that dynamic.

The Albany City Commission and the Dougherty County Commission have stated that repeal of this tax is their highest priority because of its impact on local jobs. Proctor & Gamble's paper plant is one of Albany's largest employers and is Georgia's second largest consumer of electricity. With energy being one of the largest expenses at the Albany plant, and with their constant pressure to lower expenses, failing to eliminate the energy sales tax could easily cost Georgia more in lost jobs and investment than it produces in state income.

In Dalton, the sluggish economy and the moribund housing market have combined to pummel the carpet industry, one of Georgia's traditional manufacturing powerhouses. Several plants have been closed, costing the area several thousand jobs.

As I travel the state and speak with manufacturers about how to help them grow their businesses and create and retain jobs, managers constantly mention our energy sales tax as a cost that makes them less competitive. The cost of energy, especially in manufacturing processes that require massive amounts, is a major factor as to whether Georgia retains our manufacturing plants.

We cannot continue to put good manufacturing jobs at risk over an outdated tax policy. Repealing the sales tax on energy used by manufacturers should be at the top of any list of economic growth and job creation measures considered by the General Assembly.

Chuck Eaton is a member of the Georgia Public Service Commission