UNC SCHOOL OF LAW

NORTH CAROLINA LAW REVIEW

Volume 14 | Number 1

Article 8

12-1-1935

The Influence of State Competition in the Adoption of Regressive Taxes: The North Carolina Sales Tax

E. M. Perkins

THE INFLUENCE OF STATE COMPETITION IN THE ADOPTION OF REGRESSIVE TAXES: THE NORTH CAROLINA SALES TAX

E. M. PERKINS*

The pathetic spectacle of a state shifting the tax burden from those able to pay, to the inarticulate, impoverished mass of her citizens is in large part the product of obsolete state taxation. Influenced by threats and bluffs that increased taxes will drive industry and wealthy individuals from her borders, the state selects sources of revenue which are localized, and today local sources of revenue generally mean one thing —the little man. North Carolina has witnessed the adoption and continued retention of a high-rate sales tax which falls heavily upon the poor, and the increasing of the income tax burden largely upon the man of small means. Wealth has escaped commensurate tax increases. In a period which demanded new forms of taxes or increased rates on the old, North Carolina and other state governments have resorted to regressive measures which ignore ability to pay and sacrifice equality to fiscal expediency. It is believed that this condition is to a large extent chargeable against our federal system in which the states are made competitors for taxable wealth to such a degree that a state develops progressive taxation at its peril. In this situation wealth talks effectively, with the result that the under-propertied classes are forced to pay heavier taxes.

One has only to follow the newspapers to be aware that efforts of the states to finance themselves are met with warnings that increased taxes will induce the geese of the golden eggs to migrate to commonwealths which adopt a more "reasonable" attitude toward business and wealth. The New York Stock Exchange threatens to move across the river to New Jersey in order to escape proposed taxes.[1] Hollywood, with accompanying publicity for the benefit of tax-hunting California legislators, makes a survey of possible sites in other states for a relocation

* Institute for Research in Social Science, University of North Carolina; School of Law, University of North Carolina.

[1] N. Y. *Times*, Sept. 26, 1933: "The city administration capitulated yesterday to stock brokerage interests by offering to abandon the proposed new city taxes on stocks and brokers if the Stock Exchange did not carry through its plans for moving to Newark. The city sought to place a 5 per cent tax on the gross earnings of brokers, bankers and others engaged in the business of selling securities in the city. The city also planned a tax of 4 cents on each share of stock transferred here. Each tax was expected to produce $5,000,000 in new revenue between now and Feb. 28, 1934. On that date the taxes were to expire." Also see *id.* Sept. 12, 1933.

of the motion picture industry.[2] The North Carolina legislature is told that wealthy men will move their homes to avoid increased income taxes, and spokesmen for business protest against a North Carolina tax environment which makes it cheaper for industry to locate elsewhere. Whether or not industry really moves from one state to another to escape taxes, or whether or not taxes play an important part in the initial choice of industrial sites, it is true that many state legislators believe that industry and wealth will be attracted or driven away by the tax situation. The legislator believes that if his state pushes ahead and adopts rates which are much out of line with those in other states, not only will new capital be shy of the state, but established business will leave the old stand and take its taxes and economic benefits somewhere else. Accordingly, in the formulation of its tax program, the state is forced to consider, very earnestly, the rates of competing states.

In order to examine the contention that our federal system is a materially contributing factor in the adoption of regressive tax measures of late, let us look at recent fiscal developments in North Carolina. The General Assembly of 1931 was the first meeting of the North Carolina legislature to be faced with the tax problems of the depression. The task of providing the state government with sufficient funds in the face of diminishing incomes, and the taking of steps at the same time to reduce the local tax burden on property, have been the difficult problems of the depression legislatures. "Taxes on property must be reduced," Governor Gardner told the 1931 Assembly. "This," he said,

[2] "Moving Movies," editorial, Raleigh *News and Observer,* March 6, 1935: ". . . . It is the old game. Even Goldsboro got ideas last summer about turning into a Hollywood when the movies carried out their threat to fly from Sinclair in California. The talk will go on louder and louder in movies and California as in other industries and other states until the legislature acts. Then in California as in other states quietness will descend. There will be no more talk of migration until once more the American drama of frightening politicians by talking of pulling up stakes will serve again to keep down the taxes on those able to talk of moving loud enough for whole states to hear them but unwilling to pay more taxes in days when all the people are being asked to help pay the costs of difficult times." See news story, "Tax Tormented Movies May Bring Harlow East," relative to conference between Governor Ehringhaus and Fred A. Pelton, representative of Association of Motion Picture Producers, in regard to moving the motion picture industry East. "The idea of moving East originated with the suggestion that California might jack up taxes on the movie makers," said Mr. Pelton. *Id.* April 6, 135.

Editorial, *id.* April 3, 1935, "The Smell of Celluloid." "What Mr. Pelton is after should be obvious to the more than blind. He does not so much want to give us the movie industry as to have us help the movie industry prepare its case for the finance committees of the California legislature. Other large interests hoping to evade taxes may depend upon the logic or the spellbinding of lawyers, but Hollywood is not Hollywood for nothing. It is going to give the California finance committee a show that is Superb, Unprecedented, Amazing, Overwhelming and Devastating. And afterwards it hopes that the finance committee will leave taxes on movies alone and the cameras will continue to grind in California."

"is one clear mandate of the people."[3] Two specific ways of immediate relief were pointed out by the Governor. He proposed a ten per cent cut in governmental salaries, and he proposed that the state should take over full maintenance of the county road systems and finance this undertaking by increasing the gasoline tax from five cents to six cents per gallon. The public roads, it was said, should be maintained by those who use them, and property should be relieved of this burden. Without making a specific recommendation as to its financing, the Governor expressed the hope that the legislature would be able to devise some way to provide a state-wide eight months public school term, at less cost than the existing localized system.[4]

The support of the public schools constituted a large part of the local tax bill, and with the increasing property tax delinquency, the prospects of the schools were becoming exceedingly dark in some counties. If the state government could take over the schools and maintain a uniform system without the levying of a tax on property, this would relieve local government and the property which had borne the cost of local school support. Early in the 1931 session Representative MacLean introduced a bill which would commit the General Assembly to the enactment of legislation "so that the public school system for the constitutional term of at least six months shall be general and uniform in all the counties and shall be maintained by the state from sources other than ad valorem taxation on property."[5] The bill soon passed and

[3] *Id.* Jan. 10, 1931. Text of Governor Gardner's message to the General Assembly.

[4] *Ibid.* "One hope which I have steadfastly held since before becoming Governor was to be instrumental in bringing about an eight months school term. If the pressure of circumstances makes it necessary for me to forego this aspiration, it will be a severe disappointment. If, therefore, the General Assembly in its wisdom, can devise some way to provide an eight months school term for all the children in the state at a less expense than our present effort now represents, it will, in my opinion, render the highest public service."

In regard to shifting road costs from property to consumption, note this reaction of the *Chatham Record,* quoted in Raleigh *News and Observer,* April 11, 1931: "When the road tax is taken off the property of the poor devils of Ford and Chevrolet owners they still have the roads to keep up. In fact the greatest properties of the state have done little toward building and maintaining the state highway system. The rich have contributed nothing like their proportion according to wealth, to highway building in North Carolina."

[5] N. C. PUB. LAWS 1931, c. 10: "Whereas, the Constitution of North Carolina provides for a general and uniform system of public schools and directs that so much of the ordinary revenue of the state as may be necessary shall be faithfully appropriated for establishing and maintaining the same; Now, therefore, The General Assembly of North Carolina do enact: Sec. 1. That this provision of the Constitution is mandatory and that legislation will be enacted by this General Assembly to make it effective, so that the public school system for the constitutional term of at least six months shall be general and uniform in all counties and shall be maintained by the state from sources other than ad valorem taxation on property. Sec. 2. That the Committees on Education of the Senate and House of Representatives are authorized and directed to prepare and report a bill to be

became known as the MacLean Law. It should be noticed that this act did not contain any method for the raising of revenue. And thereon hangs a tale of legislative turmoil. Attempts to finance this endeavor produced the longest session in the history of the General Assembly.

For the maintenance of existing functions of the state government in the face of declining revenues, the Budget Commission recommended miscellaneous new taxes.[6] There was of course no money in these recommendations to finance so large a project as the MacLean Law. The finding of that much new money became the legislature's job. Although several efforts were made at this session to increase considerably the taxes on interests which were considered able to carry a larger share (for example, Senator Baggett's tax on excess profits,[7] Representative Ewing's kilowatt hour tax on power companies,[8] and Senator Baggett's tax on stock in foreign corporations[9]) the struggle of the session did not center around this type of taxation. It seems to have been assumed by most persons that some form of sales tax would be necessary if property was to be relieved of the cost of the schools. The fight was among the advocates of Senator Hinsdale's tax on selected commodities—commonly called the Hinsdale luxury tax,[10] the advocates of a general sales

---

enacted by this General Assembly in accordance with the preceding section." Ratified, Jan. 30, 1931.

[6] REPORT OF THE BUDGET COMMISSION TO THE GENERAL ASSEMBLY, SESSION 1931, p. 14.

[7] *Infra*, note 16.

[8] Representative S. C. Ewing, of Cumberland, introduced a bill to levy a production tax of two mills per kilowatt hour on all electrical power generated in this state. This tax was estimated to produce $6,624,980 per year. Raleigh *News and Observer*, March 5, 1931. The tax was not adopted.

[9] *Id.* April 15, 1931. The General Assembly in 1923 exempted stock in foreign corporations from property taxation. Senator Baggett proposed to repeal this exemption. The Senate defeated the proposal 26 to 21.

[10] Senator Hinsdale's bill included: "A 20 per cent tax on cigarettes and smoking tobacco, a graduated tax on cigars, a small tax on chewing tobacco, 10 per cent on shells, 10 per cent on candy, playing cards and malt extract not used in bakeries, 20 per cent on cosmetics, 10 per cent (with a minimum of 5 cents) on theatre and amusement admissions, 20 per cent on soft drinks, a small graduated stamp tax on documents, stocks and the transfer of securities and a tax on the purchase of automobiles which ranges from $5 for the cheapest car to $75 for the most expensive." Senator Hinsdale estimated these taxes would raise in excess of nine million dollars. *Id.* April 8, 1931.

The following debate on one of Senator Hinsdale's proposals indicates the extent to which the argument of interstate competition is sometimes carried in legislative discussion. Senator Hinsdale had offered a new section for the revenue bill providing a $2.00 tax on each membership in a social, golf, country or civic club. "This is an extremely radical, unwarranted and unnecessary piece of legislation, declared Senator Johnson of Moore, who opened the attack on the proposed section with a plea for the clubs of the sandhills section. The bill would run out the northern capitalists who come to the state to play, who spend much money in the state, and who would object to the principle more than the amount, he said.

"Are you willing to let the children of North Carolina go without schools so as to let the rich people of the country play in our state without paying any tax?" asked Senator Peel, but Senator Johnson stuck to his position that the principle of

tax, which was introduced by Representative Day,[11] and a group who proposed that property should continue to contribute a large part of the cost.[12] After a session of almost five months in which neither the luxury tax nor the general sales tax could gain the support of both branches of the General Assembly, the attempt to finance a six months school term without property taxation was temporarily abandoned. The plan which finally was adopted carried a property tax of fifteen cents on the hundred dollars, and this, together with part of the various increases in the ordinary types of state taxes, was expected to finance the state's additional participation in school support.[13] A property tax was levied. The schools were to be very inadequately maintained. The General Assembly had failed to carry out the MacLean Law.

This limited background in the shifting of functions from local to state government is important in the understanding of recent developments in the state's taxing system. North Carolina has been doing for

---

the tax was wrong, even when Senator Hinsdale asked how many tourists would refuse to come to the sandhills because of a $2.00 tax.

Senator Ward: "That is our trouble in North Carolina, the disposition to bootlick the rich. If I had a million dollars I would hold you in contempt. It is that sort of thing that makes us exempt stock in foreign corporations from taxation, that love of the rich." The proposed tax was defeated by a large vote. *Ibid.*

[11] The Day general sales tax plan, carrying a rate of one per cent on retail sales, was incorporated in the House revenue bill. The Senate rejected the general sales tax. *Id.* April 8, 1931.

[12] The Senate rejected Senator Hinsdale's luxury tax and also turned down the Day general sales tax. The House bill provided for complete state support of the six-month term at a cost of $18,500,000. The bill which passed the Senate provided for an equalizing fund of $10,000,000 in lieu of the House provision. The House refused to concur. The conference report embodied the luxury tax. The House passed the conference report, but the Senate rejected it by a vote of 25-24. A new conference report carrying a fifteen cent property tax was finally adopted by both branches of the Assembly.

[13] Raleigh *News and Observer,* May 31, 1931, news story, STATE SUPPORT IS PRINCIPLE OF THE NEW SCHOOL LAW. "In the first place, under state control, the cost of the basic six months term has been reduced arbitrarily from $20,600,000 to $17,000,000. This in the face of normal increase in the school population, puts it up to the school people. Although the state assumes full responsibility for the six-month term, it does not put up all the money. The MacLean law was obeyed in principle but not in toto. The counties, through an ad valorem levy of 15 cents based on a $3,000,000,000 valuation are expected to furnish $4,500,000. The counties also will continue to supplement the six months fund with the proceeds from fines and forfeitures, estimated at $1,300,000. The constitution requires that this money be expended in the county where collected, but the ad valorem tax will be turned over to the state and distributed by the Equalization Board on the same basis as the state money raised from indirect sources. Thus, something over $11,000,000 will be poured into the six months schools by the state, and in addition $1,500,000 for tax relief in districts operating extended terms. In all, the strictly state appropriation to the public schools will amount to approximately $13,000,000 for each year of the biennium, or double its participation under the equalization plan this biennium. Whether the schools will get this much more or not is a serious question. Full revenue collections are not assured either on the ad valorem or indirect side of the ledger." See also, MacLean, *A Seven Year Legislative Fight Against Educational Injustice, id.* July 30, 1933.

this state a type of equalization which the federal government will probably do more and more for the nation. Although the localities differ in taxable wealth, all sections of the state should have a high quality of governmental service. The same, of course, applies to the nation, and there the federal government should be the equalizing agent.

Where in its efforts to devise an adequate tax system did the General Assembly of 1931 encounter the warnings of interstate competition? Both forms of sales tax drew condemnation for their effect on local business. "Any tax that we add to sales within the state helps to turn the scale against business in North Carolina and in favor of business outside of North Carolina,"[14] said Governor Gardner. Several thousand merchants came to Raleigh to protest against any form of sales tax and to predict its dire effect in driving business from the state.[15] Other tax proposals incurred even more vigorous warnings. Senator Baggett offered a franchise tax amendment which would impose on corporations a tax of fifteen per cent of all their earnings in excess of ten per cent of the assessed valuation of the corporation's property. His plan would fall largely upon the tobacco companies, but they were able to pay, Senator Baggett contended, and it was better for them to pay than for their employees to pay through a general sales tax. It was expected that this tax would raise close to six million dollars of "new money." Senator Hendren, counsel for the R. J. Reynolds Tobacco Company, led the attack on the Baggett amendment. "Inasmuch as the Reynolds Tobacco Company will pay in excess of four million dollars of this money, two dollars of every three dollars it will raise, I want you to listen carefully to what I have to say," he told the Senate. "The Reynolds Tobacco Company heretofore has always paid a higher level than any of the other tobacco companies. . . . I am not going to say that the Reynolds Tobacco Company is going to leave the state. I don't know whether it can. But we are not getting far from the place where the non-resident stockholders and directors are going to consider whether or not they cannot leave North Carolina advantageously. . . . You can build quite a village in Virginia with the eight million dollars this tax would take from the Reynolds company in two years. As a citizen of Charlotte has said, 'that's upwards of a damned sight of money'."[16] The amendment was defeated twenty-five to eighteen.

Proposals for increased taxes on power companies were pictured as

[14] Governor Gardner was speaking to the General Assembly. *Id.* March 25, 1931.

[15] *Id.* March 9, 17, 1931.

[16] *Id.* April 12, 1931. Senator McSwain: "I am convinced that for North Carolina to adopt this policy would say to the outside world that we do not want any more industries to come in." *Ibid.*

threatening the commercial future of the state. "North Carolina probably stands at the fork of the roads," said Mr. Pou, counsel for the Carolina Power and Light Company. "The action of this committee will probably decide whether North Carolina will remain principally an agricultural state or take its place with the industrial states."[17] And Senator Hinsdale raised the question of the "effect on the industrial life of the state of cheaper power rates and possibly lower tax rates in other southern states." Have industries coming down from the North skipped North Carolina to establish themselves further south? he asked.[18] Representative Ewing's kilowatt hour tax on power companies and Senator Gravely's twelve per cent gross receipts franchise tax received the legislative cold shoulder.[19] However, the power franchise tax was increased from two per cent to five per cent of gross receipts.[20]

The Budget Commission recommended increases in the rates on premium receipts of insurance companies.[21] Representatives of companies domiciled in North Carolina appeared before the Joint Finance Committee to protest that these increases would prevent them from expanding their business in other states. It was asserted that under the retaliatory laws of the states North Carolina companies have to pay in other states the same taxes which this state imposes upon foreign insurance companies. This, it was said, might cause some companies to remove their home offices from North Carolina.[22] The result was that insurance taxes were not increased.[23]

[17] *Id.* Feb. 21, 1931. See also an Associated Press story from Columbia, S. C., concerning the appearance of Mr. J. H. Marion, counsel for the Duke Power Co., before the South Carolina Senate Finance Committee in opposition to a 5/10 mill k.w.h. tax on power generated in South Carolina. "He said South Carolina's unfriendly attitude toward enterprise had caused its growth during the last decade to be three per cent while North Carolina's was twenty-three per cent." *Id.* April 8, 1931.

[18] *Id.* Feb. 14, 1931.

[19] *Id.* April 11, 1931; May 9, 1931; May 15, 1931; May 31, 1931. Opposing Representative Ewing's one-half mill kilowatt hour tax, Representative Hanes declared: "Regardless of how much we want to tax anybody, we've got to recognize the necessity of keeping our taxes in line with those of other states." *Id.* May 15, 1931.

[20] N. C. PUB. LAWS 1931, c. 427, §203.

[21] The Budget Commission recommended that the premium tax on domestic life insurance companies be increased from three-fourths of one per cent to one and one half per cent; on foreign fire insurance companies from two and one half per cent to three per cent; and industrial insurance companies from two and one half per cent to four per cent. REPORT OF THE BUDGET COMMISSION (1931), p. 14.

[22] Raleigh *News and Observer,* Feb. 11, 1931.

[23] "The rates upon companies writing compensation insurance were increased from two and one half per cent to four per cent without protest." But the rates on other insurance were retained. "'Some of the highest toned gentlemen in the state came down here and explained the situation to us and I think the tax ought to stay where it was under the old law,' remarked one senator in the Finance Committee. And that concluded the debate." *Id.* May 31, 1931.

Nor has North Carolina been innocent of affirmative action designed to attract the well-to-do. In 1923 it was proposed that stock in foreign corporations owned by citizens of North Carolina should be exempt from property taxation. It was claimed that repeal of this tax would invite outside wealth to the state. For an example, the advocates of the repeal pointed to James B. Duke, who was reputed to be worth three hundred million dollars, and who would return to North Carolina to live were it not for this tax on foreign stock. It was said that if Mr. Duke should die a resident of North Carolina his inheritance taxes would wipe out the state debt.[24] Representative Parker declared that the foreign stock tax merely served notice on men of wealth to get out of the state and keep their money with them. With the law changed, he argued, many men of great wealth who lived in other states to escape taxes imposed here, would return to North Carolina and pay more in income taxes than North Carolina at that time derived from property taxes on stock.[25] Representative Everett vigorously opposed the repeal. "It would," he said, "make us bow down to a few rich men, hoping that favor might follow fawning. It puts us in the light of ghouls, inviting men to come to North Carolina where we will sit around and wait for them to die. . . ."[26] The General Assembly voted the exemption.[27] Mr. Duke died a resident of New Jersey.

In 1930 the Tax Commission questioned whether complete exemp-

[24] *Id.* Feb. 20, 1923.

[25] *Id.* Feb. 21, 1923. "Dr. Rogers read a letter from a man reputed to be worth a million dollars who hoped that the tax would be removed from stocks in order that he might be enabled to move to the state, where he would pay an income tax of several thousand dollars a year." *Ibid.* Mr. O. K. Nimocks: "How can we explain to John Smith why we have taken the burden off of the back of the rich by exempting his stocks from taxation while we have done nothing to relieve his small holdings. I do not believe in shaping legislation to meet the demands of the rich." *Ibid.*

[26] *Ibid.* Senator Sams: "But my principal reason for being against this bill is that it is unfair and discriminatory. I haven't heard of anybody trying to lower the taxes of the poor man. Everybody knows that whenever a bill is introduced here that will hurt the rich man, his interests are protected because he is informed, has the money to employ attorneys and can always be heard, but I am standing here in the interest of the man out in the state who is at work and who will have to bear the burden it is proposed to lift from these stocks." "Declaring that he had never heard of a state getting rich by inviting in a lot of rich tax dodgers, Senator Sams asserted that the bill will not accomplish that purpose because rich men know that the next legislature can change the law and will stay out of the state on that account." *Id.* March 1, 1923.

[27] N. C. PUB. LAWS 1923, c. 4, §4. "Nor shall any individual stockholder of any foreign corporation be required to list or pay taxes on any shares of its capital stock in this state, and the situs of such shares of stock in foreign corporations, owned by residents of this state for the purpose of this act is hereby declared to be at the place where said corporation undertakes and carries on its principal business." The history of corporate stock taxation in North Carolina is outlined in a note, *North Carolina Income and Property Taxation of Stock in Foreign Corporations* (1932) 10 N. C. L. REV. 367. See Matherly, *Taxation of Stock in North Carolina Corporations* (1923) 1 N. C. L. REV. 203.

tion of stock in foreign corporations was sound, and recommended a tax on the income from the stock.[28] The General Assembly of 1931 agreed, and imposed a flat rate six per cent tax on dividends from such stock to the extent that the foreign corporation did not pay an income tax in North Carolina.[29] That is the law on the books today. But efforts to subject the stock to property taxation failed in 1931, as they have failed in other years, time and again.[30]

Non-property taxes were increased in 1931, and most of these increases fell on business and industry.[31] However, they were made by a desperate legislature, over the far-from-dead bodies of lobbyists,[32] and

[28] REPORT OF THE NORTH CAROLINA TAX COMMISSION (1930) 29.

[29] N. C. PUB. LAWS (1931) c. 427, §311½. Note, *North Carolina Income and Property Taxation of Stock in Foreign Corporations, supra* note 27.

[30] Raleigh *News and Observer,* April 15, 1931. In 1933 the House adopted an amendment for the repeal of the exemption from property taxation of stock in foreign corporations. The amendment was sponsored by Representative R. O. Everett of Durham. The Senate struck out the section repealing the exemption and the House receded from the repealing amendment. *Id.* March 15, 24, 31, 1933. "Mr. Everett estimated that taxing foreign stocks would yield $4,400,000 a year. He based this upon the $682,000 collected by the state last year on the six per cent dividend tax which is subject to no exemptions. Figuring the value of dividend paying stocks at $100 par, he estimated that $220,000,000 worth of property (was) escaping ad valorem taxes in the state under the foreign stocks exemption. Speaking for his amendment to abolish the tax exemption on foreign stocks Mr. Everett said that the result of such a policy had been quite different from that anticipated, and that the exemption had not only brought no wealthy individuals to live in the state, but had resulted in expatriating many of its corporations." *Id.* March 15, 1933. Representative R. A. Doughton, opposing the amendment, contended the ad valorem tax would not produce the expected money. "They are not going to pay, he declared, pointing out the ease with which holders could consign them to trustees in other states." Representative Barden of Craven "charged that the bill was passed in 1923 through high-pressure lobby methods, and of such methods 'I'm personally getting fed up'." *Ibid.*

[31] There were numerous changes and increases in the license taxes. A low-rate license tax, graduated according to gross sales was imposed on retail and wholesale merchants. The franchise tax on railroads was increased from two-fifths of one per cent to three-fourths of one per cent of the value of the railroad's property in North Carolina; electric light, power, gas, and street railway companies from two per cent to five per cent of gross earnings; sleeping and dining car companies from eight to ten per cent of gross earnings; express companies from fifteen, eighteen and twenty-one dollars per mile depending on net income, to eighteen, twenty-one and twenty-five dollars per mile depending on net income; telegraph companies from five dollars to six dollars per mile of line; telephone companies from three and one-half per cent to five per cent of gross earnings; motor bus and truck carriers from six per cent of gross earnings to six per cent of gross earnings plus ninety cents per hundred pounds of weight; domestic and foreign corporations from one dollar per thousand dollars to one dollar and twenty-five cents per thousand dollars of capital, surplus and undivided profits. The corporation income tax was increased from four and one-half per cent to five and one-half per cent of net income. The individual income tax rates were increased from one and one-fourth per cent in the lowest bracket and five per cent on all over fifteen thousand, to two per cent in the lowest bracket and six per cent on all over ten thousand dollars. As indicated above, a new measure was adopted subjecting dividends from stock in foreign corporations to a tax of six per cent of the dividends. N. C. PUB. LAWS 1929, c. 345; *id.* 1931, c. 427.

[32] On May 11, 1931 the Senate adopted a resolution providing for a committee to investigate charges that Senators had been offered bribes. Conflicting testi-

it is believed that these increases were tempered not a little by considerations of interstate competition such as those described above. Property taxes were to be reduced. A general sales tax was staved-off for two years. The so-called luxury interests had narrowly but surely escaped. The schools and other governmental facilities were to pay the price, and North Carolina was to increase its deficit.

There was general understanding that the fifteen cent property tax for state purposes was only temporary. Its removal at the 1933 session was sworn to by both political parties and urged by Governor Ehringhaus.[33] In order to replace this revenue and to take care of the deficit of the previous administration, the Budget Commission recommended further economy, the diversion of two million dollars from the highway fund to the general fund, the refunding of certain maturing obligations, and increases of about twenty per cent in existing taxes.[34] Governor Ehringhaus disagreed with the recommendations for refunding and diversion.[35] The proposed tax increases were condemned at committee hearings as being unduly burdensome on industry. Finally, the Joint Finance Committee directed a subcommittee to find "a new source of revenue."[36] The sub-committee reported both a two per cent general sales tax and a luxury tax without expressing any preference between them, and included in its report most of the increases suggested by the Budget Commission.[37] There was increasing advocacy for enlarging the state support of the schools from a six months to an eight months term in order to relieve local government entirely of this expense. All of this contributed to a growing sentiment that some form of sales tax was inevitable. Governor Ehringhaus appeared before the Assembly and urged the levying of sufficient taxes to support the state government, and, if this necessitated a sales tax, he recommended its adoption. "If it is the choice between a sales tax on the one hand and a decent

---

mony as to the offering of bribes was given before the committee, but the committee reported that it did not find that any Senator had violated his oath of office. Raleigh *News and Observer,* May 12, 14, 27, 28, 1931. The lobbyists' activities of the 1931 session are described by Robert Thompson in the May 31, 1931 Raleigh *News and Observer.*

[33] The 1932 state platforms of the Democratic and Republican parties. NORTH CAROLINA MANUAL (1933) 69, 77. Inaugural address of Governor J. C. B. Ehringhaus. Raleigh *News and Observer,* Jan. 6, 1933.

[34] REPORT OF THE BUDGET COMMISSION (1933). The budget bill containing tax increases is described in Raleigh *News and Observer,* Jan. 17, 1933.

[35] Budget Message of Governor Ehringhaus. *Ibid.*

[36] *Id.* Feb. 2, 1933. "Although no source of revenue was named in the motion and the sub-committee is entirely unrestricted in its scope, private expressions indicate that a general sales tax is now widely favored, many of the present advocates of that tax including those who bitterly opposed such a measure in 1931." *Ibid.*

[37] *Id.* Feb. 21, 1933.

school on the other," he declared, "I stand for the school."[38] After a hectic few days in which an economy bloc attempted to solve financial problems by slashing appropriations,[39] the Assembly settled down on the road to a state supported eight months school term and a sales tax. This tax finally took the form of a three per cent levy on retail sales of consumer's goods, with a few exemptions (flour, meal, meat, milk, lard, molasses, salt, sugar and coffee) designed to relieve the barest necessities from the tax.[40]

The legislature rejected at this session two major proposals which were advanced in place of a general sales tax. These were Senator Hinsdale's tax on luxuries[41] and Senator Clement's tax of one-half of one per cent on gross receipts from manufacturing.[42] A similar fate met proposed kilowatt hour taxes on power.[43] The mention of increased

[38] *Id.* March 14, 1933. "And if it be said that a sales tax, if such should be adopted, will bring a storm of protest, I would observe that so far the protest has come largely not from those who will pay, but from those who in the main will only collect. I can see the possibility of a mistaken judgment, but I think I know the hearts of our people. Just now they are burdened and sorely oppressed primarily with property taxes. We are proposing to relieve these. I am one of those who think that if their homes are secured they will proudly pay their pennies rather than permit the destruction of that which is near and dear to their hearts, namely, their children's opportunity." *Ibid.*

[39] *Id.* March 18-24, 1933.

[40] N. C. PUB. LAWS 1933, c. 445, §§400-427: "It is the purpose and intent of this act that the tax levied hereunder shall be added to the sales price of merchandise and thereby be passed on to the consumer instead of being absorbed by the merchant." *Id.* §402. See also, *id.* c. 522.

[41] On Jan. 20, 1933 Senator Hinsdale introduced a "luxury tax" bill essentially similar to the bill which he introduced in 1931. *Supra* note 10. The bill was estimated to produce approximately eight million dollars in additional revenue. Raleigh *News and Observer,* Jan. 21, 1933. *Id.* Feb. 15, 1933. On April 27, the Senate defeated the Hinsdale tax by a vote of twenty-seven to twenty-one. *Id.* April 28, 1933. "Senator Hanes declared that Senator Hinsdale's proposed tax on tobacco products would cut down consumption and therefore mean less income taxes would be paid by those engaged in the manufacture and sale of those products. Senator Waynick disagreed with him, claiming the relationship between the tobacco companies and the state, as pictured by Senator Hanes, was 'almost pathetic.' Tax tobacco, he urged, pointing out that last year 'North Carolina growers got $48,000,000 for their crop while the three big tobacco manufacturers in the state had net earnings of twice that amount'." *Ibid.* On April 13 the House had rejected a selected commodities tax offered by Representatives Newman, Thompson, Olive and Turner. *Id.* April 14, 1933.

[42] Senator Clement proposed a tax of one-half of one per cent upon gross receipts from production and manufacture. He estimated the bill would raise in excess of ten million dollars. *Id.* Jan. 11, Feb. 2, 1933. On April 27 the Senate rejected by a viva voce vote an amendment offered by Senator Clement providing for a production tax. *Id.* April 28, 1933.

[43] Representative Ewing proposed a tax of one-half mill per kilowatt hour on electric power generated and sold within North Carolina. *Id.* April 11, 1933. On April 11 the House voted to insert the Ewing one-half mill kilowatt hour tax in the revenue bill. *Id.* April 12, 1933. The Senate eliminated the kilowatt hour tax from the bill, *id.* April 22, 1933, and the House accepted the elimination. *Id.* May 6, 1933. Earlier in the session Representative Ewing had introduced a bill for a one mill kilowatt hour tax, *id.* April 12, 1933, and Senator Moore had also introduced a bill for a one mill tax. *Id.* Jan. 12, 13.

taxes on industry invoked warnings that North Carolina should not burden manufacturers who must compete with manufacturers in other states. The Aluminum Company of America told the Joint Finance Committee that Senator Moore's one mill kilowatt hour tax would make it impossible to manufacture aluminum profitably in North Carolina.[44] The cotton mills contended that North Carolina mills "were already at a disadvantage compared with those further south in respect to wages and taxes and power and asked that no increases be made."[45] The tobacco manufacturers objected particularly to a luxury tax or a production tax. The Committee was reminded that because North Carolina in the past had adopted a "reasonable and conservative attitude toward business" the Reynolds Tobacco Company had dismantled plants in other states and concentrated its activities in North Carolina.[46] A few days later there appeared in state newspapers the following dispatch from the Associated Press: "Winston-Salem. Feb. 15. Officials of the R. J. Reynolds Tobacco Company today rejected an invitation from the Danville (Va.) chamber of commerce to remove the company's plant to that city. A delegation . . . presented the invitation to S. Clay Williams, president of the R. J. Reynolds Company. They offered as inducements a tract of land without cost, exemption from local taxation for five years and a low rate of taxation after that time. Mr. Williams thanked the delegation for their offer but said the company is not 'contemplating removing its factories now.' He added that the future course of taxation of tobacco products in North Carolina probably will shape that company's policy in regard to removal."[47]

Not only through the adoption of a general sales tax, but also through the increase of the income tax was the man of moderate income to pay disproportionately. In 1933 the income tax rates were

[44] *Id.* Feb. 1, 1933.

[45] "They objected particularly to the production tax proposed by Senator Hayden Clement and to the budget increase in the franchise tax from $1.25 to $1.75 on each $1000 of capital assets." *Id.* Jan. 28, 1933.

[46] On Jan. 23, 1933 Mr. S. Clay Williams appeared, in behalf of the R. J. Reynolds Tobacco Company, before the Joint Finance Committee of the General Assembly. Mr. Williams "pointed out that those managing the tobacco companies and other large enterprises did not own them and said that he would not know how to answer if forced to tell stockholders his company was remaining in North Carolina when it would be cheaper to go somewhere else and operate. 'Do not put any of us managing North Carolina companies, who want to stay here and are determined to stay here in any such position as that,' he urged. Mr. Williams declared that because in the past North Carolina had adopted a 'reasonable and conservative attitude toward business' the R. J. Reynolds Tobacco Company had concentrated its activities in North Carolina, although the process involved dismantling valuable plants in other states. He reminded the committee that North Carolina grew industrially when the tax situation was favorable but that in 1927 the cotton mills moved from New England and flew over North Carolina into more valuable territory." *Id.* Jan. 24, 1933.

[47] *Id.* Feb. 16, 1933.

increased so that a minimum rate of three per cent was imposed on the first two thousand above exemptions, four per cent on the next two thousand, five per cent on the next two thousand, and six per cent on all over six thousand dollars.[48] Thus North Carolina adopted an income tax with such a limited spread in progressions that the man in the lowest bracket had to pay three per cent and men of both modest and immense incomes fell in the six per cent class. To be sure, the North Carolina constitution limits the maximum rate to six per cent,[49] but when there are constitutional obstacles to exacting a greater contribution from the rich, it is questionable whether, as a matter of equity, the taxes on lower incomes should be raised. Then, too, were the state constitutional restriction removed, it would remain to be seen whether the wearisome threats of wealth would prevent North Carolina from raising her rates above those of other states.

When the sales tax was adopted in 1933 it was officially declared to be an emergency measure. The act itself so recited.[50] "If a sales tax is levied," Governor Ehringhaus told the Assembly, "it should be levied with the distinct understanding that it is an emergency measure, adopted for the period of the emergency, to save the state's credit and keep going its essential activities."[51] We come to the session of 1935 to examine the fate of an effort to remove the sales tax. The Budget Commission instead of recommending any taxes to take the place of the sales tax or to permit a moderation of its rate, recommended that the ex-

[48] N. C. PUB. LAWS 1933, c. 445, §310. In the 1931 statute the rates were: two per cent on the first two thousand over exemptions, three per cent on the next two thousand, four per cent on the next two thousand, five per cent on the next two thousand, five and one-half per cent on the next two thousand, and six per cent on the excess over ten thousand. *Id.* 1931, c. 427, §310.

[49] N. C. CONST. art. V, §3: "The General Assembly may also tax trades, professions, franchises, and incomes: Provided, the rate of tax on incomes shall not in any case exceed six per cent (6%), and there shall be allowed the following exemptions to be deducted from the amount of annual incomes, to-wit: for married man with a wife living with him, or to a widow or widower having minor child or children, natural or adopted, not less than $2,000; to all other persons not less than $1,000, and there may be allowed other deductions (not including living expenses) so that only net incomes are taxed." The proposed constitution, submitted by the General Assembly of 1933, but which was not voted upon by the people (207 N. C. 879, 880), did not contain any specific limitations on the income tax. N. C. PUB. LAWS 1933, c. 383. The General Assembly of 1935 submitted an amendment to the constitution increasing the possible maximum rate from six per cent to ten per cent. The amendment is to be voted upon at the next general election, in November 1936. *Id.* 1935, c. 248.

[50] N. C. PUB. LAWS 1933, c. 445, §401. "The taxes levied in this article are additional and extraordinary taxes to meet a supreme emergency in the shrinkage of the ordinary revenues of the state and as a further relief from property taxes to provide another form of revenue for the support of the public schools of the state in substitution for the taxes levied on property for this purpose. They are levied for the biennium of fiscal years beginning July 1, 1933, and ending June 30, 1935."

[51] Raleigh *News and Observer,* March 14, 1933.

emptions accorded the "essential articles of food" should be removed,—a most expedient method of budget balancing.[52] A program designed to replace the sales tax was offered by Representative McDonald and Representative Lumpkin. Their plan, which was estimated to raise more revenue than that estimated for the exemptionless sales tax, consisted of four principal features: a new tax of six per cent on dividends from stock in domestic and foreign corporations; miscellaneous increases in corporation franchise taxes; increases in taxes on premium receipts of insurance companies; and occupational license taxes measured by extent of business.[53] The opposition was the same old story. "We can't get new industries interested because of the tax burden and the tax trend in North Carolina," a representative of the Duke Power Company told the committee.[54] The insurance companies were on hand to tell

[52] "In balancing the General Fund budget for the biennium 1935-37, the recommendations are worked out with a view of levying no new taxes. The present revenue laws are calculated to raise sufficient moneys to balance the budget with only one change—that is, eliminating the conditional exemptions in the sales tax law." REPORT OF THE BUDGET COMMISSION (1935-1937) XV.

[53] The McDonald-Lumpkin tax program, presented by Representatives Ralph McDonald of Forsyth and W. L. Lumpkin of Franklin, was laid before the Joint Finance Committee on February 12, 1935. The revenue to be derived from the plan "was estimated at $12,361,094.98, as compared to $8,750,000 which Governor Ehringhaus estimated would be raised by the sales tax, extended to staple foods, . . ." Raleigh *News and Observer*, Feb. 13, 1935.

The six per cent income tax on dividends was estimated to yield $3,086,538. The franchise tax increases were expected to produce $4,682,679.74. "The franchise tax proposals were: to increase the tax on railroads from 0.9 to 1 per cent on assessed value; to increase power companies from 6 to 8 per cent of gross revenue; to increase the Pullman Company from 10 to 12 per cent of gross receipts; to increase telephone companies from 6 to 8 per cent of gross receipts; to increase telegraph companies from $7 to $9 a pole mile; to increase bus companies from 6 to 8 per cent of gross receipts; to retain the present franchise tax on domestic corporations at $1.50 per $1,000 of capital stock, surplus and undivided profits but to add a tax of one-half of 1 per cent of assessed value of the corporation's property, (thus adding $1,488,261.17 to the $796,230.76 tax proposed by the Budget Commission); to retain the present franchise tax on foreign corporations of $1.50 on each $1,000 of allocable capital stock, surplus and undivided profits but to add a tax of one-half of 1 per cent of assessed value of property, (thus adding $2,344,249.65 to the $711,769.21 tax proposed by the Budget Commission). *Ibid.*

"The proposed increases of insurance taxes, estimated to add $350,483.04 to the state's revenue, would increase the tax on gross premium receipts in domestic life and fire insurance companies from 3-4 to 2 per cent; on foreign life and fire companies from 2 1-2 per cent to 3 per cent; on compensation insurance from 4 to 5 per cent." *Ibid.*

The occupational license taxes would tax individuals in gainful occupations who made more than $1,000 a year from $5 to $900 occupational tax, the $900 becoming effective only on those who made $45,000 or more. The occupational tax was estimated to produce $1,750,000. *Ibid.*

Other items of the McDonald-Lumpkin plan included a retail merchants license tax of 1-4 of 1 per cent of sales, estimated to raise $1,014,937.50; a wholesale merchants license tax of 1-8 of 1 per cent, estimated to raise $170,000; a chain filling station tax, estimated to raise $776,050; and a tax of 10 per cent on gross admissions of theatres, above $12,000 a year, estimated to raise $530,406.70. *Ibid.*

[54] *Id.* Feb. 20, 1935.

again of the reciprocal laws and to complain that tax increases in North Carolina would make it hard for them to expand in other states.[55] The tax on income from domestic stock, it was said, was sure to run wealthy men from the state. An example was given of a very wealthy man of Winston-Salem who was said to have an income of well over a million dollars a year from dividends and whose income tax would be increased from fifteen thousand dollars to over ninety thousand dollars under the McDonald-Lumpkin plan. The un-named gentleman was reported to be contemplating leaving North Carolina. The committee was reminded that if this catastrophe occurred the state would be the loser of a potential seven million dollar inheritance tax.[56] The McDonald-Lumpkin proposals were defeated.[57] These proposals, or even modifications of one or more of them might have been used to reduce the rate of the sales tax, or at least to make unnecessary an increase in its severity. Instead, the General Assembly, needing more money, extended the sales tax to include the so-called essential foods.

The sales tax itself is not free from the effects of interstate competition. Very often it is convenient and economical to order goods from beyond the state's borders, and if the transaction is one in interstate commerce, neither North Carolina nor the state in which the goods are purchased can collect a tax on the sale.[58] The man who lives from

[55] *Ibid.* See also, *id.* Feb. 21, 1935: "North Carolina is not getting its share of the rayon development," said Spencer Love of Burlington. "Taxes have been the hold back." He gave instances of manufacturers moving South who passed this state by because of the tax rate.

Mr. Bernard Cone, Greensboro manufacturer, "frankly explained his general tax philosophy. High taxes, he said, 'are not going to persuade the rich man to come to the state, to stay in the state, or to die in the state. And the welfare of your state depends on your rich citizens and your rich corporations'." *Ibid.*

[56] *Id.* Feb. 22, 1935.

[57] On Feb. 26, 1935 the Joint Finance Committee voted down a motion to eliminate the general sales tax from the revenue bill. The McDonald-Lumpkin amendments were then withdrawn from committee consideration with the notice that they would be offered on the floor. *Id.* Feb. 27, 1935. When the bill was taken to the floor of the House the anti-sales-tax forces gained such control at different times as to write some of their proposals in the bill, but then the House would soon reverse itself and eliminate these changes. *Id.* March 21, 22, 26, 27, 1935. The situation in the Senate was somewhat similar. *Id.* April 5, 24, May 12, 1935.

[58] In 1934 the North Carolina Department of Revenue suggested that Congress authorize the states to tax certain sales in interstate commerce. It was proposed that the state into which the goods were shipped for use or consumption should be permitted to impose the same tax upon a sale in interstate commerce as it imposed upon intrastate sales. S. 2897, introduced by Senator Harrison of Mississippi and embodying the proposed authorization, passed the Senate March 15, 1934, but was not acted upon by the House. A similar bill, H. R. 8303, was introduced in the House but was not reported by the Committee on Interstate and Foreign Commerce. *Hearings on Interstate Sales Tax,* H. R. 8303, Seventy-Third Congress, Second Session, 1934. PROCEEDINGS OF THE NATIONAL ASSO. STATE TAX ADMINISTRATORS (1934). Perkins, *The Sales Tax and Transactions in Interstate Commerce* (1934) 12 N. C. L. REV. 99.

hand to mouth will order some of his clothes and household effects from outside the state, but carrying charges and cost of money orders for these will be about as much as the tax. Avoidance of the sales tax will not prompt him to do much mail-ordering. Of course he simply has not the funds to make quantity purchases or to buy costly items. It is through purchases of expensive articles by people in better circumstances and on which a three per cent tax is a sizeable figure, that the state becomes more forcibly aware of interstate competition. Then the state makes a concession—a concession which produces an even more regressive tax. The North Carolina statute says that the maximum tax that shall be imposed upon any single article shall be ten dollars.[59] The result is that the purchaser of the less expensive article may pay at a considerably higher rate than the person who can afford the better product. Take the common example of automobiles. One who buys a five hundred dollar car pays two per cent. The purchaser of a one thousand dollar car pays one per cent, a two thousand dollar car, one-half of one per cent, etc. There is regression with a vengeance.

One of the amazing aspects of this shifting of a large part of the state's taxes directly to the man of little means is the mistaken idea under which it has been accomplished. The story was that property taxes had to be reduced, that homes and farms must be saved, and salvation was to be found in a sales tax. As for justice, what could be more just than a tax which was paid alike by everybody—or so it was said. Of course the truth is, and it is perfectly obvious, that when property taxes are reduced through a general sales tax, only the wealthier owner benefits, for the sales tax of the small home owner more than offsets his property tax reduction. It is a rare experience to find a man of wealth who does not advocate a sales tax, though his advocacy is generally couched in terms of "broadening the tax base," "bringing home a feeling of responsibility for government," and "essentially just because all pay alike." And what is true of wealthy individuals is true of other large property owners. Mr. Maxwell, Commissioner of Revenue of North Carolina, thus described the advocacy in 1931: ". . . every lobbyist of every railroad company, every telephone company, every power company and every tobacco company in Raleigh for the last thirty days has been working for a general sales tax. If this is not true," he asserted, "I invite them to an open denial of that statement.—I have no difficulty in understanding why these big property owners should support the MacLean bill and the sales tax. The sales tax takes the burden off of them without putting it back again, while for the average farmer

[59] N. C. PUB. LAWS 1935, c. 371, §404.

and home owner it puts two dollars tax back for every dollar of tax it takes off. It does not relieve distress where distress exists, but inevitably adds to the burdens of those who are in the greatest need."[60]

The general statement that the shifting of taxes from property to consumption has benefited the wealthier and has been to the detriment of the under-propertied, can be made specific. The assessed valuation of property in North Carolina in 1934 was $2,152,443,146.[61] The sales tax collections for the twelve months ending June 30, 1935 were $7,657,498.[62] Had this sum, which was derived from the sales tax, been raised by a tax on property, it would have meant a rate of three dollars and fifty-six cents on the thousand dollars. The shift from property to consumption therefore meant a saving of three dollars and fifty-six cents per thousand. How much total reduction would this mean to different classes of taxpayers, and how much would these different classes probably pay through the sales tax? The accompanying table shows the gain or loss to various classes. The first vertical column shows different classes of property owners from those without any taxable property to those with $100,000 of taxable property. The next vertical column shows the amount of property tax which would be saved by each class through the reduction of three dollars and fifty-six cents on the thousand. Then come the tell-tale columns. The figure at the top of each represents an amount of taxable purchases. The second figure from the top in each column is the amount of the three per cent tax on the taxable purchases directly above. In order to determine gain or loss select an amount of taxable property, then run the finger out under the probable amount of purchases made by that taxpayer. The figure there shows the gain or loss represented by the plus or minus sign. This figure is the difference between the three per cent tax on the assumed amount of purchases and the property tax reduction for that taxpayer. Of course the man without any property pays most dearly here, as he always does. But consider, for example, a person with $1,000 of taxable property. He would lose $10.68 on purchases of $475—$24.92 if he made purchases of $949. Only if he bought as little as $119 would he break even. On the other hand, the person with $75,000 or $100,000 of taxable property can purchase considerably more before he catches up with his property tax reduction. Take the case of a clerk who gets twenty-five dollars a week and has managed to acquire a small amount

[60] Raleigh *News and Observer,* March 28, 1931.

[61] COMPARATIVE TABLE SHOWING TOTAL ASSESSED VALUATION OF PROPERTY IN NORTH CAROLINA 1933-1934, issued by the North Carolina Department of Revenue. The assessed valuation in 1933 was $2,089,209,188.

[62] Information furnished by the North Carolina Department of Revenue in letter of Sept. 19, 1935.

GAIN OR LOSS TO VARIOUS CLASSES OF TAXPAYERS IN NORTH CAROLINA AS RESULT OF SUBSTITUTION OF THREE PER CENT SALES TAX FOR PROPERTY TAX, 1934-35

Taxable Purchases →		$119	$237	$356	$475	$593	$712	$949	$1,187	$1,780	$2,373	$3,560	$ 5,933	$8,900	$11,867
Taxable Property ↓	Property Tax Reduction														
0	0	— 3.56	— 7.12	— 10.68	— 14.24	— 17.80	— 21.36	— 28.48	— 35.60	— 53.40	— 71.20	—106.80	—178.00	—267.00	—356.00
1,000	— 3.56		— 3.56	— 7.12	— 10.68	— 14.24	— 17.80	— 24.92	— 32.04	— 49.84	— 67.64	—103.24	—174.44	—263.44	—352.44
2,000	— 7.12	+ 3.56		— 3.56	— 7.12	— 10.68	— 14.24	— 21.36	— 28.48	— 46.28	— 64.08	— 99.68	—170.88	—259.88	—348.88
3,000	— 10.68	+ 7.12	+ 3.56		— 3.56	— 7.12	— 10.68	— 17.80	— 24.92	— 42.72	— 60.52	— 96.12	—167.32	—256.32	—345.32
4,000	— 14.24	+ 10.68	+ 7.12	+ 3.56		— 3.56	— 7.12	— 14.24	— 21.36	— 39.16	— 56.96	— 92.56	—163.76	—252.76	—341.76
5,000	— 17.80	+ 14.24	+ 10.68	+ 7.12	+ 3.56		— 3.56	— 10.68	— 17.80	— 35.60	— 53.40	— 89.00	—160.20	—249.20	—338.20
6,000	— 21.36	+ 17.80	+ 14.24	+ 10.68	+ 7.12	+ 3.56		— 7.12	— 14.24	— 32.04	— 49.84	— 85.44	—156.64	—245.64	—334.64
8,000	— 28.48	+ 24.92	+ 21.36	+ 17.80	+ 14.24	+ 10.68	+ 7.12		— 7.12	— 24.92	— 42.72	— 78.32	—149.52	—238.52	—327.52
10,000	— 35.60	+ 32.04	+ 28.48	+ 24.92	+ 21.36	+ 17.80	+ 14.24	+ 7.12		— 17.80	— 35.60	— 71.20	—142.40	—231.40	—320.40
15,000	— 53.40	+ 49.84	+ 46.28	+ 42.72	+ 39.16	+ 35.60	+ 32.04	+ 24.92	+ 17.80		— 17.80	— 53.40	—124.60	—213.60	—302.60
20,000	— 71.20	+ 67.64	+ 64.08	+ 60.52	+ 56.96	+ 53.40	+ 49.84	+ 42.72	+ 35.60	+ 17.80		— 35.60	—106.80	—195.80	—284.80
30,000	—106.80	+103.24	+ 99.68	+ 96.12	+ 92.56	+ 89.00	+ 85.44	+ 78.32	+ 71.20	+ 53.40	+ 35.60		— 71.20	—160.20	—249.20
50,000	—178.00	+174.44	+170.88	+167.32	+163.76	+160.20	+156.64	+149.52	+142.40	+124.60	+106.80	+71.20		— 89.00	—178.00
75,000	—267.00	+263.44	+259.88	+256.32	+252.76	+249.20	+245.64	+238.52	+231.40	+213.60	+195.80	+160.20	+ 89.00		— 89.00
100,000	—356.00	+352.44	+348.88	+345.32	+341.76	+338.20	+334.64	+327.52	+320.40	+302.60	+284.80	+249.20	+178.00	+ 89.00	

Assessed valuation property 1934, $2,152,443,146.00.
Sales tax collections for twelve months ending June 30, 1935, $7,657,498.16.
This would make possible a property tax reduction of $3.56 per $1,000 valuation.

The form of this table was suggested by Mr. Clarence Heer of the University of North Carolina.

of property which is on the tax books for $1,000. If he is to break even in this "tax reduction" scheme, he must confine his taxable expenditures to the incredible sum of $119. For every dollar he spends on taxable goods over $119, he pays for a wealthier man's tax relief.

Let us compare with this the case of a man who has $100,000 of property on the tax books and has an income of $12,000. He would have to spend almost every dollar of his income on taxable goods before he would repay to the state the amount of his property tax reduction. And even then it is assumed that he pays at the rate of three per cent. For him, however, it has been indicated that due to the ten dollar maximum, the rate on a sizeable amount of his purchases is likely to be less than three per cent. It is with good reason that persons of wealth talk of "broadening the tax base." As the North Carolina Tax Commission once said, the sales tax "is the most successful form of tax on poverty that could be invented."[63]

It is not contended that state taxes on business and industry have not been increased in the depression years. Franchise taxes, license taxes and corporation income taxes have been increased.[64] It is contended that taxes on industry have been moderated by considerations of interstate competition. It is also believed that the defeat of proposals for taxes which would single out profitable businesses for a greater contribution has been due in no small degree to warnings that the business might leave the state. Furthermore it is contended that wealthy individuals have not carried a commensurate share of the tax increases. "The rates of the

[63] "The general sales tax has some features that commend it. It starts out with universal application to all articles of commerce, and does not, therefore, aim at requiring purchasers of a given article to pay the taxes of others who do not happen to use that particular article, as does the sales tax on selected articles. If resolutely applied to all commodities it has larger revenue possibilities than sales taxes on selected articles. It requires installment payment of taxes, by taking its toll on all purchases each day, instead of in lump sums at given periods. It is a tax on consumption, and hence has little, if any, bearing on the location of competitive industries.

"But in our opinion this series of advantages of the general sales tax is outweighed by its infirmities. It takes little account of ability to pay, and is the most successful form of tax on poverty that could be invented. It stands between the hungry and every loaf of bread and demands its payment in advance. It would take its toll from the very sums that charity distributes to help feed the unemployed and the helpless. To the extent that it took any tax off the landlord it would pass it on to his impoverished tenant, and from the owner of the factory to his partially employed laborers. . . ." REPORT OF THE N. C. TAX COMMISSION (1930) 25.

[64] The corporation income tax has been increased from four and one-half per cent to six per cent of net income. There have been numerous increases in the license taxes. The franchise tax on railroads has been increased from two-fifths of one per cent to nine-tenths of one per cent of the railroad's property in North Carolina; electric light, power, gas and street railway companies from two per cent to six per cent of gross earnings; sleeping and dining car companies from eight to ten per cent of gross earnings; express companies from fifteen, eighteen and twenty-one dollars per mile depending on net income, to eighteen, twenty-one and twenty-five dollars per mile depending on net income; telegraph companies from five dollars to seven dollars per mile of line; telephone companies from three and one-half per cent to six per cent of gross earnings; domestic and foreign corporations from one dollar per thousand dollars to one dollar and seventy-five cents per thousand dollars of capital, surplus and undivided profits. N. C. PUB. LAWS 1929, c. 345; *id.* 1931, c. 427; *id.* 1933, c. 445; *id.* 1935, c. 371.

income tax have been raised,"—but more steeply for the smaller incomes. "The six per cent maximum in the North Carolina constitution prevents us from going higher on the larger incomes,"—that is true, and so should we not have adopted the proposed tax on dividends from corporate stock; in the main, that would fall on persons who are better able to pay. "Some of them would leave North Carolina." And so it goes. Taxes are placed on consumption, for the class of persons who pay heavily through consumption taxes are quite localized. There can be no threats of removal for them.

We should not be deluded into thinking that interstate competition alone has led us to regressive taxation. Although an important one, it is only one factor. There is a considerable body of opinion which affirms that, "the sales tax is essentially just because all pay alike." The opponents of progressive taxation are numerous, articulate and influential. The existence of state lines is only a handy weapon. When state lines no longer matter in taxation, the opponents of progressive taxation will still be with us. It is extremely important, however, that it be made impossible for one section of the country to hold itself out, or to be held out, as a refuge from taxation.

The only satisfactory solution which is on the horizon, and that is distant and but dimly outlined, is the complete nationalizing of taxation. State lines should be meaningless in the collection of taxes and in the providing of governmental service. It is in the national interest that all sections of our country have a high quality of the benefits which government provides. The schools of the South, the West and the North should be of a high excellence. The attainment of this through state taxation seems impossible. We do not have to take the first step to the solution. It was taken a hundred years ago when the federal government distributed a surplus among the states, and the steps, in the form of federal grants, have increased with the years. In order to reduce the surplus in the federal treasury, Congress distributed twenty-eight million dollars among the states in 1837. Since that time Congress has granted funds to the states for the maintenance of agricultural experiment stations and agricultural colleges, for agricultural extension work, vocational education, vocational rehabilitation, maternity and infancy hygiene, highways, and forest fire prevention. These grants have not been a recent development in federal-state relationships, but have been a continuous progress founded upon the distribution of the surplus of a century ago. It is believed that ultimately all government in this country should be a national responsibility, but this should be accomplished through gradually expanding and successfully executed federal financing

of state government. The functions in which there is a more obvious national interest, for example, education, health, unemployment insurance, should be the first to receive the benefit of national standards. With the successful advancement of high standards in fields such as these, the process should be continued to the end that the financing of government will be a national function. With various unannounced motives there will be diatribes against the "invasion of states' rights." There were, a hundred years ago. But "states' rights" (the sins committed in thy name!) will continue to yield to the national welfare. It may be some time before the objective of federal taxation and a uniform excellence of government is attained, but the sooner the time comes, the better it will be for the common well-being.