

# The Course That Tax Reform Should Take in North Carolina

By R. F. Beasley

[An address before the Committee on Revenue and Taxation of the Commission on Constitutional Amendments, Greensboro, N. C., May 26, 1913.]

GENTLEMEN, it affords me a great deal of pleasure to have the opportunity to speak very briefly to you on the subject which bears so important a relation to the welfare and continued prosperity of our State. I hold a brief for nothing except that which my own study, observation, and investigation lead me to believe to be the common welfare and the best public policy at this critical juncture in our history, when by universal agreement our ancient system of taxation has broken down, both as a revenue producer and as an equitable distribution of public burdens and common opportunity. I am not here to advocate the shirking of obligation of any class of citizens or property, nor to ask the burdening of any other, but to point out what I believe to be the way we should proceed at a time when we are called upon to alter our fundamental law, in order that we may ultimately draw the public revenues from the sources whence they should properly come—sources from which revenues can be most easily drawn, and with least hindrance to both labor and capital. I believe that taxation can be so laid that it will not hinder business, but will help it; that it will increase the profits of the legitimate business man, multiply the rewards of labor, and keep open all the revenues of progress and opportunity that are now fast closing in the face of the mass of mankind. But the details of this system cannot now be written in our Constitution; we can put there only the possibility to allow the system to be worked out gradually by the law-making power of the State as the people become ready for it. My first point, therefore, is that—

(1) The constitutional amendment should give as much latitude as possible to the Legislature in forming a system of taxation. The first reason why we should lay down no hard and fast conditions in our Constitution is that the public mind is at present all at sea on the subject of taxation. With the breaking down of our present system there has been general disgust expressed, but so far there has been little suggestion of remedy. The newspapers tell us that we have the worst system in the world, that it is slipshod and unjust. Ever since we began talking that way, I have watched to see who would suggest a remedy and what that remedy would be, but so far I have been disappointed. Men who are well informed on nearly every other subject seem to lack definite ideas as to what taxation reform should be. We are all utterly disgusted and worn out with the old system, so far as public expressions indicate the mind of the people; but who knows what should take the place of the old?

We must have time to work out a new system. And the public has got to have time to make up its mind what it wishes, if we are going to have any reform. The slight change made in the law of 1911 was promptly repudiated by the Legislature of 1913. If no one has come forward with suggestions that would lead the people to demand a simpler, more just, more scientific system, how can the Constitution be now changed so as to fix for decades the details or the restrictions to which Legislatures must conform? To undertake to go into details or to lay down hard and fast conditions in our Constitution now would be disastrous to real progress hereafter. Were we now to

lay down conditions that would hamper us in the future, we should be under the necessity of doing again exactly what has been done in the past forty years—that is, being unable to make the reforms that the times and the conditions demanded, we would have to go to patching again and laying a tax right and left where it should not be, in order to raise enough revenue for the needs of the Government. Not only are we confronted with the necessity of revolutionizing our State taxation, but the problems of local taxation are no less insistent. All these the Legislature must have time to work out and to formulate into law the demands of the public, once its mind has been made up.

THIS is a matter with which we must trust the Legislature. We cannot get around it. The man (or influence) who now seeks to secure restrictions in the fundamental law must be afraid to rest his case upon its justice. He must be seeking to either secure a privilege or to escape a responsibility. Not only should we not be afraid to trust the Legislature, but we must bear in mind that by laying down restrictions now we are really attempting to legislate for a future that should be able to legislate for itself, and will doubtless be far more able to do so than we are. We are now suffering from the mistakes of the past, or rather we are suffering from the fact that we must now conform to what seemed to be the best for the past, regardless as to whether it is the best for us or not. Conditions are changing with great rapidity, and even the most conservative had as well be willing to trust the future on taxation, since they will be compelled to trust it upon other vital things.

(2) Should it be deemed not wise to leave full discretion to the Legislature, we must at least abolish those conditions in the present Constitution that are responsible for great hardship and inefficiency, such as the poll tax provision and the uniformity clause. Surely the day for these has passed. No reform can be worth anything that is approached merely from the standpoint of revenue production. Thus, an equal amount of poll tax laid upon each head will raise revenue, but the injustice involved in laying a tax like that under present conditions is monstrous. Thus, too, the law that lays the same rate of tax upon the sewing machine with which the widow earns her daily bread in a garret and upon the unearned increment of a corner lot whose owner lives in idleness upon the industry of the community, is savagery. Yet the highly prized Constitution of North Carolina does these things, and we never blush in talking of the greatness and glory and justice of our State!

Having abolished the requirements that compel injustice, we should substitute those which will permit the maximum of efficiency in producing revenue with a minimum of burden upon the men and women who, by the toil of hands and the energy of brain, produce the wealth of our State, and a minimum of hindrance to the free and easy action of capital which assists them in the production of wealth. There will be no such thing as tax reform unless the Legislature is given power to classify property and to make a rate suitable to such classes. That is the beginning of reform. The next step is to give it power to sep-

arate local from State income in their origin.

I shall now go more into detail as to what direction I think the course of tax reform shall take, not because I think this should be put in the Constitution, but as an argument to substantiate my assertion that the utmost possible latitude must be given the Legislature to work out a simple, automatic, and scientific system. While few people now know much about the matter, and do not care a great deal, the time is coming when we will have the same insistent and irrepressible demand for a just system that is now rumbling round the world. All we ask is that the law-making power of the people be given the opportunity to enact their wishes into law when once those wishes have been made up.

THE CLASSES of property which stand out in clearest distinction are public-service corporations, private corporations, land, regardless of

improvements upon it, improvements which now go to make up what we now consider real estate, solvent credits, and other personal property. I think it is clearly admitted by students of taxation that solvent credits, taxed at a moderate rate, will yield many-fold times the revenue that they do when taxed at higher rates. This point is so clear that it is scarcely longer in the field of controversy.

Public-service corporations, being monopolies in their nature, whose charges for the service rendered must sooner or later be fully regulated by the public, should be taxed upon their gross earnings. Whenever thorough public regulation is established, the tax rates charged against these corporations must simply be added by them to the expense account and taken out of the public pocket. Hence we may regard them as standing alone as taxable units and solely as a means of distributing public taxation. But this will be a

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