... TAX REFORM IN SOUTH CAROLINA
Tax Reform in South Carolina
With Summary of the Report of the Joint Special Committee on Revenue and Taxation

By Reed Smith

The tax problem is now and will be for years to come the leading problem of South Carolina. Solve it, and of necessity our other problems such as education, good roads, public health, the proper treatment of the dependent, the defective, and the delinquent, etc., will solve themselves. It is largely a matter of dollars and cents. You can’t get an automobile for the price of a wheelbarrow. Nor can you conduct, efficiently and progressively, the complicated business of a modern sovereign State without paying for it, either in money or in failure.
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THE BLIND MEN AND THE ELEPHANT

Once four blind men went to see an elephant. The first one caught hold of its trunk and said, "The elephant is like a snake." The second one seized its tail and cried, "No, the elephant is more like a rope." The third man felt its side and declared, "By no means. The elephant is like a wall." The fourth man grasped its leg and laughed, "You are all wrong. The elephant is exactly like a tree."

The funny part of it is not that all of them were wrong, but that each was right—as far as he went.

If you asked a dozen thoughtful men "What does South Carolina need most?" you would get twelve different answers—and all would be correct.

"Good roads," one would say. "Our roads are a disgrace. We need a hundred million dollars worth of well-graded, hard-surfaced roads. Why, when I was in Florida last year" (or maybe Massachusetts or California), and then you would hear of a good roads paradise.

"What South Carolina needs most," another would say, "is not material things like good roads, but a more sympathetic and scientific way of dealing with our dependent and defective classes. The State is not doing its duty in organized charity and social welfare work. Too much is left to chance and to individual effort. The strong arm of the State must be stretched out mightily and intelligently to protect the weak and the helpless, to give the underprivileged a fair chance and a square deal."

"The greatest need of South Carolina," a third would say, "is increased court facilities and prison reform. For lack of judges and court machinery justice is delayed for months and even for years. And our penal system is medieval and cruel. We look not at the criminal, but at the crime. We punish by hard and fast rules, fitting the criminal to the punishment, not the punishment to the criminal. The criminal is usually a..."
man who is socially sick. We should try to cure him and restore him to society, instead of hounding him down as we would a mad dog or a wolf."

"Why ask?" another would say. "Everyone knows that the State's chief need is education. As was brought out at the recent Educational Conference in Spartanburg,

"1. South Carolina has the smallest number of citizens who can read, with the single exception of Louisiana.

"2. South Carolina spends the smallest amount per capita for the education of the children in public schools.

"3. South Carolina has its public schools in operation the smallest number of days in the year—110.

"4. South Carolina has the smallest percentage of boys and girls attending high schools—2.2 per cent.

"5. South Carolina has the smallest number of free public libraries—1.9 per cent.

"6. In all educational lines South Carolina averages the lowest in the country—occupies the 48th place.

Thus is our beloved State advertised to the entire world. The Palmetto flag flies over more mental darkness and ignorance to the square inch than exists in any other State in the Union, save possibly one."

Now, which of all these needs could be declared unnecessary? Put it to a vote all over South Carolina and you would get a unanimous verdict in favor of all of them.

What is the trouble, then? Why don't we get them? The trouble is that they all cost money, much money. That is all, but it is enough. Find a way to double or treble the State's income and all our troubles would vanish. But the only source of income the State has is taxation. And taxation is a sore subject. Nobody wants to think about it, talk about it, or hear about it. "I'll discuss education with you, or good roads, or prison reform, or the League of Nations, but don't bring up the subject of taxes. The only thing I know about taxes is that they are too high and I want them reduced."
All of which brings us right back to where we started from. The tax problem is the key problem of South Carolina. Solve it, and of necessity our other problems will solve themselves, and not before. It is largely a matter of dollars and cents. You can’t get an automobile for the price of a wheelbarrow. Nor can you conduct, efficiently and progressively, the expensive business of a modern sovereign State without paying for it, either in money or in failure.
THE LOWNESS OF LOW TAXES

“Taxation is nothing more than a method of securing to all the people at the lowest cost by responsible agencies the benefits of common action and common institutions.”

That is the best definition of taxation ever phrased. It goes to the heart of the matter: Common benefits and common services of the people, by the people, for the people.

What are the benefits and services made possible by taxation and made possible by taxation alone? They are these, the greatest public welfare movements of organized society: Through taxation the State provides education for all of our children; college and university instruction for our young men and women; special education for the deaf and blind; it provides institutional care for neglected and illegitimate children; treatment for the unfortunate insane; correctional care for the criminal; training for the feeble-minded; a practical education for our delinquent adolescent youths; protection against the ravages of tuberculosis and other contagious and infectious diseases; it gives police protection to our industries, as well as the citizen, and provides (too inadequately, it is true,) for our Confederate soldiers, and, through the instrumentality of the Courts, a means for the protection of property rights, as well as the security of the person.*

Whether these great fundamental benefits are good, bad, or indifferent, depends wholly on how we support them. There is no mystery or magic about it.

It's as simple as twice two is four.

No taxes, no State services.
Low taxes, low grade State services.
High taxes, high grade State services.

That is the whole story. A thousand years of argument by the thousand greatest orators and the thousand greatest newspapers in this or any other world cannot change it.

No taxes, no State services.
Low taxes, low-grade State services.
High taxes, high-grade State services.

*From Governor Cooper's Annual Message, 1921.
Look the facts squarely in the eye, then, and realize what is meant by lower taxes.

Lower taxes mean a less efficient government. *(Do you think ours in South Carolina is too good for us?)*

Lower taxes mean a lower health rate and a higher death rate. *(Do you think South Carolina has too few epidemics and too few dead babies?)*

Lower taxes mean rougher, ruttier, muddier, and sandier roads. *(Do you think we have too many good roads now?)*

Lower taxes mean that less care and attention will be taken of the deaf and the blind, of the feeble-minded, and of the insane. *(Do you think South Carolina is doing too much for those upon whom the hand of affliction has been heavily and permanently laid?)*

Lower taxes mean that the door of the school house will be shut in the face of some child or adult illiterate who has not had your chance at life’s opportunities. *(Have you not heard where South Carolina, your own home State, stands in illiteracy among her sister States of this Republic?)*

Yes, “lower taxes” mean all that and more.

Low taxes mean a low South Carolina.
There are right ways of getting at the facts about taxes in South Carolina, but the only way open to most people is a wrong way. This is to judge by the actual mill levy. But the mill levy is only half the story. The other half is the basis on which property is returned for taxation; that is, the percentage of its estimated true value. For the actual amount of money paid in taxes is a compound figure, the product gained by multiplying the return value of property by the mill levy.

The problem is thus exactly like that of obtaining the acreage of a field: the length must be multiplied by the breadth. It is just as reasonable to try to get at the size of a piece of land when its breadth alone is known, as to try to estimate taxes by the mill levy alone. My farm is a quarter of a mile wide. How many acres do I own? You can't tell until you know how long it is. My State tax levy is twelve mills. Are my taxes high? That depends upon whether my property is returned at a high or a low figure. If my house and lot are worth $10,000 and I succeed in getting them on the tax books at $1,500, the city and state can go as far as they like in the matter of the mill levy. They can't get much out of me. Or if my farm is worth $200 an acre and I can manage to have it assessed at $10 or $15 an acre, the county and the state won't get rich at my expense.

It is not the mill levy but the return value of property that chiefly matters.

Now, the percentage of value at which property is returned in the forty-eight states varies astonishingly, running all the way from 100 per cent in twelve states down to 20 per cent in Nebraska. Illinois returns at 23 per cent, and North Dakota and South Carolina at 25 per cent. Our law requires 42 per cent in South Carolina, but it is the judgment of the Census Bureau that 25 per cent is nearer the actual figure. This latter figure is probably correct, for if any property in South Carolina except banks, railroads, and cotton mills is returned at anything like 42 per cent of its actual value, it may be stated without fear of successful contradiction that somebody was
caught napping—and taxpayers in South Carolina never shut both eyes at the same time.

Here are actual examples of how misleading it is to try to compare our taxes with taxes in other States on the basis of the mill levy alone. In Ohio property is returned at 100 per cent; in South Dakota at 75 per cent, in Louisiana at 50 per cent, and, as has been stated, in South Carolina, at 25 per cent. Thus a 3 mill levy in Ohio is exactly equivalent to a 4 mill levy in South Dakota, a 6 mill levy in Louisiana, and a 12 mill levy in South Carolina. Tell a man in Ohio or South Dakota that our State levy is 12 mills, and that in some counties the total levy of city, county and State runs up to 70, 80 and even 90 mills, and he'd rather locate his farm or factory in the infernal regions than in South Carolina.

Our absurdly low return value of property is to blame. And within the State itself grave injustices and inequalities result from the same cause. The counties vie with each other in trying to get the lowest possible return value in order to duck the State tax levy, which applies to all counties alike. Individually each county provides for its own budget by putting the county mill levy at whatever figure is needed to take care of the county supply bill. The lower the return value of property, the higher, of course, is the county levy, but as the State levy is a blanket levy, which in the nature of things cannot be raised beyond certain limits, an extremely low return value enables the individual counties proportionately to duck their fair share of the State tax and thus leave the other "less fortunate" counties to bear the lion's share of supporting State enterprises and State expenses. When the time to pay State taxes comes around, it's like the old game of "Button! button! Who's got the button?"

Our tax system is thus like a low-gear engine. It puffs very fast and rattles very loud, but doesn't deliver enough steam to do more than keep the whistle blowing.
THE WAY OUT

The Blind Alley

South Carolina is one of a sisterhood of forty-eight States. Each State is an integral part of the Union, yet free and sovereign in itself, responsible for the life, liberty, and pursuit of happiness of those who live within its borders.

Each State conducts independently the great governmental enterprises and public welfare movement for the sake of which the State exists,—good government, protection of person and property, conservation of health and sanitation, development and conservation of natural resources, highways, roads, and bridges, caring for the dependent and the defective, restraining and punishing the delinquent, the education of all the children of all the people.

In regard to these great enterprises, South Carolina trails the other forty-seven States, unable to keep the pace, paying less for and affording less of these common benefits than any other, advertised to the world as containing within its borders the greatest proportion of ignorance and mental darkness, a self-constituted tail-ender in the national procession.

The Stone Wall

The reason is that South Carolina has the cheapest government in America, which is just another way of saying that South Carolina spends less and does less for its citizens than any other State. It is a plain business matter of dollars and cents, which would be ridiculous if it were not tragic. In 1919 the average per capita cost of government for the United States was $6.05; the average for the South Atlantic States was $3.88; the average for South Carolina was $2.40. That is, we pay less than one-half of the average for the United States and about two-thirds of the average for the South

(10)
SOUTH CAROLINA HAS THE CHEAPEST STATE GOVERNMENT PER CAPITA COST OF GOVERNMENT IN THE UNITED STATES.

SOUTH CAROLINA AFFORD IT?

SOUTHEAST $6.00
SOUTHERN ATLANTIC $3.50
UNITED STATES $2.50

SOUTH CAROLINA HAS THE CHEAPEST STATE GOVERNMENT IN AMERICA.
Atlantic States.* Of the one hundred million people living in the United States, the million and a half living in South Carolina pay least and lowest of all; and in return receive least and lowest of all. There is no reason to be surprised or disappointed at the results we are getting in education and otherwise. We are getting our money's worth. The citizens of the United States pay $6.05 each into the State treasury for State enterprises. And they get what they pay for. We in South Carolina pay $2.40 each. And we get what we pay for.

That is the trouble in general. In particular, the fault lies with our ways and means of taxation. To speak plain truth, South Carolina's tax system as a producer of revenue has broken down. Our whole tax system is based on visible property, real and personal. The incredible proportion of ninety per cent of the State's income is raised on property and property alone, while the average figure for the United States is only sixty-five per cent. Intangible property to the value of over $300,000,000 escapes untouched. The tax burden is unfairly distributed. Return values of property vary unbelievably from county to county and from district to district. Each property owner plays hide-and-seek with his property. The mill levy is high and still rising, 37 3-5 mills being the average for the counties, and 66 17-20 mills the average for the towns, the total levy in some cities reaching 70, 80 and even 90 mills. The people are vastly dissatisfied and unanimously calling for relief. The most significant—and in-

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*The per capita cost of government is not the whole story. The per capita wealth must also be taken into consideration, for South Carolina’s per capita wealth is also low,—though not so low proportionately as her per capita governmental cost. The United States Census Bureau, upon request, furnished the figures for 1912, which are the latest available. New estimates will not be made till 1923.

In 1912 the per capita wealth for the United States was $1,965; for the South Atlantic States, $1,179; for South Carolina, $869. Comparison of the per capita cost of government for these divisions with their per capita wealth gives the following ratios: For the United States the annual governmental cost is 3.10 mills of the estimated wealth; for the South Atlantic States, 3.28 mills; and for South Carolina 2.76 mills, or practically 3 1-10 mills for the United States; 3 1-4 mills for the South Atlantic States, and 2 3-4 mills for South Carolina. In other words, both absolutely and relatively, South Carolina is well below the average in her expenditures for State purposes. It is this condition which must be changed before the desired progress and development are possible.
tolerable—feature of the situation is that while individual tax payers are in many cases taxed too high, the State's income as a whole is much too low.

The hopeless part of it all is that there is not the slightest chance for improvement—as long as conditions remain the same: or in other words, until the present system of taxation is radically revised.

The Way Out

With fundamental tax revision, however, rapid improvement and permanent relief are sure. It is not a matter of guesswork or conjecture. There is no mystery or magic about it. Certain definite things are to be done, and certain definite results will follow.

Here is the way.*

1. To clear the ground, the adoption first by the General Assembly and then by the people, of amendments to the present Constitution, which will remove the general property tax limitations.

2. The passage by the General Assembly of an Act providing the necessary special machinery for revaluing the property of the State at full value and for making an accurate survey and inventory of all other taxable resources of the State.

3. Based on this survey, the passage of a comprehensive Revenue Act, which would supplement and readjust the property tax by means of a moderate form of some or all of the following supplementary taxes:
   (a) An income tax.
   (b) An inheritance tax.
   (c) An occupation or business tax.
   (d) An excise tax on articles of consumption.
   (e) A tax on all legal instruments including mortgages.
   (f) A luxury tax on theatres, moving pictures, soft drinks, professional baseball, etc.

*For details see summary of the Report of the Joint Committee, pages 44-48 below.
To accomplish this will not be easy. It will take brain-sweat and heart-sweat. It is worth it. It is the only way out. Light and leadership are sorely needed,—the calm white light of truth and the unselfish leadership of reason. Achievement is nearer than is thought. The IDEA is the thing, and the idea is already taking hold in many quarters of the State. As admirably phrased by the Joint Committee: 'In behalf of the program suggested there is one unanswerable argument,—that no system could be worse than the one we now have. By a judicious combination of a moderate property tax, a moderate personal income tax, and a moderate tax upon business, one mode of taxation dovetailing with and supplementing the other, the tax burden of the State can be more justly and equitably distributed, the galling yoke of intolerably high tax rates upon property can be removed; the vast amount of intangible property that is now contributing nothing to the public purse can be made to bear its proportionate share of the burden; the tremendous resources of taxable ability now untouched under the property tax can be reached; the aggregate burden upon the present taxpayers of the State can be lightened, the operation of the most important branch of the State government outside the pale of the law can be ended, and the curtain can be dropped forever upon the spectacle of a proud State levying tribute upon her citizens under the aegis of the black flag!
WANTED BADLY—AND WANTED WORSE

 Wanted Badly: Candidates for every State, county and municipal office in South Carolina to discuss taxation fully and frankly; to point out clearly the inconsistencies and shortcomings of the present system; to draw intelligently from the successful experience of other States in this regard; to demonstrate beyond question the necessity for thorough-going tax reform whereby the actual working income of the State can be increased to a point where South Carolinians will have a fair chance at those opportunities and advantages which it is the peculiar privilege and obligation of every modern State to provide for its citizens.

 Wanted Worse: A majority of the voters of South Carolina to be willing to listen to a full, frank discussion of taxation; to be willing to hear understandingly of the inconsistencies and shortcomings of the present system; to be willing to profit by the achievement of other States; to be willing to be convinced of the absolute necessity of tax reform; to be willing to readjust both the basis and machinery of taxation, and thus, once and for all, provide the only possible way to secure enough money to remedy bad roads, epidemic diseases, illiteracy and the other inadequacies due to State non-support, and to conduct the great State enterprises and State services in a manner worthy of South Carolina's past greatness, present opportunities, and future promise; and, finally, to have the grit and the grace to stick to it and not turn around the next year and undo it!

 AS A REWARD is guaranteed the best State in the Union.
SUMMARY OF THE REPORT OF THE JOINT SPECIAL COMMITTEE ON REVENUE AND TAXATION

The only hope for a fair and permanent solution of the tax muddle in which South Carolina is now floundering, lies in honest knowledge and unselfish thinking. The material both for the honest knowledge and unselfish thinking is already available. It consists of the Report of the Joint Special Committee on Revenue and Taxation submitted to the regular session of the General Assembly of 1921. The Report was prepared by a joint committee made up of J. H. Marion, Chairman; Niels Christensen; Joseph A. Berry; L. D. Lide; J. B. Atkinson; E. R. Buckingham.

The report is admirable in every respect—comprehensive, clear-cut, constructive and convincing.

If every person of voting age in South Carolina could be persuaded to study it from cover to cover, our tax troubles would be over.

The report covers 178 pages, including the Appendix.

The following brief summary is offered in the earnest hope of making the essential facts and arguments available to more people than the original Report could reach. The Committee's own words have been used throughout. Page references are given for those who desire fuller information.

The Right Start

If the devoutly desired consummation of bettering tax conditions in South Carolina is to be attained, it is of vital importance that the work be started right. That right start involves going to the root of the trouble. It further involves going to the people with the proposed remedy. The Committee confidently believes that its main conclusion and recommendation as to constitutional changes—changes which the people of the State will have two years to consider and discuss—provide the "right start" and the only one. No program of reform can be worked out successfully unless it has behind it the dynamic of enlightened public opinion.

The Benefits of Taxes

By means of taxes, and taxes only, the State provides (1)
laws for the preservation of life, protection of person, and security of property; (2) it enacts laws to regulate the varying transactions of its citizens and their complex commercial, industrial and social inter-relations; (3) it provides legislatures to enact such new laws and so amend existing laws as experience and ever-changing conditions of society from time to time require; (4) it provides courts to construe laws, settle controversies, and protect people in their right under the laws; (5) it provides an elaborate system of schools, common, high, normal, college and university, for the education of its children, young men, and women; (6) it provides hospitals for the insane; (7) pensions and homes for aged soldiers; (8) special schools for blind, deaf and dumb; (9) board, lodging, training and treatment for the feeble-minded and epileptic; (10) hospitals, nurses and doctors for the care and cure of the tubercular; (11) homes and hospitals for the unfortunate and the helpless; (12) houses of correction and special training for the reform of the wayward and incorrigible; (13) penal confinement for the law-breaker and the felon; (14) provides and improves highways for travel and traffic in city and country; (15) facilitates commercial and industrial enterprises; (16) regulates public service agencies and aids in bringing the remotest regions into practicable and advantageous communication with the big commercial centers; (17) provides in the cities for pavement, sewers, gas, water, electric current, heat, light, power, libraries and parks; (18) provides agents to administer and enforce the people’s laws, and officers to supervise and manage various public institutions; (19) provides grounds, buildings and equipment for many institutions and utilities; (20) and employs a large number of persons to inspect, care for and manage them; (21) extends its protecting arm to prevent the maiming and killing of the worker in factory and mine; (22) exercises a maternal care for the health of the traveling public; (23) at much expense prevents the spread of epidemics and looks after the public health; (24) and keeps a record of births and deaths within its borders; (25) propagates and promotes fish culture; (26) protects from destruction the game life of the State; (27) polices the State and punishes the criminal; (28) maintains the organization of a system of courts that justice may be dispensed among
its citizens; (29) authorizes, maintains and commands a militia, or force of home guards, for the protection of life and safety of property; (30) exercises a watchful care over the food supply of the public, preventing the use of deleterious substances, and the pollution of public drinking sources; (31) guards the savings and bank deposits of the people, insures an honest accounting of funds held in trust; (32) attempts the role of guardian for those who would invest their accumulations in "blue sky" speculation—or peculation; (33) organizes forces for the drainage of streams and reclamation of waste lands; (34) conducts experiments for the better production of fruit, poultry, cereals and live stock; (35) fights swine cholera, equine glanders, bovine tuberculosis, the cattle tick, and San Jose scale in fruit trees; (36) battles with sickness and disease in man and animals; (37) makes war on the boll weevil and army worm in cotton, chinch bugs in corn, rust in oats and grasshoppers in everything; and (38) carries on a continuous campaign for the abolition of poverty and the establishment of thrift and prosperity among its citizens.

**South Carolina's Government Cheapest**

In this connection it is interesting to note that in the year 1918 the per capita cost, $2.15, of operating the State government of South Carolina was the lowest in the Union. (Financial Statistics of States, pages 32, 68, Bureau of Census, 1918.) The average per capita governmental cost of all the States was $5.47, more than two and one-half times the per capita cost of our own State government.* There is no good reason to believe that the State's relative place in this column—carrying the honor of our favorite position in the cellar—has changed. We could, of course, "point with pride" to this distinction of having the cheapest State government in the Union if it were due wholly or partially to superior efficiency in administration and not to lack of something to administer and the wherewithal to administer it. The Committee has found no valid ground upon which to reach the more flattering conclusion.

*The 1919 figures are higher, being $6.05 for the United States as a whole, and $2.40 for South Carolina. The ratio, however, remains the same, one to two and a half.
Deductions

From the foregoing broad outline of the State's financial affairs the following would seem to be legitimate deductions:

1. That the State of South Carolina is not a pauper colony.

2. That a State which is spending approximately two and one-half times less than the average American Commonwealth for State purposes is probably doing less for its people through governmental agencies than they are entitled to.

3. That there is insistent demand for increased State revenues.

4. That this demand cannot to any appreciable extent be attributed to extravagance in appropriation or to inefficiency in administration.

5. That public revenues for both State and local purposes are almost wholly derived from the general property tax.

6. That under the present system of taxation an increase of revenue means simply an increase in the rate of taxation upon property.

7. That if the present general property tax rate in South Carolina is already excessively, or even sufficiently high, the tax system of South Carolina as now administered, stands condemned under the first count upon which any tax system must be tried—that of failure to produce adequate revenue.

8. That a prima facie case has been made out for an examination and study of the Tax System of the State.

Our Tax System

(Pages 25-46)

The general charge of "outlawry" against our system as it exists in point of fact is proved beyond the "reasonable doubt" of the criminal courts by the bare statement of the law. The law requires that property be listed and returned, assessed and taxed, at its actual or true value in money. That this provision is in practice a dead letter is not only known to, but acted upon by every taxing official and law officer of the State from the local assessor up to the General Assembly and the
Supreme Court. The State Tax Commission, created in 1915, for the purpose of improving conditions, found it necessary to recognize this fact officially and openly to proceed with the equalization of assessments upon a percentage basis. The law requires a "uniform and equal rate for assessments and taxation." That the property upon the tax books is not uniformly and equally assessed and taxed as among individual taxpayers, as among local taxing districts in the same county and as among the different counties of the State, is a notorious fact admitted by all men. The law requires that "all property, real, personal and possessory," shall be assessed and taxed. That a vast amount of the taxable property of the State is not upon the tax books at all is not only well known, but it is acquiesced in and openly justified by the majority of our citizens. All of which can mean but one thing—that the operation of the tax system of South Carolina is in point of fact as much of an outlaw business as the gentle art of cracking safes or of distilling moonshine whiskey. Any changes in the law tending either to conform the law to the facts or the facts to the law would seem to be desirable.

Undervalued Property and Consequent High Tax Rates

What are these rates? One of the provisions of the Constitution, the wisdom of which we are not disposed to question, is that the assessment for State, county, municipal and all local taxing districts shall be the same. Upon the undervalued property on the books practically all taxes are raised. The citizens of South Carolina are now paying general property taxes at the following rates:

**Counties:**

Average Special Levy in Counties not including Principal Towns ..................... 8 1-5 Mills
Average General State, County and School Levies ........................................ 29 2-5 Mills

Average County Levy not including principal Towns .................................. 37 3-5 Mills

**Cities and Towns:**

Average Municipal Levy .................. 21 1-5 Mills

(19)
Average Special County and Special School Levies in City ............ 16 1-4 Mills
Average General State, County and School Levies in City ............ 29 2-5 Mills
Average Levy for Cities, including State, County, School, Special County, Special School and Municipal Levies .......... 66 17-20 Mills

That is, the average citizen of South Carolina outside of the principal towns and cities is now paying a property tax of 37 3-5 mills or 3.76 per cent., and the average citizen in the larger towns and cities is paying a total of 66 17-20 mills, or 6.68 per cent. per annum on the assessed value of his property.

If we assume that the average earning power of all property at its true value in money is the legal rate of interest of 7 per cent., we have the startling and grievous spectacle of the State of South Carolina commanding its citizens to return their property under oath at its actual value and then proposing to take 6 2-3 per cent per annum of the true value of the property for taxes, leaving the citizen out of his 7 per cent. annual return less than 1 per cent. with which to pay grocery bills and a few other expenses incident to "life, liberty and the pursuit of happiness." Such rates, if applied upon true value, would, of course, amount to confiscation. But to raise even moderate and inadequate revenue, these high rates are an absolute necessity. It is not pleasing to reflect that a sovereign State has been for many years in the jaws of this dilemma and apparently impotent to escape from the trap.

**The Farmer and the General Property Tax**

Of the total real estate valuation of $208,139,568.00, real estate in the country furnished 134,324,328.00, and real estate in towns and cities furnished 78,815,240.00.

The proportions in percentages are:

- Country Real Estate ........ 65 per cent.
- Town Real Estate .......... 35 per cent.

That is to say, of the real estate values upon the tax books in
CHART I

Proportionate Assessment of Real Estate, Tangible Personal Property, and Intangible Personal Property, and Railroad Property in South Carolina in 1919.

REAL ESTATE
$208,139,568
52%
OF TOTAL ASSESSMENT OF PROPERTY

TANGIBLE PERSONAL PROPERTY
$141,922,858
35%

RAILROADS
$45,385,181
11%

INTANGIBLES (MONEY, CREDITS, NON-EXEMPT STOCKS & BONDS)
$7,413,340.
1.8%

Courtesy of Joint Committee
1919, the farming lands of the State furnished practically two-thirds.

Of the total taxable property of $402,859,947.00, the sum, in round numbers, of $120,000,000.00 was furnished by railroad companies, banks, insurance companies, cotton mills, oil mills, fertilizer companies, street railway companies, telegraph and telephone companies, and water-power companies, leaving in round numbers, $280,000,000.00 contributed by other classes of taxpayers of the State. Of this $280,000,000.00, country real estate alone furnished $134,324,328.00, or nearly 50 per cent.

Let us glance at the history of taxable values during the past twenty years. In 1900, all real estate was assessed at $102,148,427; in 1919, at $208,139,568, or an increase of 103 per cent. In 1900, country real estate was assessed at $67,318,199; in the year 1919, at $134,324,328—an increase of $67,006,128, or approximately 100 per cent. In 1900 city real estate was assessed at $34,819,578; in 1919, at $73,815,240—an increase of $38,995,662, or 111 per cent. Despite the trend of population toward the towns and the rapid development of the towns and cities of the State in the past twenty years, the percentage of increase of town real estate over country real estate has not been substantial. In this connection, it is to be borne in mind that the real estate figures for 1919 were on the assessment made in February, 1918, before the rapid increase in the values of farm lands of the past two years. Compared with other States, the market values of farm lands in South Carolina have been remarkably low. While the present high price of agricultural real estate may not be permanent, it is not probable that farm land values in South Carolina will ever return to the low level of former years. It is practically certain, therefore, that if the present tax system is retained country real estate will in the future be called upon to bear an even larger proportion of the taxes of the State than it has borne in the past.

As a whole, the visible personal property of the farm has kept pace with the increase in visible personality of other classes. For example, mules, in 1900, were assessed at $4,142,333.00; in 1919, at $13,363,886.00, or an increase of 222 per cent., as
against an average increase for all other forms of personal property of 200 per cent. But the fact to which it is desired to call especial attention is that while real estate increased more than 100 per cent., and other forms of personal property approximately 200 per cent., the increase in the assessment of intangible personal property from 1900 to 1919, was but 57 per cent. During the period of the greatest industrial development and most successful commercial activity in the history of the State, the form or class of property which had unquestionably increased vastly more than any other, showed the most insignificant increase upon the tax books. A significant fact also as to the tendency of certain forms of tangible personal property to disappear from the tax books under a high rate is that in 1900, watches and jewelry were assessed at $311,532, and in 1919, at $199,713.

The Committee holds no brief against any particular class of taxpayers, but it is not inadvertent to the fact that South Carolina is an agricultural State; that a large majority of our people are engaged in farming; that the industries of the State are dependent upon the farm; and that the financial interests of every class of citizens are inextricably interwoven with agriculture. It has been said by a distinguished student of taxation, Allen Ripley Foote, that "the wisdom or lack of wisdom of a taxation system is demonstrated by what it tends to develop, or by what it tends to destroy." Certainly one of the first essentials to a sound and successful tax system in South Carolina is that it tend to develop and not injure the basic industry of agriculture. There may be room for difference of opinion as to the significance to be attached to certain of the figures and percentages hereinabove set out; but there can be no difference of opinion as to this outstanding fact,—that the net result of the situation hereinabove indicated is that the man that has property in sight is bearing the burdens of government in South Carolina today, and that the farmer, is of all persons, in worst position to hide his property. Even in competition with his good friend, the merchant, the farmer holds the smaller cards. For example, in 1919, all the mercantile property of every character in South Carolina was returned at $32,745,334.00, while the farmers’
CHART II

Proportionate Increase in Assessment of Tangible Property (Real Estate and Tangible Personalty) and of Intangible Personalty (Money, Credits, Non-Exempt Stocks and Bonds) from 1900 to 1919.

<table>
<thead>
<tr>
<th>Tangible Property (Real Estate and Visible Personalty)</th>
<th>1900</th>
<th>1919</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$149,436,891</td>
<td>$350,062,426</td>
<td>152%</td>
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</table>

<table>
<thead>
<tr>
<th>Intangible Personalty</th>
<th>1900</th>
<th>1919</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$4,718,366</td>
<td>$7,413,340</td>
<td>57%</td>
</tr>
</tbody>
</table>

Courtesy of Joint Committee
CHART III

$402,859,947
TOTAL ON
TAX BOOKS, 1919.

$300,000,000
INTANGIBLE PROPERTY
ESCAPING TAXATION.
(Estimated.)

Courtesy of Joint Committee
mules and horses alone were assessed at $17,248,469.00.

**Our Present Tax System a Failure**

If the facts cited above and the inferences drawn are even approximately correct, subjected to the acid test of results, the administration of the general property tax in South Carolina has proved a failure. It is a failure, (1) in that it has promoted and developed an outlaw system of levying and collecting the public revenue, which places the taxpayer in the position of circumventing the law and is subversive of habits of good citizenship and of the public morals; (2) in that it has been productive of gross inequality and consequent injustice in the incidence of the tax burden upon citizens of the State; (3) in that it has led to the imposition of exhorbitantly high tax rates that tend to discourage the ownership of property and the investment in new capital in the State; (4) in that, as now administered, it has reached the breaking point as a producer of necessary revenues for the State and its governmental subdivisions.

Is this failure of the general property tax in South Carolina due to inefficient and defective administration, or to inherent unsoundness of the theory of the law itself? Is the law itself, or the failure to live up to the law, responsible for the admitted evils? In turning to the consideration of possible remedies this question had of necessity to be kept constantly in view. Methods of relief considered resolved themselves into three general lines of inquiry:

1. Is such relief to be had by providing improved administrative machinery and by stringent administration of the law?
2. Is such relief to be found by resort to additional and supplementary methods of taxation, such as the income tax, the occupation tax, increase of corporate taxation, and the inheritance tax, etc., without change of present Constitutional provisions?
3. Is the removal of present Constitutional limitations upon the power of the General Assembly necessary in order to provide a sound and adequate tax system for the State?

(23)
Fundamental Principles of Taxation

(Pages 47-52.)

No sound tax policy can be formulated that does not take into due account all of the principles of taxation; namely, taxation in proportion to ability to pay, taxation in proportion to benefits or privileges received from government, shifting and incidence of taxation, ease of payment or painless extraction, taxation in relation to the public welfare and the development of the State’s economic resources. But the basic principle that taxation should be imposed as nearly as possible in proportion to relative ability to pay, commands the unanimous approval of the Committee, and in that position it is believed to be in accord with the best modern opinion of political economists and authorities upon taxation in all countries.

Improvement in Present Administrative Machinery

(Pages 53-61.)

The sole object in improving the administrative machinery of our present system of property taxation would be merely to get all property on the tax books at its actual value. All the aids that can be furnished Boards of Assessors for the purpose of more accurately assessing property could at best have but one ultimate result, namely, the final revaluation and reassessment at actual value of all the property of the State at the end of an indefinite period of years. That object can be attained within twelve months time by the passage of a revaluation and reassessment act which would provide the necessary special machinery for revaluing all property throughout the State at the same time, under the same rules and upon the same terms. Until that can be done, it is believed that statutes embodying the ideas above suggested would amount to little more than dead timber on the books. This method of summary and simultaneous revaluation throughout the State, will be next considered.

Special Machinery for Revaluation of All Property at Its True Value in Money and Stringent Administration

(Pages 62-77.)

In this connection, the Committee, in the beginning of its
deliberations, turned to our neighboring State of North Carolina for the purpose of applying, if possible, the Revaluation Act, passed by the Legislature of North Carolina at the session of 1919, to our own situation.

The North Carolina Experiment

Following six years of agitation and discussion of the tax question in North Carolina, at the session of 1919, the General Assembly of that State passed what is known as "The Revaluation Act," the object of which was to provide the necessary machinery to have all the property of the State listed and assessed for taxation at its full value in money.

The organization or machinery for making the revaluation provided for in the Act was:

The State Tax Commission;

A District Supervisor for each of ten districts, the formation of the districts to be arranged by the State Tax Commission;

A County Supervisor for every county;

Assistant Supervisors for each county having taxable values for the year 1918 in excess of five million dollars, and one additional clerk for each additional five million dollars of assessed value, and as many others as should be approved by the Board of County Commissioners;

A County Board of Appraisers and Review, of which the County Supervisor was constituted chairman, the two other members of which should be appointed by the Board of County Commissioners, such appointment to become effective when approved by the State Tax Commission;

Special Examiners, who should have special knowledge of the value of particular classes of property, the value of which might be difficult to ascertain, to be appointed by the State Tax Commission upon approval by the Council of State;

Reasonable salaries were provided for the payment of the officers of this organization.

This Act was ratified on the 11th day of March, 1919, and by August, 1920, the work of listing all property and revaluing the same, at its full money value, was completed. A representative of your Committee visited Raleigh on September 16, 1920, and went over the situation fully with the North Carolina Tax Commission. From the facts furnished it appears that the results of this revaluation were as follows:

(25)
(1) The taxable property of the State was raised from $1,099,120,389.00 to $3,158,480,082.00, or practically trebled.

(2) The general levy for State, Pension, School and County purposes was reduced from 14 1-2 mills to 4.98 mills. (This was the reduction figured by the Tax Commission. When the Legislature met in Special Session, it removed entirely what is called the “State tax,” but this does not include school taxes, the pension fund, etc., as it does in this State.)

(3) One million acres of untaxed lands were discovered and placed on the tax books.

(4) The amount of intangible property classified as solvent credits was increased from $90,055,893.00 to $214,546,231.00, not quite two and one-half times.

(5) Assessed value of railroads was increased from $125,417,618.00 to $250,587,158.00, or approximately doubled.

(6) The real estate assessment made in 1915 was increased from $506,808,394 to $2,006,124,997.00, or very nearly quadrupled.

(7) Personal property was increased from $426,062,907, assessed in 1918, to $807,866,443.00, or not quite doubled.

(8) Cotton mills were increased from $58,266,591.00, to $205,581,304.00, or about three and one-half times.

(9) Over 20,000 taxable polls were discovered and placed on tax books.

(10) The cost of revaluation to the State was about $140,000.00.

The General Assembly of North Carolina was convened in special session in September, 1920, to adjust the tax rates in accordance with the new valuation and to make the necessary levies. The new valuation was adopted as the basis for the levy of tax rates by the State and by all subdivisions of the State for 1920, and the revaluation of real property so fixed was adopted as the basis of levy up to and including the year 1923.

No property tax was levied for 1920 for the use of the State or for the State pension fund, but for the State public school
fond an *ad valorem* tax of thirteen cents on the hundred, or one and three-tenths (1 3-10) mills, was levied. In North Carolina the so-called State tax is confined to the tax for general State purposes. Taxes for pensions and public schools are in addition to the *State tax*.

The franchise taxes of all corporations and license taxes of public service corporations were substantially increased. This increase was ostensibly based on the ground that while the value of all other property in the State was trebled, the property of the public service corporations was merely doubled.

*Application to Conditions in South Carolina.* The results of the North Carolina experiment would seem to have been remarkably successful, and the Committee was at first inclined to recommend the immediate adoption of a similar course of action in this State. Further investigation, however, revealed that there were substantial differences between the North Carolina situation and our own, which would require serious consideration.

*Case Against Revaluation and Rigid Enforcement Under Present Provisions of Constitution.* It is evident that the case against revaluation resolves itself into an inquiry as to the soundness of the theory of the general property tax. The Committee finds that there is practical unanimity among the most eminent political economists, students of taxation, and practical tax administrators in the opinion that the defects of the general property tax system are traceable to a defect in theory. In 1910, a special committee on cause of failure of general property tax, of the International Tax Association, reported as follows:

"To sum up, your Committee finds:
"That the general property tax system has broken down;
"That it has not been more successful under strict administration than where the administration is lax;
"That in the States where its administration has been the most stringent, the tendency of public opinion and legislation is not towards still more stringent administration, but towards a modification of the system;
"That the same tendency is evident in the States where the administration has been more lax;
“That the States which have modified or abandoned the general property tax show no intention of returning to it;
“That in the States where the general property tax is required by constitutional provisions, there is a growing demand for the repeal of such provisions.
“We conclude, therefore, that the failure of the general property tax is due to the inherent defects of the theory;
“That even measurably fair and effective administration is unattainable; and that all attempts to strengthen such administration serve simply to accentuate and to prolong the inequalities and unjust operation of the system.”

The strongest argument that can be urged in favor of the general property tax at a uniform rate is that when all property is valued and taxed at its full value in money the rate will be so low that all classes of property can afford to bear it and that there will be no sufficient inducement, and certainly no moral justification, for evasion by the owner of intangible property.

It is safe to assume that the greater part of the vast amount of intangible or invisible property not on the tax books in South Carolina today is owned by residents of the towns and cities. Can this wealth, which mounts up into the hundred millions, and the absence of which from the tax rolls makes of the law a mockery and demoralizes its whole administration, be put upon the tax books and kept there at a tax rate of from one and one-half to two per cent? That is the rate which would have to apply if the taxable property of South Carolina were revalued upon the North Carolina basis or even if South Carolina succeeded in bettering the North Carolina record in quadrupling the present taxable values.

Let us suppose that with the strong arm of the State we put one hundred million dollars or more in notes, mortgages, bonds and stocks on the tax books. A fair estimate would be that the average annual return upon this property would not exceed 5 per cent. But assume that the average return is 6 per cent. Then an ad valorem rate of 1 1-2 per cent. upon this property would be equivalent to taking 25 per cent., or one-fourth of the income, and a rate of 2 per cent. to taking 33 per cent., or one third of the income. Out of the six dol-

(28)
Jars on the hundred received by the owner of the security he would be required to pay the government $1.50 or $2.00 in taxes. It is not a question of whether he ought to, but of whether he will. He doesn't have to. He can hide his bonds, or he can call in his mortgage loans and put his money where the moth may corrupt, but where the taxgatherer cannot break through nor levy tribute. All students of taxation and practical administrators of the general property tax agree, and the experience of all the American States and of the Cantons of Switzerland tends to show, that intangible property cannot be kept upon the tax books when the tax rate takes more than one-tenth of the income—the Biblical tithe—which on a 6 per cent. investment means an *ad valorem* rate of 6 mills. If that is true, then revaluation in South Carolina holds out no prospect of putting interest-bearing securities upon the tax books and keeping them there. But that is not the whole case. Suppose the one hundred and fifty millions of bank deposits in South Carolina were put on the tax books and subjected to an *ad valorem* tax rate of from one to two per cent. What would become of the savings deposits bearing three and four per cent. interest? But of more serious concern still, what would become of the balance in the bank subject to check? It would seem to require no gift of prophecy to foresee that "money in the bank" would no longer be fashionable and that the family stocking or the hole in the hearth of other days would again be brought into requisition. Either that, or the banks would have to pay the taxes on all deposits, and struggle diligently to make the borrowers pay the freight. That would mean higher interest rates and the shifting of a tax to the class perhaps least able to stand it.

It is a commonplace of homespun philosophy that a chain is only as strong as its weakest link. The weak link of the general property tax is intangible property. If this link breaks what is the result? The minute intangible property goes off the tax rolls, then the rule of "what's sauce for the goose is sauce for the gander" applies, and the process of undervaluation and evasion in respect of other classes of property begins, and in the end we have the chaos that reigns in South Carolina today.

If, therefore, after revaluation of all property in the State
at its full value as the law requires, the tax rate would still be higher than the intangible wealth of the State could or would bear, leaving us in that regard practically where we are today, the advisability of following the example of North Carolina seems open to serious question. Wherein lies the root of the trouble? Revaluation at 100 cents on the dollar represents all that perfect administration could do. If that cannot put intangible property on the tax books and keep it there, it would seem clear that there must be something wrong with the theory or basic principle of the ad valorem taxation of all property at the uniform rate. If that principle is wrong, then it would be folly to recommend the revaluation of all property at its true value in money before that wrong is rectified. Such course could only lead to a harvest of political upheaval, with the State worse off in the end, or certainly in no better condition, than it is today.

Prof. Edwin R. Seligman, of Columbia University, says:

"Practically the general property tax, as actually administered today, is beyond all peradventure the worst tax known in the civilized world. It puts a premium on dishonesty and debauches the public conscience. It reduces deception to a system and makes a science of knavery; it presses hardest on those least able to pay. It imposes double taxation on one and grants entire immunity to the next. In short, the general property tax is so flagrantly inequitable that its retention can be explained only through ignorance or inertia."

A report of a Joint Legislative Committee, appointed by the General Assembly of Mississippi in 1916, to study the State's revenue system and fiscal affairs, reported to the regular session of 1918 as follows:

"We have had occasion to examine the reports of many special commissions appointed by various State legislatures during the past few years for the purpose of investigating the question of taxation and revenue, and, without exception, such commissions have reported that the general property tax is a failure. Hundreds of commissions, after exhaustive investigation, have reported that the
principle that all property, irrespective of its kind or class, should be taxed equally and uniformly, is unjust, un­sound, inadequate and inefficient. The experience of Mississippi is not peculiar. All other States where this tax prevails report that its operation is unsuccessful.

"All of the countries of Europe, with the exception of a few cantons in Switzerland, abandoned it years ago. Already, many States of the Union have repudiated and abolished it. It has sinned away its day of grace, if it ever had one. It has been the subject of investigation for more than forty years. The day is not far distant when a Constitutional provision requiring the general property tax will be the exception rather than the rule. No self-respecting people ought to permit the present inequality and inequity to exist after they have fully understood the matter. The fault is not so much in the ad­ministration of the law as it is inherent in the law it­self."

**Conclusion.** These considerations led the Committee to con­clude that before recommending the revaluation of all the prop­erty in the State at its full value in money as now required by law, to be followed by a stringent administration of the law as it now stands, the classification remedy, and the experience of other States in the application thereof, should be carefully studied and weighed.

**Classification of Property for Purposes of Taxation so as to Permit of Differential Rates, or of Different Meth­ods of Taxation for Different Classes of Property**

(Pages 78-82.)

When it was found impossible to enforce the uniform tax­ation of all classes of property at the high rates that finally re­sulted from the operation of the general property tax, the first plan of reform in the field was the classified property tax. One phase of the philosophy of this scheme, as stated by C. J. Bullock, Professor of Taxation at Harvard University, is as follows:

"All successful legislation is based upon a reasonable
discrimination between the classes of things with which it
deals, and laws that ignore necessary distinctions between
classes prove ineffectual or pernicious in their results. Uni­
form regulations for the transfer of all classes of prop­
erty, a uniform penalty for all crimes, and absolute uni­
formity in the treatment of persons, without discrimina­
tion of age, sex, or condition, would be no more unre­
ASONABLE THAN A UNIFORM RATE OF TAXATION FOR ALL PROPERTY, IRRESPECTIVE OF ITS NATURE OR CLASS.

"Diversification of rates of taxation agrees with the
ordinary business principle of adjusting charges and
prices to 'what the traffic will bear.' No railroad charges
as much for carrying logs as for carrying furniture; but
the discrimination in favor of logs, by enabling that traffic
to move, contributes to the revenue of the road and de­
creases the charges upon furniture and other traffic of
higher grade. When the average rate of taxation was
50 cents per $100, it was possible to tax all property at a
uniform rate because the tax was not higher than any im­
portant class of property could bear; but under modern
conditions the rate of taxation is so high that it is neces­
sary to classify property and adjust methods and rates
of taxation to the needs of each important class."

So far as the Committee has been able to ascertain, there is
not a dissenting voice from any of the States that have tried
the classification and differential rate plan, as to its very decided
superiority to the uniform rate of the general property tax.

Application to South Carolina. We have conservatively es­
timated the intangible property of the State at $250,000,000.
Let us divide this equally between bank deposits and other
classes of intangibles. Applying a rate of one mill—the Ken­
tucky rate—on bank deposits, amounting to $125,000,000, would
bring into the treasury $125,000. A rate of five mills, or 1-2
of one per cent., the rate used in a number of States, on other
classes of intangibles, amounting to $125,000,000, would bring
in $625,000. That is, the application of a flat rate at reason­
able rates would bring into the public treasury $750,000.00.
If it be conceded that the State is now taxing $7,413,340 of
intangible property at the existing average tax rate for State,
County and Towns of about 6 per cent., it will be seen that

(32)
the public treasury would still have a net profit from the classified rate of over $300,000 per annum.

Conclusion. It thus appears that there is a method of dealing with the “high rate” problem of the general property tax which has been found to work successfully in a number of sister States. From this practical experience of other States, as well as from the reason of the thing, the Committee reached the conclusion that the principle of classification is sound and that the General Assembly ought to have the power to exercise a sound discretion as to the classification of property for purposes of taxation. This does not mean that in the Committee’s judgment all property should be classified for the sole purpose of applying differential rates. The purpose of classification is broader; it is to require the owner and user of property to contribute his just share to the public revenues. Thus in certain cases, property itself may be best reached not by a direct tax upon the property, but through an income or business tax upon the owner.

Since this power of classification for the purpose of applying other methods than the ad valorem tax can only be secured by an amendment to the Constitution, it seemed proper and desirable to proceed with the consideration of other possible methods of relief.

Segregation of Property and Separation of Sources of State and Local Revenues

(Pages 83-86.)

Segregation Defined and Plan Described. The term, “segregation,” as here used, means the setting apart for the use of the State, under the general property tax, of certain taxable properties and leaving all other property to the local taxing districts, so that the State might derive all of its revenues from certain sources and the counties and other taxing districts in the State all of their revenues from entirely distinct sources. The term, “separation,” is used in a wider sense to denote giving to the State the proceeds of certain forms of taxation other than the property tax and leaving the property tax to the local districts. It is apparent that the only rational basis upon which a plan of segregation under the general prop-
Property tax could be carried out, would be to devote to the use of the State those forms of property that are not strictly local in character, but partake of an inter-county and more or less statewide character. The form of property ready to hand for such purpose is that of railroads, telegraph companies and similar public service corporations, whose properties are located and whose business is carried on in more than one county. Thus, it is urged that a railroad, which may not run through more than one county in the State, may be and often is, supported by the people of the whole State. This plan was advocated by the South Carolina Tax Commission in its First Annual Report to the General Assembly in 1915. It is urged in advocacy of this plan that by devoting all taxes from the properties of public service corporations and from properties of like character to the uses of the State, all the other real and personal property of the State could be left to the cities and towns, counties, and local taxing districts for purposes of local taxation; and that thereby the evils of undervaluation and inequality in the operation of the property tax would become largely a local matter, the people would have "home rule," and a happy solution would be afforded of all problems.

Conclusion. The segregation plan is called to the attention of the General Assembly for the reason that it is one of the plans tried with more or less success in other States. Under the restrictions of our present Constitution, it would seem clear that such a plan could not now be adopted in South Carolina. Even if that were not so, however, in the opinion of the Committee, the segregation of property between the State and the local taxing districts would not be advisable. The properties available, such as railroads and other public service corporations, could not be segregated for purposes of State revenue without resulting in serious practical difficulties in the matter of meeting the fiscal obligations already assumed by the various counties, school districts and cities of the State that have issued bonds, and would probably cause more friction between the State and the local taxing districts than results from the present system. The property of public service corporations alone would not be sufficient to produce the required revenues unless taxed at a much higher rate than other property. Furthermore, as indicated by the experience of Cali-
fornia, it would not seem sound policy to relieve the ordinary taxpayer of all feeling of responsibility for State expenditures by reason of the fact that the State taxes do not have to come out of his pocket. Another difficulty would be to provide means for equalizing rates or preserving equilibrium of rates between State and the local taxing districts. Thus, the rate on property adopted by the State might be lower or higher than on property in the local districts.

In the judgment of the Committee, the correct view is admirably expressed by Prof. Carl C. Plehn, Professor of Finance, University of California, who had much to do with the adoption of the California plan, as follows:

“To my mind, the ultimate solution is to be found in what I am accustomed to consider as true separation, as distinct from segregation. This is the establishment of new and independent taxes for State purposes. There are a good many such taxes which might be considered, but they are all makeshifts except one, namely, the income tax.” Proceedings Ninth Conference (1915) National Tax Association, page 58.

The Income Tax

(Pages 87-97.)

The conclusions of the Committee with respect to the income tax law, as a possible method of relief from the evils of the general property tax, are:

(1) That the basic principle of the personal income tax is sound and that the income tax is an essential part of any well-balanced system of State taxation; (2) that its place in the tax system of South Carolina is as a supplement to a properly classified property tax; (3) that it should be used as one of the principal sources of State revenues, so as to leave the taxation of property largely to counties and the other local taxing districts; (4) that the constitutional provisions requiring taxation of all property at a uniform rate affect the application of a general income tax law to an extent that makes it inexpedient to enact and to attempt to administer the income tax as a part of the State's system of taxation at this time.
The Occupation or Business Tax

(Pages 98-107.)

Conclusions and Recommendations. After careful consideration of the merits of business or occupation taxation in the light of the best modern opinion, and of the experience of the States now imposing a general schedule of occupation or privilege taxes, and in view of the fact that most of our towns and cities are now depending to a considerable extent upon this source of revenue, the Committee is of the opinion:

(1) That, while the taxation of ordinary business and professional occupations as a privilege is justifiable as a matter of principle, taxes of this character should not be imposed in an arbitrary or haphazard manner, and without full information and accurate data upon which to base them.

(2) That, with the general *ad valorem* property tax now in force, a fair and just measure of the obligation to pay a tax for the privilege of engaging in certain trades, callings or lines of business, could not be fixed except possibly upon the basis of net income, which would require the inauguration of administrative machinery that would not be warranted by probable results.

(3) That no permanent relief from the evils of the present general tax can be had by resort to a State system of business licenses or privilege taxes at this time.

Taxation of Corporations

(Pages 108-116)

Upon a review of the field of corporate taxation in South Carolina, the Committee has reached the following conclusions:

(1) That its investigation does not warrant the finding that the business corporations and public service corporations of the State are not now bearing their proportionate share of the tax burden.

(2) That under present abnormal conditions, it would not be wise to impose additional taxes upon the corporate busi-
ness of the State merely for the purpose of increasing the
revenues.

(3) That under the present Constitution, it is doubtful if
the form of intangible, corporate property termed "corporate
excess," can now be taxed, and that the constitutional require­
ment that all shareholders of other corporations than banks
shall be taxed by a like rule of taxation, should be removed by
amendment.

(4) That relief from the evils of the existing general prop­
erty tax cannot be had by resort to the increased taxation of
corporate business.

Inheritance or Succession Tax

(Pages 117-124.)

(1) The taxation of successions or inheritances is sound
in principle and should be made a part of the taxing system of
the State.

(2) The present pressure of the general property tax and
the absence of constitutional restrictions make the immediate
adoption of such a law advisable.

(3) The passage of an inheritance tax law substantially
in the form herewith submitted, is recommended.

(4) While the enactment of such law is believed to be
advisable, it is not considered that it will produce sufficient
revenue to alleviate appreciably the evils of the present general
property tax system.

For proposed exemptions and rates in the Inheritance Tax
Bill, see next page.
## Proposed Exemptions and Rates Inheritance Tax Bill

### Classification

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount of Exemption</th>
<th>Above Exemption to $20,000</th>
<th>In Excess of $20,000 to $40,000</th>
<th>In Excess of $40,000 to $80,000</th>
<th>In Excess of $80,000 to $150,000</th>
<th>In Excess of $150,000 to $300,000</th>
<th>In Excess of $300,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Husband or Wife</td>
<td>$10,000</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Each minor child</td>
<td>5,000</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Adult children and father</td>
<td>3,500</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>and mother</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lineal ancestors and lineal descendents, other than above specified, and brothers, sisters, nieces and nephews</td>
<td>500</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>All others</td>
<td>200</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>14</td>
</tr>
</tbody>
</table>
Excise Taxes on Articles of Consumption, Stamp Taxes on Documents, Registry Taxes on Mortgages, Etc.

(Pages 125-127)

(1) The levying of taxes upon articles of consumption, upon the transfer of property and similar commercial transactions, the imposition of mortgage registry fees, etc., should not be adopted as a permanent part of the State's system of taxation.

(2) The imposition of such taxes would not be justified as temporary expedients.

(3) The necessity for remedying the evils of the general property tax system of this State cannot be obviated by resort to this method of taxation.
GENERAL CONCLUSIONS AND SUGGESTED PROGRAM OF TAX REFORM

Outline of Findings and Conclusions. Appointed for the purpose of "making a thorough investigation and study of the subject of taxation in South Carolina and of suggesting and recommending for the consideration of the General Assembly at its next session such changes in laws and such legislative measures as in the judgment of the Committee would best serve to correct existing evils and to equalize and lighten the burdens of taxation of this State," the Committee has made as thorough investigation and study of the tax question in South Carolina as the limited time and means at its disposal permitted.

As the result of this investigation it has found:

1. That existing high rates of property taxation cannot be justly attributed to extravagant appropriations or to inefficient expenditures of the public funds.

2. That if the various departments of the State government are to be efficiently operated; if the charitable and correctional institutions of the State are properly to fulfill the purpose of their creation; if the State's institutions of higher learning are to be maintained so as to meet the legitimate needs of our people; if the public school system of the State is to be made to function in a manner that will clear the good name of the State from the stigma of failing to provide adequate facilities for the education of her children; and if the public welfare undertakings to which the State is already committed, are to be continued—State revenues will have to be increased rather than decreased.

3. That the administration of the general property tax in South Carolina has resulted,
   (a) In universal undervaluation and under-assessment of all classes of property for taxation,
   (b) In consequent inequality in the bearing of the tax burden as between individuals, local districts, and the counties of the State,
   (c) In the imposition of exorbitantly high tax rates,
   (d) In the consequent escape from the tax books of a large proportion of taxable property of the State,
(e) In the shifting of an undue proportion of the tax burden to real estate and certain classes of tangible personal property,

(f) In the operation of an outlaw system of raising the public revenues, and

(g) In the failure to produce adequate revenue.

We have endeavored to consider as remedial measures for the correction of this condition:

(1) Improvements in the present administrative machinery of the general property tax law;

(2) The creation of special machinery for the revaluation and reassessment of all taxable property at its true value in money, to be followed by stringent administration of the law.

As a result of the consideration of these two methods of relief, it was found that a revaluation of the property of the State at as high figure as could reasonably be anticipated would still leave the State with higher tax rates than intangible property and certain classes of tangible personal property can or will bear. If revaluation of the properties of the State at 100 cents on the dollar, representing the highest attainment possible for perfect administration of the law, would still leave us with a taxing system which could not be enforced and still subject to all the evils of an outlaw administration, the conclusion seemed inevitable that the root of the trouble was to be found not in the administration but in the law itself.

Pursuing this line of inquiry it was found that the system of taxation of property at an equal and uniform rate in proportion to value is condemned by the most eminent students of taxation and the leading practical tax administrators of the world; that the experience of all the other American States in the administration of such tax system has been essentially similar to our own, and that the ground of condemnation and reason for failure universally assigned is a defect in the theory of the law itself, which seeks to impose an equal and uniform rate of taxation upon all classes of property in proportion to value, without regard to the economic characteristics, the earning power, and the various uses subserved by different kinds of property. An examination of the reasons
assigned for condemning the theory of the general property tax led the Committee to the conclusion that such reasons were sound, even if rested upon no other basis than the impracticability of enforcing a uniform rate of assessment and rate of taxation upon all classes of property.

Following which the Committee’s inquiry was directed to the point of ascertaining if there was a practical remedy for the defect indicated. In this connection were considered two methods of treatment tried with successful results in other States, viz.,

(1) Classification of property for purposes of taxation at different rates or by methods other than a uniform ad valorem rate.

(2) Segregation of property between the State and the local taxing districts for the purpose of separating the sources of State and local revenues.

Consideration of the first method led to the conclusion that the classification remedy, reasonably and properly applied, is sound and practicable; of the second method, that segregation of property between the State and local taxing districts for taxation under the general property tax is not advisable, but that the principle of separation of sources of State and local revenues by applying the proceeds of supplementary taxes to the use of the State, so as to leave the taxation of property largely to the local subdivisions of the State, is sound and practicable.

The Committee then proceeded to the consideration of certain other methods or modes of taxation for the purpose of ascertaining whether by resort to such supplementary means of taxation the necessity for or propriety of changing the provisions of our present Constitution might be obviated. The Committee reviewed and considered in this connection the following:

(1) The Income Tax,
(2) The Occupation or Business License Tax,
(3) The Increased Taxation of Corporations,
(4) The Inheritance Tax,
(5) Excise Taxes on Consumption, Etc.—
with the result that in the face of the constitutional require-
ment that all property should be taxed at an equal and uni-
form rate in proportion to value, it was found that neither a
personal income tax nor a business license tax could be suc-
cessfully administered without conflict, in important particu-
lars, with the general property tax; that neither the imposition
of consumption taxes nor of increased taxes upon corporations
offers any avenue of permanent relief; and that the extent of
such relief which could be expected from the enactment of the
inheritance tax law, recommended by the Committee, was not
such as to obviate the necessity for a thoroughgoing reform of
our general property tax system.

It is possible that the Committee may be mistaken in cer-
tain of its conclusions as to the inexpediency or advisability
of enacting tax laws or revenue measures along certain lines
considered. There may be room for differences of opinion
as to undertaking to raise additional revenues by resort to
new taxes of various kinds. But the Committee is profoundly
impressed with the validity of one conclusion that it desires
to urge with all the earnestness at its command. That conclu-
sion is—that there can be no sound, sane, thorough-going re-
form of the taxing system of South Carolina until the con-
stitutional restrictions upon the power of the General Assembly
in relation to the general property tax are removed. Any im-
provement in method of assessment or in administrative ma-
chinery is mere tinkering. The institution of other methods of
raising revenue might result in some temporary relief from
the present strain upon the timbers of a tottering structure.
All such devices are but props to keep the house from falling
when the foundation has rotted away. The only sensible course
is to rebuild the foundation. No sound and lasting founda-
tion for a just, equitable and workable system of taxation
can be prepared until the people of the State free themselves
from the shackles of the present Constitution and confer upon
their representatives in the General Assembly the power to
construct such improved system.

If the Committee is correct in that position, then the Con-
stitution should be amended. If it is not correct in that po-
sition, then the law as it stands should be enforced and the
necessary administrative machinery should be provided to put
all of the taxable property of the State upon the tax books at 100 cents on the dollar.

Outline of Program for Tax Reform. From what has been said it follows that in the opinion of your Committee there is no get-rich-quick route to the Canaan of a better taxing and revenue system. But there is a course, which if steadfastly followed, will lead to that goal. That course, roughly mapped out, is as follows:

1. The adoption by the General Assembly of 1921 of a Resolution submitting to the electors of the State amendments to the present Constitution which will remove the general property tax limitations.

2. The inauguration and prosecution of a state-wide campaign of education and publicity to the end that the people of the State may be fully informed upon the subject of taxation and in position to pass intelligently upon the grave question before them.

3. The adoption by the people at the general election in 1922 of the constitutional amendments proposed by this General Assembly.

4. The passage by the General Assembly of 1923 of an Act providing the necessary special machinery for revaluing the property of the State at full value and for making an accurate survey and inventory of all the other resources of the State.

5. Upon the basis of the accurate data and statistics so procured the enactment by the General Assembly of 1924 of a comprehensive revenue Act combining into one harmonious whole a remodeled property tax, the income tax, the business tax and the inheritance tax.

Upon this program the Committee desires to submit the following general observations:

If the proposed change in the fundamental law is essential to the reformation of the taxing system of South Carolina, then the amendment of the Constitution is the one big, vital factor in the situation. All other matters are of comparatively small moment. The attainment of this objective is not going to be an easy task. The Committee does not anticipate that the
adoption of a Joint Resolution, submitting this proposed constitutional amendment to the electors of the State at the next general election will be readily agreed to by the General Assembly. But if agreed to, it is not enough that such resolution be adopted by the General Assembly and submitted to the electors of the State. Before any worthwhile program of tax reform can be carried out, the proposed amendment must be adopted at the polls. It will not be adopted at the polls unless the people of the State are fully informed and are convinced of the necessity for the proposed change. Time and opportunity for consideration and discussion are essential. The experience of other States in attempting to change or modify constitutional provisions similar to ours indicates that a constitutional amendment of this character has a rocky road to travel. The opponents of change have a formidable and all but invincible weapon for purposes of popular discussion in the very language of the Constitution which it is proposed to eliminate, viz., “equal and uniform” assessment and taxation of property. It is difficult to convince the average man that a provision for equality and conformity can and does work inequality and injustice. The world is ruled in large measure by names and symbols. The experience of other States also indicates that there are always special interests opposed to such change for selfish reasons, and that without a campaign of education and intelligently directed publicity, a constitutional amendment designed to remove the restrictions of the general property tax is doomed to failure at the polls. The States that have succeeded in freeing themselves from constitutional limitations of this character have done so only after a period of several years’ agitation and public discussion.

There is the further vital consideration in this connection that no plan for a reform in the field of taxation can succeed unless it has behind it the dynamic of the public will and the public conscience. If the General Assembly were now free to reconstruct the tax system of the State in accordance with the most-approved model it would be a matter of doubtful wisdom to enact into law the more or less radical changes necessary in the methods of raising the public revenue until the people of the State were prepared to give those changes the popular approval absolutely essential to the successful operation of a.
new system. The Revaluation Act of the last General Assembly of North Carolina was the product of six years of public agitation and discussion in that State. It was a success because a large majority of the people of North Carolina approved and cooperated. It will not prove an entire success in operation, in the opinion of North Carolina public men best qualified to judge, for the reason that an amendment to remove the general property tax restrictions imposed by the North Carolina Constitution was lost at the polls in 1915. In the judgment of this Committee, North Carolina "put the cart before the horse," but she did so only because of a failure to carry a constitutional amendment of the character this Committee suggests and recommends for adoption as the first step towards working out an effective program of tax reform in South Carolina.

The next step in this program, in the judgment of the Committee, after the adoption of the proposed constitutional amendment, is the passage by the General Assembly of an Act modeled upon the North Carolina Revaluation Act, but somewhat broader in scope. The purpose of this Act would be to make a thorough inventory and survey of the taxable resources of the State in (1) property, (2) personal incomes, and (3) business. The Act should, of course, carry a legislative guaranty against the increase of the aggregate taxes beyond a small percentage.

The next step would be to enact, upon the basis of the accurate data and statistics furnished by the survey, a comprehensive revenue act providing (1) for the ad valorem tax on property of the classes designated; (2) for a personal income tax; (3) a business tax to include the franchise taxes upon corporations and taxes upon certain lines of business in accordance with volume of business or net income, such taxes possibly to be in lieu of a tax upon personal property; (4) the inheritance tax; (5) regulatory, repressive and inspection taxes upon certain lines of business or industry deemed to be proper subjects of regulation, repression, or inspection.

No attempt is here made to work out the details of such revenue act or of the proposed tax system. The framing of such an act is a task worthy of the best minds of South Carolina, in the performance of which the best expert advice obtainable is
absolutely essential. To what extent property should be classified for purposes of the *ad valorem* tax should be determined largely by the law of diminishing returns. If more revenue for a certain class of property can be obtained at a lower rate than at a higher rate, it should be classified accordingly. In the judgment of the Committee, the one classification that would be essential would be the classification of intangible property for taxation at a low flat rate, or in proportion to income. But it would also seem to be highly desirable that certain classes of business be taxed either in accordance with the volume of business or in proportion to net income in lieu of the *ad valorem* tax on personal property. An essential part of this revenue act would be the making of careful provision for adequate machinery to enforce the Act in a business-like and efficient manner. Another important feature would be the distribution of the proceeds of the several modes of taxation between the State and the local taxing districts in such manner as to provide a partial separation of sources of revenue. In the judgment of the Committee real estate and tangible property taxed by the *ad valorem* method should be very largely left to the counties, towns and cities and other local taxing districts, and the revenues of the State should be largely derived from the income tax, the inheritance tax and the tax upon corporations. To attempt to formulate in detail the provisions of such a comprehensive revenue Act at this stage would be inadvisable, as well as a work of supererogation.

No hope is indulged that any system of taxation that might be devised in accordance with the program proposed will realize the ideal of meting out exact justice to every man in the imposition of the tax burden. Until the millenium comes that consummation will not be attained; but in behalf of the program suggested there is one unanswerable argument,—that no system could be worse than the one we now have. By a judicious combination of a moderate property tax, a moderate personal income tax and a moderate tax upon business, one mode of taxation dovetailing with and supplementing the other, the tax burden of the State can be more justly and equitably distributed; the galling yoke of intolerably high tax rates upon property can be removed; the vast amount of intangible property that is now contributing nothing to the pub-
lic purse can be made to bear its proportionate share of the burden; the tremendous resources of taxable ability now untouched under the property tax can be reached; the aggregate burden upon the present taxpayers of the State can be lightened; the operation of the most important branch of the State government outside of the pale of the law can be ended; and the curtain can be dropped forever upon the spectacle of a proud State levying tribute upon her own citizens under the aegis of the black flag.
TAXATION IN SOUTH CAROLINA

At a recent meeting of the Kosmos Club of Columbia, Mr. August Kohn presented a comprehensive survey of the tax situation in South Carolina. The survey has been printed at the request of friends, and may be secured from Mr. Kohn.

Concerning it the News and Courier remarks editorially, July 28, 1921: “For thirty years, Mr. August Kohn, of Columbia, has followed the sessions of the Legislature year after year and has been in close touch with every department of the State Government. It will be generally conceded that no other man knows the legislative situation in this State more thoroughly than Mr. Kohn and no other man is probably as well equipped to discuss the most important public question with which the people of South Carolina have to deal, the question of taxes. Mr. Kohn has heard all the discussions which have taken place on this subject and he has himself studied thoroughly and comprehensively all the data which has been gathered. He knows not only the views of the experts and the theorists, but he knows as well what can be done as a practical matter.”

Mr. Kohn summarises his ideas thus:

First: South Carolina must continue to develop, educationally and socially; this will mean greater prosperity.

Second: This development must necessarily involve the expenditure of more money.

Third: The cry of the people is that they are already tax burdened.

Fourth: Admitting that more money is needed for adequate and wise expansion and development, how can it be raised?

With the premise that there is absolutely no graft nor even the suspicion of waste or extravagance, in any phase of our State government, the apparent impossibility of decreasing the call on the available pocket book of the State must be evident.

New sources are necessary.

My ideas summarized are:

Get all property on the tax books, especially all escaping
visible property. There is a wide field of opportunities in this respect. The results in Columbia are symptomatic.

Get all matters of taxation out of politics. Let the Tax Commission appoint the auditors on the basis of efficiency and absolutely remove all tax officials from the primaries, but seek efficiency and character.

Make the Tax Commission all time work, pay larger salaries—much larger, and make the tenure of office at least ten years to secure the highest class of commissioners.

Impose a tax of one cent per gallon on all gasoline used in motor vehicles.

Enact a moderate inheritance tax law, without too much inquisition.

Get money from those who enjoy all the advantages of government and own no property, by exacting an occupation tax, as well as on others for business.

Collect a tax on all legal instruments, including mortgages, before the record is made. Make it a moderate tax.

Provide a tax on luxuries—theatres, moving pictures, soft drinks, professional baseball and similar sources.

These, if enforced, will make an excellent beginning and show the way.
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