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PROGRAM FOR TAX STUDY CLUBS

VI. LIMITS OF TAXATION AND INDEBTEDNESS

A. Outline

1. Constitutional Limits for the State:
Property tax—five cents. No levy at present.
Income tax—six percent. Present maximum—five percent.
Indebtedness—7½ percent of taxables. Present debt \$105,874,600 (Aug. 1, 1924).
2. Constitutional Limits for the County:
a. Property tax—fifteen cents if no State levy.
May exceed this limitation for necessary expenses with legislative approval.
May exceed this limitation for unnecessary expenses with legislative approval and majority vote of people.
May exceed this limitation to defray expenses of six months' school.
b. Poll tax—two dollars.
May exceed this limitation until obligations incurred under the equation principle are liquidated.
c. Indebtedness—five percent of taxables.
3. Constitutional Limits for the City:
Poll tax—one dollar.
Indebtedness—8 percent of taxables.
4. Present Indebtedness:
State debt.
Year county debt. All the counties.
Your city debt. All the cities.
5. Present tax levy:
In your county. Purposes for which levied.
In your city. Purposes for which levied.
6. Limitations, general discussion:
The Limit of Sound Credit.
The Limit of Maximum Yield.
The Limit of Maximum Efficiency.
The Limit of Endurance.

B. Explanation

The North Carolina State Constitution limits the total state and county tax on property to fifteen cents on the one hundred dollars value of property, but with several provisos: (1) This limitation shall not apply to taxes levied for the maintenance of the public schools of the state for the constitutional term, which is now six months. (2) The county commissioners may exceed this limitation for a necessary expense by obtaining legislative consent either by general or special act. (3) The commissioners may exceed the limitation even for an unnecessary expense if, in addition to legislative approval, the proposition is submitted to the people and receives a majority of the qualified vote. The courts have a right to say what are necessary expenses. County bonds not issued for necessary expense, but authorized by legislative act and popular vote, are valid. (4) The state levy on property is limited to five cents. It is the present policy of the state government not to levy any tax on property, leaving it exclusively to counties and municipalities. For many years there was a constitutional equation between the property tax and the poll tax, which had to be observed in levying general taxes for state and county purposes, in that the poll tax should be equal to the tax on \$300 of property and should not exceed two dollars; but this was changed by an amendment in 1917, fixing the poll tax at two dollars for counties and one dollar for municipalities. Three-fourths of the proceeds of the poll taxes are to be applied to education and one-fourth to the support of the poor. In some counties the poll tax will exceed two dollars until obligations incurred before 1917 are liquidated.

An amendment passed in 1924 limits the amount of public debt which the state may incur to seven and one-half percent of the assessed valuation of taxable property within the state. Cities are limited to eight percent of their taxable wealth.

It is possible for a taxing unit to keep within constitutional limits of indebtedness and yet not keep within the limits of a sound credit. It is not alone the amount of indebtedness that must be considered but what there is

to show for the expenditure. A county that floats a \$500,000 bond issue to build roads and bridges is better off than another county that floats \$100,000 to fund an accumulated deficit. It is a maxim of sound business that current revenues be sufficient to meet current expenses. A permanent improvement may properly be paid for through a bond issue, provided the retirement of the bonds is completed during the lifetime of the improvement.

With the legitimate demands of modern government multiplying so rapidly it is impossible for the taxing authorities to keep the levy as low as it used to be. Intelligent citizens should consider not alone the amount of the levy but the return thereon in governmental service. Nevertheless there is a limit beyond which the levy should not go. There is a point beyond which every increase yields a diminishing return. There is a point beyond which a state cannot go without undermining the morale of the state. Just as in private life there are luxuries which are worth all they cost to only those who can afford them, so there are governmental services which are worthy but which not all can afford.

C. Questions

Compare the county tax levy on \$100 of property in 1922, 1923 and 1924.

How will the 1925 levy be determined?

To what extent is there a constitutional limit?

How is the poll tax determined?

What is the present county indebtedness? State indebtedness?

What is the constitutional limit of indebtedness for each?

To what extent is your county debt bonded?

How was the debt incurred?

Is a large floating indebtedness desirable?

What portion of the county taxes goes for interest on indebtedness?

What portion is applied to retire the indebtedness?

Discuss the advantages of a "pay as you go" policy.

What do you consider the limit of sound credit? Has it been exceeded in the State? In your county?

Is it possible for a tax to exceed the limit of endurance? Is it likely to occur?

Is a levy that yields the most revenue necessarily the levy of maximum efficiency?

Does doubling the levy double the revenue raised? Why, or why not? Would reducing the levy by half reduce the revenue raised by half?

(For a study of city taxes the word "city" may be substituted for the word "county" in the above questions.)

D. Sources of Information

Consolidated Statutes, sections 1297, 1291 (a), 2677—2679.

North Carolina Constitution, Art. V, sections 1-5, Art. VII, section 7.

A. C. McIntosh, County Government in North Carolina, pamphlet reprinted from National Municipal Review, February, 1925. Write Department of Rural Social Economics, Chapel Hill.

Issues of the News Letter carrying studies on Bonded Debt and Tax Rates. —Paul W. Wager.

LOCAL TAXATION FAULTY

Taxes levied locally for purposes of more than local scope tend to increase the unfair tax burden on agriculture. This is true of school taxes. Education is necessary to the proper development of society as a whole, and many states lay down requirements fixing minimum school terms and minimum salaries for teachers. Courses of study and training standards are prescribed. Yet the cost of maintaining these state-made standards is left mainly to local school districts. In a similar manner taxes are raised locally for roads used perhaps more for general traffic than for local traffic.

This is a difficulty which will increase rather than decrease unless something is done about it, according to the United States Department of Agriculture. Tax studies just completed by the department show that in many states a heavy burden of taxation on farmers has been

MAKE IT SATISFYING

It is just as important to make farm life more satisfying as it is to make farm business more profitable. In fact, as Dr. Thomas N. Carver has reminded us:—

"Paradoxical as it may seem, it is a matter of actual observation that the sections of the country where the land is richest, where crops have been most abundant, where land has reached the highest price and the farm owners attain to the highest degree of prosperity, are the very sections from which the farm owners are retiring from the farms most rapidly and leaving them to tenants."

So it is that after the financial problems affecting the farmers have been solved, we yet have to attack—or rather we should say that we must attack along with the financial problems of the farmer—the problem of rural education and rural social and community life or culture. United States Commissioner of Education John J. Tigert has wisely declared, "The greatest need in education in the United States today is a square deal for the country child," and points out that the average expenditure each year for the city child is \$40.59 against \$23.91 for his rural brother. Urban schools are open 182 days a year on the average, against 142 days for those in the country, and the average city teacher receives a salary of \$864 against \$479 for the rural teacher. We shall have no real democracy until we recognize that the child in the country districts is just as much a child of the state as the child in the city, and that so far as education is concerned, the wealth of the whole state must be put equally at the service of both country children and city children. —Clarence Poe.

added by what amounts to local taxation for state purposes. Theoretically, the area taxed for any particular purpose should be the same as the area benefited by the expenditure for which the tax is raised. In practice the line between local and general benefits can hardly ever be drawn with precision. When the division is much out of line the burden of taxes for general or state purposes is unfairly distributed.

Numerous violations of the principle that state-wide functions should be supported by state-wide taxes are pointed out. Trouble arises from the fact that when a tax for a state-wide purpose is levied in different districts at different rates, the tax may be fair enough within each district, but distinctly unfair as between districts.

Education is admittedly a social function, the benefits of which are not restricted to the area or even to the state or the country in which it is given. It is therefore obviously unfair to burden farm property or rural occupations with higher school taxes than other sources of tax revenue have to bear. This would be the case if there were an equal interchange of population between the city and the country. It is the more unfair since the movement of population is from the country to the town. City men have more than a passing interest in the education of the country boy or girl, even if only from an economic standpoint, since they recruit their help in part from the cityward flow of population. They are not likely, says the department, to object to the principle that education should be as good in the country as in the city and that its cost should be fairly distributed.

Local taxation for the support of both roads and schools is faulty because it rests on a division of states into more or less arbitrary districts which are unfitted for purposes of finance. In many sections the separate taxing units are not separate districts at all. They are merely parts of larger communities scattered around towns and cities. Logical separation is possible only in minor matters. In economic and social problems, responsibilities are interdependent. Attempts to maintain separate financial relationships in such circumstances fly in the face of the natural organization of society.—U. S. Department of Agriculture Press Service.

RURAL ELECTRIC POWER

V. BENEFITS OF STORAGE ABOVE DAMS

This is an extremely important point to which sufficient attention is often not given. Let us say that a stream flows 11 cubic feet per second of water and a 20 foot fall is available. By the formula given in the second article, H. P.

$$Qh = 11 \times 20 = 220. \text{ Then } 220 \div 11 = 20 \text{ h. p.}$$

h. p. wheel could be installed and would produce 20 h. p. day and night. But in most rural communities there is practically no demand for power at night, and the water would run to waste for at least 12 hours. If we can catch this night flow in a pond and keep it until the next day, we may then develop 40 h. p. for 12 hours in the day time, and a 40 h. p. wheel should be installed.

A Big Pond Best

Again let us suppose that a dam is built so that the pond above it will hold considerably more than the low water flow of the stream. We will suppose the pond to be full. A dry period comes on and our stream flow instead of being 11 cubic feet per second is only 5 cubic feet per second. In the first place we cannot develop 20 h. p. with our 20-foot fall because we have water enough only to make

$$5 \times 20 = 100 \text{ h. p. at } 80 \text{ percent efficiency.}$$

Moreover, our wheel operates at best efficiency only when using in the neighborhood of 11 cubic feet per second, and therefore we can probably only develop from 7 to 8 h. p. with the 5 cubic feet per second that is flowing. This will not drive our machinery. But if the pond has filled up previous to the dry period, we may begin to use this stored water to make up the deficient stream flow to somewhere near our 11 cubic feet per second that we need.

The bigger the pond the longer the dry period we may tide over by drawing water from it. There is therefore a great advantage in having a big pond above the dam. Where such a pond is possible, the turbine water wheel is best adapted for use, because as we

draw on the pond the water level is lowered and the fall which our turbine uses is less. The turbine can operate fairly well until the water level falls to 75 percent of the total fall originally designed for.

Placing Flood Gates

In planning to create a pond behind a dam due regard should be had to the filling up of the pond with silt, in which case all the value of storage is lost. This has happened at many small power developments in the state. When the dam is built, large rectangular gates at least 6 square feet in area should be constructed and arranged so that they may be opened in times of moderate flood and thus allow the silt and mud to be scoured out. The placing of these gates where they will be most effective requires good judgment. They should be so located that they are in the path of the swiftest current during floods. Do not put the gates in the middle of the dam with no way to open them in flood.

The importance of storage increases with the number of persons served with power from the development. For a single farm, an overshot wheel may produce all the power that is needed. When dry periods occur it is not a matter of much consequence for a single farm to go back to kerosene lamps for a few days or weeks, or to give up using the electric iron or toaster, etc. But if a small community is being supplied with power, a more reliable and constant flow of electricity is demanded. Then in dry periods we must either (1) have enough water at minimum stream flow to meet the power demands, (2) have sufficient stored water to tide us over until rains increase the stream flow to normal, or (3) have an auxiliary source of power such as a gasoline, oil, or steam engine. It is evident that method (2) is greatly preferable and usually cheaper than method (3). The relative costs of these methods will be considered in the next article.—Thorndike Saville.

FEDERAL INCOME TAX RETURNS, 1923

Number of Personal Returns and Inhabitants per Return

The following table, based on Statistics of Income, Treasury Department, and the Census estimates of population for 1923, ranks the counties according to the number of inhabitants per Federal income tax return filed for the income year of 1923. The accompanying column shows the number of returns filed by each county.

New Hanover leads in inhabitants per return made, with one return for every 11.4 inhabitants. Mecklenburg leads in total returns filed, with 6,782. Clay ranks last, both in inhabitants per return, 980, and in total returns, 5. The urban counties lead, while the excessively rural counties pay very little income tax. For instance Mecklenburg filed more returns than the 50 counties combined appearing in the second column, more by 332! The eight counties which lead in the table filed more returns than the other 92 counties combined. State average, one income tax return for every 39.4 inhabitants. Only 20 counties rank above the State average. These 20 counties filed 63 percent of the income tax returns reported for 1923. Total returns filed, 68,191.

S. H. Hobbs, Jr.,

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Rank	County	Number Income Tax Returns	Inhab. per Return	Rank	County	Number Income Tax Returns	Inhab. per Return
1	New Hanover	3820	11.4	51	Caldwell	250	82.0
2	Mecklenburg	6782	12.6	52	Martin	255	85.9
3	Buncombe	4725	14.7	53	Rutherford	360	90.3
4	Guilford	5789	14.8	54	Swain	155	91.6
5	Edgecombe	2490	16.1	55	Randolph	335	93.5
6	Durham	2640	16.9	56	Johnston	530	97.6
7	Wake	4205	18.9	57	Anson	290	101.5
8	Forsyth	4235	20.8	58	Duplin	310	102.7
9	Pasquotank	735	24.5	59	Harnett	290	105.0
10	Richmond	1095	25.3	60	Pamlico	85	107.0
11	Rowan	1770	26.2	61	Hoke	110	111.7
12	Wilson	1370	29.2	62	Hertford	145	114.5
13	Craven	995	30.5	63	Burke	200	120.0
14	Chowan	335	31.7	64	Northampton	180	130.5
15	Cumberland	1145	32.1	65	Jackson	95	135.0
16	Alamance	1045	32.7	66	Mitchell	85	136.5
17	Vance	720	33.3	67	Tyrrell	35	137.0
18	Lenoir	915	35.0	68	Franklin	195	140.5
19	Lee	395	35.7	69	Davie	95	143.0
20	Gaston	1530	36.8	70	Bertie	165	147.0
21	Henderson	445	42.7	71	Dare	35	148.4
22	Wayne	1055	44.1	72	Cherokee	105	148.5
23	Beaufort	685	45.4	73	Lincoln	115	157.4
24	Halifax	1010	45.5	74	Brunswick	95	158.0
25	Carteret	350	45.7	75	Sampson	240	159.2
26	Rockingham	1010	46.4	76	Wilkes	205	163.5
27	Pitt	1010	48.4	77	Alexander	70	177.0
28	Moore	470	49.0	78	Avery	60	177.1
29	Cabarrus	715	51.0	79	Chatham	130	186.0
30	Iredell	770	51.1	80	Onslow	80	186.3
31	Catawba	705	51.2	81	Nash	280	189.7
32	Davidson	720	51.8	82	Stokes	105	197.0
33	McDowell	325	55.1	83	Pender	75	197.4
34	Scotland	275	57.1	84	Jones	50	206.0
35	Orange	320	59.1	85	Currituck	35	208.0
36	Haywood	395	61.8	86	Bladen	95	215.0
37	Warren	335	66.0	87	Camden	25	216.0
38	Surry	605	66.4	88	Madison	90	222.0
39	Union	490	68.5	89	Watauga	60	230.0
40	Granville	375	73.3	90	Macon	50	262.0
41	Stanly	410	73.4	91	Yancey	60	270.0
42	Robeson	770	74.6	92	Gates	35	303.0
43	Washington	155	74.9	93	Ashe	70	310.0
44	Polk	120	76.6	94	Hyde	25	336.0
45	Montgomery	190	76.8	95	Greene	50	346.0
46	Columbus	395	77.3	96	Caswell	35	460.0
47	Transylvania	130	77.8	97	Yadkin	35	477.5
48	Perquimans	140	80.0	98	Graham	10	490.0
49	Cleveland	445	81.7	99	Alleghany	10	740.0
50	Person	240	81.7	100	Clay	5	980.0