

27 March 2011

Dear Georgia Legislators,

We appreciate this opportunity to share our thoughts on the proposed Communications Flat Tax proposal contained in HB 385.

The Institute for Policy Innovation (IPI) is a twenty-four year old free-market public policy research institute designed to develop and promote innovative and nonpartisan solutions to today's public policy problems. IPI's focus is on approaches to governing that harness the strengths of individual liberty, limited government, and free markets. IPI does not lobby and we do not advocate the passage of specific legislation.

We do, however, advocate policies that stimulate economic growth, and it's clear that a robust communications sector is a key contributor to economic growth. In fact, at IPI's recent Communications Policy Summit in Washington DC, new research was presented demonstrating that the communications sector is responsible for more than half of all net new investment in the U.S. economy.

So it's important to ensure that Georgia's tax and regulatory policies encourage investment and allow for robust competition in the communications marketplace.

Unfortunately, governments can sometimes create economic distortions through regulatory or tax policies as they develop over time. This is the current challenge in Georgia as, under current law, providers of some communications services are taxed differently than other providers of the same or similar communications services.

Simply put, like products and services should be taxed and regulated alike. If one product or service can be substituted for another, they should both be taxed and regulated similarly. Government policy should be neutral among competitors, allowing them to compete on a level playing field. We want winners and losers determined in the marketplace, determined by who best delivers value and service to consumers. We don't want winners and losers determined by disparities in tax policy, and what matters is the similarity of the product or service to consumers, not differences in delivery technologies.

Georgia now has the opportunity to eradicate this distortion. Moving to a flat tax for the communications industry, replacing multiple taxes and fees (many which function as a tax regardless of what they are called) at the state and local level, will level the playing field and allow consumers to choose services based on value, not level of taxation.

But while addressing these disparities in the tax code, it is also important to do so in a way that is revenue neutral. While states are combing through their tax bases, looking

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everywhere for that hidden pearl they could begin to tax, or tax at a higher level, we must remember that lower taxes allow Georgia citizens to keep more of their money in their pockets and thus at work in the private economy, where it is most needed. Hence, we urge that in leveling the playing field, that the field should be leveled down, not up.

The Communications Flat Tax proposal has the additional virtue of eliminating a number of taxes and fees, simplifying Georgia's tax structure for the benefit of all of those who have to comply with the tax code.

We would be delighted to further share our perspective with you as you consider this legislative initiative.

Sincerely,

A handwritten signature in cursive script that reads "Thomas A. Giovanetti". The signature is written in black ink and is positioned to the left of the typed name.

Tom Giovanetti
President
Institute for Policy Innovation (IPI)