

THE
TAX
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OF
NORTH
CAROLINA

Kirkman

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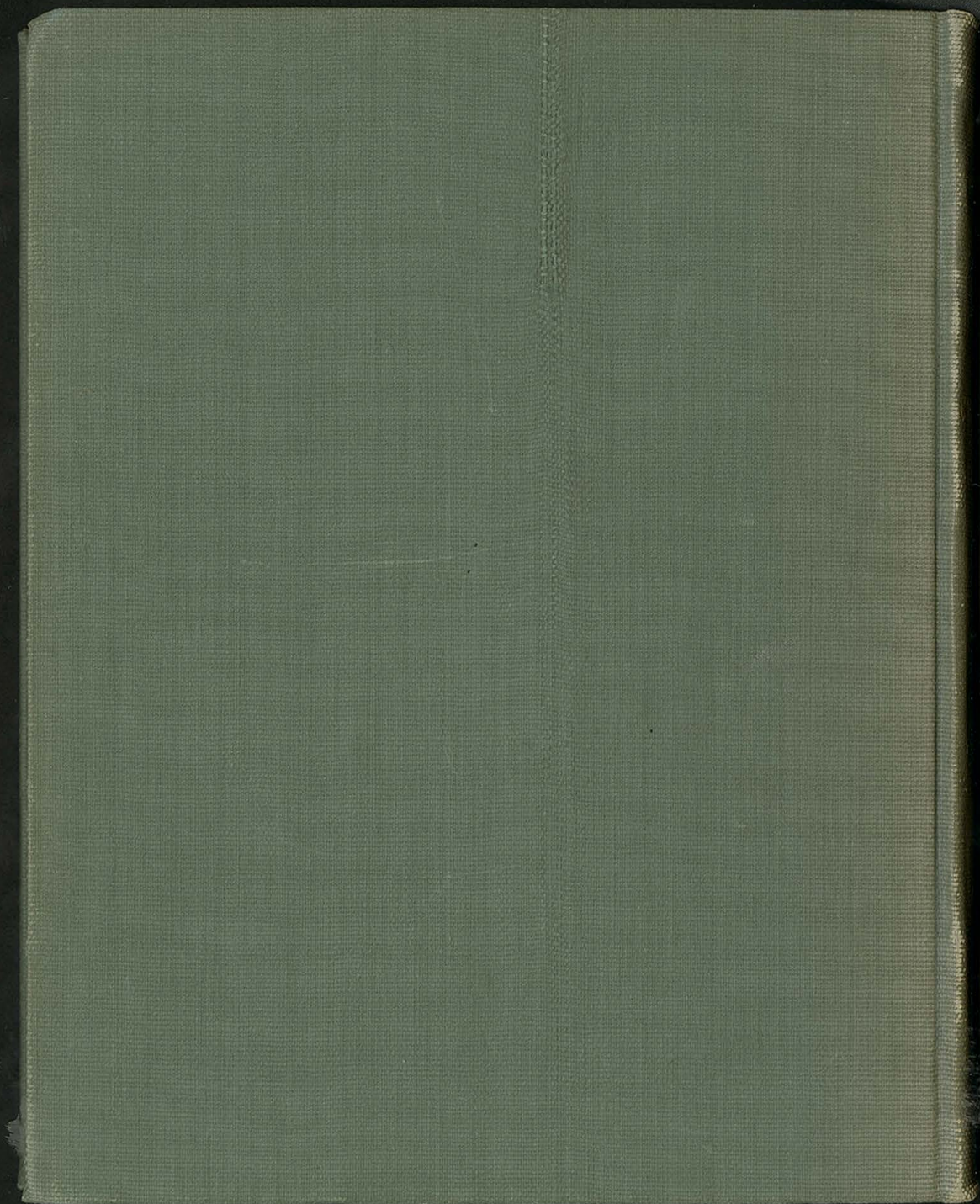
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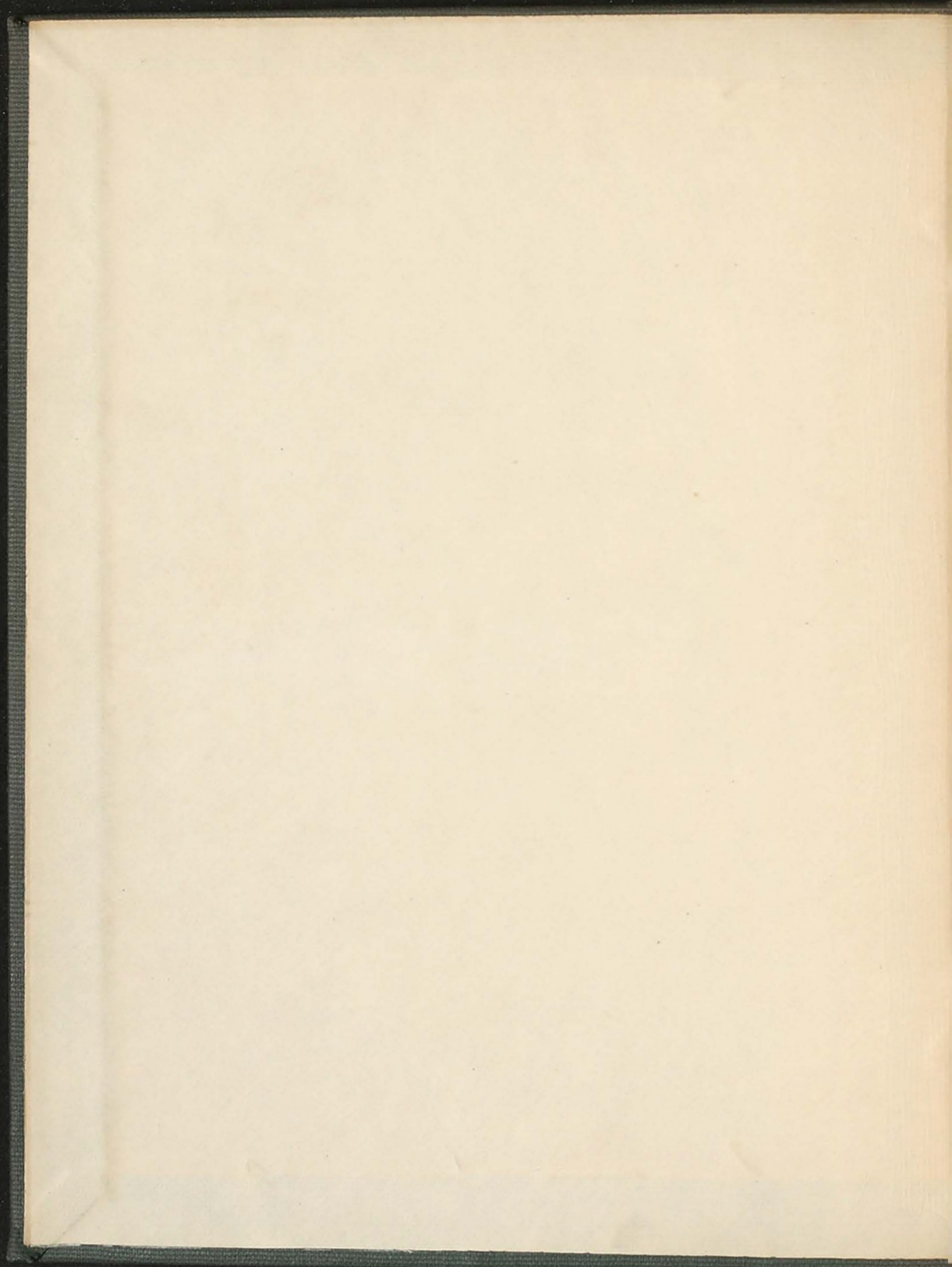
THE TAX SYSTEM OF NORTH CAROLINA

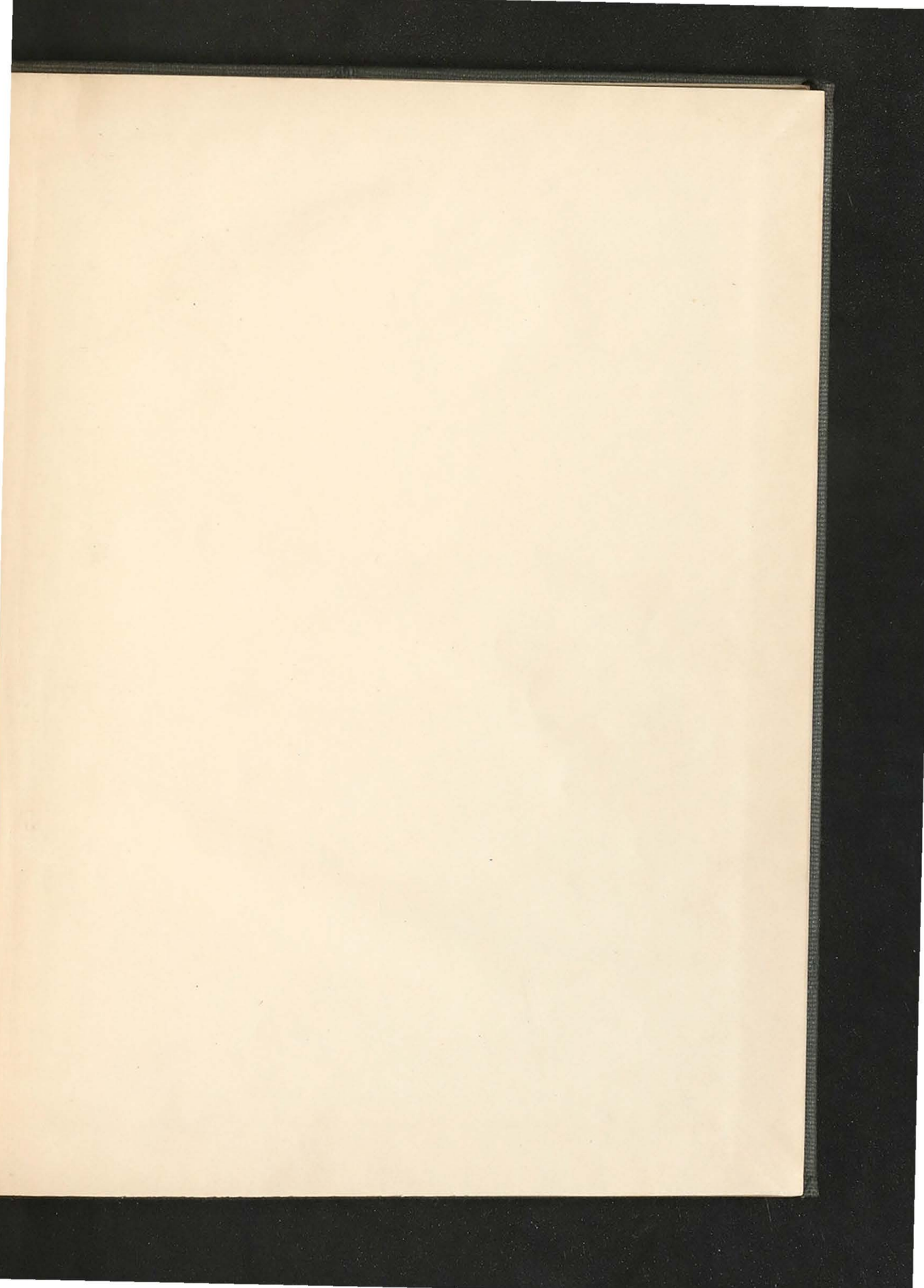
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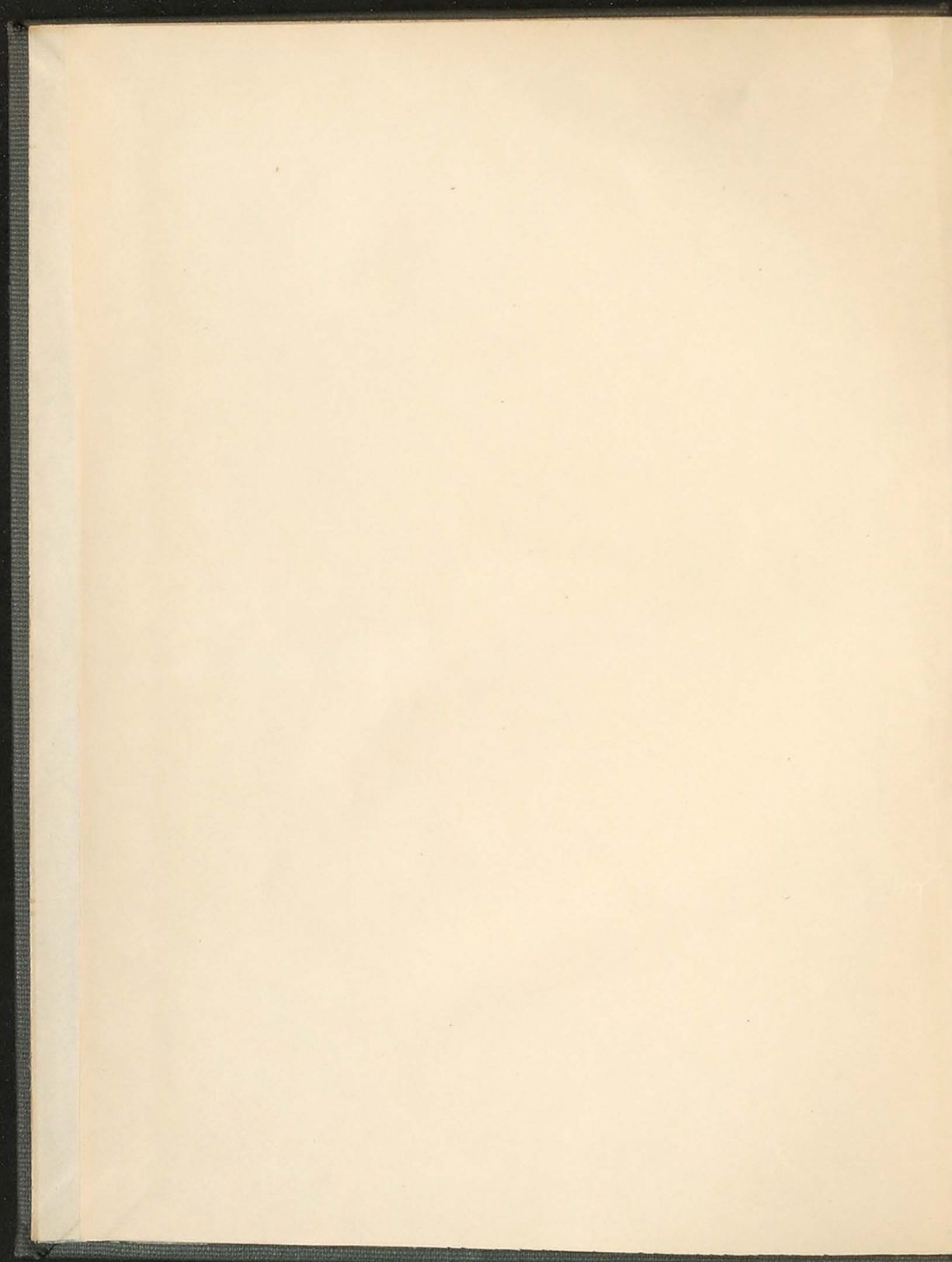


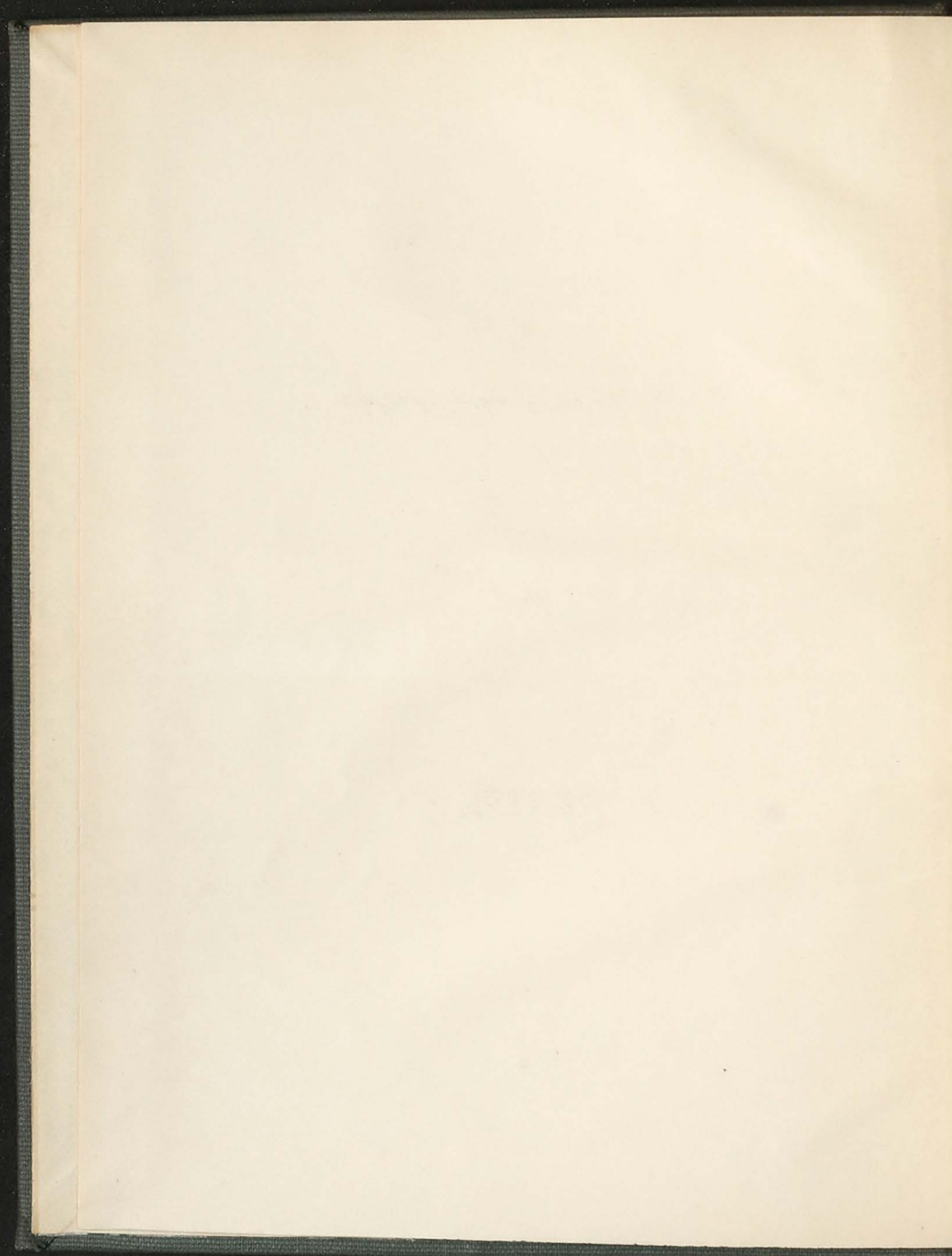
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THE TAX SYSTEM OF NORTH CAROLINA

BY

O. ARTHUR KIRKMAN, JR.

1924

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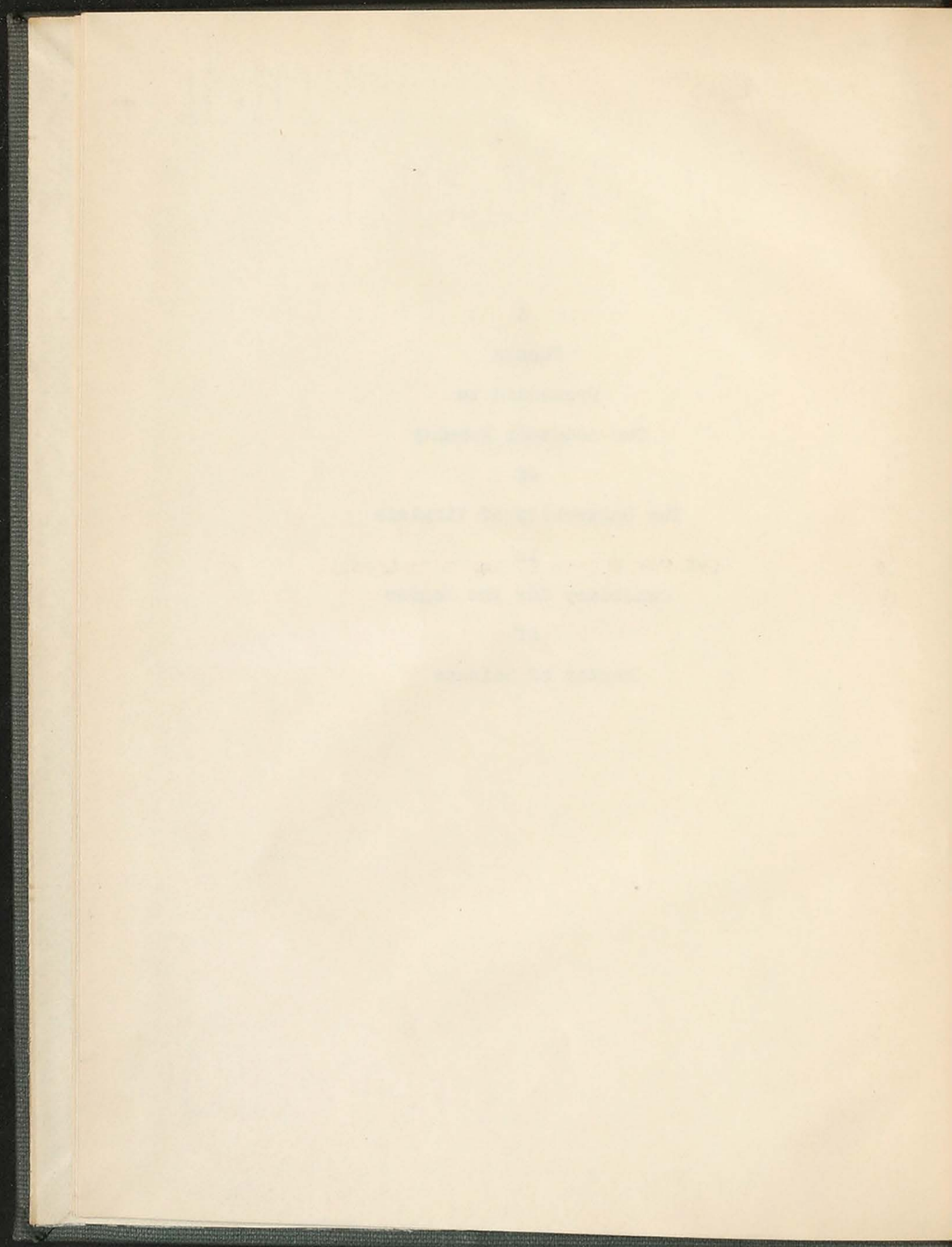
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Thesis
Presented to
The Academic Faculty
of
The University of Virginia
in
Candidacy for the Degree
of
Master of Science



THE TAX SYSTEM OF NORTH CAROLINA.

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Foreword.

Printed material in any quantity on taxation in North Carolina has never been collected. Very little information other than Public Documents is available.

North Carolina today is attracting attention throughout the world. There have been many developments which could come only from the manipulation of great resources by a great people.

The purpose of this thesis is an effort to get into the subject of taxation in North Carolina and to analyze the methods being used to meet the demands and solve the problems of this most progressive of southern states.

May, 1924.

Statewide constructive policies were unknown in North Carolina as late as 1901, when Charles B. Aycock, then Governor, who died a dozen years later while making an educational address in Birmingham, launched an offensive against ignorance. This movement resulted finally in several definite forward-looking steps which today give the State favorable distinction among its sisters.

When thought of in terms of dollars and cents, North Carolina's progress is not strikingly different from that of other states, as the United States as a whole stood upon the threshold of a new regime following the World War.

A study of causes and effects brings out the fact that the State has worked out its own agricultural, educational and industrial salvation by making use of forces within itself. Its people have found the "grass greenest in the home pastures." Today, in spite of the country's former liberal immigration policies, North Carolina remains homogeneous. With a rapidly increasing population totaling 2,559,000 in the 1920 census the foreign element has increased very slowly and is negligible. At the time of this census there were fewer than eight

thousand foreign-born persons in this state. This¹
may be attributed to two outstanding causes.

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1. Richardson: North Carolina's Recent Progress.
Review of Reviews, Dec. 1923.

First, there are no large cities in North Carolina.
Second, those large industries that have been developed utilize domestic labor almost entirely. Native-born Americans are given the preference always.

North Carolina is perpetuating itself both in population and domestic policies. It has the highest birth rate in the United States.²

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2. Richardson: North Carolina's Recent Progress.
Review of Reviews, Dec. 1923.

Progress has come to be the byword when speaking of North Carolina. It is used in the broadest sense and is applied to practically everything.

During the colonial period,³ direct taxation was seldom used in North Carolina.

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3. Barnett: Taxation in North Carolina.
Johns Hopkins Studies in Hist. & Polit. Sci.
Series 14, 1900.

Import duties yielded sufficient revenues for the government's needs during the period from 1776 to 1850 except in extraordinary emergencies. The principal expenses of the State were met by issues of paper money during the Revolutionary War. Provision was usually made for the redemption of such issues by the levy of certain taxes. These taxes usually were in the form of an excise duty or a small poll tax. Within the parishes taxation was upon property and by poll.

Upon the adoption of the Federal Constitution the right to lay import duties was surrendered and freer resort was necessarily had to the taxation of land and polls. Barnett says, "Land outside of towns was taxed by area, irrespective of quality or value; but town lots were taxed according to value. Unmarried free men, of legal age, were required to pay a poll tax equal to the tax on one hundred pounds. In 1783 the General Assembly taxed cattle and slaves at a certain fixed valuation. Carriages, phaetons, stage wagons and other 'carriages of pleasure' were taxed five shillings specie per wheel. But in 1784 all free men were taxed and in place of the taxation

of slaves according to a fixed value, the same poll tax was placed on them as on freemen, except that slaves above the age of fifty were not taxed. The taxes on cattle and carriages were abolished."

Such taxation naturally was adapted only to a community where there was even distribution of wealth among the tax paying class and where conditions were such the public charges were so light that inequalities in the burden borne by different persons were unimportant. The State's chief function to which it confined itself was that of governing. Barnett states, "It provided neither hospitals nor common schools. Land was the chief form of wealth, and in value slaves were far in excess of any other form of personal property." The fiscal needs of the government of lesser importance were met by taxes upon the commoner forms of wealth to the exclusion of other things. These had the advantage of being easy to reach. License taxes were not unknown. Each revenue act changed these taxes, but in a general way they were imposed on inns, pedlars, playing cards and the like.

The assessing of all land at a uniform rate per acre could not continue for long. The inequalities stood

out more and more as the poor lands were taken up. A new system of assessment was devised as taxation based upon value came into vogue. Barnett brings out the fact that "Land owners were required in 1819 to list their lands at a sworn valuation, which was required to be at least as high as that put thereon by the Congressional Assessment of 1815."

During the next thirty years hardly a change was made in the tax laws of North Carolina. Between 1825 and 1850 there were several times when the system of taxation seemed certain of not furnishing adequate revenue, but always pulled through in some way.

Until 1850 throughout the South tax receipts were derived mainly from land, polls, and licenses. General growth in population and industry together with the increase of wealth in the form of personal property brought to the minds of many the advisability of redistributing the burden of taxation. Such a redistribution was delayed by one thing or another until 1850 when the fiscal demands of the state made it necessary. In this year the taxation of personalty was begun. Contrary to conditions in many states, taxation of property from its inception until after 1900 was of increasing importance.

Barnett shows that, "Up to 1850, the poll tax rivalled it in productiveness; but when, in that year, what had been a real property tax became practically a general property tax, its return to the state treasury soon outstripped the yield of the poll tax. Since the war (Civil), the poll tax has not been paid to the State treasury, and the general property tax has been the mainstay of North Carolina's fiscal system. The increasing importance of this tax is shown by the rise in its rate from time to time." It must be borne in mind that Barnett deals here with the period from 1850 to 1900. In this period over two-thirds of the total amount raised by taxation for state purposes in North Carolina was from the general property tax. At the close of the period more than one-half of the school revenue and the larger part of county and municipal revenue was from the same source. The assessment system used in North Carolina was that usually known as the "listing system." In spite of the fact that this system of listing was free from some of the conspicuous defects of the general property tax in other states many defects did appear in the listing of property. In his report for 1897, the auditor states that only one county

in the state had returned a uniform number of acres of land for taxation during the previous five years. He further stated that the slight variation in the number of acres of land returned were of little importance as compared with the great question of the proper return of personalty. He thought that more regularity could have been secured by the employment of better men as list-takers and assessors, receiving higher salaries.

The property tax in North Carolina during this period was more nearly a measure of ability than in
¹
 many American commonwealths.

1. Barnett: Taxation in North Carolina.
 Johns Hopkins University Studies
 in Hist. and Polit. Science,
 Series 14, 1900.

The license tax on inns was one of the sources of colonial revenue in North Carolina. During the most of the slavery period, the business element in the community was made to contribute to government needs only through licenses. From the Civil War to the present license taxes have been increased in num-

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ber and almost every form of business now bears its tax. Most of the license taxes have been imposed for the sole benefit of the state. Parts of some of them, however, go to the counties.

These taxes have come to cover such a great variety of businesses that they may be said to extend from the licenses on pedlers and slot machines to museums^{and}/cotton-compresses.

Not all of these taxes are solely fiscal measures but to a certain degree are sumptuary legislation, while an itinerant clock-pedler is a scarcity because of the forbidding one hundred dollar tax which he must pay for each county in which he trades. The most productive license taxes are those upon ordinary businesses. Many of the license taxes have always been poorly collected. At least they were poorly collected until the agitation for reforms just preceding the World War. Barnett calls attention to the auditor's report for 1896 in which he jocosely comments: "I am satisfied that these taxes are not looked after as they should be. Sheriffs are humane people generally and are most kindly dispositioned. I respectfully suggest that some method be devised

by which county authorities can be impressed with the importance of reading carefully the revenue act, then inwardly digesting it. The State Treasury will I am sure be much the gainer thereby."

In the period being discussed the constitution of the state provided that the property of corporations and individuals must be taxed alike. Corporate property was assessed for state, county, and municipal purposes. As will be seen later there is at present no tax on any property in the state levied for any of the uses of the State Government.

The first tax in North Carolina was a poll tax levied for the purpose of establishing a Anglican Church. This tax was provided for in 1701 but the opposition to such an act was very strong. This opposition developed to such an extent in the Legislature of 1703 that the act would have been repealed had the proprietors not already disallowed it, not on the ground¹ of principle but of certain defects in its provision.

1. Raper: North Carolina, a Study in English Colonial Government.

Thus it is seen that the origin of the poll tax was coincident with the beginnings of taxation in North Carolina and statistics show that, until near the middle of the century, it furnished more revenue than the general property tax. Barnett says this was largely due to the fact that the taxes on slaves could be collected by sale of the slaves. The fact that all of the constitutional amendments of 1835 concerned the poll tax shows of what great importance it was.

For some time before 1860, the income tax was an important element in the fiscal system of this state. At the time of the passage of the revenue act of 1898 and early in this century the importance of the income tax was slight. At this time the constitution of North Carolina provided that no income might be taxed when the property was taxed from which the income was derived. In the application of the law no doubt there were many misinterpretations. In 1898 considerably more than one half of the counties of the state reported there were no persons within their bounds in possession of a taxable income!

The first inheritance tax in North Carolina was

passed in 1847 and remained in force until 1874 when it was omitted from the revenue act. A new inheritance tax law was enacted by the General Assembly in 1897 and repealed in 1899. Today Carolina has a very involved inheritance tax law which will be discussed later.

In concluding this general outline of taxes in North Carolina before 1900 it is easy to see why many people believe the basis of state taxation would continue to be indefinitely the general property tax. Constitutional provisions and economic conditions both led to that conclusion.

Barnett contends the chief fault of the general property tax in North Carolina was the allowance of an exemption of debts to the tax payer. He believed ~~that~~ a change would require a constitutional amendment which finally was made.

The period from 1900 until the opening of the World War served for the spontaneous development of great energy which after being pent up for so long was released with the result that North Carolina today leads the South in practically everything which involves money and fiscal administration.

This state is pioneering in many things and she will be watched carefully by her sister states of the South which will be always ready to condemn her extravagances and errors as the results of a mania for progress but equally ready to profit by her experiences. Why consider the tax system of North Carolina if not for this reason? No other state is more active in analyzing its needs, its problems, and in providing the means of overcoming these.

Americans on the whole do not grumble under the burden of taxation until they come to the cold realization that they are not getting a just return for their money. The situation in North Carolina today is one of satisfied taxpayers. They are satisfied because of the prosperity which seems to result from the careful expenditure of their money. Just so long as this condition continues will the present satisfactory status of the state administrative forces be maintained.

It would be foolish to assume that the tax system does not need to undergo certain reforms. Not all of the lack of uniformity and inequalities were overcome in the recent legislation. However, where the old system advertised the state as poor and helped to cultivate a

feeling of poverty among the people the new system has advertised the state as rich and created a spirit of optimism and one may even say comparative contentment and spirited ambition.

The old system had forced legislatures to avoid the intent of the constitution, compelled officials to instigate or connive at lying, and promoted, in the language of the late Governor Bickett, "a school of immorality that will, if allowed to continue, destroy the moral fibre of our people."

Among the many reasons for this unfortunate situation which existed until after 1919 is the general one of the failure of the law to keep pace with economic and political changes.¹

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1. Pearson: The Present Status of Tax Reform in North Carolina. South Atlantic Quarterly, 18, 1919.
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Several efforts to bring about reforms preceded the final one which originated as the result of a firm public opinion in 1913 when the General Assembly appointed a commission to study the matter and report at a special session in 1914. At this time, on the basis of

the report made, several constitutional amendments were submitted which would permit the legislature to classify subjects and rates of taxation, and if it thought proper, segregate the subjects of state taxation from those of local taxation. Under the old system the burden of the tax fell upon the small property holder. The large holdings of cash in banks, solvent credits and bonds were notoriously untaxed and the burden fell upon the land and the small property owner. Unless reforms were adopted the situation was fast becoming such that bonds would have to be issued to meet current expenses. The movement for reform failed at this time however and the old method of 'patching up the machinery' of the then existing system was advocated. The date of the immediate origin of the movement which resulted in the present system may be set down as 1917.

The legislature of 1917 authorized the appointment of a special commission which included the Governor and the chairman of the tax commission. This commission was assisted by experts and the work done showed the thought of level-headed men. During the time this commission was deliberating, the people of

the State adopted a constitutional amendment making mandatory upon the legislature a very large increase of expenditures for schools. There were very rapid increases in other expenses under the influence of the general rise in prices. Pearson tells us that, "On the other hand there was much well-founded talk of the great increase in wealth that was coming, especially to those who owned lands and factories. These facts reinforced the old arguments tremendously." Thus we see that when the General Assembly next convened in January 1919 the public was well prepared for serious proposals.¹

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1. Pearson: The Present Status of Tax Reform
in North Carolina.
South Atlantic Quarterly, 18, 1919.

Governor Bickett in his annual message presented with great force the commission's proposals. Aside from certain emergency provisions, they looked to "a better permanent system of taxation". Pearson states that "They embrace constitutional amendments under which it is believed that the state will be able to raise all revenue for State purposes without resorting to

any property tax. This would leave all the real and personal property to the counties and towns and would wonderfully help in bringing about a fair valuation of properties for purposes of taxation, and would also tend to solve the vexing problem of equalization. They embraced also the adoption of the budget system and they embraced also a correct valuation of property."

These proposals presented by the Governor were almost unanimously sanctioned by the General Assembly resulting in the adoption of the following program:

1. Immediate re-assessment of all property at current market value.
2. Submission of constitutional amendments, definitely separating the poll tax and the general property tax, rendering the former optional with the legislature and limiting the rate of each, but placing the rate on the poll of three dollars instead of two.
3. Submission of a constitutional amendment authorizing the State to tax all incomes not exceeding 6 per cent and permitting the State to substitute a tax on incomes derived from

"solvent credits" for all other taxation on this class of property, the rate not to exceed 20 per cent.

4. Segregation of the sources of revenue through the General Assembly's omitting to tax general property.

It may be well to note at this point that North Carolina was the only state in the American Union where the General Assembly was denied the right to levy such a tax if it was deemed wise and just to do so. The proposed amendment was intended to levy no tax. It was designed simply to give the General Assembly the power to levy it whenever in its wisdom it might see fit to do so.

The sole purpose of the revaluation provision was to make the tax books of North Carolina speak the truth. Conditions had changed and this provision was intended to meet the actual situation.

Absolute segregation of the sources of revenue was outlined in the program but did not result until 1920. Further discussion of this will follow.

The revaluation machinery provided for under the act of March 11, 1919 consisted of a State Tax Commission

and a corps of ministerial officials. Its three members are elected by the vote of the people at large. Since it is the State Corporation Commission sitting in a special capacity it handles all corporations directly. Subject to certain limitations it appoints all the assessing officers and may remove them at any time upon its own motion. It prepares forms for the use of these officers and instructs them in their duties. It hears the appeals of individuals as to realty valuation and its decisions are final. It acts as a State Board of Equalization with full power to investigate all valuations returned by the several counties, enter any property omitted in any of them, and raise or lower for the year the county's valuation.

The next part of the machinery is made up of special examiners and district supervisors. The former are required to possess "special knowledge of the value of particular classes of property, the value of which may be difficult to ascertain. The State Tax Commission may use them in the assessing of both corporate and non-corporate property. The district supervisors, ten in number, are said to be "the direct representatives of the State Tax Commission " in the valua-

tion of other than corporate property in their respective districts. It is a part of their duties to furnish the assessors "all possible information and assistance." There are no special qualifications required for this office.

Pearson contends that the revaluation process is not entirely centralized. Local opinion is represented by a supervisor and assistants for each of the counties and a county board of appraisers and review consisting of the county supervisor as chairman and two others. The time necessary for the work is to be determined by agreement between the county supervisor and the county board of commissioners, subject to appeal to the district supervisor. These then are the men who do the actual work of assessing non-corporate property. Provision was made for real property to be assessed as of May 1, personal property as of January 1 -- thus permitting one set of men to make both valuations without confusion.

The law creating the machinery prescribes in detail the standard of valuation and the devices for enforcing it. All property was to be assessed "according to its true value in money"; which means, at a price for which such a property would sell for cash if voluntarily

offered for sale by the owner thereof, and not at the price which might be realized if such a property were sold at forced sale. The owner of personal property is compelled to file "a full and correct description -- fixing what he deems to be a true and actual value of each item" and must also swear that, "since the first day of the assessment year I have not directly or indirectly converted or exchanged any of my property, temporarily for the purpose of evading the assessment thereof for taxes, into non-taxable property or securities of any kind." In the case of corporations, the same standard of real value was set and similar devices ordered.

It was provided that even after the reports of the assessing officers had run the gauntlet of review and appeal, the resulting valuation was not necessarily to become legal. There was to be formal approval by the General Assembly and a revision of the tax rates, state and local, "under rules to be laid down by the General Assembly."

Thus it is seen what the general situation was up to and immediately after the passage of the Revaluation Act in 1919. Undoubtedly the plan of organization of the

machinery seemed to be on correct principles. The officers guiding the policy are chosen by the people and the ministerial officers are appointed by this selected body and are removable by it. It may be said power and responsibility are properly united and centralized. An attempt was made to eliminate politics by declaring the ministerial offices "non-political and non-partisan" and by specifying that undue political activity was to be proper cause for removal. Pearson stated in his review of the act and tax reform in general that; "It is a state system. Only the largest local unit -- the county -- is recognized, and this is recognized for administrative purposes only. But probably no more practicable way could be found for bringing the view point of the diverse localities into conjunction with that of experts, and the danger is certainly vastly less than under the old system. As regards the standard of valuation, market price is probably the nearest practical approach to real value, which is the standard set by the state constitution, certainly it is nearer than the old twenty or thirty or fifty per cent." One must not be unmindful of the apparent defects of the reform."

Before proceeding to a discussion of the reforms in the outline program which were offered as amendments to the constitution in the 1920 General Assembly it may be well to place an estimate on the reforms to date.

Perhaps it would not be amiss to sing only the praises and reserve for our conclusions the criticisms.

In addressing the General Assembly of 1920 Governor T. W. Bickett stated: "The General Assembly, at the regular session of 1919, consocrated itself to the task of devising a machinery act that would find all the property in the State and determine its true value..... this high purpose has been accomplished with remarkable completeness and precision. For the first time in our history tax values are true values. For the first time the citizens and the stranger within the gates may go to the tax books and find a fairly accurate inventory of the property of the state, and a fairly accurate appraisalment of its value. In the new machinery act the people were for the first time seriously asked to tell the truth, and they have responded to this appeal in noble fashion. From every quarter of the state word has come that the people are happy to get away from the old system of con-

dealments and evasions, and to let the exact truth about their property stand forth. No such august array of witnesses has ever been assembled as appeared in the high inquest that has just been completed. For in the diligent and devout search for the ultimate facts every property owner in the state was put upon the stand and solemnly sworn to tell the truth, the whole truth, and nothing but the truth. The findings follow the testimony. The values fixed are the crystallization of the sworn evidence of all the people.

"Taking the State as a whole, 75 per cent of the assessments were made at substantially the values sworn to by the owners of the property; 20 per cent were substantially increased, and 5 per cent were decreased.

"The law gives to every property owner the right to appeal from the judgment of the county board to the State Tax Commission. The local authorities approximated true values so closely that not one person in a thousand appealed from their judgment. This is a record without parallel in the history of judicial tribunals. The real grievance voiced by a few people is not against the failure of the act, but is against its success. The complaint is not that we miss the mark, but that we hit it.

"The high objective of the act is to equalize the burdens of taxation and to wipe out discriminations. And just in proportion as true values have appeared on the tax books, errors and inequalities have vanished. True values are always equal values; but neither wisdom nor virtue, nor principalities nor powers, nor length nor breadth, nor height nor depth, nor things present nor things to come, nor any other creature can equalize a kettle of lies!¹ Truth is the only door that opens on equality".

1. Bickett: Public Letters and Papers. 1923.
Page 53.
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Governor Bickett presented in his discussion several typical illustrations of what had been done throughout the State up until August 1920. Among these are the following:

"1. In one of our county-seats there live upon the same street a lawyer and a widow. The lawyer owns a valuable piece of property in a desirable portion of the town, and this, under the old system, was assessed at \$3,850. The widow had \$10,000 that she had received

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from life insurance policies on her husband. This money was loaned on real estate mortgages which were listed at their par value of \$10,000. Under the Revaluation Act the property of the lawyer was valued at \$15,000, and he can get this amount of money for it any morning before breakfast. Under the old law the widow, in proportion to her real worth, was paying four times as much taxes as the lawyer. Under the new law this wickedness is wiped out, and both the lawyer and the widow are paying according to what they are really worth.

"The result is that the lawyer is cursing the Revaluation Act and swearing that he is going to repeal it, while the widow is praising God and the General Assembly of 1919 for its enactments."

"2. In one of our Piedmont counties the experts of the Tax Commission examined two cotton mills. They found that one mill was on the tax books at 17 per cent of its real value, while the other mill was on the books at 65 per cent of its real value.

"Under the Revaluation Act this vicious inequality disappears. Both mills are placed on the books at their true value, and this year the 17-per-cent mill will pay

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a great deal more taxes than it has heretofore paid, while the 65-per-cent mill will pay a great deal less."

"3. In a certain county, and in the same neighborhood, there lived two farmers, one on a twelve-acre and the other on a fifty-acre farm. Under the old law the twelve-acre farm was assessed at \$600 and the fifty-acre farm likewise at \$600. Now when these farmers received their questionnaires the twelve-acre farmer swore that his land was worth \$650. The fifty-acre farmer swore that his land was worth \$4,000.

"Under the Revaluation Act the two honest citizens, when they had an opportunity to do so, corrected a rank injustice."

"4. In another county a man had a son and a daughter. In his will he stated that he desired to give them an equal amount of property. He had a farm which, in his will, he said was worth \$10,000, and it is worth it. It will bring that amount on the market any morning. He gave this farm to his son, and then he gave to his daughter \$10,000 in money. When the sheriff came around he collected from the daughter five times as much in taxes as ~~her~~ ~~brother~~, he did from the son. The daughter naturally complained about it, and asked the sheriff why she should

have to pay five times as much taxes as her brother, when their father had given them, as stated in his will, exactly the same amount of property. The sheriff explained to her that the land was assessed at only \$2,000, though he admitted that it was worth \$10,000, while the money was assessed at \$10,000, and that he (the sheriff) had no power to change it.

"The Revaluation Act does change it. It carries out the will of the dead father and makes the son and daughter equal before the law.

"Inequalities like those just cited (and there are tens of thousands of them in the State) have been tolerated because they were not known. All that was necessary to kill them was to uncover them, and the Revaluation Act is exposing them in all their ugly nakedness. Who wants to throw over these inequalities the mantle of an old machinery act that always went blind when the true value of property appeared? The Revaluation Act is a searchlight. Who wants to hide?"

It seems best to quote Governor Bickett at length because of his broad and yet just treatment of the subject. In 1920 the Revaluation Act had gained momentum and was getting results. His discussion brings out the

main points which are praiseworthy. Regarding hid treasures in the State Governor Bickett credited the act with having overcome to a large degree a bad situation. In addressing the General Assembly he said:

"The beloved and lamented John Charles McNeill, in one of his juiciest poems, writes:

" 'I knowed a' ol' 'ooman wut scrubbed en hoed,
 En never didn' go nowhar,
 En when she died de people knowed
 Dat she had supp'n hid 'bout dar.'"

"For some time there has been a growing suspicion that many men when the tax listers came around 'had supp'n hid 'bout dar.' One of the chief objectives of the new law was to uncover these hid treasures. There is no claim that in this respect the machinery of the act has functioned with perfect efficiency. What piece of machinery, mechanical or governmental, ever did perfect work the first time it was tried? For two years the Wright brothers tested their flying machine on Kill Devil Hill in this State. Compared with present performances it was crude work, but none the less it was a miracle, for they left the ground -- they actually did fly, and the mighty airships of the present day are the logical development of their earliest endeavors.

"And so, while the machinery of the Revaluation Act

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has not at its first trial uncovered all the property that has heretofore been kept off the tax books, what it has done in this respect constitutes a miraculous book of revelations."

There are many illustrations of the effects of the new law of which the following are typical.

1. In Mecklenburg County the total valuation of personal property in 1919 was fifteen million dollars; in 1920 it was \$30,445,605 -- an increase of fifteen million dollars.

2. In Guilford County the total valuation of personal property in 1919 was twelve million dollars; in 1920 it was twenty-nine millions -- an increase of seventeen million dollars.

3. In Forsyth County the total valuation of the personal property in 1919 was twenty-two millions of dollars; in 1920 it was sixty-seven millions -- an increase of forty-five millions. In this county a single corporation in 1920 listed personal property to the amount of forty-seven millions. In 1919 all the property listed in Forsyth County -- real, personal, individual, and corporate -- amounted to forty millions. It will be seen that in 1920 a single cor-

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poration listed seven millions of dollars more in personal property than the whole county, including this corporation, listed last year.

4. The total personal property listed in the State in 1919 was four hundred and twenty-six million dollars; the total in 1920 was eight hundred and thirteen millions -- an increase of three hundred and eighty-seven millions.

5. The Revaluation Act also found and put on the tax books a large amount of solvent credits not listed before. The solvent credits listed for taxation in 1919 were increased in 1920 one hundred and twenty-three millions.

6. The incomes listed for taxation in 1920 were twenty million dollars greater than in 1919.

7. The machinery of the act also found and put on the tax books 1,034,790 acres of land not taxed before. The average value per acre of land on the books in 1920 was \$40 per acre. This made a vast area of No Man's Land worth forty million dollars. Since the average county in North Carolina contains 279,000 acres of land it will be seen that the Revaluation Act found and placed on the tax books of the State four counties of average size.

8. The total value of all real estate listed for taxation in 1919 amounted to five hundred and six millions of dollars; The total value in 1920 was one billion nine hundred and eighty-one million dollars.

9. The total value of all corporate property listed in 1920 was three hundred and seventy-three millions of dollars greater than in 1919.

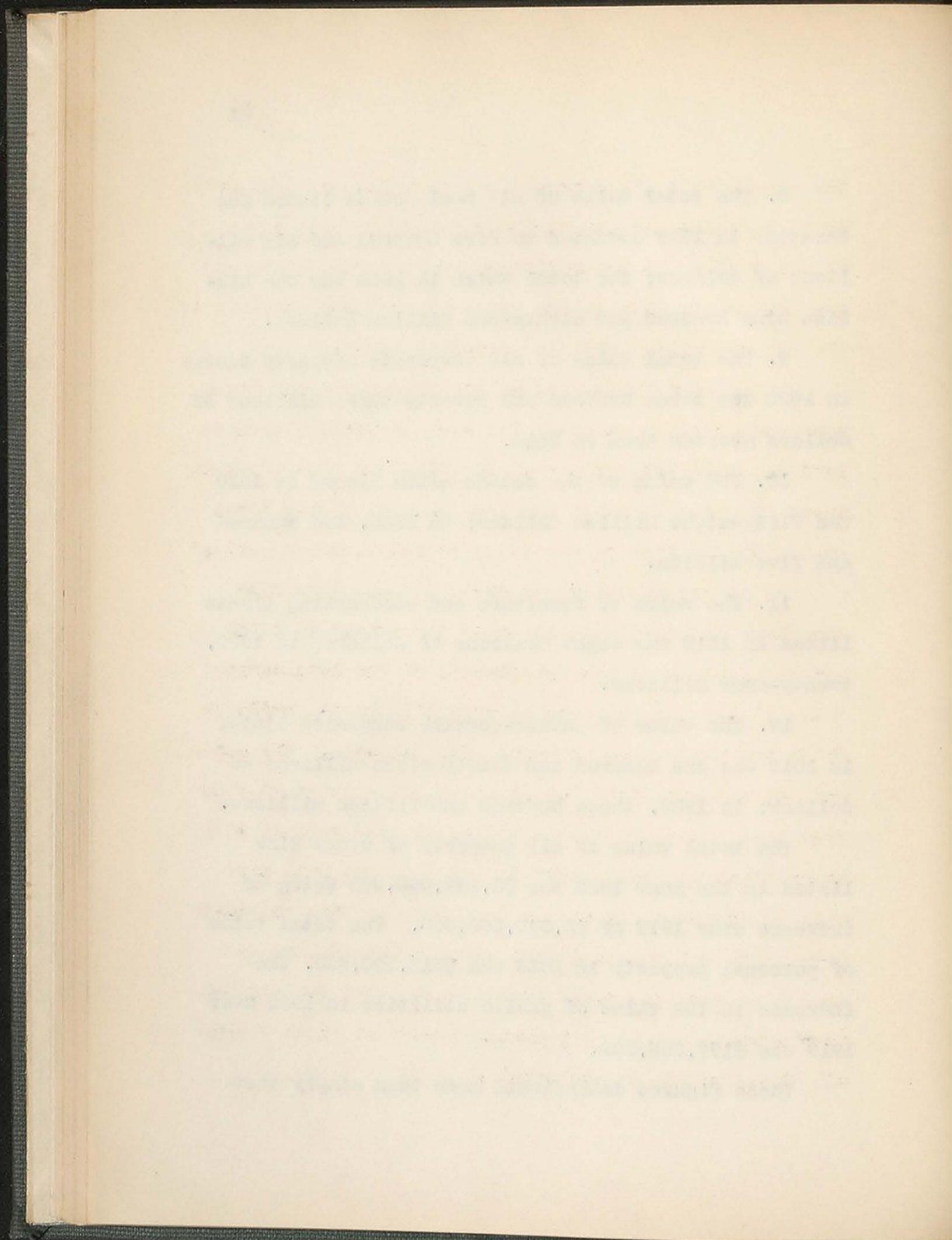
10. The value of the cotton mills listed in 1919 was fifty-eight million dollars; in 1920, two hundred and five million.

11. The value of furniture and woodworking plants listed in 1919 was eight millions of dollars; in 1920, twenty-four millions.

12. The value of public-service companies listed in 1919 was one hundred and thirty-eight millions of dollars; in 1920, three hundred and fifteen millions.

The total value of all property of every kind listed in the year 1920 was \$3,139,000,000 being an increase over 1919 of \$2,040,000,000. The total value of personal property in 1920 was \$813,000,000. The increase in the value of public utilities in 1920 over 1919 was \$177,000,000.

These figures demonstrate more than simply that



the Revaluation Act works. They show that even in 1920 North Carolina was per capita the very richest state in the South. At the beginning of 1921 this state had the lowest tax rate of any state in the American Union. Its present status will be discussed later.

Taken as a whole, tax values throughout the State were conservative values. The average value placed on land was only \$40 per acre. In 1919 this land produced crops "greater in value per acre than any other lands in the United States, according to Government reports."

It is not necessary to dwell at this time upon the above discussion which tends throughout to bring out the real ~~facts~~ accomplishments of the Revaluation Act. It was not intended to cure all the tax evils to which the human race is heir. The nations of the earth have always had their tax problems and a thousand years from today the legislative bodies of this country will be exerting all their energies of mind and soul and body to devise a tax system that will provide "adequate revenue to maintain a decent civilization and at the same time convince their constituents that the legislators are not a band of highwaymen bent on confiscating all the property of the people."

It should be borne in mind that the Revaluation Act was designed to do three things:

1. To make the tax books of North Carolina speak the truth.
2. To wipe out discriminations and inequalities between different classes of people and property, and
3. To find and place on the tax books property that had escaped taxation in the past.

The record shows that even in 1920 the first two objects had been attained with remarkable accuracy and completeness. It is the claim of the administrators that the third object has been attained almost to a point of perfection.

The Revaluation Act which it has seemed best to discuss at some length served as a basis for many reforms in North Carolina. It has been shown to what extent it changed the policies of the State as to finances and it should be noted that the general attitude of the people underwent a change, as well, of great importance. The spirit of progress got into their bones and to date

there has been no letup. This is shown by the greatly increased interest in education which has made it possible for the passion for higher learning that burns in the breast of the remotest mountaineer to be satisfied. Agricultural and technical schools, not to mention all others, have been highly developed. North Carolina is now spending approximately \$4,000,000 a year on negro education. That the spirit for development continues is further shown by the wonderful way in which she has met her farming problem through intensified agriculture and diversification of crops. Her most widely known accomplishment is her development of a highway system which is closely linked with the tax system since it is through license taxes that the system is maintained and its future expansion provided for.

The General Assembly of 1921 adopted a new State tax system. There is no levy on real estate or personal property for State purposes under this system. This form of taxation is left with the counties. The operating revenue of the State comes principally from incomes, while interest charges on road bonds, and funds for the maintenance of highways, are derived from a tax

on automobiles and gasoline. This tax is expected to yield \$7,000,000 during the fiscal year ending June 30, 1924. Prior to the enactment of the present law, the State received a share of the ad valorem tax levied by the counties, which was 47 $\frac{2}{3}$ cents on the \$100 assessed valuation. Of this, 11 $\frac{2}{3}$ cents was for administrative purposes, four cents for pensions, and thirty-two cents for schools. Today, however, no tax whatever is levied by the State on the land of the farmer or any one else.

North Carolina has tackled its problems and is solving them in its own way and at comparatively little cost when measured by the good that has been accomplished. The State contributes more to the Federal Government than it spends on itself, ranking as the ^{fifth} ~~fourth~~ state in 1923 in the amount of Federal taxes it paid. It was exceeded only by Illinois, Michigan, New York, and Pennsylvania. During the past fiscal year it yielded \$140,000,000. This year, in the opinion of the Collector of Internal Revenue, the total will be \$160,000,000. Most of this revenue comes from tobacco concerns; but North Carolina pays a larger income tax than any other Southern State except Texas.

Thus it is seen in a general way what the situation

today is. The question is too big to discuss in much detail. There are too many side issues to include them all in a paper of this nature. Material is not available in printed form to enable one to make a complete treatment of several phases of North Carolina's tax system. It will be, therefore, the plan of the remainder of this discussion to treat first, the actual laws; second, the revenues from these; third, the debts of the State which are in any way burdens upon the people; fourth, criticisms of the State tax system; fifth, conclusions arrived at from reading and actual observation.

The laws of North Carolina provide a State Board of Equalization composed of the commissioner of revenue, the chairman of the corporation commission, and the attorney general, who are ex officio members of and constitute the board. It should be noted that up until 1921 the equalization board was identical in personnel with the tax commission. The powers and duties of the board are to hear and determine appeals from valuation of property by assessing officers in the

several counties. The powers of the board granted by the law are wide.

Inheritance tax.

The public laws of North Carolina for 1923 provide an inheritance tax which takes in all real and personal property of "whatever kind and nature, including stocks and bonds of foreign and domestic corporations held or deposited either within or without the State, which shall pass by will or by the intestate laws of this state from any person who may die seized or possessed of the same while a resident of this state, whether the person or persons dying seized thereof be domiciled within or out of the state (or if the decedent was not a resident of this state at the time of his death, such property or any part thereof within this state), or any interest therein or income therefrom which shall be transferred by deed, grant, sale, or gift, made within three years of the death of the grantor, bargainor, donor, or assignor:" It is provided that ^{if} such property transferred exceed three per cent of the value of the estate of the grantor, bargainor, donor, or assignor the person or persons benefitting by such a transfer shall be subject to a tax for

the benefit of the State with the proviso that the "property so conveyed, granted, sold, given or transferred shall not be in the possession of and owned by an innocent purchaser for value at the time of the death of the grantor, bargainor, donor, or assignor."

Inheritors are divided into three classes according to the nearness of relationship to a decedent. The rate of tax increases rapidly as the degree of relationship diminishes. For example, inheritors of the first class pay a rate of 1 per cent for the first \$25,000 above exemption, while those of the second class pay 3 per cent and those of the third class 5 per cent. Of course there are certain exemptions and deductions provided for. All advancements and gifts equal to and in excess of three per cent of the decedent's estate at the time such advancements or gifts were made, and made within three years of the decedent's death, shall be subject to the inheritance tax as prescribed in the law as of the date of the death of the decedent. Bonds and shares of stock in any incorporated company incorporated in North Carolina are taxed on their transfer regardless of the company's activities inside the State or out provided only such transfers meet certain qualifications

which it is not necessary to discuss. Companies incorporated in other states are liable to tax on bonds or shares of stock of any decedent holder transferred on its books. There are no other outstanding features which make this law of particular interest in our discussion.

License Taxes.

These are important taxes in the tax system of North Carolina and they do not relieve any persons or corporations from the payment of taxes under the law just discussed. Licenses are issued for twelve months. They are levied for State purposes and are collected in each county with some exceptions. Some of the taxes are graduated with reference to the population of the city or town in which the license privilege is exercised. As an example of this it is found that a theatre or opera house in a town of less than 5000 and more than 3,000 is taxed seventy-five dollars per annum. In a town of more than 15,000 the tax is three hundred dollars per annum. License taxes cover a great variety of businesses including moving pictures, attorneys, real estate agents, real estate auction sales, dealers in second-hand clothing, ship brokers, feather renovators,

pedlars, fortune-tellers, general agents, hotels, gift enterprises, newspaper contests, automobiles for hire, building and loan associations, insurance companies, laundries, garages, emigrant agents and plumbers. Investigation precedes the issuance of licenses.

Privilege Taxes.

The taxes embraced under this head are listed and paid for the privilege of carrying on business. If a corporation, there is a tax for the continuance of its corporate rights and privileges given under its charge, "if incorporated in this State or by reason of any act of domestication, if incorporated in another state, and shall be subject to other regulations" provided under licenses taxes on manufacturing, selling, or leasing moving-picture films.

The privilege tax on railroads is based upon the value calculated by the Commissioner of Revenue who estimates the total value of the rail_road's property, tangible and intangible, in this State. The tax which every railroad pays for the privilege of carrying on intrastate commerce within this State shall be one-tenth of one per cent of the value so ascertained by the Commissioner of Revenue.

Other privilege taxes cover chair and sleeping cars, express companies, telegraph and telephone companies, and the franchise tax on corporations, domestic and foreign. This last tax, on foreign corporations, has recently been a matter of much discussion.

The law requires domestic corporations to file detailed reports of their makeup including the amount of capital stock authorized, the par value of each share, the amount of stocks subscribed, the amount issued and outstanding, and the amount of capital stock paid up. The Commissioner "shall enter for collection a fee of one tenth of one per cent upon its subscribed or issued and outstanding capital stock, which fee shall not be less than ten dollars in any case." The basis of calculation when the capital stock issued and outstanding by any company is less than one half of the assessed value for taxation for the year in which the report is made of all property of a company is the "measure of the extent to which the corporate franchise of any such corporation is being used and the amount of franchise tax to be paid by any such corporation shall be calculated with reference to the sum of one half of the total assessed value of all the property of such corporation in

this State."

Foreign corporations doing business in this state and owning or using a part or all of its capital or plant, and subject to compliance with all other provisions of law, are required to make a report in writing annually to the Commissioner of Revenue in such form as the Commissioner may prescribe.

The rate of taxation placed upon such companies for the privilege of exercising their franchises in this State is "a fee of one-tenth of one per cent upon the proportion of the subscribed or issued and outstanding capital stock of the corporation represented by property owned and used and business transacted in this State as found by him, which fee shall not be less than ten dollars in any case." Of course there are certain companies exempt from taxation under this law because taxed elsewhere. Penalties are provided for failure of corporations to report in the form of cash fines, etc..

Income Tax.

The present income tax law of North Carolina is known as "The Income Tax Act of One Thousand Nine Hundred and Twenty-three."

The general purpose of this act is to impose a tax,

"for the use of the State Government, upon the net 43 income for the calendar year one thousand nine hundred and twenty-three, in excess of exemptions herein set out, collectable in the year one thousand nine hundred and twenty-four and annually thereafter."

The law conforms to the definitions and regulations of the Federal Government and applies to every citizen of the State, every domestic corporation, and to every ^{foreign} corporation, and to every nonresident individual having a business or agency in this State, "in proportion to the net income of such business or agency." The tax imposed upon the net income of corporations under this law are in addition to the tax imposed under the privilege tax law already discussed.

The tax on individuals up to twenty-five hundred dollars above the legal exemption is at the rate of one per cent. On the excess above this and up to five thousand dollars the rate is one and one-half per cent. Over five thousand and up to seven thousand five hundred dollars the rate is two per cent. From this amount up to ten thousand dollars it is two and one-half per cent, and the excess above ten thousand dollars is taxed at the rate of three per cent.

Every domestic corporation is required to pay annually an income tax equivalent to three per cent of the net income as defined by the law, received by such corporation during the income year. Every foreign corporation doing business in this State is required to pay annually an income tax equivalent to three per cent of its entire net income to be determined according to such proportion of its entire net income as the fair cash value of its real estate and tangible personal property in this State on the date of the close of the fiscal year of such company in the income year is to the fair cash value of its entire real estate and tangible personal property then owned by it, with no deduction on account of encumbrances thereon. The law further provides that "In case of a corporation deriving profits principally from the holding or sale of intangible property, such proportion as its gross receipts in this State for the year ending on the date of the close of its fiscal year next preceding is to its gross receipts for such year within and without the State."

A satisfactory basis has been worked out for ascertaining the net income of railroads and public-service corporations on which the tax for such is levied. A slight-

ly different basis is taken for businesses partly within and partly without the State. Heavy penalties are provided for failure to make correct returns within the time limit given and the tax is looked upon as a personal debt on the persons liable. The administration and enforcement of the tax is the responsibility of the Commissioner of Revenue.

No city, town, township, or county may levy any tax on income, or inheritance tax.

Motor Vehicles.

The license fees for motor vehicles and the tax on motor fuel are of particular importance as will be seen later since the funds so collected are kept by the state treasurer in a separate fund known as the "State Highway Fund," and all moneys directed to be paid out of this fund are paid by the State treasurer upon voucher issued by the State Highway Commission. The license fees on motor cars are not excessive but compare very favorably with the average of such fees in other states. The fee on gasoline is at the rate of one cent per gallon. It is the same on any other liquid known as "Motor vehicle fuel."

in all cases, it is the duty of the government to
maintain the peace and order of the country.
The government is responsible for the safety of its
citizens and the security of its borders.
It is the duty of the government to protect the
rights of its citizens and to ensure that the
law is enforced.
The government is also responsible for the
welfare of its citizens and for the development
of the country.
It is the duty of the government to provide
education and healthcare to its citizens.
The government is also responsible for the
economy and for the employment of its citizens.
It is the duty of the government to ensure that
the economy is stable and that there are enough
jobs for its citizens.
The government is also responsible for the
environment and for the protection of natural
resources.
It is the duty of the government to ensure that
the environment is protected and that natural
resources are used wisely.
The government is also responsible for the
foreign relations of the country.
It is the duty of the government to maintain
friendly relations with other countries and to
protect the interests of the country in the
international community.

Complete reports of the Commissioner of Revenue are not available since 1921. The report of 1921 serves well enough to show what the incomes from the various taxes are.

In 1920 the inheritance tax law brought into the State treasury slightly over six hundred thousand dollars. The estimate of the North Carolina Budget Commission places the income from this source for 1923 at nine hundred thousand dollars.

The state tax in 1920 brought in by licenses and privileges totaled slightly over three hundred and thirty-four thousand dollars. The budget commission estimated the 1923 income at four hundred and fifty thousand.

The income tax law yielded the State in 1920 a total of approximately one-half million. Based on what was known to have come in the estimated income tax for 1923 was three million seven hundred thousand dollars. A great increase is noted here under the new Income Tax Act of 1923.

In 1922 the automobile license fees and the three cents gasoline tax brought into the State's Treasury four and one quarter millions of dollars which went

toward the maintenance of six thousand miles of roads; to pay interest on bonds; to pay all overhead expenses of the highway system; and to provide one-half of the sinking fund set aside by the State each year. In 1923 the automobile license fees and the three-cents gasoline tax brought into the State Treasury approximately \$7,000,000, an amount now amply sufficient to maintain the State Highway System, to pay interest on the bonded indebtedness for highway construction, and to retire all serial bonds in less than forty years.

The total of general taxes including a property tax in 1920 was \$7,052,693. The estimate of the Budget Committee for 1923 was \$8,000,362. This is slightly less than the estimate of the Treasurer. The total income estimated for 1924 is expected to be not less than 10 per cent greater than in 1923 making a total of approximately \$9,000,000.

The total bonded indebtedness of the State of North Carolina on December 31, 1922 was \$62,184,198. Of this amount \$19,631,598 was the debt of the General Fund; \$37,552,600 was the debt of the Highway Department;

\$5,000,000 was for public school building bonds interest for which was to come from special funds. The total of special funds at that time was \$483,766. The income derived from railroad stock for 1922 was \$248,012.

The State debt lays no direct burden on property.

The bonded debt of the State Government to date is \$68,937,600 or an average of \$25.65 per inhabitant. This is of no particular significance since the State debt lays no direct burden on property. The total bonded debt of the State and all subdivisions of the State for every purpose whatsoever at the present time is around 240 million dollars or an average debt of \$90 per inhabitant. Included in this amount of course is the tax levied by the counties as well as that levied by the towns and cities upon property within them. The bonded indebtedness of counties is made up of bonds issued for the erection of schools that come under the jurisdiction of the county board of education, bond issues for the construction of county roads and bridges, court houses, county homes, jails and other purposes, railroads in a few counties, and the funding debt. Special drainage and other district bonds are also classed as county debt.

The cities and towns closely parallel the counties in

the purposes for which bonds have been issued. The great bulk of the city and town debt has been incurred for the construction of public improvements which represent long-time investments in permanent developments.

The debt of the State Government must be thought of separately from the local debt because the local debt, unlike the State debt, is borne exclusively by taxes on property listed for taxation within the issuing governmental unit. The State debt may be divided into two classes, roads and other. The road debt is carried exclusively by license taxes on motor cars and the three-cent gasoline tax, and other State bonded debt is carried by the General State Fund derived from taxes on incomes, inheritances, corporations, licenses, and earnings of the state departments.

The bulk of the State government debt has been incurred since 1921. It is distributed as follows: highways \$34,552,600 or 50.2 per cent; schools, charitable and eleemosynary institutions, and school building loan fund to counties \$24,012,500 or 34.9 per cent; funding debt \$8,480,000 or 12.2 per cent; and public buildings and improvements \$1,892,500 or 2.7 per cent.

It should be noted that slightly more than half of

the State debt is for highway construction and it is important to remember that the entire burden of carrying this debt falls on owners of motor cars. That part of the bonded debt which is paid out of the general fund of the State governmental receipts amounts to more than 34 million dollars and the cost of carrying this burden falls almost exclusively on urban people and urban industries. Unless a farmer pays an income tax he contributes nothing directly to the general state treasury fund. The only State tax paid by farmers for all practical purposes is the motor car license and gasoline tax.

The outstanding bonded debt of the State government at the present time amounts to 2.6 per cent of the aggregate of property listed for taxation in the State. It amounts to only 1.5 per cent of the value of the principal forms of wealth as estimated by the Federal Government. When all State bonds that have been authorized by the legislature have been sold the State debt will be \$93,000,000, or 3.5 per cent of the aggregate of property now listed for taxation, and just 2 per cent of the true value of the State's wealth as estimated by the federal government.

One county has on her tax books almost twice as much property as the State debt will total when all authorized bonds have been sold.

It is worthy of mention that the average interest rate on the entire State debt is 4.5 per cent. No North Carolina bond issue has sold for more than 5 nor less than 4 per cent.

It has already been stated that the present bonded debt of the State and all subdivisions of the State is approximately \$240, million dollars.

The total bonded debt amounts to about 7.7 per cent of the aggregate of property listed for taxation, and to 4.4. per cent of the estimated true value of the principal forms of wealth of the State. Putting it on another basis it amounts to \$75 per inhabitant.

The cost of carrying the present debt of \$240 million dollars, for both interest and sinking fund payments, amounts to about \$5.36 per inhabitant per year, or to \$25.72 per family per year. The cost of carrying that portion of the debt which falls on property amounts to \$3.82 per inhabitant per year.

The present total bonded debt of the State and all its subdivisions is only 53 per cent larger than the

aggregate of property listed for taxation in one single county in the State, and it about equal the real wealth of this same county.

Seventy per cent of the present bonded debt is supported by direct levies on property, while 30 per cent of it is supported by license taxes and taxes on incomes, inheritances, corporations, and earnings of the state departments.

This discussion deals primarily with the tax system of North Carolina but it would be impossible to appreciate the facts of the State tax system without having some knowledge of the actual burden carried by the people for all purposes. Equally important is it to know what North Carolina has to tax in order that the sources of revenue may be judged and compared with those of other states.

The federal Department of Commerce has just released a summary sheet which shows the assessed valuation of property and the tax levies on property for the various states, for the years 1922 and 1912. As shown by this sheet the tax burden in North Carolina is unbelievably light in comparison with other states. The study concerns all property listed for taxation, and total levy

against such property for every purpose whatsoever, state, county, town, school district, drainage district, road district, and other civil divisions having power to tax.

The assessed value of all property in North Carolina in 1922 was \$2,521,115,000, which was 2.02 of the total assessed value of all property in the United States. The total property tax paid for all purposes in North Carolina in 1922 amounted to 1.66 per cent of the total property tax paid in all the states. In other words, North Carolina has 2 per cent of all the taxable property in the United States but pays only 1 per cent of the total property tax paid in the United States.

The assessed value of all property in the United States in 1922 was \$1,146.16 per inhabitant. The assessed value of all property in North Carolina was \$952.46 per inhabitant. The total tax paid on property averaged \$32.22 per inhabitant for the United States, while the average for North Carolina was only \$13.98. The taxable wealth of North Carolina per inhabitant is almost as great as the average for the United States, yet the property tax paid per inhabitant is only 43 per cent of the average for all the states.

The property tax in twenty states average more than forty dollars per inhabitant. In only four states, all of which are southern, was the property tax per inhabitant smaller than in North Carolina. These are South Carolina, Georgia, Arkansas, and Alabama, all of which have large negro ratios and a much smaller amount of taxable wealth per inhabitant. The property tax per inhabitant, in proportion to the taxable wealth per inhabitant, is lighter in North Carolina than in any other state in the Union. In 1922 the rate was less than two dollars in only nine states, mainly southern, while the average rate for all the states was \$2.81, or nearly twice the rate for North Carolina which was \$1.47.

The general situation in North Carolina has been shown. It may not be amiss to briefly consider the cost of government in North Carolina.

It costs \$9.58 per inhabitant to run the State government in 1922. The total cost included \$8,500,000 spent on highways and schools which money came from bond sales and was not a proper charge against the cost of operating the State for that year. Even with expenditures from bond sales included, state government cost

more per inhabitant in thirty-two states than in North Carolina. Revenue receipts exclusive of bond sales, totaled \$13,164,249 or \$4.97 per inhabitant. This represented the actual cost per inhabitant to run the entire state government in 1922. This includes automobile, license, and gas taxes, and earnings of the state departments.

The Highway System.

The moment North Carolina is mentioned in any southern state the fact that a great program of highway construction is being carried out there comes to mind. As has been stated the income of the Highway Fund in 1923 was four and one quarter millions of dollars and will total approximately seven million dollars at the end of this fiscal year. This great system is being financed by bonds for which a sinking fund has been established totaling \$500,000 each year.

The maintenance of these state roads, and the payment of interest on all road bonds, and the retirement of the serial road bonds falling due each year ~~are~~ guaranteed by funds received by the state from license taxes on automobiles and from a three cents tax on gaso-

line. On January 1, 1924, there were registered in North Carolina 230,000 passenger automobiles and 23,000 trucks. The automobile license fees and the three cents gasoline tax brought into the State Treasury, as has already been shown, approximately \$7,000,000 during the year 1923, an amount now amply sufficient to maintain the State Highway System, to pay interest on the bonded indebtedness for highway construction, and to retire all serial bonds in less than forty years.

In 1919 when the State Highway Commission was formed, there were in North Carolina 210 miles of improved roads. At the end of 1923 the state had completed 1933 additional miles of its improved roads and had under construction 1,425 miles to be completed in 1924. In the year 1923 it completed 1,044 miles of road at a cost of \$21,840,000. Of this mileage, 544 miles were of the paved type and 500 miles were of the progressive types using gravel, top soil or sand clay as temporary surfacing material. Projects under construction, but not completed in 1923, consist of 1,622 miles of road of which 761 miles are of hard surface pavement and 861 miles are of progressive road types. The contract prices on uncompleted roads amount to

\$28,918,000. It is expected that the total of additional contracts for 1924 will provide for approximately 500 miles of pavement and 300 miles of progressive road types estimated to cost around \$18,000,000.

It seems best at this point to introduce a personal interview with Mr. E. N. Everett, Secretary of State, of North Carolina, given in July 1923. Secretary Everett stated: "We have done what we said we could and have set up a sinking fund of five hundred thousand dollars and we still have one and one-quarter million dollars which will enable us to build in the gaps where we get Federal and county aid; or we can add to the sinking fund and pay interest on new debts. We know we can continue the program and we know that no tax will be levied on property to keep up this program. Each year \$300 per mile of road is set aside for maintenance whether used or not." Mr. Everett stated further that the State system contains nine districts laid out along a definite plan. The bond money is distributed to certain construction districts just as Federal aid is distributed to states. That is, one-third based on population, one-third based on area, and one-

third based on mileage of state highway in a district. When the 65 millions are spent the roads in general will be intra-state roads, not roads laid out along the trunk-line idea. After all the money provided is spent 1000 miles of road will be lacking to complete the job planned. He said, "1000 miles of the original map have not been touched except by the maintenance fund. There is still another job. Fifty or sixty counties are not connected by the most direct routes. It was promised that every county seat would be connected with every other one. This will take another 1000 miles and when completed the State System will consist of 7000 miles of roads. Not a dollar of bond money has been spent for office forces or engineering. Every cent has gone into construction. Furthermore, we have got abroad the idea that it is fair to tax the rich counties for the poor. More than half of the counties have paid out more than was returned to them."

No tax system yet devised by man has ever been perfect. North Carolina's system is no exception. This state has taken the chance and pioneered in bold

reform. The people of the state demanded reform. They got it. Up until the present they seemed to be pleased with it. They have been demanding the best of permanent improvements, the best of educational facilities, and really the best of everything. They are getting these and the more they get the more they want. Progress, unlimited progress, is the cry of the day. Herein lies the danger in North Carolina.

There is some sentiment developing for a constitutional amendment limiting the amount of State indebtedness. This is bringing people to the realization that future expenditures must be carefully made. Everyone practically feels satisfied with what he has received for his money. This condition may change if the spirit of progress as represented by material improvements is not dampened somewhat.

There are those who do not think "all is gold that glitters" and ^{who so think} that much of North Carolina's "boom" is superficial. The voices of these must be listened to. Their words must be weighed for there is the possibility that among the crew there may be one who prepares for a stormy sea while the water is still calm and the going is good.

At the present time there is much discussion of North Carolina's tax system because of some unsatisfactory conditions but principally because of the approaching primary election for Governor. Much of this discussion started as the result of a heated debate between Governor Cameron Morrison and A. J. Maxwell, fiscal expert of the State, as to what the status of the State's finances were on December 31, 1922. Governor Morrison claimed for the State a surplus of approximately \$5,000,000. Mr. Maxwell claimed a deficit of this amount existed. At considerable expense to the State auditors of national reputation were secured to draw up a balance sheet of the State's affairs. The report of the auditors did not settle the dispute by any means. The balance sheet shows that the State's obligations on December 31, 1922 exceeded its resources on the same date making a deficit of \$477,194.75. Under obligations against the general fund there was included by the auditors a note of \$710,000 issued by the extra session of the legislature of 1921 to care for an accumulated deficit in the special school funds of the State when the method of financing the public schools was changed. It seems not to have been intended

... of the Government. It is not the purpose of this report to discuss the merits of the various proposals, but to point out the need for a comprehensive study of the problem. The Committee believes that such a study is essential for the Government to make an informed decision on the matter. It is recommended that the Government should appoint a committee to study the problem and report back to the President within a reasonable period of time. The Committee also believes that the Government should take steps to ensure that the public is kept informed of the progress of the study and the results of the study. It is recommended that the Government should hold public hearings on the matter and publish the results of the study in a report to the President. The Committee believes that such steps are necessary to ensure that the Government is making an informed decision on the matter and that the public is kept informed of the progress of the study and the results of the study. It is recommended that the Government should take steps to ensure that the public is kept informed of the progress of the study and the results of the study. It is recommended that the Government should hold public hearings on the matter and publish the results of the study in a report to the President. The Committee believes that such steps are necessary to ensure that the Government is making an informed decision on the matter and that the public is kept informed of the progress of the study and the results of the study.

by the legislature that the note should be charged against the general fund, but the auditors so treated it. If this note is not included, the State on December 31, 1922, had according to the auditor's report a surplus of resources over obligations amounting to \$252,805.25.

This statement of the auditors, like any similar statement of the condition of any corporation, can be interpreted from two different points of view, which again go back to two different policies as to how a state should be financed, namely the pay-as-you-go policy and the accrual policy. It is important, in judging North Carolina's tax policies and financial condition, to keep clearly in mind these two different policies. To discuss the relative advantages of these policies would be a subject of itself.

The latest information regarding the deficit appeared during April 1924 when the Secretary of the State, W. H. Everett, "one of the staunchest supporters of the administration, tells newspaper men that a deficit of three million dollars will be found in the treasury at the close of the current calendar year."

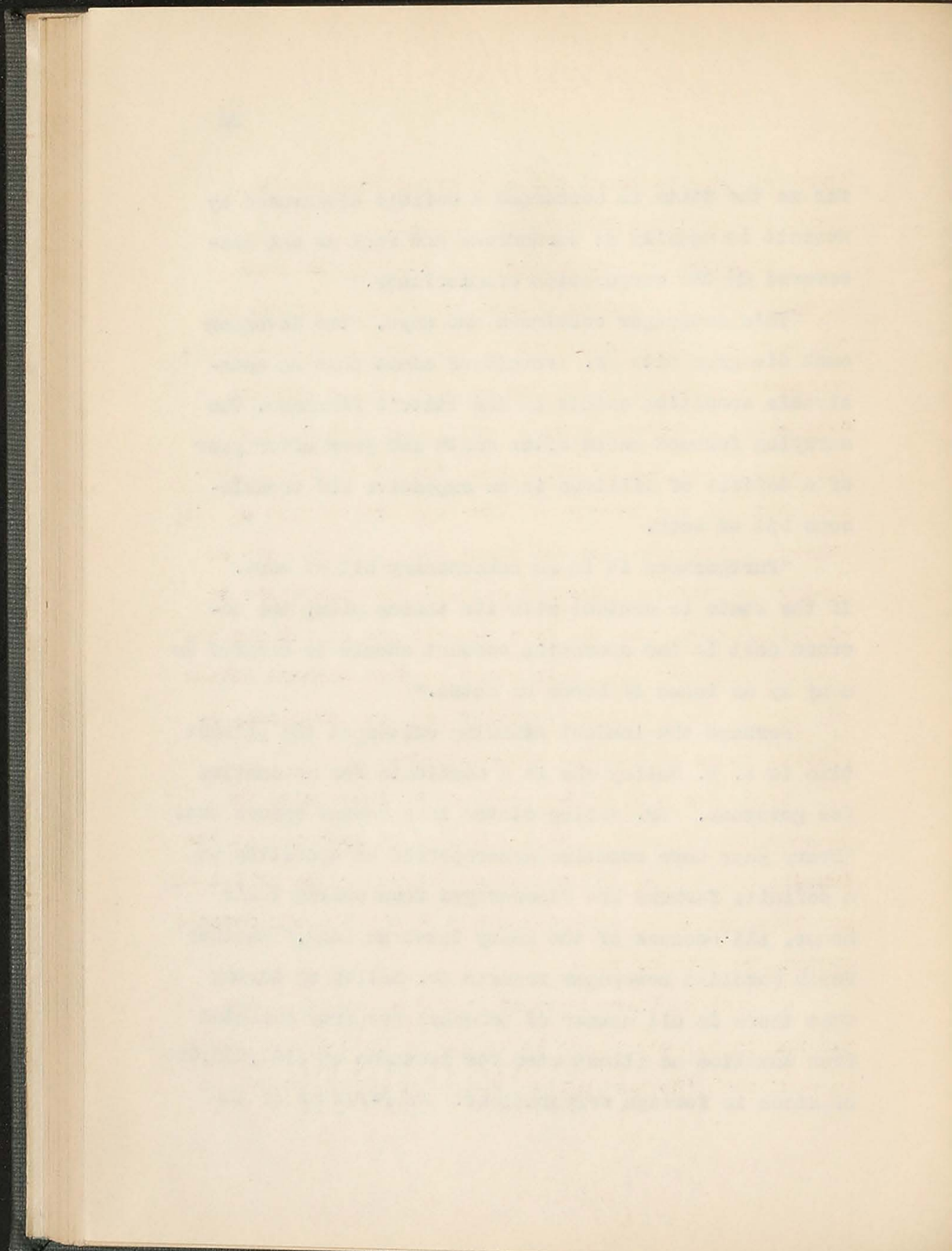
The newspaper making this statement says "nothing further will be said about the Maxwell deficit, but as

far as the State is concerned a deficit discovered by Everett is equally as burdensome and real as one discovered by the corporation commissioner."

This newspaper continues and says, "the Governor must disagree with Mr. Everett or admit that an undesirable condition exists in the State's finances. The carrying forward month after month and year after year of a deficit of millions is an expensive and troublesome bit of work.

"Furthermore it is an unnecessary bit of work. If the State is content with its taxing plan, the accrued debt in the operating account should be cleared away by an issue of bonds or notes."

Perhaps the loudest sounding critic at the present time is J. W. Bailey who is a candidate for nomination for governor. Mr. Bailey stated in a recent speech that "Every year more counties are reported as operating on a deficit; farmers are discouraged from owning their homes, all because of the heavy taxes on land." Another North Carolina newspaper reports Mr. Bailey as saying that there is all manner of personal property exempted from taxation as illustrated for instance by \$100,000,000 of stock in foreign corporations. Four-fifths of the



taxes on such personal property heretofore assessed now falls on the land holders, he said.

The State has taken over too much of the taxable sources and has thereby placed too great a burden on the home and farm owners for it is the taxes from these two sources that pay for the support of the county, city administration, schools and roads (other than highways), Mr. Bailey asserted. The State should give back some of its revenue or else relinquish some of its sources of taxation to the counties. It would not be asking too much, the speaker claimed, for the State to give \$8,500,000 for the free schools and so relieve the land to that extent. This could be done without taking any funds from any State institution, he explained, by placing taxes on foreign corporations.

Other funds could be obtained by increasing the taxes on the franchise of railroads, an increase in the inheritance taxes, and the establishment of an efficient and thorough going administration of the State's revenue system, he pointed out.

It must be borne in mind that Mr. Bailey is the man who is out and wants to be in. It must also be borne in mind that the question of the exemption of stock in

foreign corporations is a two-sided question.

Mr. A. W. McLean, candidate for governor, in a speech at the University of North Carolina recently told his hearers that there are some defects and inequalities in the administration of the tax laws as applied to land and personal property. For example, some lands are valued too high for taxation; for another example, a considerable amount of land and personal property is not upon the tax books; for another, local taxes levied for the six months school term are not generally uniform in the various counties, and taxes upon land and personal property are too high in some of the counties, he said.

With these defects eliminated, which undoubtedly can and will be done by the Democratic authorities, stated Mr. McLean, the tax system will be without serious objection.

Again it must be borne in mind that it is a candidate for governor who is speaking.

A more significant criticism and discussion of the tax situation is that of ^{former} Senator Earl A. Humphrey, of Wayne, the author of the Revaluation Act of 1919. He came to the legislature nearly six years ago with but

one piece of legislation in mind. He introduced the first revaluation bill, ~~he~~ having carefully surveyed the revision of the tax system prior to any movement in official quarters. His bill was introduced soon after Governor Bickett's 1919 message to the law makers but it was never passed as he wrote it.

"I have regretted many times since," he says now in the first public statement he has made since the law was put on the books, "that I did not raise more hell at the time."

It must be borne in mind even in this case that Mr. Humphrey did not get his bill across in just the form he wished and that furthermore he is the third possibility for the Democratic nomination for governor.

After asserting that the Revaluation Bill "was never enacted into law as originally drafted and introduced in the legislature," Senator Humphrey says that the act as finally adopted "became more of a burden than a relief or a permanent source of revenue."

He offers four proposals:

1. That the State segregate solvent credits from real estate and tangible property and levy a tax of 50 cents flat on the hundred dollars valuation. Such a law recently adopted in

Maryland, he says, put \$250,000,000 of taxable solvent credits on the books where there had been less than six million.

2. Permit the taxpayer to deduct his indebtedness from the assessed value of land and real estate. To require the payment of a tax on liabilities is "unfair, unjust and unscientific" and discourages home ownership.
3. Restore the individual, or poll, tax and raise the rate to \$5 or even \$10 per capita. The author of the original revaluation bill says "this is the fairest tax there is if levied upon a sufficient number of persons, of both sexes." He estimates it would yield from \$5,000,000, 00 to \$10,000,000, 00 annually in revenue if rigidly enforced.
4. Reduce the personal property exemption from \$300 to \$100. "From close observation and experience," Senator Humphrey says, "I am convinced there is no sound reason why, during this period of excessive tax rates, there should be an exemption so high. I believe more than 85 per cent of the taxpayers of the State

now take advantage of this exemption."

He would have the poll tax start at 18 so that the young man and young woman after studying the science of government would naturally fall interestedly into the problems of citizenship.

"Hand in hand with any constructive program the legislature should provide a mandatory, flexible system of practical and efficient county government for the successful administration of the revenue and tax system. Get rid of the antiquated form of a board of county commissioners.

"There is no salvation from any of the many human problems without real thinking and just now a little real thinking may produce some intelligent action. In no other way can we secure the blessings which belong to us under a democratic form of government."

There is so much that might be considered under the subject of this thesis that it is hard not to delve into phases of it which would lengthen the discussion too much. It must not be overlooked that North Carolina is not approached by any State in the South in the per capita production of new wealth, and in 1922 only seven states of the Union stood above

her in the total annual output of new wealth.

In a single year North Carolina created more than a third as much wealth as had accumulated on the tax books in 250 years. North Carolina is paying back the eight million dollar agricultural loan of the War Finance Corporation faster than any other state in the Union as the result of her great increase in farm wealth produced in the state which totalled in 1922 twice the total of 1910. In the past few years there has been no time when unemployment has been a serious problem in North Carolina as in the great industrial areas north and east and in the boll weevil states south. The bank resources of the State are tremendous. The State paid one hundred and twenty-two million dollars into the Federal Treasury in 1922 as taxes on profits, incomes, and inheritances. For the nine months ending March 15, 1923 this State paid into the Federal Treasury nearly \$84,000,000 more than any other southern state.

What has all this to do with taxation? This question is easily answered and it is obvious that many things go together to make up a state and a good tax system is rather a reflection and a result than a

picture or a forecast.

The North Carolina Budget Commission report to the General Assembly for 1923 stated: "At last North Carolina is establishing her State institutions of charities and corrections, higher learning and technical training, on a basis of adequacy. Which is to say, North Carolina is at last minded to base her future on the intelligence, the skill, and the character of her people. It is these alone that can make a state great. The steadfast belief of North Carolina in herself is far more important than the applause of listening multitudes in other states."

It is difficult to draw definite conclusions from the situation in North Carolina today. The North Carolina taxpayer gets more for his money than does the taxpayer in any other state, and especially is this true of the man who pays only a property tax. Government is cheap in North Carolina.

The question of whether the State should operate on the cash or on the accrual basis is a question of public policy, altogether apart from an analysis of the facts which it has been the intent of this discussion

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to present. The question of the proper basis for financial operation, however, should not be confused with the question of the soundness of the State's financial condition on the basis which it has adopted. It is very important that these issues should be kept separate in the public mind.

The fact that the tax burden per unit taxed, regardless of what that may be, has increased very rapidly in North Carolina must not be accepted at face value without consideration of the previous situation when taxes were levied far below what might be termed fair rates. The Revaluation Act went far toward rendering the previous situation and listing the taxable resources of the State on a fair basis.

It is not necessary to discuss the road program. It is approved by the sovereign people. The benefits are universally recognized.

The State Constitution should be amended limiting the power of the State to contract indebtedness. However, it is not the volume of the debt that is of serious concern, but the purposes for which bonds are issued, and the terms on which they are sold. The most economic way to secure desirable permanent improvements is through

It is a very common mistake to suppose that the
theology of the Middle Ages is a mere repetition
of the ideas of the Fathers. In fact, it is a
new synthesis, a new system of thought, which
is the result of the combination of the ideas
of the Fathers with the ideas of the philosophers
of the Middle Ages. The Middle Ages is a
period of great intellectual activity, and it is
in this period that the great systems of thought
of the Middle Ages were developed. The Middle
Ages is a period of great intellectual activity,
and it is in this period that the great systems
of thought of the Middle Ages were developed.

the sale of bonds at fair interest charges, and the retirement of the bonds distributed over the period of usefulness of the improvement. If improved roads, streets, school buildings and the like, are wanted there is no other way to get them, for to attempt to erect permanent improvements on the pay-as-you-go basis would not only reduce the investment capital but would put into force a tax burden that would be unbearable.

The tax problem in North Carolina is not the burden of taxation, but the unequal distribution of the tax burden borne by property. Therefore, the problem is ~~the~~ really one of county and municipal taxation. Thousands of people pay more than their just share of taxes, while additional thousands fail to share their just part of the cost of government. These are matters for local authorities to handle and to adjust and they can be settled properly only if the people are willing to adjust them.

In some counties the tax rate on property is higher perhaps than it ought to be but there is no county in the state in which the total tax on property comes even near approaching the average rate for

all the states of the Union. The highest rate in North Carolina was \$2.10 in Currituck County, while the average for the United States was \$2.81 per \$100 of assessed value.

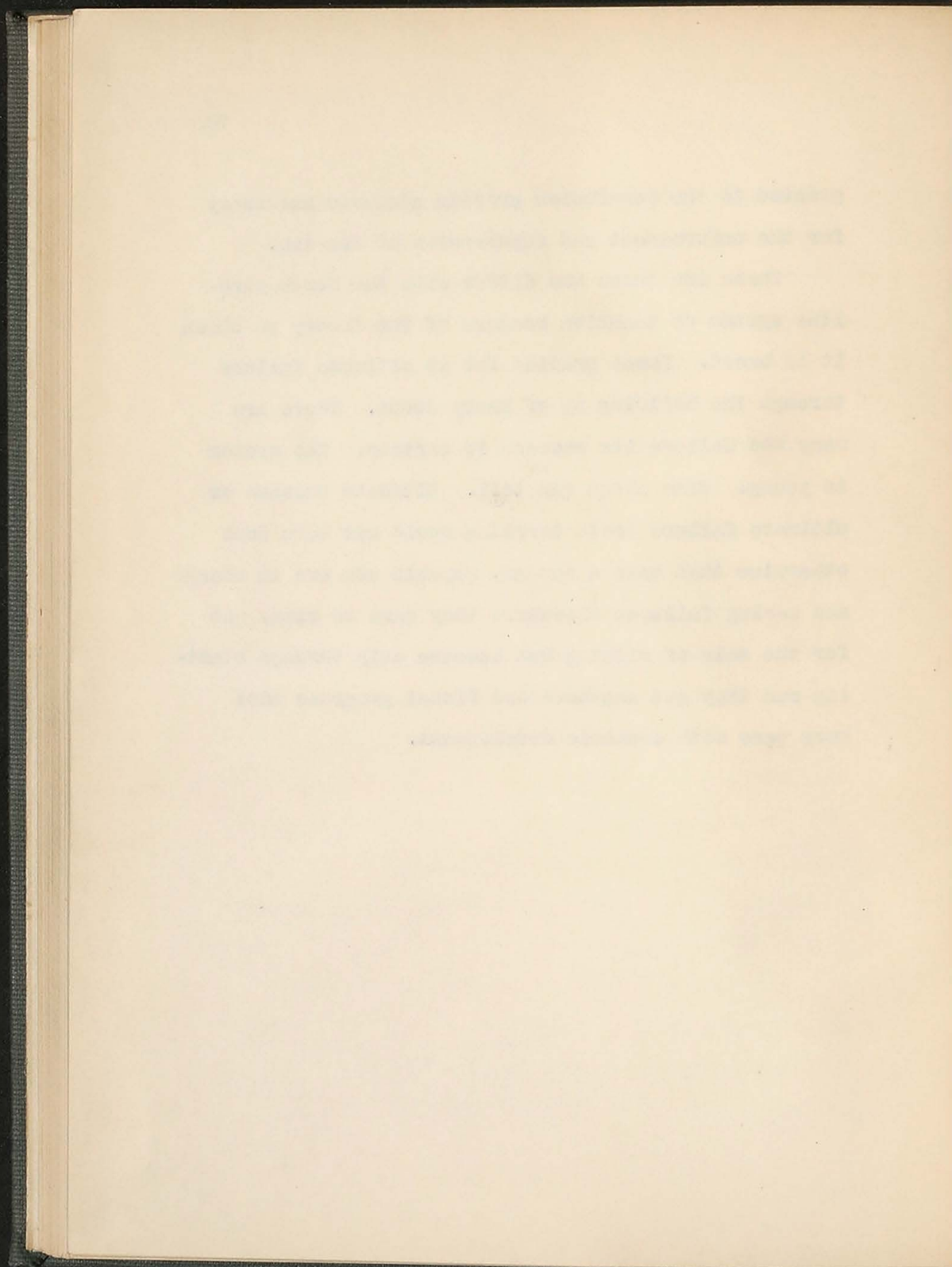
Treating this as a problem consideration must be given to the fact that even then property is taxed at a lower average rate in North Carolina than in any other state. Yet there are many states doing less for its citizens and charging more for the lesser service they give.

Perhaps, if one or two particular conclusions are to be drawn, the chief weakness lies in the policy of separation of the sources of revenue which may result in a strong tendency toward the expansion of expenditures to a point in excess of revenues. Whether this condition actually exists now or not cannot be settled at the time of writing because of the heated discussion in the State and the fact that the information is not available.

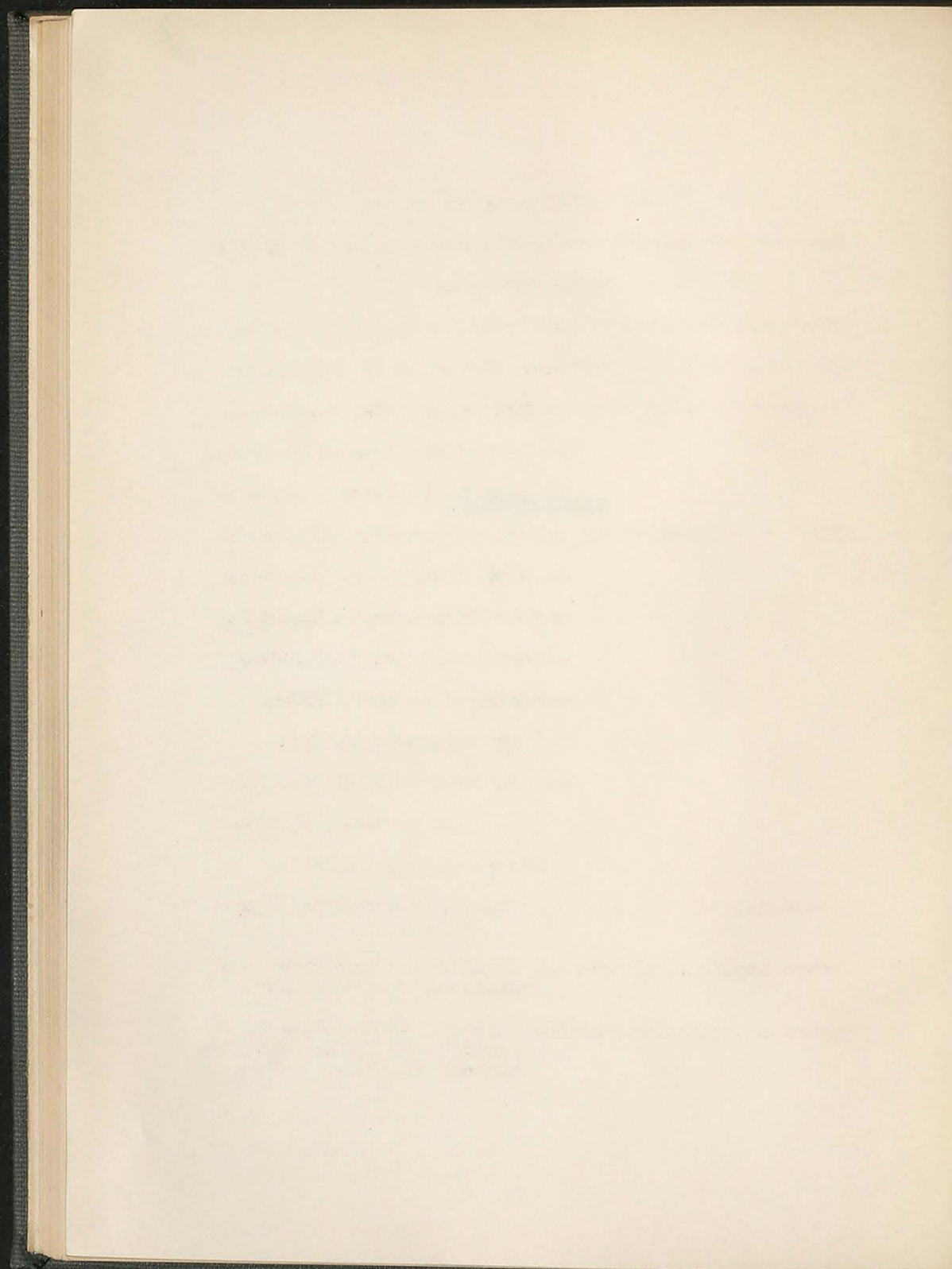
The strongest feature of North Carolina's tax system which points toward success for it is the great responsibility and authority which are placed in the Corporation Commission. The practically unlimited powers

granted to the commission provide adequate machinery for the enforcement and supervision of the law.

There are those who differ with the North Carolina system of taxation because of the theory on which it is based. These predict for it ultimate failure through the building up of heavy debts. There are many who believe its success is certain. The system is young. Time alone can tell. Ultimate success or ultimate failure North Carolina could not have done otherwise than make a change. Capable men are in charge and seeing failures elsewhere they dare to risk, not for the sake of risking but because only through staffing can they get anywhere and fiscal progress must keep pace with economic development.



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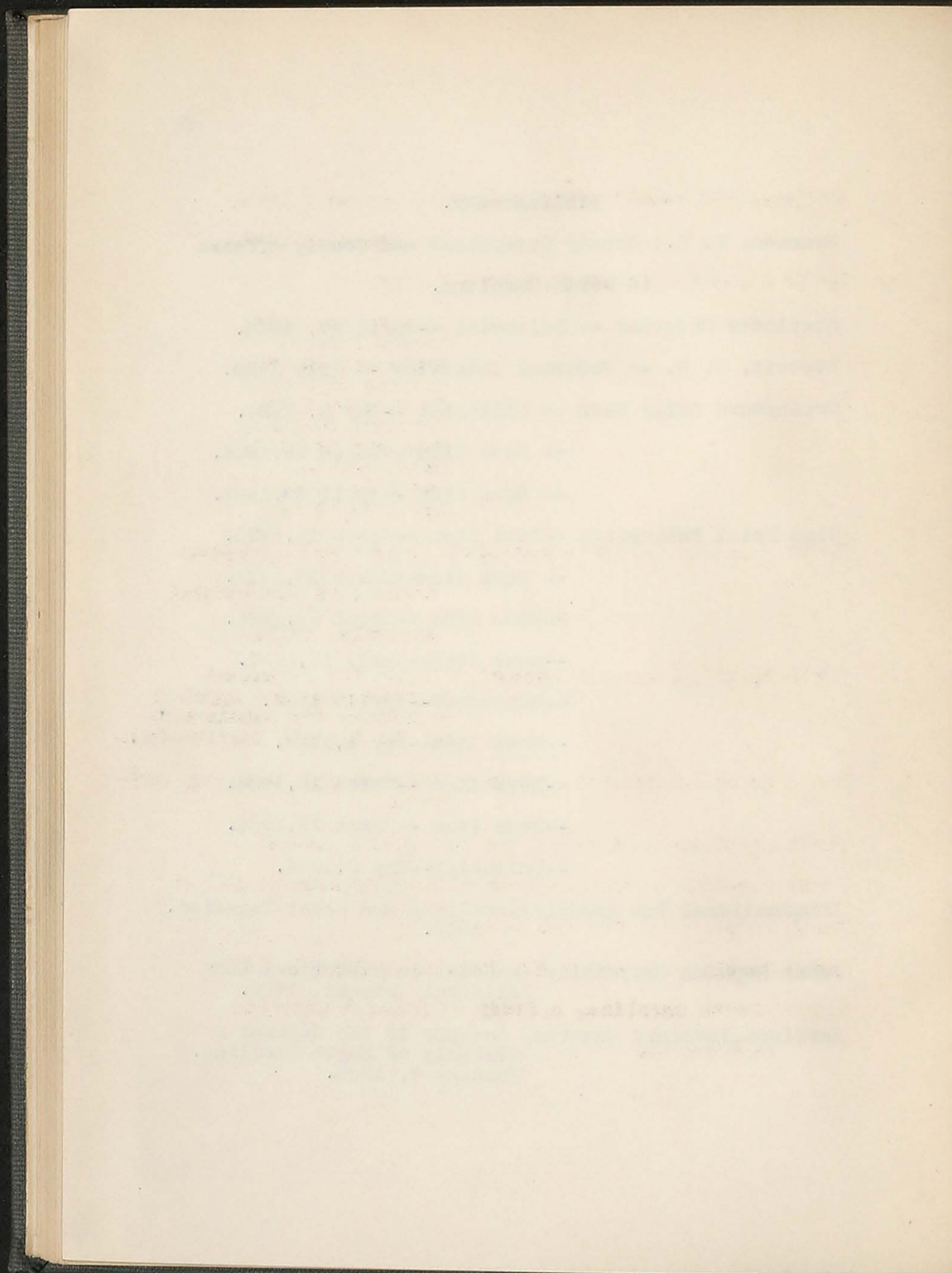
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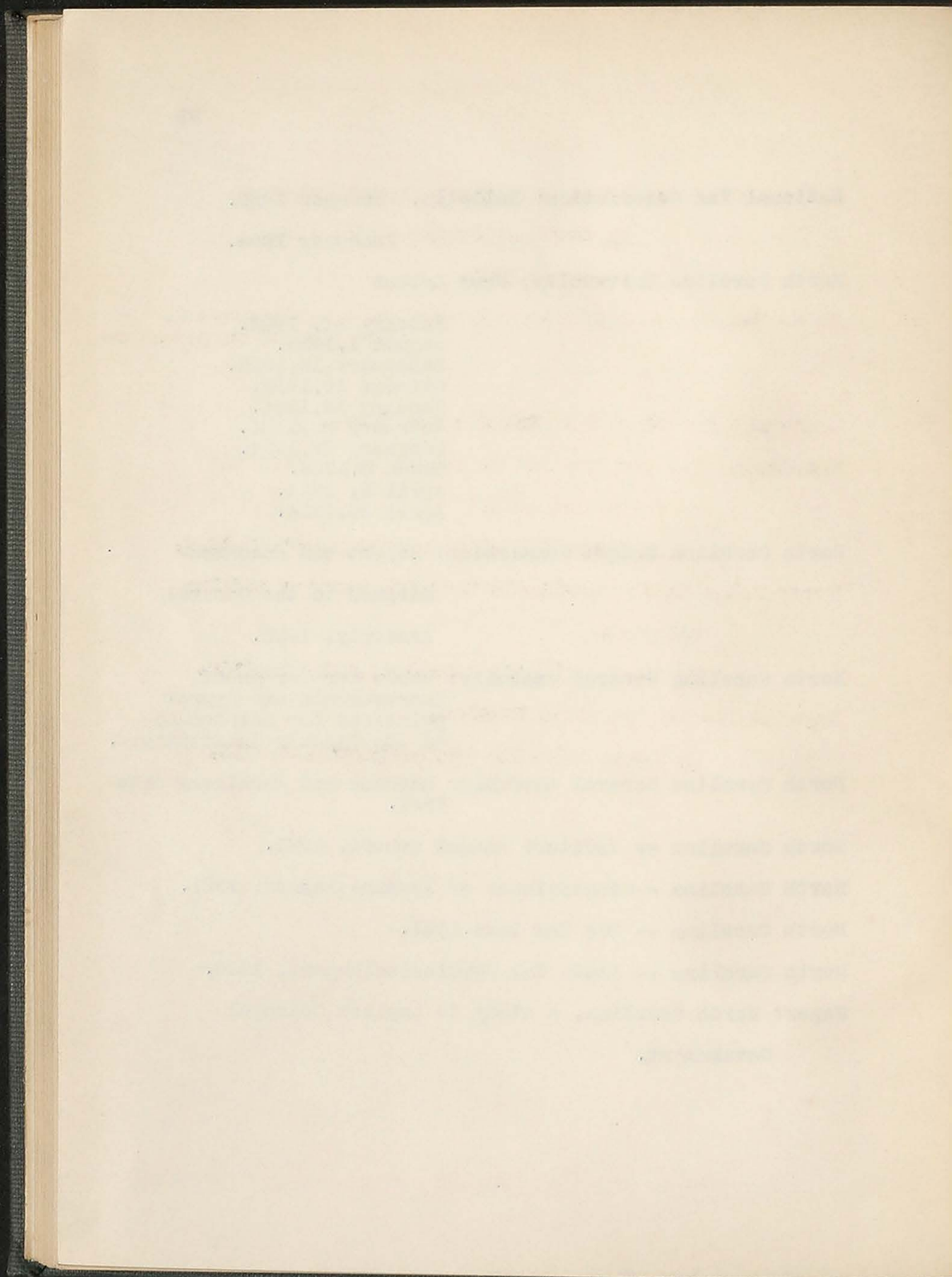
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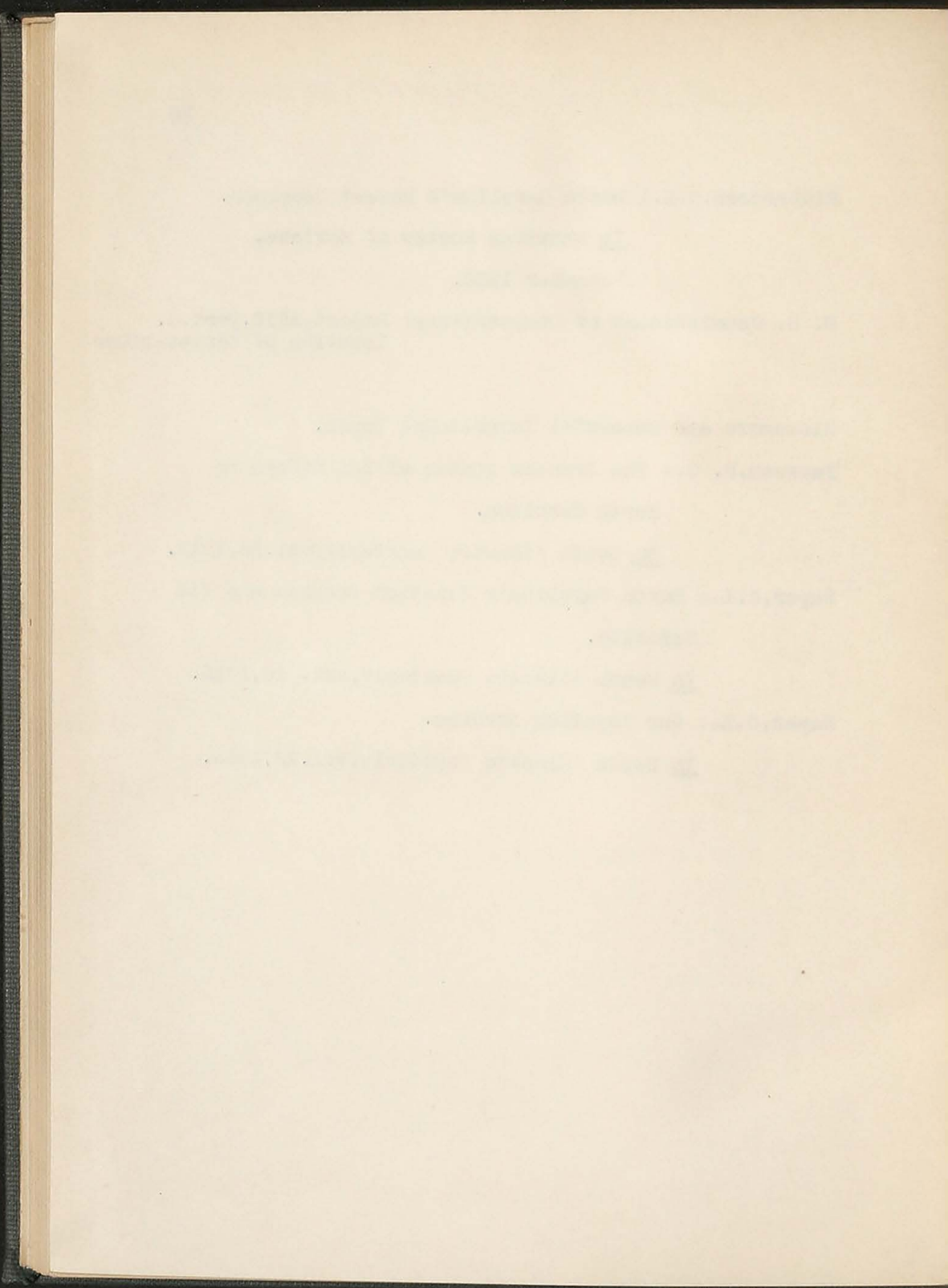
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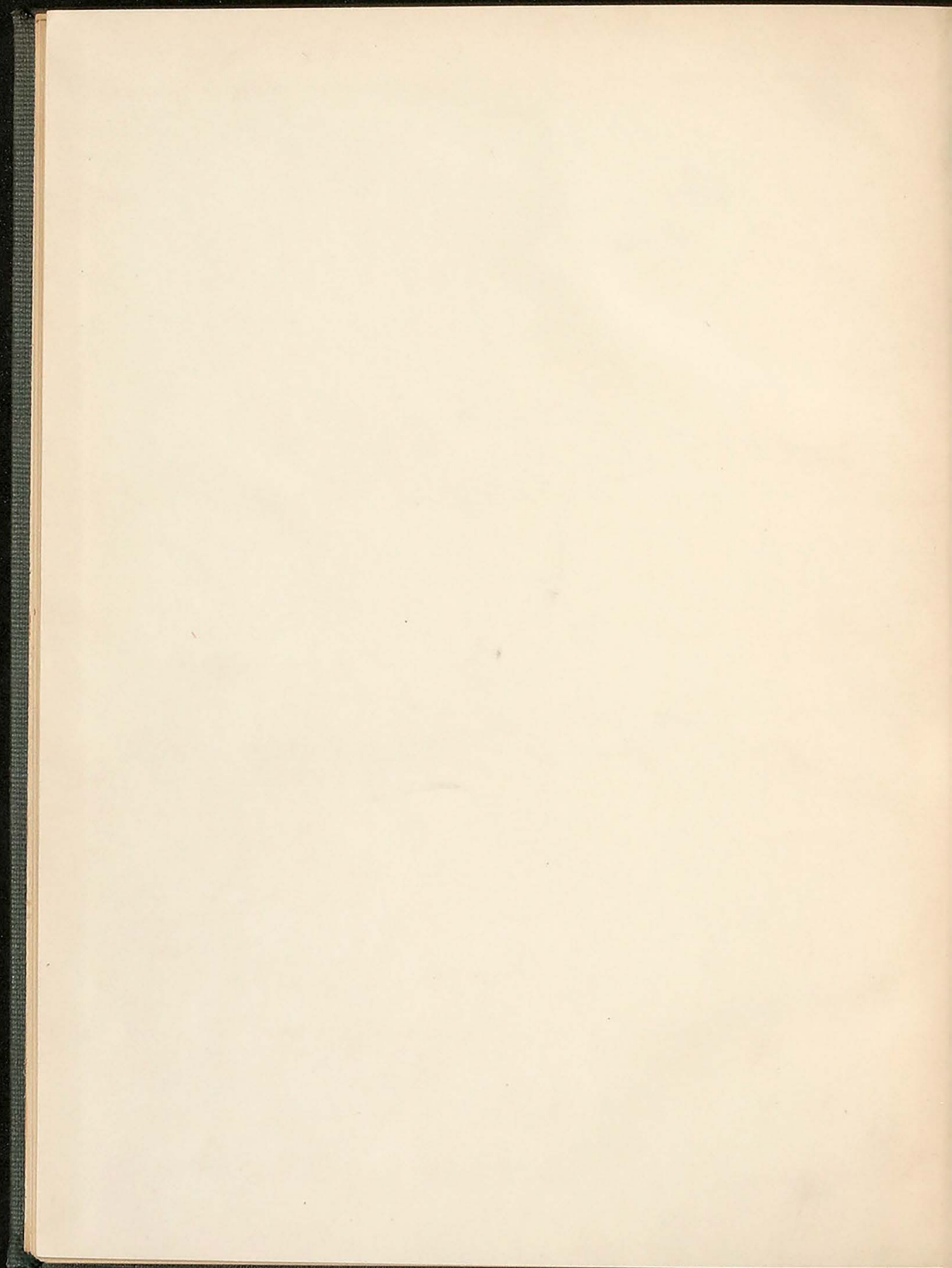
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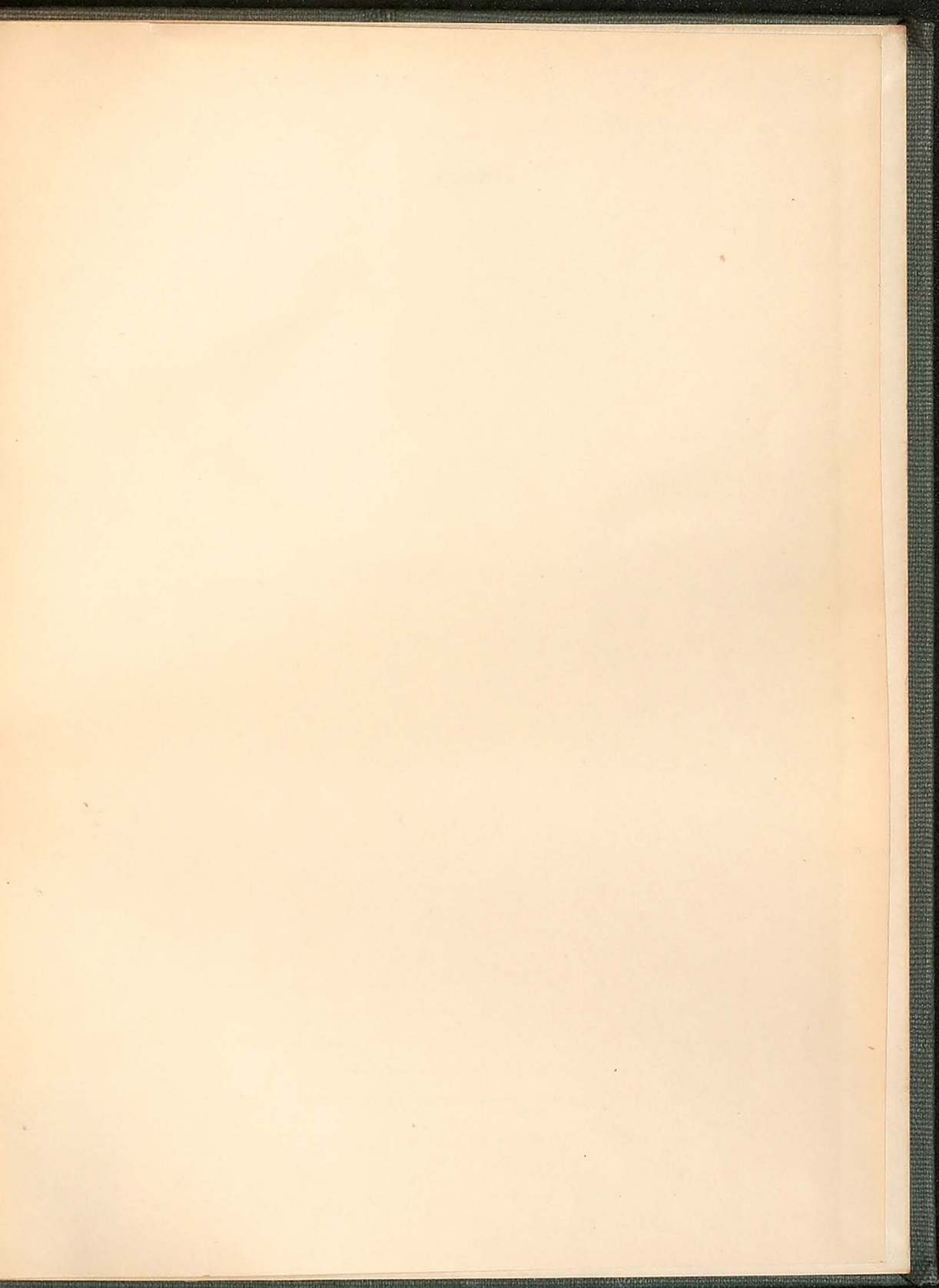
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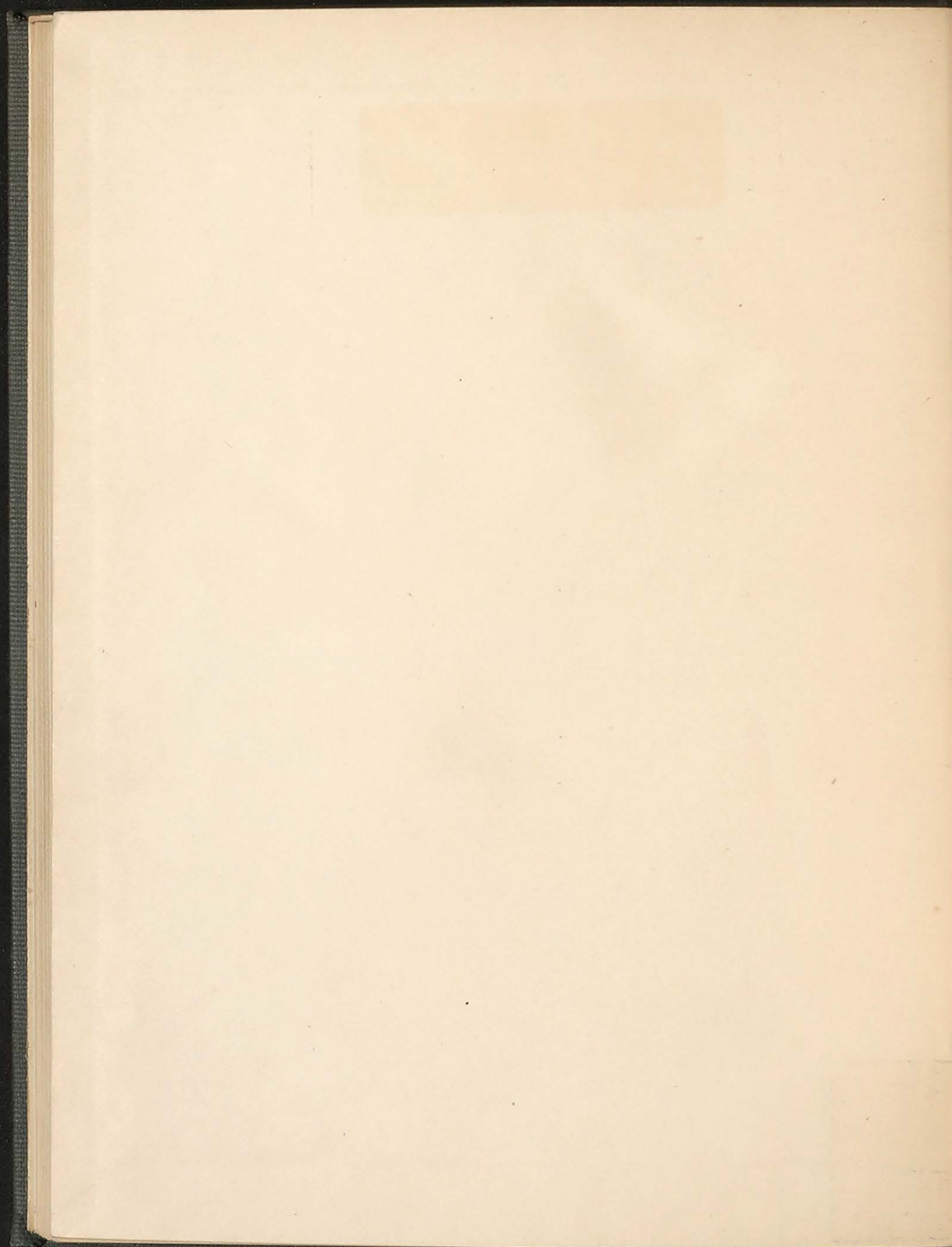
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