The Tax Amendment; Meaning of the Same

(WRITTEN FOR THE GREENSBORO NEWS BY DR. CHARLES LEE RAPER.)

(Editors Note—The following letter on the tax amendment was prepared for the Sunday Greensboro News by Dr. Charles Lee Raper, for fourteen years professor of economics at the University of North Carolina and dean of the graduate school for five years. Editor of The Daily News:

I accept with pleasure your invitation to discuss the proposed amendment on revenue and taxation.

It is quite a custom of men to divide themselves into two opposing groups upon a proposition to amend the constitution. Some men have slight tolerance for any proposition to amend the constitution, however slight it may be. Others wish that the constitution be amended often and radically. I do not think of myself as belonging to either of these extreme groups; I am always ready for any amendment to the constitution that will bring more justice to the citizen and more efficiency in government.

We should take it for granted that the taxation section of the constitution is one of its most vital parts. The collection of public revenue from the citizen or his industry is an act so fundamentally vital to him and his government, that we can think of no other act of government more important either to the government or to the citizen.

Poll Tax.

What are the present constitutional provisions of taxation? What are those of the proposed amendment? In the present contstitution, as it has come down to us from 1868 and 1876, the tax on the poll is the standard tax for the state and county; and it is compulsory. Not only is the tax upon the poll the standard, but its rate must always be equal to the rate on $300 of assessed real and personal property Such a constitutional provision has many a time proven a hinderance to effective taxation. There may have been in 1868 and 1876, when this provision was made, a real reason for such a compulsory tax and for such a compulsory equation with the rate on property; there is certainly no real reason now. Why should we still bind our hands with such a provision?

The proposed amendment abandons this compulsory equation of rates on poll and property. I think the amendment should go still further and abolish and compulsory poll tax. The legisalture might levy a tax on poll as a practical source of revenue, but it would be better not to compel it to do so. A uniform poll tax no longer represents the citizen's ability to pay taxes—the truest principle of taxation—or the benefits which he derives from his government. Such a tax is just only when the citizens are equal in their ability to pay. It requires no argument to convince one that such equality no longer exists in North Carolina. The poll tax has already disappeared from most of the nations of the world, and it should as soon as possible disappear from North Carolina. The porposed amendment, while it does not go far as I would wish stands for improvement. It abolishes the poll tax as a standard tax. It places an absolute limit of $2 for all state and county puropses, and the municipality can levy such a rate, or any rate, anly by authorization from the legislature. The present rate may be $2 for the ordinary state and county purposes, more for extraordinary purposes. In 1911, for instance, the range of the state and county poll was from $1.80 in Martin county to $3.50 in Dare, while the municipal poll ranged from 15 cents to $4.65.

Limit on Rates.

The poll tax will no longer be the standard, if the amendment is accepted by the voters. It will continue merely as one source of revenue. The amendment proposes a limit of rate on real and personal property for all state and county purposes of 66 2-3 cents on $100 of assessed valuation. A higher rate may be levied if the majority of those who shall vote at an election specially held approve it. This limit is practically the same as the one in the present constitution, which fixes the rate at 66 2-3 cents for all ordinary state and county purposes and which allows an extra rate for special purposes. The actual rate for all state and county purposes in 1911 ranged from 60 cent in Martin county to $1.43 in Mitchell. The amendment would also fix the limit to the municipal rate for all purposes of 75 cents on the $100, though a higher rate may be levied by a majority vote at an election held for the special purpose. The proposed limit would effect some of the municipalities. Their rates in 1911 covered the wide range from 8 cents in Hassell to $1.75 in Canton. It may be desired by some that no limit as to the rate be fixed for the state and counties or the municipalities. Such states as New York and Wisconsin have no limits. Why should North Carolina?

Radical Features of the Amendment.

The proposed amendment, therefore makes slight change in the matter of the limit of rate on property and poll. The really great change as proposed is in the abolition of a uniform rate upon all kinds of property and in the provision for the separation of the sources of the state and local revenue. The one is known as the right to make classes of property with different rates; the other as the separation of the sources of revenue for the state and the local units of government. They are both radical changes. Do we need them in order to make our system of taxation more effective and revenue we do not have in practice to revenue we do not have in practice to an yimportant extent. It is only in certain privilege taxes that the state reserves for itself a sepcial business as its source of revenue for all units of government—the state, the county and the municipality. Classification of taxable values we have long had in the form of business taxes. Our legislature has the right to establish classes of these and to levy different rates upon them. It is only necessary that it levy a uniform rate upon the various items of the same class of business. Why should the legislature not have the power to make classes of property as well as business for the purposes of taxation?

Classification of Taxables.

There has come to be a strong conviction in the minds of not a few people that progress in taxation can come only when the constitution allows the legislature to make reasonable classification of property and business. The present requirement of a uniform rate on all property makes vital reform impossible. They believe that certain kinds of property should be taxed at one rate and other kinds at another rate.

It is certainly true that North Carolina is no longer a backward and an exclusively agricultural state, in which all the taxables are of the same kind, either in their use to the community or the individual, or in terms of their tangibility to the assessor's eye. It is also equally clear that there are two large defects in the present system of taxation: (1) much property escapes the assessor's books, (2) gross inequality exists in the assessment of the valuation of property. The present requirement of a uniform rate upon all kinds of property, irrespective of its nature or its tangibility, and the present ineffective machinery of assessment mean the taxing of ignorance and honesty—taxing the ignorance of the citizen who does not know how to escape high assessment valuations or is too honest to decieve the assessor.

Remedies For the Defects.

So far as I know, there are two real remedies for these blaring defects: (1) effective machinery of assessment, (2) the constitutional right of the legislature to make reasonable classes of taxables with reasonably different rates. The uniform rate upon all classes of taxables has everywhere among advanced peoples worked great injustice. It has placed productive and unproductive capital in the same class, and it has caused capital to go elsewhere. "The family cook stove has been put upon the same basis as a street railway." Science in taxation has come to demand a necessary discrimination between different kinds of property and business and a necessary difference in the rates levied upon them. A uniform rate upon all classes of property or business has proven itself not only unjust and ineffective, but also undemocratic. It is no longer found in such democratic states as those of Australia and the more progressive ones of Europe. England abandoned it more than a century ago. It is now only in the Swiss cantons that such a tax is the chief source of revenue. Holland, to be sure, still has such a tax, but its rate is fairly small, and it is supplemented by an important tax on incomes.

The uniform rate on property has proven itself to be a notable failure in the case of money, credit, etc. Such a tax in practice has placed a very heavy burden upon the tangible forms of property and a very light one upon the intangible one. Live stock and machinery, for instance, are assessed with fair accuracy; monies, credits, and securities escape the most effective assessment. And when monies, credits, etc., bear the tax, it is often paid by the heipless, not the rich. Widows and orphans seldom escape its full burden, while many a rich man pays little. The rate on property in many cities and towns ranges from 1½ per cent. to 2½ per cent. Real property and the more tangible forms of personal property bear such a rate upon assessed valuations which range from 25 per cent to 60 per cent of their "fair cash" value. Monies, credits, and securities, if assessed at all, are generally at cash value, and such a rate takes for the government from 1-3 to ½ of their income. The consequences is that there are great evasion and gross dishonesty in their assessment. Let us take an example. "The state of Kentucky received more revenue for the year 1912 from its dogs than it did from all the bonds, monies, and stock of the state."

What can be done to prevent such dishonesty? What can be done to obtain more revenue from such intangible forms of property?

Some Other Suggestions.

More drastic assessment laws and more efficient machinery could do something toward improvement, but very drastic legislation and administration have been tried, notably in Ohio, and with poor success in reaching monies, credits, etc., when taxed at the same rate as the tangible forms of property. That North Carolina needs more effective machinery of assessment, is perfectly clear. She also needs the proposed amendment, which would allow the legislature to make a special class of monies, credits, etc., with a rate small enough to bring these intangible forms of property from their hiding.

Ohio has failed to make these intangible forms of property a fair or an effective source of revenue, when taxed by the rate levied upon the tangible forms, and her machinery has been drastic. Pennsylvania and Maryland have had notable success in taxing monies, credits and securities, by means of a special classification of them and a small rate of tax upon them. Let me give in a word the results of the Pennsylvania experiment. Pennsylvania has 31 years levied a special tax of 40 cents on $100 of cash valuation of monies, credits, and securities; and the results in revenue and in honesty have been decided. For 26 years the amount of this intangible property placed upon the assessor's book and taxed at the special rate of 40 cents has increased more rapidly than the real estate, while in may states, where the uniform rate upon all property is required by the constitution, the amount of the intangible property upon the tax books has decreased until it has almost reached the zero point. Pennsylvania now taxes nearly two billion dollars of tangible property upon her tax books; in many states the total is only a few thousand.

Need I say more in favor of the amendment which will allow the legislature of North Carolina to make reasonable classification of taxables with reasonably different rates?

Perhaps the most popular section of the amendment deals with the separation of the sources of revenue for the state and its local units. It is believed by many that, if the real estate and personal property are left to the locality for its sole source of revenue, the citizens will demand a fair assessment of their valuation. This is too large a proposition for me to pay much attention to it in this letter. I can only give it a word. Such a plan has only been applied in a few states, and in these it has not been severely tested. Connecticut, New York, New Jersey, and Delaware have at times procured all their state revenue from state-wide sources leaving the real and personal property to the locality. Pennsylvania and California have also applied this scheme in a partial way. This experiment with separation has for the most part been attended with fair success, though it must be clearly held in mind that separation in these states has not been a general program of tax reform; they have also put forth effort to provide the most effective machinery of assessment, and at least three of them have tried classification of taxables and rates.

In the Other States.

The fact of fair success of separation in these states does not, however, prove that North Carolina could, with her present conditions of industry, make it effective. The states which have made the experiment are practically all industrial. North Carolina is still largely agricultural. New Jersey may at times obtain 92 per cent of her state taxation from corporations. North Carolina could not obtain 45 per cent without damage to her industries. California may without hindrance to her industrial life obtain her state revenue from taxes on public utilities, banks, insurance companies, inheritances, and polls. The reasons that make separation a fair success in New Jersey and California do not yet exist in North Carolina.

I do not think separation practicable in North Carolina under the present conditions of industry, but I am willing that the constitutional right to provide for separation be granted now to the legislature. I do not believe that it will make use of such a right until the time arrives for its practical success.

The proposed amendment on taxation, even though it contains some sections which I cannot support to the fullest degree, stands for efficiency and justice in taxation and for progress in all the work which the state should do. I believe in its capacity to do good things, even though I wish some of its details were different. I hope the voters will accept it. But whether they do or not, the fight must go on for more efficient machinery of the assessment of taxables. Whatever constitutional right the legislature may have in taxation, the fact remains that we cannot have an efficient and just system of assessment and taxation until we have a capable and courageous state commission.

CHARLES LEE RAPER.

APPLICATION FOR PARDON OF HARRISON WHITTEMORE.

Notice is hereby given that the undersigned will apply to His Excellency, Locke Craig, for a commutation of sentence of Harrison Whittemore, who was convicted at the July term, 1914, of the Criminal Court of Buncombe county, for retailing, and sentenced to be worked upon the county roads of Buncombe county, for a term of ten months.

All those wishing to oppose said application will kindly forward their protest to the governor at once.

GEORGE S. REYNOLDS, Attorney.

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NOTICE.

Having qualified as administratrix of Bert L. Coley, deceased, late of Buncombe county, N. C., this is to notify all persons having lawful claims against the estate of said deceased to exhibit them to the undersigned on or before the 8th day of September, 1915, or this notice will be pleaded in bar of recovery. All persons indebted to said estate will please make immediate payment.

This the 8th day of September, 1914.

CORRIE COLEY, Administratrix.

NOTICE.

Having qualified as administrator of the estate of Sid Morris, deceased, late of Buncombe county, North Carolina, this is to notify all persons having claims against the estate of said deceased to exhibit them to the undersigned at Arden, N. C., on or before the 5th day of September, 1915, or this notice will be pleaded in bar of their recovery. All persons indebted to said estate will please make immediate payment to the undersigned.

This September 2nd, 1914.

(MRS.) AGNES MORRIS, Administrator of Sid Morris.

NOTICE OF SALE.

By virtue of the power of sale contained in a certain Deed of Trust, executed by J. L. Wright and wife, R. O. Wright, to R. M. Wells, Trustee, to secure to E. S. Garrett certain notes therein described, dated the 3rd day of April, 1912, and duly recorded in the office of Register of Deeds for Buncombe county in Book of Mortgages and Deeds of Trust No. 89 at page 99, and default having been made in payment of the notes therein described, and demand having been made upon the undersigned as trustee to sell the same to satisfy said notes, I will on **Thursday, October 1, 1914,** at the hour of 12 o'clock, noon, in front of the Court House door in Buncombe county, sell to the last and highest bidder, for cash, the following described real, estate, to-wit:

Lying and being in Buncombe county, N. C., on the waters of Turkey Creek, adjoining the lands of William Rogers, J. Frank Wells and others, bounded and more particularly described as follows:

First Trace: Beginning on a large rock, Turner Hall's corner, and runs North 86 deg. West 36 poles to a Spanish Oak; then South 78 deg. East 16 poles to a Chestnut; then North 46 deg. East 20 poles to a stake in Hall's line; thence South 60 poles to a Chestnut Oak in Dover's line; thence with his line South 82 deg. West 140 poles to Dover's Locust corner; then North 80 deg. East with a marked line to the Beginning corner, containing 25 acres.

Lot No. 2. Beginning on a large Chestnut, Philips' corner, and running North 80 deg. East 29 poles to a large Chestnut; then North 38 deg. East 33 poles to a large Chestnut; then South 84 deg. East 8 poles to a Black Oak; thence South 45 deg. West 15½ poles to the Beginning, containing four acres and 73 poles, more or less.

This is the 1st day of September, 1914.

R. M. WELLS, Trustee.