

# THE UNIVERSITY OF NORTH CAROLINA NEWS LETTER

The news in this publication is released for the press on receipt.

Published Weekly by the University of North Carolina for the University Extension Division.

SEPTEMBER 9, 1925

CHAPEL HILL, N. C.  
THE UNIVERSITY OF NORTH CAROLINA PRESS

VOL. XI, NO. 43

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Entered as second-class matter November 14, 1914, at the Postoffice at Chapel Hill, N. C., under the act of August 24, 1912

## PROGRAM FOR TAX STUDY CLUBS

### XI. STATE TAXATION IN NORTH CAROLINA

#### A. General Fund

##### 1. Schedule A. Inheritance Tax.

Amount	Class A percent	Class B percent	Class C percent
\$10,000 or less	.....	3	7
Excess over \$10,000 and up to \$25,000	.....	4	8
First \$25,000 above exemption	1	.....	.....
Excess over \$25,000 and up to \$50,000	2	5	9
Excess over \$50,000 and up to \$100,000	2	6	10
Excess over \$100,000 and up to \$250,000	3	8	12
Excess over \$250,000 and up to \$500,000	4	10	14
Excess over \$500,000 and up to \$1,000,000	5	12	16
Excess over \$1,000,000	6	12	16

Class A includes children, husband or wife, son-in-law, daughter-in-law, stepchild, adopted child, grandchild if its parents are dead. Exemptions, widows \$10,000, minor child \$5,000, and all others \$2,000. Class B includes brother, sister, aunt, uncle, nephew, niece. Class C, all others.

##### 2. Schedule B. Business or License Tax.

Imposed as a license tax for the privilege of carrying on certain businesses: coal dealer, plumber, pawnbroker, peddler, stock broker, undertaker, physician, lawyer, dentist, operate theatre, moving-picture house, circus, restaurant, hotel, laundry, cigar store, building and loan association, insurance company, cigarette and cigar dealer and manufacturer, garage etc.

##### 3. Schedule C. Privilege or Franchise Taxes.

Privilege tax on railroads, chair and sleeping-car companies, telephone companies, and other public service companies.  
Franchise tax on corporations.  
Marriage Licenses.  
Tax on seal affixed by officers.

##### 4. Schedule D. Income Tax.

Individuals:

On the excess over exemptions up to	Amount	percent
\$ 2,500	\$ 2,500	1 1/4
\$ 5,000	\$ 5,000	2
\$ 7,500	\$ 7,500	2 3/4
\$ 10,000	\$ 10,000	3 1/2
\$ 15,000	\$ 15,000	4 1/2
\$ 15,000	\$ 15,000	5

Exemptions: Single person \$1,000, man and wife \$2,000, widow or widower with minor child \$2,000, each additional dependent \$200.

Corporations:  
4% of net income.

#### B. Highway Fund

Gasoline tax of four cents a gallon.  
Automobile license tax.  
Tax on earnings of motor bus lines.

#### B. Explanation

Since this series of tax studies is designed primarily for the study of local taxation there will be only this one outline devoted to State taxation and one following devoted to Federal taxation. Therefore, it will be possible to consider only those features of each which are of a general nature or which affect the average citizen.

Everyone knows that the expenses of State government have been steadily mounting while, at the same time, the use of the general property tax for state purposes has been discontinued. Consequently new sources of revenue have had to be devised. In 1923 a revenue act was passed which was thought to be adequate for several years to come, but by 1925 a deficit had accumulated so that a new revenue bill had to be drawn. North Carolina has now definitely gone on a budget basis, and the present revenue act is designed to meet the budget appropriations for the next biennial period.

The state government now costs about thirteen million dollars a year. This total includes both the appropriations for maintenance, and all sinking-fund and interest costs. The cost is divided among the following agencies, and for the following purposes: legislative, judiciary, administrative, educational institutions, charitable institutions, correctional institutions, public schools, pensions, miscellaneous state aid, and miscellaneous bonds. The revenue is raised from five main sources, namely, income tax, inheritance tax, license tax, franchise tax, and the earnings of the various departments and agencies of the state.

#### Highway Fund

The state highway fund is entirely distinct from the general fund. The gasoline tax, the automobile license tax, and the tax on the earnings of motor bus lines are its sources of revenue. The fund may be swelled temporarily by loans from those counties which desire their portion of state highway now and are willing to advance the money. The fund is also supplemented by a certain amount of federal aid. Bonds have been sold to the amount of 65 million dollars and a further bond issue of 20 million dollars was authorized by the last General Assembly. The revenues mentioned

above are expected to be sufficient to maintain the state highway system and retire the bonds within the life-time of the highways.

The state has other revenues of considerable importance among which are collections made by the various departments and agencies, corporation taxes, sale of trade marks, sale of land grants, tax on seals, fees, etc. For the year ending June 30, 1924, the commissioner of Revenue collected \$6,550,946.42. Large collections were made by other departments and agencies, notably the Commissioner of Agriculture, and the Insurance Commissioner. The Secretary of State, who at that time was responsible for the collecting of the automobile license and gasoline taxes, collected \$7,386,291.27, or considerably more than was collected by the Commissioner of Revenue.

#### C. Questions

How much does your county pay in state income taxes?

When are income taxes payable? sec. 403, 500.\*

What is the penalty for failure to pay income tax? sec. 600.

When do automobile licenses expire?

When do business or privilege licenses expire? sec. 22.

What are the duties of the Clerk of the Superior Court in connection with the collection of inheritance taxes? sec. 14a.

May a city or county levy a franchise tax? sec. 89(3).

May a county levy a license tax? sec. 101.

What are the duties of the Clerk of the Superior Court in connection with the collection of license taxes? Amendment to Revenue Act, p. 94.

What is the state tax on a marriage license? sec. 90.

What is the county tax on a marriage license? sec. 90.

What proportion of the citizens pay state taxes?

Ought the burden of state government to be more widely distributed?

Are you familiar with the new budget law?

Have you studied the 1925 budget appropriation?

What is the proposed mileage of the State Highway System? What mileage has been completed?

Should the school equalization fund be increased?

#### KNOW NORTH CAROLINA N. C. Club Year-Book

The new 1924-25 Year-Book of the North Carolina Club is just off the press and ready for distribution to those who forward their requests to the Department of Rural Social-Economics, University of North Carolina. They go free to North Carolinians for the asking; a charge of seventy-five cents is made to those outside of the state.

The Year-Book contains fourteen chapters as follows: The Consolidated Country School as a Civic Center, by Paul W. Wager; Local Responsibility for Local Social Problems, by Miss Elizabeth Branson; Story of the North Carolina Club, by Reed Kitchin; Points of Attack in Our Commonwealth's Progress, by Josiah W. Bailey; Business Efficiency in County Government, by Paul W. Wager; The Basis of Taxing Land Values, by B. B. Wright; Freight Rate Discrimination Against North Carolina, by G. K. Cavanaugh; Ports and Waterways for North Carolina, by W. T. Couch; Non-Voting Democracies, by Miss Ruth Hunter; Freight Traffic with the Upper Middle West, by R. B. Eutsler; Should North Carolina Aid the Landless Farmer? by Reed Kitchin; Your Railroads and the Men Who Run Them, by John L. Cobbs, Jr.; Tax Problems in North Carolina, by C. G. Grady; Does North Carolina Read? by Orlando Stone.

Does the State need more revenue? How may it be raised? Should the state property tax be restored? \*Section numbers refer to 1925 Revenue Act.

#### D. Sources of Information

North Carolina Manual, 1925. Revenue Act, 1925.

Report of Commissioner of Revenue, 1924.

Statements of Highway Commission. State Auditor's Report for 1924.

#### FORTY-SECOND IN SCHOOLS

The table which appears elsewhere shows that North Carolina ranked forty-second in public education in 1922. The index number on the basis of which the states are ranked is arrived at by combining the rank of the states in both academic and financial ratings, according to the well-known method devised by Dr. Leonard P. Ayres. The rank is on the basis of (1) average length of term in days, (2) percent of total enrollment in high school, (3) average value of school property per child, and (4) current expense per child enrolled in school.

#### Average Term in Days

The average length of term for all the states was 164 school days. Rhode Island had the longest term, 195 days, and South Carolina the shortest, 111 days. The average for North Carolina was 139 days and our rank among the states, including the District of Columbia, was forty-second. Our average term is 25 days below the average for the states of the Union.

#### Enrolled in High School

In the percent of all children enrolled in school enrolled in high school North Carolina ranked forty-eighth. Only 5.2 percent of the children enrolled in school in the state were enrolled in high school, and only South Carolina with five percent ranked below our state. In California 27.1 percent of all children enrolled in school are high-school pupils. The United States average is 12.3 percent, or nearly two-and-a-half times the average for North Carolina. North Carolina's high schools are now turning out graduates by the thousands, where ten years ago they were counted by the hundreds, but in high-school enrollment only one state is below us, or so three years ago.

#### Value of School Property

In value of school property per child enrolled North Carolina ranked forty-third with forty-seven dollars invested

in school property for each child in school. The average investment in school property per child enrolled for all the states was \$129, or more than two-and-one-half times the average for North Carolina. In 24 states the average investment is more than \$150 per child enrolled. Our rank in this respect seems rather low in view of the fact that we now have 60 times as much school property as we had in 1900. Manifestly other states have been investing in school houses.

#### Current Expenses

The fourth item on which the states are ranked concerns current or operating expenses per child enrolled. In this respect North Carolina ranked forty-second, spending an average of \$21.62 per child enrolled in school. The average for all the states was \$54.85, or more than two-and-a-half times the average for North Carolina. Nevada spent \$105.76 per child enrolled. Georgia spent \$16.14 per child and ranked last of all the states in this respect.

#### Not Discouraging

The above information may come as a distinct shock to those of us who may have been blinded by the recent progress of the state along educational lines. North Carolina has made progress, very rapid progress, even though our present status and rank are not so praiseworthy.

In 1910 we ranked last of all the states in public education. Slowly but surely we had displaced seven states, all southern, by 1922, and by the present time probably two other states have bowed their heads to North Carolina. If true, there are still five southern states that rank ahead of us in public education.

#### The Explanation

The main explanation for our seemingly low rank lies in the fact that North Carolina is predominantly a rural state, more rural than all the other states except four, and as everyone knows, rural schools in North Carolina, while they have made progress, grade far below urban schools. The essential contrasts between urban and rural schools in North Carolina were reported in a recent issue of the News Letter. The educational problem of this state is the problem of rural education. Our city schools will compare favorably with the average for all the states, but our rural schools rank far below our urban schools. Since we are predominantly a rural state, we will never attain a high rank in public education until rural schools compare favorably with urban schools. Progress in rural education lags in North Carolina. Give the country child the opportunities the urban child now enjoys and North Carolina will show up well among the states of the Union in public education.—S. H. H., Jr.

### HOW STATES RANK IN PUBLIC SCHOOLS For the Year Ending With 1922

The following table, from State School Facts, Vol. I, No. 24, prepared by Dr. Frank M. Phillips, shows the educational ranking of the states of the Union for the year 1922. The index figures cover four items: (1) average length of term in days, (2) percent total enrollment in high school, (3) average value of school property per child enrolled, and (4) current expense per child enrolled.

The index number for California, which state stands first, is 117.55. Mississippi is last with an index of 40.09. North Carolina is 42nd with an index of 47.59, only 7.60 points ahead of the state ranking lowest, and 26.41 points below the U. S. average which is 74.50.

North Carolina ranked 48th in 1910; 43rd in 1920; and 42nd in 1922.

Rank	State	Index Number	Rank	State	Index Number
1	California	117.55	26	Rhode Island	77.98
2	New Jersey	97.07	27	Pennsylvania	74.05
3	Ohio	95.98	28	North Dakota	73.33
4	Indiana	95.63	29	New Hampshire	71.04
5	Washington	95.31	30	Delaware	70.73
6	New York	94.02	31	Missouri	69.48
7	Nevada	93.99	32	Vermont	68.60
8	Michigan	92.17	33	Maryland	68.06
9	Montana	91.08	34	New Mexico	67.64
10	Arizona	90.75	35	Maine	65.45
11	Wyoming	86.55	36	Oklahoma	64.21
12	Minnesota	86.08	37	Texas	57.18
13	Nebraska	85.47	38	West Virginia	56.91
14	Massachusetts	85.24	39	Virginia	54.56
15	Iowa	84.86	40	Louisiana	54.43
16	Illinois	84.31	41	Florida	53.79
17	District of Columbia	83.98	42	North Carolina	47.59
18	Utah	83.15	43	Tennessee	44.77
19	Colorado	83.02	44	Arkansas	44.67
20	South Dakota	82.91	45	Kentucky	43.66
21	Idaho	81.79	46	Alabama	42.94
22	Connecticut	81.75	47	Georgia	42.09
23	Oregon	79.71	48	South Carolina	41.12
24	Kansas	78.67	49	Mississippi	40.09
25	Wisconsin	78.38			