

**REPORT
OF THE
TAX STUDY COMMISSION
OF THE
STATE
OF
NORTH CAROLINA**



RALEIGH, NORTH CAROLINA

1968



STATE OF NORTH CAROLINA
TAX STUDY COMMISSION
553 REVENUE BUILDING
RALEIGH 27602

December 2, 1968

To His Excellency, Dan K. Moore
Governor of North Carolina

Dear Governor Moore:

Transmitted herewith is a report of the findings, conclusions and recommendations of the Tax Study Commission.

The work of the Commission was performed in accordance with the requirements of Resolution No. 67 of the General Assembly of 1967 which authorized the appointment of the Commission.

Respectfully submitted,
James S. Currie
Chairman

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INTRODUCTION

The Tax Study Commission was created by Joint Resolution 67 of the General Assembly of 1967, to study the tax structure of the State, both state and local, and to recommend changes which would make the revenue system stable and equitable, and capable of providing revenue for "sound and essential purposes of government."

The Commission began its work by holding meetings at which the members gave their individual views as to the various problem areas in the tax laws, the purpose and direction the Commission should follow, and the methods to be used in conducting the study. Following these "self-examination" sessions, the Commission held public hearings for all who wished to present their views to the Commission and invited those not wanting to appear to submit written suggestions for the Commission's examination.

The number and variety of suggestion received through various channels contributed much to the deliberations of this study group. A table listing the written recommendations made to the Commission appears in the Appendix to this report. The Commission gave careful consideration to each recommendation and suggestion received before selecting the areas to study. Following these early phases of the study, the members decided to concentrate their efforts in three general areas. These areas are (1) improvement of administration and correction of inequities in the state and local tax structure, (2) need for additional sources of revenue for counties and municipalities and (3) possible future need for additional state revenue.

In the first area of study the Commission concluded (1) that state and local government should abandon privilege licenses on businesses and occupations as a revenue source, (2) that the revenue section of the State Constitution should be amended to permit the General Assembly to adopt the Federal personal exemption system for the state income tax purposes, (3) that the statutes providing for assessment of the property of certain public utilities by the State Board of Assessment should be modernized to reflect technological changes, (4) that certain public service companies assessed by the State Board of Assessment should be given the right of notice, hearing and appeal, (6) that the merchants' discount allowed for early payment of the sales and use tax be repealed.

In the second general area of study, The Commission decided that the general property tax is inequitable, difficult to administer and is a heavy burden on many property owners. It was concluded that counties and municipalities should be given authority to levy new broad-based taxes to provide additional revenue where needed and to provide property tax relief. The taxes considered suitable for this purpose are the sales and use tax and the individual income tax. It was also concluded that the maximum motor vehicle license which may be levied by cities and towns should be increased to \$5. In the third area of study, it was decided that, in the event additional State revenue should be needed, The Commission suggests that first consideration by

the General Assembly be given to an excise tax on tobacco products* and an increase in the gasoline tax rate.

During the course of its study, the Commission asked for and received the professional help of personnel of the North Carolina Association of County Commissioners, the North Carolina League of Municipalities, and the Institute of Government of The University of North Carolina. The Commission also consulted various taxpayers about matters being considered in an effort to make any proposals as workable as possible.

In conjunction with its study of the adequacy of county and municipal revenue sources, the Commission felt that the public and especially the General Assembly should be reminded of present State government aid to counties and municipalities. The State has assumed responsibility for many traditionally local services, has shared in the cost of providing other services, and has contributed a share of certain State levied taxes to counties and municipalities. The total of these various forms of assistance to local governments is surprising, even to those persons familiar with the various parts of the whole. In order to make the various interested parties more aware of the complete picture, a table is provided in the Appendix to this report giving the various programs and the amounts involved for the latest fiscal year. Also shown on the table are the bond issues to provide funds for traditionally local capital improvements such as school buildings and county roads.

The Commission gave careful consideration to the inheritance and gift taxes and felt that the statutes levying these taxes are in need of detained study. The complexity of these tax laws and the limited time which the Commission had to devote to this phase of its study precluded doing the job the Commission felt was needed. The Commission, therefore, decided to make no recommendation in this area but to emphasize the need for a thoroughly study of this subject and to express the hope that the General Assembly will direct a future study of inheritance and gift taxes.

The specific recommendations of this Commission along with explanations of these recommendations are given in the following sections of this report.

*Note dissenting views in footnote on page 34.

PRIVILEGE LICENSE TAXATION

Governments require businesses and individuals to obtain licenses for several reasons. Among these reasons are regulation, exercise of the police power, elimination of undesirable businesses, payment for special privilege, as a franchise, payment for special benefits supplied by government, and as a source of revenue for the support of governmental services. It also has been speculated that the licenses have been levied for punitive purposes and to reduce or eliminate competition.

Privilege licenses are levied by the State of North Carolina, by municipalities, and by counties. For the most part these licenses are levied to produce revenue. The State levies a variety of license under "Schedule B" of the Revenue Laws. These licenses are levied on a number of different bases, with little recognition of differences in size or volume of business of tax payers, and no apparent relationship to benefits received from government. While the various licenses provide a "hodge podge" of bases, rates and methods of graduation, people have learned to live with these and efforts by other study groups to bring order out of the chaos of Schedule B, provide a logical separation of subjects of taxation between state, city, and county, and make license taxation more equitable, have failed to generate much support and have invariably drawn emotional opposition. The opposition has been based as much on uncertainty and fear of the possible outcome of the proposed solutions as the objections of those taxpayers whose license would have been increased under the proposals.

This Commission is of the opinion that privilege license taxation as used in North Carolina is an undesirable method of raising revenue. The amount of revenue produced is not great enough to justify the higher cost of collections and the harassment of compliance. The State collected \$7,802,359 under Schedule B during the last fiscal year, only one percent of total General Fund Revenue; municipalities collected \$3,074,751 and counties collected \$325,675 from licenses during 1966-67 the latest year for which data are available, excluding beer and wine licenses, motor vehicle licenses, and dog licenses.* The cost of administering license taxes is much greater as compared to revenue than is the case with other state collected taxes. In 1967-68 the cost of collecting Schedule B license taxes was \$7.06 per \$100 of revenue as compared with \$0.90 per \$100 for all other taxes administered by the Department of Revenue. No other state tax costs as much as \$2.00 per \$100 to collect.

The Commission found many reasons for eliminating most privilege licenses and found little to commend them. The Commission concluded that no business or occupation licenses should be levied as revenue measures, that only those licenses which are intended to be regulatory should be retained, and that these should be administered by the agency regulating the business or occupation. Business and occupation licenses which the Commission feels should be retained are those collected by licensing boards (usually fees for examination and renewal fees, beer and wine retailer, wholesaler and manufacturer licenses, insurance company and insurance agency licenses and any others of like kind.

* A table giving collections from privilege licenses by subjects of taxation and by level of governments appears in the Appendix.

The Tax Study Commission RECOMMENDS that Schedule B of the Revenue Laws be repealed, and that the licenses required by Chapter 85 of the General Statutes be repealed.* The Commission further RECOMMENDS that municipalities be prohibited from levying privilege licenses on trades, occupations and businesses unless such licenses are specifically authorized by the General Assembly.

Counties and municipalities have no authority to levy licenses on trades, occupations or businesses not granted by the General Assembly. The General Assembly has not granted such authority to counties except to levy licenses on specific businesses, occupations or activities, usually defining the tax base and fixing maximum rates. Most of this authority is contained in Schedule B of the Revenue Laws and would be removed from the statutes by repeal of Schedule B. Under the recommendation counties would retain authority to levy licenses under the beer and wine statutes, to levy dog licenses, and to require marriage licenses.

Municipalities, on the other hand, enjoy general authority to levy taxes “on all trade, professions and franchises.” This authority is limited in numerous specific instances by provisions in various parts of the General Statutes. Deletion of this authority coupled with repeal of Schedule B would leave municipalities with only that licensing authority specifically granted. Municipalities would still be able to levy licenses on beer and wine retailers and wholesalers, to levy motor vehicle licenses, and to required dog tags.

The Commission has noted that certain licenses now levied under Schedule B may be needed for regulatory purposes by other state agencies. If so, the affected agency should make its needs known to the General Assembly and the levying sections should be re-enacted in appropriate places in the statutes, but they SHOULD NOT be in the taxing statutes. Examples of licenses which may be needed by regulatory agencies are the lightning rod agents’ license and the private detective license.

Another section (G.S. 105-101) levies a tax on the state seals affixed by the Secretary of State of the State Treasurer. This is in reality a fee for a service rendered and should be re-enacted in the proper place in the statutes.

The General Assembly is urged not to grant authority to local governments to levy licenses not required for regulatory purposes.

* Member Clarence Leatherman voted against this recommendation. He stated that he voted against it because the Commission failed to recommend a source of replacement revenue for the revenue which would be lost from repeal of Schedule B. He suggested elimination of the discount given to merchants for early payment of the sales tax as a source of replacement revenue. He said that if the two proposed changes were incorporated in one bill for introduction in the General Assembly he would favor the package.

**INDIVIDUAL INCOME TAX
PROPOSED CONSTITUTIONAL AMENDMENT RELATIVE TO
PERSONAL EXEMPTIONS**

The Commission received a number of suggestions that the personal exemptions allowed under the individual income tax laws should be on a per person basis similar to that used by the federal government, rather than on the present complicated system. This cannot be done under the North Carolina Constitution. The Constitution authorizes the General Assembly to levy an income tax but provides that "...there shall be allowed the following exemption, to be deducted from the amount of annual incomes, to-wit: for a married man with a wife living with him, or to a widow or widower having minor child or children, natural or adopted, not less than two thousand dollars (\$2,000.00); to all other persons not less than one thousand dollars (\$1,000.00)..." Thus, a \$2,000 personal exemption to a married man is guaranteed by the present Constitution as is a \$1,000 personal exemption to a single person. The Constitution, as presently interpreted, also grants a minimum exemption of \$1,000 to married women with separate income as they are "other persons."

Married women having separate incomes receive a \$1,000 exemption in addition to the husband's \$2,000 exemption, making a total exemption of \$3,000 for a married couple with both spouses having income. On the other hand, the married couple with only one spouse having income is entitled to only \$2,000 exemption. In addition, a farm wife or the wife of the owner of an unincorporated business who works on the farm or in the business are not able to claim any of the income under the general law of North Carolina and, therefore, are not entitled to the additional \$1,000 exemption allowed a wife having separate income, even though she has contributed to the earning of the income. These differences in exemptions of married couples have caused much complaint. Further, the present system of allowing exemptions causes much dissatisfaction among persons who feel that they, for one reason or another, should be entitled to a \$2,000 personal exemption. This is especially true with persons living alone in a house who feel that they should be the "head of a household," and with two persons, for example sisters, sharing a home but with each receiving income and thinking that one of them should be the "head of a household." In the first instance the person is entitled to only \$1,000 as he or she has no dependents in the home and in the second, the two persons receive \$2,000 exemption between them but feel that one of them should get an additional \$1,000 exemption. To correct the actual and/or the imagined inequities and discriminations in the personal exemption sections would require either a constitutional amendment, or a very substantial loss of revenue, or both. The federal system of allowing a fixed exemption (\$600) for each taxpayer, spouse, dependent, etc. makes for easier computation of personal exemption, makes for a less complicated law, and removes the basis for most of the complaints. It is also desirable to make the North Carolina law conform to the federal law wherever possible in order to simplify compliance with the law on the part of taxpayers. The Commission concluded that the Constitution should be amended to delete the minimum personal exemptions and to authorize the General Assembly to set or fix the amount of such exemptions. If the Constitution were amended in this fashion and the General Assembly adopted the present federal exemptions of \$600 each, the General Assembly

would be able to reduce the income tax rates and still provide the same amount of revenue. IT IS RECOMMENDED that the Constitution be amended by deleting the minimum income tax exemptions and by authorizing the General Assembly to fix such exemptions.

If the constitutional amendment recommended herein were proposed by the General Assembly, it would be referred to the electorate in the general election in 1970. The General Assembly of 1971 would then be able to adopt a new schedule of personal exemptions effective for the 1971 income year.

ASSESSMENT OF THE PROPERTY OF PUBLIC UTILITIES

The last Tax Study Commission, in its report to the Governor and the General Assembly, recommended that the chapter for the Machinery Act providing for assessment by the State Board of Assessment of certain properties of railroads and other public service companies be rewritten to make them conform to the needs of modern technology. The General Assembly did not pass the legislation to implement this recommendation but the House Finance Committee suggested that more study be given to the matter.

This Commission has studied the pertinent statutes, has heard the utility companies most concerned with proposed changes, and concurs in the recommendation of the prior Commission. This Commission also agrees with the objectives of the proposed revision and, with a few exceptions, the Commission agrees with the specific language proposed by the prior Commission. The thinking of the Commission in reaching this conclusion is set out in the following paragraphs.

The present statutes (Article 26 of Chapter 105) provide for original assessment by the State Board of Assessment of the total property of railroads, express companies, telephone companies, telegraph companies, power companies, gas companies, water companies, and other companies exercising the right of eminent domain. County assessors have concurrent authority to assess certain of the properties of these utilities.

The present statutes were written many years ago (much of the language dates back to the 19th century). They speak the language of another day and they are ambiguous. Experience has suggested better procedures for assessing public service company property and allocating values to local units. Changing technology has also rendered some portions of the statutes obsolete. Moreover, developments in the taxation of airlines and motor carriers suggest that fairness to both carriers and property owners in general calls for central assessment by the Board.

The Commission has prepared drafts of bills to clarify and modernize the laws. One bill calls for assessment of operating property of railroads and utilities along existing lines, except that it proposes new methods of allocating the property of telephone and telegraph companies to counties and municipalities, and it proposes the addition of transportation pipelines to the companies assessed by the Board. A second bill proposes new provisions for assessment of rolling stock and flight equipment of carriers. A third bill provides for (1) notice to all public service companies of proposed values; (2) hearing before the Board on the proposed value if requested by the company; and (3) appeal to the Superior Court if the final valuation is considered unfair by the taxpayer.

IT IS RECOMMENDED that Article 26 of the Machinery Act be rewritten in its entirety along the lines of the proposed law presented in the appendix to this report.*

*See page 69.

Property Presently Subject to Central Assessment

In order to understand the proposed law, or the present law for that matter, it must be borne in mind that the State Board of Assessment values the entire property of a railroad or other utility as a going concern, including the value of the franchise, rather than valuing each item of property separately, as is done with property assessed by the county assessor. If the company operates in another state, a portion of the total value of the company is then attributed to North Carolina according to the provisions of the Machinery Act.

The proposed law (see appendix) directs the State Board of Assessment, in assessing utility property, to consider the book value of capital stock, the market value of the capital stock, the book value of tangible property used in operating the business, the net operating income and probable future income, and any other pertinent information having a bearing on the value of the property being assessed. It then directs the Board to determine the value of the entire property, including the franchise, giving such weight, if any, to each factor to be considered as, in the opinion of the Board, would produce a fair and equitable result.

Thus, although the Board would, under the proposed law, be required to examine or consider each of the listed factors, it would be given the responsibility of using its judgment and of evaluating each factor to determine the relevancy of the factor to the actual value of the property in question. In the final analysis, the Board is endeavoring to place a value on the property of each company which is in line with the values placed on the property of other taxpayers in each county. To do this it must exercise the collective knowledge and judgment of its members.

After the total value of the property in North Carolina of a public utility has been determined by the State Board of Assessment, the value must be apportioned to the various taxing jurisdictions within which the company operates. The Commission found that the statutory provisions for apportioning the value of telephone and telegraph companies according to the miles of wire in each taxing jurisdiction does not produce the most equitable distribution of value between jurisdictions. Changes in technology and changes in methods of doing business have made this method of apportionment obsolete. For example, a significant portion of the messages sent over long distances are sent by micro-wave rather than over wire. Long distance messages not sent by micro-wave are sent over coaxial cables, and through improved methods many messages are sent simultaneously on the same wire. Thus, wire is a poor measure of the transmission of messages. In addition, property such as micro-wave relay towers have no wire connections and a county may have a relay station but no wire at all.

Another consideration lies in the fact that equipment in the central offices of telephone companies makes up a large portion of the investment of these companies. Such property is permanently installed in central office buildings but under the present law the assessed value is spread over the miles of wire of the company. The law does not even recognize differences in size or capacity of wire.

The Commission concluded that the provisions for apportionment of the value of telephone and telegraph companies should be amended to recognize the realities of modern telephone company operations and to place the value where the property is located to the extent feasible.

IT IS RECOMMENDED that the corporate excess of telephone and telegraph companies be apportioned to the various taxing jurisdictions within North Carolina according to the physical location of the tangible property, other land and buildings, of each company.

Adoption of this recommendation would increase the amount of the property of telephone and telegraph companies subject to taxation by municipalities (by taxing the property where it is located rather than spreading it along the telephone lines) and thereby increase the total property tax bill of these companies. It would not, however, decrease the amount of such property subject to taxation by counties, as property in a municipality is also within a county and subject to taxation by the county. There would, however, be some shifting to values between counties. Where this occurs it is believed that it is entirely proper and desirable as the whole philosophy of property taxation is to tax the property where it is situated or located except for property not regularly located in any one place (as railroad freight cars).

It should be borne in mind that fairness or equity in the taxation of the property of a public service company means fairness to utilities and also fairness to all other taxpayers in each taxing jurisdiction.

Assessment of Property of Public Service Companies Not Presently Centrally Assessed

Under present North Carolina law, properties of motor carriers and air carriers are assessed locally. There is no real problem in determining the value of their property, but under North Carolina law the situs of movable tangible personal property is the place of residence of the owner. North Carolina law makes no provision for the allocation or apportionment of the value of such over-the-road vehicles to North Carolina or between taxing jurisdictions in North Carolina. Each vehicle is taxed in the place in which it has a taxable situs. Thus, all of the vehicles of trucking firms based in North Carolina are taxable in the county in which the business is located unless the vehicles are stationed in some other county. In general, over-the-road trucks are all taxable in the home county, while trucks stationed at a terminal to make local deliveries are taxable in the county in which the terminal is located. This presents three problems. First, the North Carolina counties and municipalities are unable to tax any of the over-the-road rolling stock of trucking firms based outside of North Carolina; second, counties (other than the home county) in which substantial terminals of North Carolina based trucking firms are located are unable to tax any of the over-the-road rolling stock of these companies; and third, trucking companies based in North Carolina are exposed to the threat of double taxation on their vehicles.

Double taxation results from differences in the laws of this and other states. The North Carolina county in which they are based can tax all of their vehicles as was noted

above. Other states through which they operate can (some do and others will probably follow suit) tax a portion of the trucks under laws of those states through use of an allocation formula. The same is true of air carriers in that North Carolina counties are unable to tax any portion of their flight equipment unless the home base of the airline is in North Carolina. The Commission concluded that the flight equipment of air carriers and the rolling stock of motor carriers should be centrally assessed by the State Board of Assessment, using a formula for apportioning the value of such equipment to the State, and distributing the value among the various taxing jurisdictions in which each carrier has a terminal.

IT IS RECOMMENDED that the rolling stock of motor carriers and the flight equipment of air carriers be centrally assessed by the State Board of Assessment, and that the value of such property be apportioned to the various taxing jurisdictions in North Carolina in which the company has terminals.

Transportation pipelines, engaged in the business of transporting petroleum products for a fee, were formerly assessed by the State Board of Assessment. Recently, it was ruled that, because of a technicality in the law, transportation pipelines are not to be centrally assessed. The aggregate of the locally assessed values placed on the segments of the physical property of these pipelines is considerably less than the value which the State Board previously placed on the total property in the State. This resulted from the fact that the value of the franchise is reflected in the value set by the State Board of Assessment. Railroads, natural gas pipelines, and other public service companies are now centrally assessed; it is proposed herein that certain property of motor carriers and air carriers be centrally assessed. Therefore, the Commission concluded that the property of pipelines should also be centrally assessed by the State Board of Assessment.

IT IS RECOMMENDED that the property of transportation pipelines be centrally assessed by the State Board of Assessment.

Administrative Provisions

The Machinery Act does not require the State Board of Assessment to give public service companies notice of the values which the Board proposes to place on their property. The law does not give the taxpayer the right to protest the value nor the right to a hearing before the Board on the value placed on his property. The statutes do not specify that the utility taxpayer be informed of the facts and methods used in valuing its property. Further, although the General Statutes give any affected person the right to appeal to the courts from an adverse decision of an administrative body, nothing in the Machinery Act provides for such appeals.

It has been contended that the absence of provision for notice, hearing and appeal from valuations fixed by the Board as a board of assessors is a fatal flaw in the statutes and renders values fixed under them invalid. However, the courts have not been called upon to pass on this question. Whether constitutional or not, the Commission is of the opinion that all affected persons should have the right of notice,

hearing and appeal, and that these should be provided in Article 26 of the Machinery Act spelling out the time and methods of granting these rights, so that every taxpayer may know exactly what his rights are. The Commission also feels that all taxpayers should be entitled to know the methods used in valuing their property and the methods used in valuing the property of other taxpayers engaged in the same business.

IT IS RECOMMENDED that public service companies whose property is assessed by the State Board of Assessment be given the right to notice of proposed valuations, the right to a hearing on the proposed value if a timely request is filed, the right to know the methods used in valuing their property, the right to know the methods used in valuing the property of other taxpayers engaged in the same business, and the right to appeal directly to the Intermediate Court of Appeals from an adverse decision by the board. IT IS FURTHER RECOMMENDED that the proceedings before the Court be on the record developed before the State Board of Assessment.

In summary, the Commission is proposing that the law providing for the assessment of the property of public service companies be rewritten. The proposed law would follow the present practices of the State Board of Assessment in determining the taxable value of the property of all companies now subject to assessment by the State Board of Assessment. It would, however, change the method of apportioning the value of telephone and telegraph companies to counties, municipalities and districts from the present use of miles of wire within each jurisdiction to the assessment of the property where it is situated. The proposed law would provide for assessment by the State Board of Assessment of the buses, trucks and trailers of motor carriers and the airplanes of commercial airlines rather than assessment by county assessors as is now done. The proposed law would also provide for companies assessed by the State Board of Assessment to receive notice of proposed values, to be entitled to a hearing before the Board on such values and the right to appeal to the courts from the values fixed by the Board.

STATE SALES TAX – MERCHANT’S DISCOUNT

The sales tax Article of the Revenue Laws provides that sales and use tax payments and returns are due on or before the fifteenth day of the month following the month in which the sales were made. A merchant filing his return and paying his tax on time is given a discount of 3% of the tax due. As far as the law is concerned this discount is given to encourage early payment. It appears that at least part of the intent of the General Assembly was to compensate the merchant for collecting and paying the tax.

The first or statutory purpose is largely accomplished. Almost 95 percent of the sales tax collections are received in time to earn the discount. The second purpose, that is, compensation of the merchant is less well performed. The discount has no proximate relationship to cost of compliance with the tax on the part of merchants. The merchants having the greatest cost of compliance in relation to the tax may be the merchant making the most exempt sales, or it could be the one unable to prepay his tax due to his financial condition. The first point can be demonstrated by the retail grocer. Prior to July 1, 1961, most food items were exempt from the sales tax. The grocer collected sales tax on a small portion of his sales, and received a discount on the amount of tax paid. After the food exemption was repealed, his cost of compliance may have decreased due to less time being required of clerks to sort out taxable and nontaxable items, less time to train clerks and no worry about interpretations of the law, but his discount was multiplied as it was computed on a much larger tax base.

The Commission decided that the discount was not justified on either count. Taxpayers comply with other tax laws without compensation. The most recent example is the withholding of individual income taxes. Employers incur some expense in complying with this tax and receive no compensation. If they under-withhold they are subject to penalty. Under the same law individuals pay their income taxes through withholding long before the amount actually owed can be determined, and may overpay their income tax and thereby “loan” money to the State government interest free. No discount is allowed for making payment when the tax is due. All taxes have due dates and payment is required on or before that date. Prompt payment is obtained by levying a penalty for late payment. Further, the “tax” being “paid” by a merchant is not his own money. He collects the tax from his customers, uses the money for a short period, and then passes it on to the government. The discount for early payment allows the merchant to keep part of the taxes his customers have paid to him.

IT IS RECOMMENDED that the discount allowed to retail merchants for early payment of sales tax be repealed.*

*Members Sneed High, Clarence Leatherman, and John A. Williams voted against this proposal. Member Clarence Leatherman stated that he voted against this proposal because he believes that it should be recommended only if it is presented as a source of replacement revenue for the repeal of Schedule B privilege licenses (recommended elsewhere in this report) and that the tow should be incorporated in one bill for introduction in the General Assembly. He said that if the two proposals were tied together he would favor the package.

THE LOCAL TAX STRUCTURE

Local Governments in North Carolina are almost entirely dependent upon the general property tax for revenue. The general property tax provides 94 percent of the tax revenue of municipalities from their own sources, that is, excluding the municipal share of state taxes. Counties derive 98 percent of their tax revenue from this source, again excluding the local portion of state taxes. Special districts derive all of their tax revenue from the general property tax.

It is frequently pointed out that North Carolina governments, State and local, derive a smaller portion of their tax revenue from the taxation of property than is the case in most other states. In fact, the dependence upon property as a revenue source is a little more than half the national average (26 percent to 43 percent). The Commission feels, however, that there is good reason for having a relatively less burdensome property tax than is the case in most other states. It feels that there is good reason for slowing, halting, or even reversing the trend toward ever higher property tax levies in most counties and municipalities. In fact, there are many reasons for reassessing the dominant position of the property tax in local government finance.

One such reason is an indictment of the property tax itself. That is, the nature of the tax makes it impossible to administer uniformly and, therefore, fairly and equitably to all property owners. Another reason for relying less upon the property tax is that the tax does not even approximately reflect ability to pay. It is levied at the same rates on income producing as on non-income producing property. It is also slow in responding to economic changes and property tax levies are high enough to compel owners of non-productive property to dispose of it or even let it "go for taxes." Further it is the opinion of this Commission that if property taxes become much higher, the pace of economic growth, including industrial development in North Carolina will be retarded. Many persons working in industrial development indicate that property taxes are already of such significant impact that it makes their job difficult.

1. Difficulty of Administration.

With a few exceptions (leaf tobacco, bales of cotton and peanuts) the property tax is levied at uniform rates on "assessed value" of property within each taxing jurisdiction. Property is to be "assessed" at a uniform percentage of appraised value. The Board of County Commissioners of each county may adopt any percentage they wish so long as it is uniformly applied. So far so good – a uniform tax rate is applied to property assessed at a uniform percentage of appraised value. It is the appraised valuation that creates all the problems. All property subject to taxation is to be appraised at "its true value in money" or, in other words, at its current market value.* Therein lies the booby-trap. Relatively few types of property have a readily determinable "market" value. Few types have precise market values. Property which is of a type that various units are readily interchangeable and for which a ready market is established has a reasonably precise market value. Examples are money, shares of stock in corporations, and inventories of merchandise offered for sale. Even though

*Market value is commonly defined as the price for which a willing seller will sell and at which a willing buyer will buy.

used automobiles are regularly traded and a definite market is established with publications of average prices of various makes and models of automobiles, the value at which a particular vehicle may be sold, may and usually does, vary considerably from the published averages because the condition of the vehicle is a factor in its actual value. No market exists for household furnishings and clothing, and an imperfect market exists for used industrial machinery.

The price for which used furniture, appliances, and clothing could be sold, even when virtually new, is only a fraction of the worth to the owner. These two values approach each other only when such items are old or worn enough to be discarded by the owner. Although there is a used machinery market, the value of a machine in place and operating as part of an industrial plant is worth far more to the owner-manufacturer than it would ever bring in the warehouse of a used machinery dealer. There is no way in which an assessor can rationalize these two values, the worth to the owner-user and the worth to a prospective buyer, into a single "market" value.

2. The property tax is not related to income.

Little needs to be said to support this statement. It is obvious that in many cases there is little relationship between a tax based on the value of property, and the income the property actually produces. This is especially true where property is appraised at its market value, that is the price it would bring in the open market for its "highest and best use." Much property is open or vacant land put to no use and earning nothing. It is being held in the hope that its value will appreciate. Other property, for example, farm land, produces income, but the income is frequently less than could be produced if the land were put to other uses. This is especially true when the farm is located in the urban fringe. A different situation exists with timber land. It is being held for future harvest of a marketable product. This may require many years with no income being earned in the meantime. Property taxes based on market value may not be inequitable in that the tax is not "unequal," but it certainly can be a hardship on the owner if the tax rate is high.

After a careful consideration of the role of the property tax in the tax structure of local governments, the Commission reached the conclusion that it is, indeed, as heavy a burden as it should be allowed to become and that, where possible, it should be rolled back.

In order to accomplish this in the face of rising demands for governmental services and increasing costs of existing services, additional sources of revenue would be necessary. Such additional sources should be capable of producing substantial amounts of revenue, but should be broad-based to lessen the impact, should be based on ability-to-pay, and, in-so-far as possible, should be responsive to economic change.

There are three general methods of accomplishing this objective. One is for the State to assume more responsibility for a greater portion of the cost of traditionally local services in the same manner that it assumed responsibility for public school support and construction and maintenance of county roads in the early 1930's. Another is for the

State to share substantial revenue with local governments, in addition to the presently shared taxes. A third is to grant local governments authority to levy taxes which are now prohibited to such governments, so-called local option taxes.

This Commission favors the latter method of relieving the financial pressure on local governments and, at the same time, upon the property tax.

The arguments which can be advanced in favor of local option taxes as opposed to shared State taxes are manifold.

The Commission is of the opinion that the authority to levy taxes and the responsibility for levying taxes should be vested in the same body which appropriates the revenue for expenditure. Where substantial authority over appropriations of public funds resides in a legislative body not responsible for levying the taxes, fiscal irresponsibility is likely to result.

IT IS RECOMMENDED, therefore, that counties and municipalities be given authority to levy additional taxes.

Additional Sources of Revenue for Local Governments

In addition to the need for property tax relief found by the Commission, it was found that many localities are under considerable financial pressure brought on by rapidly increasing population. Growing population brings with it the need for new school buildings, expanded water and sewer systems, and other governmental services. Larger municipalities have other needs brought on by change but not necessarily related to growth, such as urban renewal, airport expansions and low income housing. Substantial increases in property tax rates for 1968 by several counties and cities demonstrate the urgent needs for more revenue in some counties.

None of these needs for additional sources of revenue applies uniformly from county to county or from town to town. The need for property tax relief varies from county to county. Differences in burden result from the differences in needs and desires for services, the willingness of the people to tax themselves to provide governmental services, and the wealth of the community as reflected in the property tax base. It is, of course, obvious that the problems brought on by rapidly growing populations are faced by only a few counties.

As the needs for additional revenue and for additional sources of revenue vary widely from county to county, the only logical answer seems to be to give additional authority to local governments to levy taxes and thus enable them to solve their own problems. This brings us to the so-called "local option" plan, giving local governments authority to levy broad based taxes other than the general property tax.

Just as it is felt that it is not in the best interest of the State or its citizens for local governments to be dependent on a single major revenue source, it is the opinion of the Commission that more than one new source should be made available to local

governments. Having more than one new source from which to choose would enable local governments to select the tax best suited to the economy of the county and most acceptable to the tax payers themselves.

It is the opinion of the Commission that any new tax authority given to local governments should be broad based. A broad based tax permits use of a low tax rate and also ensures that most of the residents contribute to the support of their government.

As the needs of government for revenue tend to grow more rapidly in times of economic expansion, any additional authority should include taxes which are responsive to economic change as contrasted to the property tax, which, by its very nature, responds very slowly to economic change. The following paragraphs examine the sales tax, the income tax, and motor vehicle license as sources of local revenue.

THE LOCAL SALES TAX

As was noted above, the Commission strongly recommends that local governments be given authority to levy additional taxes to provide additional revenue where needed and to provide property tax relief. By far the most commonly used source of tax revenue of local governments of other states, other than the general property tax, is the sales tax. At least sixteen states have authorized the levy of a retail sales or gross receipts tax by counties and/or cities. Among them are Alabama, Tennessee, and Virginia. Within two years after the effective date of the Virginia law (September 1, 1966), thirty-six cities and ninety-four counties levied a sales tax under the new authority. In 1964, the latest date for which data are available, almost 2,400 local units were levying sales taxes throughout the nation. This is approximately half of such units in the United States. It is the opinion of the Commission that the local option sales tax can work successfully in North Carolina and that it will be acceptable to the taxpayers in those localities in need of additional sources of revenue. The affirmative vote in Mecklenburg County on this question shows that our people are ready to vote for this type of tax when they feel that it is needed. After carefully considering the matter, the Commission concluded that the local option sales tax should be adopted in North Carolina, that counties should be permitted to levy a sales tax with the proceeds to be shared with municipalities.

The Commission has also reached the conclusion that any local sales tax should be county-wide in order to minimize, if not eliminate, any tendency on the part of customers to avoid the tax by buying outside the taxing jurisdiction. Where a municipality levies a sales tax and there is no tax outside the city, come changes in shopping habits would almost certainly occur. Where the tax is levied throughout the county, few purchases are large enough to make it feasible to go outside the county to make the purchase. However, there are a few purchasers or users of goods who do make purchases of items subject to the state 3% rate in sufficient quantities to make a local 1% tax a significant consideration when deciding where to purchase the goods. Purchases of building materials by contractors are a case in point.

In order to make the local sales tax neutral in making decisions as to where to buy, the Commission believes that the local sales tax should be supplemented by a local use tax, but that the use tax should be as simple in application as possible. Out-of-state vendors should collect the local tax on sales to customers in taxing counties and users should pay the use tax on any purchases made in a non-taxing county for use in a taxing county. There should also be a tax credit against the local use tax for purchases in one taxing county for use in another taxing county. In considering the various aspects of a local sales and use tax it should be kept in mind that the recommended tax would apply only to transactions subject to the state tax at the 3% rate.

It is believed that any local option sales tax should be administered by the State Department of Revenue. A state administered local sales tax is much less costly to administer than a tax administered separately by each local unit. The reduction in cost

results from elimination of duplication of effort. The additional cost beyond that now spent by the State would be relatively small. Further, the cost of compliance by merchants would be reduced as only one return would be filed each month.

IT IS RECOMMENDED that counties be given authority to levy a sales and use tax for the benefit of county and municipal governments, that the sales and use tax be levied on a county-wide basis only, that the tax be administered by the State Department of Revenue, and that the Commissioner of Revenue return the proceeds of the tax each month to the local governments levying the tax.*

As the recommendation is for a jointly levied county and municipal tax with the proceeds to be shared by the county government and any municipal governments, the method of determining the county share and the share of each municipality becomes a matter of considerable importance. Recognizing its importance, the Commission gave careful attention to this question and considered several possible methods of apportioning the revenue to the different units of government. After several possibilities were considered and rejected, the Commission decided that the best method is to distribute the proceeds of the tax in the proportion that the general property tax levy of each government sharing in the distribution bears to the total property tax levy of all the governments sharing in the tax. For this purpose, the "levy" is the tax rate multiplied by the assessed value of all property in the taxing jurisdiction, with the county "levy" to include only taxes levied on a county-wide basis, that is, excluding district levies.

The use of property tax levies as an allocator for sharing the proceeds of the local sales tax between the county government and municipal governments within the county is the most feasible method of determining the share of each government as it provides additional revenue to each government in proportion to its revenue needs which are reflected by property tax levies. The only other readily available data which could be used in making this distribution is population and this is considered a poor measure of need. Many small municipalities provide few municipal services and, consequently, levy taxes of only a few cents per \$100 as compared with county levies of over \$1.00 in most counties. The use of population as an allocator of the sales tax revenue would give such downs a disproportionate share of the revenue.

If property tax levies are used to divide the revenue between county and city or town, the statutes should provide that levies not substantially collected should be ignored in making the distribution. This provision is needed to prevent a small incorporated community from levying a tax which it does not intend to collect in order to receive a share of the sales tax levied by the county. There have been one or two instances in which towns have levied property taxes but have collected none. Where this happens the "levy" should not be used to secure sales tax revenue for the community.

IT IS RECOMMENDED that the law provide that the local sales and use tax may be enacted by the Board of County Commissioners on their own action, or may be voted on in a referendum called for by the Board of County Commissioners, or may be

* Member Sneed High dissented from the majority view and voted against this recommendation.

voted on in a referendum to be initiated by a petition signed by qualified voters in the number of 15 percent of the voters in the most recent election for governor.

It is believed that, if a bill authorizing a local option sales and use tax is enacted by the General Assembly, the bill should provide that the Mecklenburg County Sales and Use Tax Act should be automatically repealed and that Mecklenburg County should come under the new act without the necessity of action by the Mecklenburg Board of County Commissioners or of a new election.

A table showing the share of each local government in a local option sales tax, if each county should enact the tax, appears in the appendix to this report (see page 39).

THE LOCAL INCOME TAX

The Commission believes that local governments should have as wide a choice of revenue sources as is practicable. The individual income tax enacted as a local option “piggy back” tax to be administered in conjunction with the state tax is well suited to the needs of many local governments.

There are a number of counties wherein large numbers of residents are employed outside the county and also do their shopping outside the county. Such counties would be better served by an individual income tax on their residents than by a sales tax. Further, a county which prefers a graduated tax would favor the income tax over the sales tax. The choice should be left to the people in the county.

The Commission is of the opinion that any local income tax should be in the nature of a surtax levied at a fixed percentage of the state tax. This would make for ease of computation by the taxpayer and would incorporate the state’s graduated tax rate structure into the local tax.

IT IS RECOMMENDED that counties be authorized to levy at their option an individual income tax on all residents of the county for the benefit of county and municipal governments, with the tax to be levied at 10 percent of the net state tax after foreign tax credit. IT IS FURTHER RECOMMENDED that the tax be administered by the State Department of Revenue, and that proceeds of the tax in each county levying the tax be divided between the county government and any municipalities therein in the proportion that property taxes levied for county-wide purposes by the county and levied for municipal purposes by cities and towns bears to the total of such levies, but that property taxes levied but not substantially collected be ignored for purposes of allocation. IT IS RECOMMENDED that the law provide that the tax may be enacted by the Board of County Commissioners on its own initiative, or may be voted on in a referendum called for by the Board of County Commissioner, or may be voted on in a referendum to be initiated by a petition signed by qualified voters in the number of 15 percent of the voters in the most recent election for governor.

A table showing the share of each local government from a local option individual income tax, if each county should enact the tax, appears in the appendix of this report (see page 39).

MUNICIPAL MOTOR VEHICLE LICENSES

Municipalities now have the authority to levy motor vehicle licenses of not more than \$1 each on vehicles owned by residents of the municipality. The impact of motor vehicles on the cost of police, parking, streets, etc., is well known and it is felt that motor vehicle owners should share more of the cost. It is believed that the maximum motor vehicle license which municipalities may levy should be increased to \$5. It is estimated that if all municipalities levied the proposed maximum of \$5, the increased revenue would amount to \$2,860,000 per year.

IT IS RECOMMENDED that municipalities be authorized to levy a tax of not more than \$5 each on motor vehicles owned by resident individuals and on motor vehicles owned by firms or companies if the motor vehicles are based in the municipality levying the tax.*

A table showing the revenue each municipality would derive from levying this license tax at the proposed maximum rate appears in the appendix to this report (see page 39).

* Member Sneed High voted against this recommendation.

PROPERTY TAX EXEMPTIONS

The Commission took a long, hard look at property tax exemptions following expressions by representatives of the North Carolina County Commissioners Association and the North Carolina League of Municipalities in the hope that the Commission would act to halt the erosion of the property tax base through addition of new exemptions. The Commission also sought the views of other persons considered to be knowledgeable in the field of property taxation.

After much study and discussion by the members of the Commission, it was decided that property tax exemptions are indeed a problem for local governments as the property tax is the dominant source of tax revenue of such governments, and that many of the exemptions may result in shifting of a portion of the tax burden to taxpayers not so favored. The Commission was unable, however, during the time available, to determine the actual impact of exemptions on revenue collections, either separately or in total. The Commission felt that it should not make specific recommendations in this area until factual data as to the tax loss resulting from each exemption are available. It also felt that action should be withheld until hearings could be held to provide information as to the purpose served by each exemption upon which informed decisions could be based.

THE COMMISSION RECOMMENDS, therefore, that a study commission to study property tax exemptions in depth be authorized.

ADDITIONAL STATE REVENUE

In recognition of the mounting demands for funds for various State services, especially education and highways, this Commission expects that additional State revenue will be needed in the not too distant future, probably, within the next two or three biennia.

In the event that additional revenue is needed for the General Fund, it is suggested that the General Assembly first look to the levy of an excise tax on the retail sale of cigarettes and equivalent taxes on other tobacco products for such additional revenue.*

In the event that additional revenue is needed for the Highway Fund IT IS RECOMMENDED that the General Assembly increase the gasoline tax rate rather than look to non-highway-user taxes for additional revenue.

Members Henry Caldwell and Wills Hancock voted against this proposal. Their opposition to special taxes on cigarettes and other tobacco products are set out in the following statement:

**STATEMENT
BY
WILLS HANCOCK AND HARRY B. CALDWELL
IN OPPOSITION TO
SPECIAL TAXES ON CIGARETTES AND
OTHER TOBACCO PRODUCTS**

We oppose the proposal to levy a special tax on the users of cigarettes and other tobacco products. Such a tax does not reflect ability to pay or benefits received. It would simply impose a special tax burden on the users of tobacco and shift a greater portion of the cost for Government services to the users of these products.

North Carolina smokers now pay sales taxes on their tobacco products and these taxes alone amount to about \$5 million per year. Cigarette manufacturers and related tobacco processors pay directly to the state approximately \$12 million per year as corporate income taxes, which taxes incidentally are more than 15 per cent of all corporate income taxes collected by the state. Additionally, they pay about \$2 million in franchise taxes and around \$8 million in property taxes. Furthermore, land used for the production of tobacco is usually appraised at higher values per acre than any other farm land, which factor adds to the property tax receipts of local government. Consequently, the statement often made, "that North Carolina does not tax cigarettes and tobacco products" is erroneous. Cigarettes are already one of the most heavily taxed commodities in existence.

The special tax cannot be justified as a luxury tax since luxury items are normally restricted in use and are usually limited to such items as furs, jewelry, and like articles and commodities. Nor can this proposal be justified on the basis of "favored" treatment such as now applied to the varying sale tax rates and maximum limited placed upon each automobile unit sold. We believe that the cost of government should be borne by people first on the basis of ability to pay and second in terms of benefits received. While we do not advocate the adoption of taxes on special selective commodities simply because of their use, it is our view that if such a tax program is found to be necessary then we would favor its application to luxury items as was heretofore done by the Federal Government. Certainly, the adoption of the principle would distribute the tax burden more equitably and more nearly on the basis of ability to pay.

Tobacco produces more income in North Carolina than any other commodity. So long as our state does not impose special consumer taxes on tobacco products, there is a practical limit as to how high other states can go and expect any reasonable degree of enforcement. Thus a special tax on cigarettes and other tobacco products is not justified in our view and the idea should be abandoned.

/S/ WILLS HANCOCK
/S/ HARRY B. CALDWELL

APPENDIX

Tables

- 1 Privilege license tax collections by the State, counties, and municipalities, by subject of taxation.
- 2 Potential county and municipal revenue from a local option sales tax and a local option income tax and potential municipal revenue from increasing the municipal motor vehicle license tax.
- 3 Partial listing of state aids, grants, services, and expenditures to or for local governments by the North Carolina State government, by major functions.

Exhibits

- 1 Summary list of suggestions and recommendations made to the Commission by companies, organizations, and individuals.
- 2 Draft of bill to implement recommendations of Commission with respect to assessment of property of public service companies.

Table I.

**Business and Occupation License Tax Collections by the State,
Counties, and municipalities, by Sections of the Law**

("Prohibited" indicates that counties or municipalities
are prohibited by law from licensing the particular type of business)

Sections	Subjects of Taxation	Collections		
		State (1967-68)	County (1966-67)	Municipal (1966-67)
105-34	Amusement Parks	--	Prohibited	\$ 5
-35	Traveling theatricals	\$253	\$525	108
-36	Picture film dealers	15,107	Prohibited	Prohibited
-36.1	Outdoor theatres	36,835	Prohibited	4,088
-37	Moving pictures or vaudeville shows	61,405	Prohibited	13,577
-37.1	Amusements not otherwise taxed	399,863	Prohibited	5,539
-38	Circuses, dog shows, etc.	14,439	625	59
-39	Carnivals	14,040	1,505	755
-41	Professions – doctors, lawyers, etc.	427,329	Prohibited	Prohibited
-41.1	Bondsmen	5,445	4,256	4,048
42	Detectives	2,926	--	--
-43	Real estate auctions	9,665	757	1,872
-44	Coal and coke dealers	15,503	Prohibited	10,219
-45	Collecting agencies	3,722	Prohibited	2,440
-46	Undertakers and coffin dealers	29,287	Prohibited	17,340
-47	Horse and mule dealers	3,046	194	303
-48	Phrenologists	--	10	500
-48.1	Itinerant photographers	500	45	982
-49	Bicycle dealers	25,077	Prohibited	7,920
-50	Pawnbrokers	24,672	12,078	13,735
-51	Dealers in office machines, appliances, etc.	43,801	Prohibited	Prohibited
-52	Sewing machines	10,446	6,542	Prohibited
-53	Peddlers	27,373	Included in Section 52	22,318
-54	Contractors	447,192	Prohibited	58,712
-55	Installing elevators and sprinklers	3,605	578	1,290
-56	Servicing elevators and sprinklers	198	Included in Section 55	312
-57	Mercantile agencies	1,505	Prohibited	Prohibited
-58	Gypsies and fortune-tellers	4,140	4,250	12
-59	Lightning rod agents	2,311	55	None
-61	Hotels, motels, etc.	105,786	Prohibited	29,574
-62	Restaurants, cafes, etc.	322,997*	Prohibited	71,789
-63	Cotton compresses	--	Prohibited	868
-64	Billiard and pool tables	106,438	9,810	48,168
-64.1	Bowling Alleys	14,099	2,878	9,116
-65	Music machines	90,373	16,381	10,493
-65.1	Dispensers and weighing machines	937,208**	3,496	3,553
-66	Riding devices, swimming pools, etc	38,125	4,446	3,852
-67	Security dealers	30,155	Prohibited	3,600

-68	Cotton brokers	8,520	Prohibited	2,250
105-69	Soft Drink bottlers	\$ 167,776	Prohibited	\$ 33,872
-70	Packing houses	18,231	Prohibited	5,266
-71	Newspaper contests	--	None	125
-72	Selling petroleum products	--	Prohibited	16,703
-74	Dry cleaning and pressing	69,778	Prohibited	34,702
-75	Barber and beauty shops	44,114	Prohibited	25,915
-76	Shoe shine parlors	1,554	Prohibited	1,100
-77	Tobacco warehouses	57,946	Prohibited	6,127
-78	News dealers on trains	--	Prohibited	Prohibited
-79	Soda fountains, soft drink stands	331,463*	Prohibited	26,255
-80	Dealers in pistols, etc.	44,146	6,392	5,078
-82	Pianos, organs, radios, etc.	67,297	278	8,032
-83	Installment paper dealers	1,066,235	Prohibited	Prohibited
-84	Retailers, jobbers selling tobacco products	304,930*	Prohibited	82,965
-85	Laundries	70,104	1,914	33,897
-86	Outdoor advertising	29,187	Prohibited	4,321
-87	Motor advertising	846	573	1,877
-88	Loan agencies, brokers	535,630	47,795	51,790
-89	Automotive service stations, wholesale automotive equipment and motor vehicle dealers	893,531	131,176	125,244
-89.1	Motorcycle dealers	5,357	592	865
-90	Emigrant and employment agencies	42,718	3,176	342
-90.1	Emigrant and employment agencies (penalty section)	--	Included in 90	Included in 90
-91	Plumbers and electricians	81,111	Prohibited	50,875
-92	Trading stamp companies	8,350	9,050	12,932
-93	Court process tax	94,900	--	--
-96	Marble yards	7,536	Prohibited	2,005
-97	Ice cream manufacturing or distributing	23,820	Prohibited	7,620
-98	Branch or chain stores	340,854	Prohibited	109,970
-99	Motor fuel wholesalers	163,288	Prohibited	Prohibited
-100	Patent rights	10	1	Not available
-102	Junk dealers	9,518	2,711	4,273
-102.1	Cooperative associations	1,375	Prohibited	Prohibited
-102.2	Scrap processors	2,882	Included in Sec. 102	500
Ch. 85, Art. I	Jewelry/auctioneers	1,400	688	Not available
Ch. 85, Art. II	Auction merchants	1,200	Included in Ch. 85, Art. I	Not available
G.S. 7-115	Justice of the Peace qualification fees	351	--	--
Art. 41	Scrap tobacco dealers	--	Not available	Not available
Ch. 1008	Indigent defendants fees	31,535	None	None
Amounts not separately reported		--	52,898	404,389
TOTALS UNDER SCHEDULE B		\$7,802,359	\$325,675	\$1,406,437
Municipal licenses levied under general taxing authority				\$1,668,314***
ALL MUNICIPAL LICENSES				3,074,751
TOTAL ALL GOVERNMENTS				\$11,202,785

*Revenue will decline in fiscal years ending in 1968 and 1969 because of amendments to these sections effective July 1, 1968.

**Revenue will increase in fiscal year 1968-69 because of amendments effective July 1, 1968.

***Does not include beer and wine licenses, automobile licenses, and dog licenses.

TABLE II

**POTENTIAL COUNTY AND MUNICIPAL REVENUE FROM A LOCAL OPTION SALES TAX
AND A LOCAL OPTIONAL INCOME TAX AND POTENTIAL MUNICIPAL REVENUE
FROM INCREASING THE MUNICIPAL MOTOR VEHICLE LICENSE TAX**

(The sales tax to be levied at one percent on sales now subject to the three percent rate
and the income tax to be levied at ten percent of the State individual income tax.)

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Alamance	\$ 751,153	\$ 314,365	\$ ---
Burlington	336,717	140,919	63,704
Elon College	3,412	1,428	1,400
Gibsonville	3,986*	1,668*	3,112
Graham	61,137	25,586	11,568
Mebane	20,565*	8,607*	2,868
Alexander	120,477	50,060	---
Taylorsville	16,146	6,709	2,224
Alleghany	66,999	15,594	---
Sparta	5,074	1,181	328
Anson	145,063	52,159	---
Ansonville	632	227	---
Lilesville	2,413	868	---
McFarlan	306	110	---
Morven	1,806	649	---
Peachland	577	207	228
Polkton	1,003	361	---
Wadesboro	20,911	7,519	5,064
Ashe	112,653	30,019	---
Jefferson	5,070	1,351	---
Lansing	420	112	---
West Jefferson	14,831	3,953	1,064
Avery	62,204	18,443	---
Banner Elk	846	251	---
Crossnore	363	108	---
Elk Park	584	173	---
Newland	2,774	822	---
Beaufort	337,678	87,753	---
Aurora	4,208	1,094	1,164
Bath	378	99	388
Belhaven	6,968	1,811	2,432
Chocowinity	1,963	510	908
Pantego	685	178	440
Washington	60,995	15,851	12,692
Washington Park	3,348	870	---

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Bertie	102,180	36,758	---
Askewville	130	47	---
Aulander	5,243	1,886	---
Colerain	1,374	494	---
Kelford	731	263	368
Lewiston	1,143	411	552
Powellsville	234	84	136
Roxobel	837	301	404
Windsor	7,060	2,540	3,404
Woodville	154	55	---
Bladen	151,963	40,209	---
Bladenboro	5,498	1,455	1,116
Clarkton	6,896	1,825	1,212
Dublin	1,583	419	396
Elizabethtown	10,880	2,879	2,796
Tar Heel	60	16	260
White Lake	6,192	1,638	504
Brunswick	153,372	44,918	---
Boiling Springs Lake	1,749	512	---
Bolivia	133	39	280
Long Beach	13,063	3,892	544
Ocean Isle Beach	1,392	408	---
Shallotte	3,269	957	1,252
Southport	7,930	2,323	2,516
Sunset Beach	812	238	---
Yaupon Beach	2,575	754	220
Buncombe	1,445,311	446,929	---
Asheville	784,301	242,527	---
Biltmore Forest	23,560	7,268	---
Black Mountain	13,528	4,183	---
Montreat	6,007	1,857	---
Weaverville	7,626	2,358	---
Burke	360,280	175,729	---
Drexel	16,417	8,008	---
Glen Alpine	2,487	1,213	---
Morganton	79,551	38,801	---
Rhodhiss	2,073*	1,011*	---
Valdese	48,337	23,577	---
Cabarrus	731,954	286,293	---
Concord	171,797	67,196	31,176
Mt. Pleasant	8,686	3,397	1,740
Caldwell	354,905	154,563	---
Blowing Rock	467*	203*	1,520
Granite Falls	21,857	9,519	---
Hudson	9,729	4,237	---

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Caldwell cont'd.			
Lenoir	140,159	61,040	13,948
Rhodhiss	4,056*	1,767*	**
Camden	15,058	12,123	---
Carteret	207,724	80,473	---
Atlantic Beach	8,837	3,423	548
Beaufort	28,910	11,200	4,140
Cape Carteret	1,272	493	---
Emerald Isle	2,828	1,096	---
Morehead City	62,573	24,241	7,176
Newport	7,603	2,945	1,900
Caswell	57,791	25,800	---
Milton	191	85	416
Catawba	57,791	25,800	---
Brookford	6,099	2,151	---
Catawba	3,813	1,344	---
Claremont	8,981	3,167	---
Conover	39,167	13,811	---
Hickory	355,403	125,320	36,344
Longview	57,481	20,269	---
Maiden	22,641	7,983	4,052
Newton	67,862	23,929	11,924
Chatham	171,936	72,215	---
Goldston	1,728	726	912
Pittsboro	10,877	4,568	1,980
Siler City	42,358	17,791	4,528
Cherokee	116,768	28,826	---
Andrews	12,377	3,055	---
Murphy	29,102	7,185	---
Chowan	93,368	25,333	---
Edenton	22,459	6,094	6,228
Clay	26,023	6,913	---
Hayesville	1,686	448	---
Cleveland	594,435	214,208	---
Boiling Springs	5,493	1,980	---
Grover	3,222	1,161	---
Kings Mountain	44,174	15,918	3,616
Lattimore	365	131	---
Lawndale	3,641	1,312	---
Shelby	106,394	38,340	---
Waco	---	---	---

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Columbus	353,744	93,303	---
Bolton	845	223	596
Brunswick	574	151	256
Chadbourn	11,321	2,986	2,596
Fair Bluff	4,480	1,181	1,084
Lake Waccamaw	4,871	1,285	1,048
Tabor City	13,185	3,478	2,604
Whiteville	47,459	12,518	6,908
Craven	525,960	140,507	---
Bridgeton	3,571	954	1,128
Cove City	418	112	636
Dover	1,378	368	564
Havelock	22,183	5,926	3,332
New Bern	124,223	33,185	21,596
Vanceboro	5,698	1,522	1,468
Cumberland	1,490,059	331,685	---
Falcon	171	38	---
Fayetteville	568,646	126,580	63,176
Hope Mills	11,656	2,594	2,088
Linden	150	34	---
Spring Lake	16,986	3,781	1,740
Stedman	1,064	237	---
Currituck	33,599	11,399	---
Dare	109,770	15,601	---
Kill Devil Hills	13,181	1,873	392
Manteo	5,199	739	820
Nags Head	17,676	2,513	---
Davidson	580,648	274,473	---
Denton	10,712	5,064	1,388
Lexington	96,991	45,847	12,264
Thomasville	172,909	81,734	16,268
Davie	106,687	56,518	---
Mocksville	24,101	12,768	3,136
Duplin	229,901	66,349	---
Beulaville	3,957	1,142	2,076
Calypso	1,768	510	620
Faison	3,533	1,020	740
Kenansville	2,537	732	1,040
Magnolia	1,383	399	460
Mount Olive	87*	25*	5,096
Rose Hill	6,101	1,761	2,228
Teachays	236	68	---
Wallace	23,366	6,743	3,596
Warsaw	11,430	3,299	2,928

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Durham	1,077,858	415,391	---
Durham	984,842	379,545	135,420
Edgecombe	313,699	98,643	---
Battleboro	1,052*	330*	652
Conetoe	425	134	228
Macclesfield	2,212	696	1,160
Pinetops	4,219	1,327	1,908
Princeville	616	194	200
Rocky Mount	96,807*	30,441*	57,160
Sharpsburg	166*	52*	**
Speed	365	115	236
Tarboro	66,732	20,984	15,836
Whitakers	2,061*	648*	1,288
Forsyth	2,200,688	886,751	---
Kernersville	28,273	11,393	5,560
Winston-Salem	1,268,259	511,036	240,000
Franklin	173,311	49,173	---
Bunn	636	180	500
Centerville	---	---	---
Franklinton	10,998	3,120	2,140
Louisburg	10,153	2,881	3,608
Youngsville	2,819	800	784
Gaston	987,128	414,672	---
Belmont	48,907	20,545	5,172
Bessemer City	24,416	10,257	5,516
Cherryville	42,251	17,749	5,260
Cramerton	20,057	8,425	---
Dallas	6,774	2,846	4,132
Gastonia	374,951	157,510	71,452
Lowell	20,102	8,444	4,192
McAdenville	---	---	---
Mount Holly	47,175	19,817	4,900
Ranlo	13,610	5,717	1,380
Spencer Mountain	543	228	---
Stanley	21,805	9,160	2,732
Gates	31,152	12,538	---
Gatesville	977	393	---
Graham	46,040	11,574	---
Robbinsville	5,121	1,288	---
Granville	160,617	60,870	---
Creedmoor	5,727	2,171	2,288
Oxford	37,669	14,276	10,772
Stem	114	43	---
Stovall	437	165	---

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Greene	56,544	28,141	---
Hookerton	557	278	---
Snow Hill	3,880	1,931	1,824
Walstonburg	470	234	432
Guilford	2,450,588	901,928	---
Gibsonville	15,049*	5,539*	**
Greensboro	2,010,888	740,098	237,204
High Point	756,770	278,527	108,460
Jamestown	11,478	4,224	---
Halifax	436,104	94,238	---
Enfield	18,453	3,988	3,748
Halifax	1,546	334	---
Hobgood	440	95	---
Littleton	3,291*	711*	---
Roanoke Rapids	192,969	41,699	22,040
Scotland Neck	17,304	3,739	4,248
Weldon	27,008	5,836	3,296
Harnett	336,383	87,202	---
Angier	11,473	2,974	2,412
Coats	5,277	1,368	860
Dunn	61,073	15,832	10,352
Erwin	9,688	2,511	---
Lillington	16,459	4,267	2,436
Haywood	359,360	123,279	---
Canton	73,120	25,084	---
Clyde	5,079	1,742	284
Hazelwood	10,171	3,489	1,504
Waynesville	40,907	14,033	5,100
Henderson	379,639	137,501	---
Hendersonville	74,104	26,840	---
Laurel Park	6,803	2,464	---
Hertford	153,910	40,908	---
Ahoskie	45,222	12,020	7,164
Como	---	---	---
Harrellsville	642	171	---
Murfreesboro	16,562	4,402	3,844
Winton	4,192	1,114	1,212
Hoke	75,512	27,862	---
Raeford	16,994	6,270	4,712
Hyde	29,959	8,122	---
Iredell	566,694	227,616	---
Harmony	895	359	---

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Iredell cont'd.			
Love Valley	297	119	104
Mooresville	88,341	35,483	13,220
Statesville	134,377	53,973	37,524
Troutman	6,079	2,442	---
Jackson	132,006	44,035	---
Dillsboro	1,096	366	---
Sylva	18,956	6,323	---
Webster	---	---	---
Johnston	459,599	155,431	---
Benson	12,306	4,161	3,280
Clayton	8,345	2,822	4,800
Four Oaks	4,869	1,647	1,712
Kenly	4,591	1,553	2,128
Micro	882	299	---
Pine Level	3,865	1,307	1,400
Princeton	3,359	1,136	1,296
Selma	11,035	3,732	3,480
Smithfield	41,629	14,078	6,528
Jones	35,124	17,349	---
Maysville	1,069	528	824
Pollocksville	659	325	400
Trenton	540	267	---
Lee	280,690	81,763	---
Broadway	3,032	883	---
Sanford	139,493	40,633	21,316
Lenoir	552,308	150,765	---
Grifton	1,319*	360*	2,648
Kinston	163,145	44,534	32,624
La Grange	8,121	2,217	2,728
Pink Hill	3,210	876	960
Lincoln	240,019	106,145	---
Lincolnton	39,134	17,307	---
Macon	137,695	26,973	---
Franklin	23,947	4,691	3,196
Highlands	10,054	1,970	---
Madison	47,771	21,621	---
Hot Springs	2,188	990	---
Marshall	4,851	2,196	---
Mars Hill	2,366	1,071	---
Martin	197,600	46,696	---
Bear Grass	140	33	--

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Martin cont'd.			
Everetts	458	108	---
Gold Point	---	---	---
Hamilton	602	142	788
Hassell	159	37	---
Jamesville	1,294	307	276
Oak City	1,377	325	624
Parmele	206	49	---
Robersonville	10,092	2,385	2,592
Williamston	42,821	10,119	8,016
McDowell	198,007	76,257	---
Marion	42,546	16,385	2,252
Old Fort	6,328	2,437	---
Mecklenburg	4,740,689***	1,511,602	---
Charlotte	3,174,851***	1,012,324	422,976
Cornelius	7,333***	2,338	---
Davidson	7,321***	2,334	---
Huntersville	3,976***	1,268	---
Matthews	2,800***	893	---
Pineville	7,356***	2,345	---
Mitchell	93,251	24,080	---
Bakersville	2,919	754	532
Spruce Pine	23,902	6,172	---
Montgomery	139,034	44,785	---
Biscoe	7,041	2,268	1,396
Candor	4,673	1,505	---
Mt. Gilead	11,496	3,703	---
Star	4,371	1,408	1,588
Troy	14,569	4,693	3,120
Moore	308,467	118,740	---
Aberdeen	13,265	5,106	---
Cameron	389	150	---
Carthage	12,884	4,960	1,924
Pinebluff	4,577	1,762	---
Pinehurst	12,613	4,855	---
Robbins	10,960	4,219	2,232
Southern Pines	49,214	18,944	8,176
Vass	5,265	2,027	---
Nash	528,856	137,019	---
Bailey	6,185	1,602	1,808
Battleboro	960*	249*	**
Castalia	93,237	24,156	204
Middlesex	3,512	910	940
Nashville	13,214	3,424	2,448
Rocky Mount	143,967*	37,300*	**

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Nash cont'd.			
Sharpsburg	1,405*	364*	---
Spring Hope	13,373	3,464	1,868
Whitakers	2,666*	691*	**
New Hanover	848,283	227,493	---
Carolina Beach	29,592	7,936	2,268
Kure Beach	5,745	1,541	344
Wilmington	516,154	138,422	79,440
Wrightsville Beach	42,329	11,352	---
Northampton	87,060	39,944	---
Conway	3,615	1,658	1,076
Garysburg	91	42	---
Gaston	1,631	748	1,988
Jackson	1,864	855	1,140
Lasker	32	15	---
Rich Square	2,649	1,216	1,888
Seaboard	1,334	612	872
Severn	1,010	463	---
Woodland	1,653	759	892
Onslow	501,504	99,378	---
Chadwick Acres	---	---	--
Holly Ridge	1,234	244	160
Jacksonville	181,559	35,978	17,040
Richlands	7,720	1,530	968
Swansboro	10,373	2,055	1,316
Orange	378,607	202,293	---
Carrboro	17,238	9,210	3,300
Chapel Hill	150,826	80,588	13,948
Hillsborough	15,700	8,388	1,200
Mebane	3,904*	2,086*	**
Pamlico	40,211	20,864	---
Alliance	---	---	---
Bayboro	1,236	641	---
Oriental	843	438	---
Vandemere	176	91	288
Pasquotank	227,149	67,446	---
Elizabeth City	107,145	31,814	17,606
Pender	72,359	28,337	---
Atkinson	306	120	400
Burgaw	8,953	3,506	2,284
Surf City	3,087	1,209	---
Topsail Beach	1,780	697	---
Watha	---	---	120

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Perquimans	48,740	15,286	---
Hertford	5,945	1,865	2,656
Winfall	197	62	280
Person	183,705	64,438	---
Roxboro	35,903	12,594	8,736
Pitt	553,417	177,373	---
Ayden	18,289	5,862	4,708
Bethel	8,824	2,828	1,860
Falkland	380	122	216
Farmville	27,157	8,704	5,592
Fountain	2,559	820	568
Greenville	208,325	66,769	37,928
Grifton	7,714*	2,472*	**
Grimesland	917	294	492
Winterville	4,843	1,552	1,712
Polk	113,703	41,633	---
Columbus	3,652	1,337	---
Saluda	6,250	2,288	---
Tryon	11,571	4,237	---
Randolph	441,925	222,516	---
Asheboro	124,294	62,584	16,892
Franklinville	3,132	1,577	936
Liberty	16,240	8,177	2,616
Ramseur	17,506	8,814	2,316
Randleman	15,711	7,911	3,232
Seagrove	475	239	---
Staley	154	78	260
Richmond	322,535	99,334	---
Ellerbe	4,741	1,460	---
Hamlet	43,798	13,490	7,960
Hoffman	147	45	---
Rockingham	65,267	20,101	9,404
Robeson	532,159	147,318	---
Fairmont	26,822	7,425	3,752
Lumber Bridge	245	68	---
Lumberton	107,416	29,736	26,872
Maxton	13,155	3,642	---
McDonalds	11	3	---
Orrum	171	47	---
Parkton	2,907	805	---
Pembroke	11,626	3,218	1,752
Proctorville	306	85	212
Red Springs	17,085	4,730	4,392
Rowland	9,574	2,650	---
Saint Pauls	18,412	5,097	2,544

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Rockingham	467,266	188,445	---
Eden	93,218	37,594	21,284
Madison	27,047	10,908	2,836
Mayodan	10,713	4,321	3,304
Reidsville	116,883	47,138	22,972
Stoneville	4,896	1,974	1,572
Rowan	724,477	270,976	---
China Grove	13,188	4,933	---
Cleveland	1,865	698	---
East Spencer	10,960	4,099	1,500
Faith	1,442	539	672
Granite Quarry	6,342	2,372	1,920
Landis	22,476	8,407	---
Rockwell	7,319	2,737	1,580
Salisbury	297,842	111,401	32,024
Spencer	28,531	10,672	4,572
Rutherford	326,335	117,806	---
Alexander Mills	592	214	---
Bostic	316	114	---
Ellenboro	583	210	---
Forest City	23,044	8,319	---
Lake Lure	6,532	2,358	---
Ruth	1,301	470	---
Rutherfordton	27,970	10,097	---
Spindale	39,283	14,181	---
Sampson	285,809	79,647	---
Autryville	188	53	---
Clinton	49,047	13,668	9,752
Garland	3,740	1,042	620
Harrells	---	---	---
Newton Grove	2,731	761	932
Roseboro	5,344	1,489	1,724
Salemburg	2,111	588	368
Turkey	188	53	40
Scotland	215,877	67,919	---
East Laurinburg	---	---	---
Gibson	3,037	956	---
Laurinburg	37,537	11,810	11,528
Wagram	2,035	640	---
Stanley	320,011	125,318	---
Albemarle	102,990	40,331	16,120
New London	634	248	---
Norwood	15,377	6,022	---
Oakboro	3,445	1,349	---
Richfield	517	203	---
Stanfield	1,019	399	---

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Stokes	98,481	54,435	---
Danbury	37	20	---
Walnut Cove	4,017	2,221	1,808
Surry	426,179	123,487	---
Dobson	11,220	3,251	868
Elkin	61,013	17,679	4,484
Mount Airy	121,533	35,214	9,828
Pilot Mountain	18,611	5,392	2,180
Swain	60,376	16,270	---
Bryson City	13,708	3,694	---
Transylvania	145,988	64,346	---
Brevard	34,431	15,176	5,568
Rosman	772	340	---
Tyrrell	20,553	5,488	---
Columbia	4,101	1,095	508
Union	353,771	165,639	---
Indian Trail	288	135	---
Marshville	9,941	4,654	2,152
Monroe	52,345	24,509	16,084
Waxhaw	4,064	1,903	---
Wingate	3,811	1,784	1,388
Vance	269,127	79,866	---
Henderson	96,842	28,739	21,048
Kittrell	86	26	---
Middleburg	226	67	---
Wake	2,614,983	766,905	---
Apex	21,359	6,264	3,040
Cary	66,701	19,562	10,340
Fuquay-Varina	47,263	13,861	5,428
Garner	39,441	11,567	7,720
Holly Springs	1,407	413	740
Knightdale	4,293	1,259	1,048
Morrisville	505	148	412
Raleigh	1,602,607	470,000	192,500
Rolesville	2,929	859	600
Wake Forest	15,563	4,564	2,752
Wendell	22,301	6,541	3,312
Zebulon	24,702	7,245	3,004
Warren	80,641	20,371	---
Littleton	3,551*	897*	---
Macon	211	53	---
Norlina	3,854	974	1,404
Warrenton	5,762	1,455	2,176

Counties and Cities	Potential Sales Tax Revenue	Potential Income Tax Revenue	Additional Motor Vehicle Licenses Revenue
Washington	83,806	33,522	---
Creswell	1,041	416	---
Plymouth	26,964	10,785	6,024
Roper	1,432	573	660
Watauga	165,896	39,117	---
Blowing Rock	35,481*	8,366*	**
Boone	53,940	12,719	4,632
Wayne	637,387	147,097	---
Eureka	1,428	330	---
Fremont	8,441	1,948	1,424
Goldsboro	261,444	60,336	29,200
Mount Olive	37,787*	8,720*	**
Pikeville	2,824	652	932
Seven Springs	682	157	456
Wilkes	358,771	104,548	---
North Wilkesboro	68,188	19,870	5,964
Ronda	1,561	455	---
Wilkesboro	20,080	5,852	2,560
Wilson	514,577	170,508	---
Black Creek	1,344	445	---
Elm City	7,542	2,499	---
Lucama	1,445	479	---
Saratoga	2,149	712	---
Sharpsburg	1,449*	480*	**
Sims	797	264	108
Stantonsburg	2,995	993	1,444
Wilson	227,071	75,241	41,832
Yadkin	125,993	62,390	---
Arlington	1,174	581	---
Boonville	1,942	962	---
East Bend	917	454	---
Jonesville	8,904	4,409	2,124
Yadkinville	8,930	4,422	---
Yancey	60,528	17,760	---
Burnsville	10,445	3,065	---
TOTALS			
ALL COUNTIES	\$41,177,312	\$13,903,745	---
ALL MUNICIPALITIES	21,340,461	7,239,331	2,860,600
GRAND TOTAL	\$62,517,773	\$21,143,076	\$2,860,600

NOTE: Estimates of potential sales tax and income tax revenue of local governments are based on State tax collection data for the fiscal year ended June 30, 1968.

Indicates amount allocated to city situated within two or more counties. Total amounts if adjoining Counties imposed levy are as follows:

		Sales Tax	Income Tax
Battleboro	(Edgecombe, Nash)	\$ 2,012	\$ 579
Blowing Rock	(Caldwell, Watauga)	35,948	8,569
Gibsonville	(Alamance, Guilford)	19,035	7,207
Grifton	(Lenoir, Pitt)	9,033	2,832
Littleton	(Halifax, Warren)	6,842	1,608
Mebane	(Alamance, Orange)	24,469	10,693
Mount Olive	(Duplin, Wayne)	37,874	8,745
Rhodiss	(Burke, Caldwell)	6,129	2,778
Rocky Mount	(Edgecombe, Nash)	240,774	67,741
Sharpsburg	(Edgecombe, Nash, Wilson)	3,020	896
Whitakers	(Edgecombe, Nash)	4,727	1,339

**Municipality is located in more than one county. Total potential revenue from raising maximum city motor vehicle license to \$5 is shown in the other county in which located.

***Mecklenburg county enacted a one percent sales tax effective March 1, 1968, actual collections for the first full year will be available in May, 1969.

TABLE III

**PARTIAL LISTING OF STATE AIDS,
GRANTS, SERVICES AND EXPENDITURES TO OR
FOR LOCAL GOVERNMENTS BY THE NORTH CAROLINA
STATE GOVERNMENT BY MAJOR FUNCTIONS**

EDUCATION

	Fiscal Year 1967-68
<u>Public Schools</u>	
Operations:	
Nine months school fund – funds allocated to local units	
Administrative salaries and other administrative costs	\$ 5,099,488
Instructional salaries:	
Teacher and principals	265,396,205
Supervisors and clerical assistants	4,404,134
Instructional supplies:	
Operation of plant:	
Janitors' wages and supplies	9,375,044
Fuel	2,646,226
Water, electricity and telephone	1,869,382
Transportation of pupils:	
Salaries – drivers and mechanics	7,525,155
Gas, oil, grease, parts, equipment, miscellaneous	3,049,393
Purchase of school	3,230,344
Libraries – supplies, repairs	1,169,233
Child health program	473,238
Miscellaneous – compensation, injuries, tort claims	493,017
Vocational education – funds allocated to local units:	
Teachers' salaries	7,139,973
Equipment	928,329
Purchase of free textbooks – (by State)	9,428,845
Instruction – mentally handicapped children – funds allocated to local units	858,000
Contribution by State for teachers' retirement	
Teachers' retirement system and social security	34,347,547
General supervision and administration of public schools by State	1,703,902
National defense education program – state-level administration	209,990
Purchasing services – all local school boards are required to purchase materials through The State Purchase and Contract Division under the Department of Administration	Not available
Driver education in the public schools:	
Amounts paid to local school units	4,538,195
Comprehensive school improvement project:	
Amounts paid to local school units	622,051
State level administrative costs	22,062
Professional improvement of public school teachers e.g., workshop and other in-service training:	
Amounts paid to local school units	71,371
Compensation to participating colleges	36,621
State-level administrative costs	19,397
Construction:	
Review and approval of plans and specifications for school buildings	182,612
State expenditures for construction of public school buildings have been financed by bond issues. See supplementary table on bond issues	
Total public schools	<u>\$366,890,929</u>

Community Colleges and Industrial Education Centers

Construction of facilities – capital improvements funds	\$ 2,550,934
State aid for current operating expenses and local administrative costs	15,012,870
Equipment	3,265,694
State-level administration	<u>1,440,150</u>
	<u>\$ 22,269,648</u>

Other Education

State aid to hospital programs of nursing education	\$ 161,200
State aid to public libraries	776,427
(State Library also renders services to promote local library development, e.g., construction on planning and development of library services; also provides loan service.)	
Historic sites and local historical associations	<u>254,091</u>
Total other education	<u>\$ 1,191,718</u>
Total education	<u>\$390,352,295</u>

HIGHWAYS

Construction and Maintenance of Secondary (Rural County) Roads**	\$ 58,349,014
Construction and Maintenance of State Highway Mileage within Municipalities**	8,703,306
State Aid to Municipalities for Construction and Maintenance of City Streets	10,415,343
Highway Department Planning Service Available to Municipalities	<u>Not available</u>
Total Highways	<u>\$ 77,467,663</u>

PUBLIC WELFARE**Welfare Programs**

Grants by type of program	
Boarding home program for children	\$ 986,456
Old-age assistance	3,927,025
Aid to families with dependent children	3,958,603
Aid to permanently and totally disabled	2,893,746
Hospitalizations and medical assistance for "assistance" and "non-assistance" recipients (includes those receiving money aid under other programs and those not eligible for aid except for medical and hospitalization expense)	2,405,933
Medical assistance for the aged	204,146
Surplus commodity and food stamp programs	75,543
Aid to county welfare administration	1,664,800
State level administrative costs:	
State assists local departments in various phases of the public welfare program; Issues manuals of policies and procedures; makes decisions on eligibility of applicants for certain welfare payments, e.g., permanently or totally disabled; furnishes statistical information for administrative purposes; provides psychological services through traveling clinics; offers field supervision and consultation; assists local departments in recruiting.	<u>1,120,826</u>
Total welfare programs	<u>\$ 17,237,078</u>

Note: The State matches or exceeds the expenditures by the counties in most programs. County welfare administration is the only category in which the counties bear the major share of the costs.

**See supplementary table for expenditures supported by bonds.

Programs for the Blind

State share of payments by the counties to the needy blind including equalization funds	\$ 576,430
Direct payments by the State for hospitalization of the needy blind	121,840
State level administrative costs for blind programs	<u>1,168,724</u>
Total programs for the blind	<u>\$ 1,866,994</u>

Veterans Services

State level administrative costs including district offices	\$ 519,120
Grants to counties for payment of county veterans officers' salaries	<u>89,641</u>
Total veterans services	<u>\$ 608,761</u>
Total Public Welfare	<u><u>\$19,712,833</u></u>

HEALTH AND HOSPITALS

Health Programs

Payment to counties by program:	
Local health administration	\$ 2,028,824
Salt marsh mosquito control	382,586
State expenditures and grants to local health departments by program:	
Accident prevention	18,289
Acute communicable disease	33,758
Occupational health	66,935
Tuberculosis control	54,248
Radiological health	43,320
Venereal disease control	58,377
Dental health	263,092
Cancer control	528,935
Nutrition	52,427
Crippled children	844,388
Maternal and child health	486,385
Public health nursing	28,756
Health education	10,724
Food and lodging sanitation	160,814
Insect and rodent control	53,905
Water supply and sewage disposal	169,173
State level services for counties:	
Public health laboratory and postmortem medicolegal examinations	632,633
Shellfish sanitation	51,465
Emergency health preparedness	3,939
State level administrative costs:	
General	191,765
Public health statistics	206,794
Local health administration	93,092
Salt marsh mosquito control	<u>49,198</u>
Total health programs	<u>\$ 6,513,822</u>

Hospital Construction

State level administrative costs of local hospital construction programs	\$161,300
State grants to local governments for construction of hospitals, nursing homes, mental health clinics:	
Capital Improvements Act of 1963 (\$2,000,000)	358,417
Capital Improvements Act of 1965 (\$213,155 for a mental retardation clinic)	
And 1967 (\$2,100,000)	<u>None</u>
Total hospital construction	<u>\$ 519,447</u>

Mental Health Programs

Payments to local units for operation of local clinics	\$ 1,694,297
Grants in aid to Sheltered Workshops for mentally and physically handicapped	104,543
State share of expenditures by Halfway Houses – vocational rehabilitation of the formerly mentally ill.	25,292
Alcoholism division – state level costs	58,100
Grants in aid to local alcoholism programs	15,475
Wright School (Durham) demonstration program for emotionally disturbed children	67,303
Advisory Council on mental retardation	108,497
State level administration and services	<u>782,079</u>
Total mental health programs	<u>\$ 2,855,586</u>

State-Operated Hospitals

Mentally ill (four hospitals)	\$ 22,520,684
Mentally retarded (four centers)	13,843,955
Alcoholic rehabilitation (one center)	177,228
Orthopedic and cerebral palsy (one hospital each)	957,351
Tuberculosis sanatoriums (four sanatoriums)	5,232,321
Memorial hospital (Chapel Hill):	
General	3,611,765
Psychiatric center	<u>831,381</u>
Total state hospitals	<u>\$ 47,174,685</u>

Grants to Special Hospitals

N.C. Cancer Institute	\$ 26,000
Asheville Orthopedic Hospital	<u>95,000</u>
Total special hospitals	<u>\$ 121,000</u>
Total health and hospitals	<u>\$57,184,540</u>

NATURAL RESOURCES AND RECREATION

Water and Air Resources

Ground water surveys for municipalities, technical assistance, assistance to local governments in obtaining water for temporary relief of shortages	\$ 187,597
Water pollution control – State-wide program of stream sanitation including detailed pollution and water use studies, enforcement actions against polluters, establishes priorities for municipal applications requesting Federal grants	344,161
Air pollution control	20,232
Beach erosion control – (Capital Improvements Funds)	89,204
State level administrative costs	<u>140,101</u>
Total water and air resources	<u>\$ 781,295</u>

Wildlife Resources

State cooperates with counties in the following types of programs: developing wildlife habitat in land and water conservation districts; zoning waters for boating; law enforcement – fish and game laws and boating safety laws and regulations	not available
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Recreation

Technical assistance in formulating recreation programs, designing and laying out recreation areas and facilities, assistance in recruiting, training and placing recreation workers	<u>not available</u>
Total natural resources and recreation	<u>\$ 781,295</u>

AGRICULTURE

Grants to the counties to pay salaries and travel expenses of county farm and home demonstration agents	\$ 2,432,473
State soil and water conservation committee assists supervisors of local districts, approves applications for federal aid and recommends priorities for planning	<u>\$ 185,337</u>
Total agriculture	<u>\$ 2,617,810</u>

GENERAL GOVERNMENT

Court System - Salaries of Superior Court Judges and Solicitors	\$ 1,879,276
Salaries of District Court Judges	875,043
Superior Court Clerks: salaries and operating costs, their assistants; deputies, and other employees; jury and witness expenses, compensation and allowances of court reporters	<u>1,026,080</u>
Total court system	<u>\$ 3,780,399</u>
State Board of Elections – Appoints members of county boards; prepares rules, regulations and instructions for primaries and elections; furnishes registration and poll books; prepares and distributes ballots; supervises elections, etc.	not available
Local Government Commission – Technical advice, sale of local bonds, and preparation of brochures	\$ 105,190
Institute of Government – In-service training for local government officials, consultation on administrative problems, research in local government	not available
State Board of Assessment – Valuation of public utilities and certification of corporate excess to local governments	not available
Archives and History – Microfilm service for local governments	\$ 104,766
Employment Security Commission services – furnishes information to community development groups; job analysis, testing, aptitude tests, turnover studies, etc. for local governments	not available
State Bureau of Investigation – Cooperates with and assists local law enforcement agencies upon request (scientific analysis of evidence; investigation and preparation of evidence for use in court, etc.)	not available
Permanent Licensing of Motor Vehicles – Local governments obtain permanent license plates (No renewal fees payable)	<u>not available</u>
Total general government	<u>\$ 3,990,355</u>

COMMUNITY PLANNING AND INDUSTRIAL DEVELOPMENT

Community Planning – Technical assistance surveys, studies, applications for federal grants	not available
Industrial Development – State assists local governments in getting new industry and in various phases of community industrial development	not available

PUBLIC SAFETY AND REGULATION

Building Codes – State engineers consult with local officials on the enactment and enforcement of codes and ordinances and assist in inspections	not available
Alcoholic Beverages – State agents enforce regulations and laws pertaining to the manufacture, transport, and sale of alcoholic beverages	not available

RETIREMENT AND PENSION FUNDS

State administers and invests funds for the following:	
Local governmental employees' retirement system	not available
Law enforcement officers' benefit and retirement fund	
General Fund Contribution	\$ 58,833
Firemen's' Pension Fund	\$ 518,475
Total Retirement and Pension Funds	<u>\$ 577,308</u>

DEBT SERVICE

Public school construction bonds	\$ 9,679,978
Secondary road bonds	<u>12,482,375</u>
Total Debt Service	<u>\$22,162,353</u>

SHARED TAXES AND TAX REFUNDS

State-collected taxes distributed to local governments:	
Beverage taxes	3,449,125
Franchise taxes	2,405,506
Intangibles taxes	<u>18,815,918</u>
Total shared taxes	<u>\$24,670,549</u>
Tax refund made to counties and incorporated cities and towns, and sanitary districts:	
Sales and use taxes	\$ 2,286,487
Gasoline taxes	<u>779,703</u>
Total refunds	<u>\$ 3,066,190</u>
Estimated value of gasoline tax exemption for school bus fuel	<u>961,815</u>
Total shared taxes and tax refunds	<u>\$28,698,554</u>
Grand Total	<u>\$603,545,006</u>

STATE AIDS AND GRANTS
FINANCED BY BONDS ISSUES (1949-1965)
(Year of bond issue approval shown in parentheses)

	TOTAL	
EDUCATION	AUTHORIZATION	
Construction of public schools	\$ 50,000,000	(1949)
	50,000,000	(1953)
	100,000,000	(1964)
Capital improvements for community colleges	1,500,000	(1959)
Equipment for industrial education centers	1,491,000	(1959)
HIGHWAYS		
Construction and improvement of secondary roads	\$200,000,000	(1949)
	75,000,000	(1965)*
Construction and improvements of State roads within municipalities	\$ 75,000,000	(1965)*
HOSPITALS		
Construction of local hospitals	\$500,000	(1959)
Grand Total	\$553,491,000	

*Total authorization is \$300,000,000. Amounts shown are statutory allocations. The remaining \$150,000,000 is allocated to the State primary highway system.

EXHIBIT 1.

Summary List of Suggestions and Recommendations

Made to the Tax Study Commission

by Companies, Organizations and Individuals

A.F.L. – C.I.O.

1. Make individual income tax more “progressive”, i.e. extend graduation to higher rates (also make all rates higher and use the revenue to eliminate the sales tax).
2. Tie individual income tax to federal tax.
3. Capital gains should be taxed at “fixed rate”.
4. Allow local governments to substitute a gross income tax of “about 1%” for the property tax.
5. Should “start” a cigarette tax at 5¢ per package.

Roy D. Apple, C.P.A.

1. Combine franchise tax and income tax report forms into a single form and pay taxes at the same time.
2. Amend intangibles tax to combine sections on accounts receivable and on notes, bonds and other evidence of debt receivable so that all payables may be deducted from all receivables.

George W. Beverly, Jr., Vice President
Asheville Board of Realtors

(Letter to Representative Hershel S. Harkins)

1. Suggest new source of revenue to reduce taxes on real estate:
Cigarette tax at 5¢ per package.
Increase gasoline tax.
“A possible sales tax”.
Increase on liquor and wine.
2. Repeal intangibles tax.

Clark Discount Stores

Reduce property taxes on inventories.

Duke Power Company

Eliminate market value of shares of stock as an element of value in the assessment of the property of public utilities by State Board of Assessment.

Sarah Ellington

Grant a \$2000 personal exemption under the income tax to single persons who maintain a home.

Leona and Mystie Hight

Two sisters living together complain that neither is entitled to \$2000 personal exemption under the income tax (each now gets \$1000).

Honorable Herschel S. Harkins, Member General Assembly

1. Real estate taxes should be reduced by providing other sources of revenue to local governments (mentions a tax on cigarettes of 5¢ per package and increases in gasoline tax and liquor tax.)
2. Eliminate the intangible personal property tax.

Individual C.P.A.'s (not the association)

1. Base individual income tax return on Federal return similar to corporation income tax.
2. Eliminate the intangible personal property tax.
3. Under the intangible personal property tax allow notes and accounts payable to be deducted from notes and accounts receivable.
4. Do not require co-owners of property to file partnership returns under the income tax.
5. Clarify the definition of "peddler" under Schedule B.

Carey P. Lowrance

Deduction for contributions allowed under the individual income tax should be increased from 15 percent of adjusted gross income to 30 percent.

National Association of Accountants – Committee on Taxation

1. Allow a tax audit of \$100 against the intangibles tax to persons aged 65 or over.
2. Amend intangibles tax law to combine Sec. 105-201 taxing accounts receivable and Sec. 105-202 taxing notes, bonds, and other evidence of debt in order to allow notes and other evidence of debt payable to be offset against accounts receivable, and vice versa.

Frank D. Nelson, C.P.A.

(Compilation of suggestions from individual members of the N.C. Association of Certified Public Accountants Committee on State Taxation.)

1. Suggests individual income tax form be changed to provide a "tie-in" with the federal income tax return.
2. Suggests elimination of the intangibles tax.
3. Complains about limitation of offset of accounts payable and notes payable from accounts receivable under intangible personal property tax (no specific remedy suggested).
4. Objects to requirement of Department of Revenue that co-owners of income producing property must file partnership returns when no partnership exists.
5. Complains about application of Schedule "B" privilege license on peddlers to certain "wholesale merchants" selling supplies to other businesses for use or consumption.

Non-resident Motor Freight Carriers

Complains about interpretation of motor vehicles laws levying the gross receipts tax of 6% on motor carriers as it applies to non-resident carriers under the reciprocity agreement with certain states. Suggests that law be amended to specifically stat that where a carrier is a resident of a reciprocating state and where vehicles are based and licensed in such other state, such vehicles be taxed in North Carolina only on intra-state receipts.

North Carolina Association of Launderers and Cleaners, Inc.

Eliminate privilege licenses levied on laundries and dry cleaners; or eliminate the "branch office" tax on dry cleaners. (G.S. 105-74 and G.S. 105-85).

North Carolina Automotive Wholesalers Association, Inc.

Reduce property taxes on inventories.

North Carolina Bar Association – Committee on Taxation

1. Provide tax credit against intangibles tax for foreign intangibles taxes paid by resident on beneficial interest in a foreign trust (actually an impossible situation as the other state could not tax the beneficial interest but would tax the corpus of the trust).
2. Exclude from corporation income tax capital gains on assets sold by a corporation under a twelve month plan of liquidation.
3. Amend the inheritance and gift tax laws to make sons-in-law and daughters-in-law "Class A" beneficiaries subject to the lowest rate schedule.

North Carolina Farm Bureau Federation

1. Assess farm land at its value as farm land rather than at its highest and best use but where use changes provide for payment of taxes for year in which use changes and three prior years at its valuation at the highest and best use.
2. Exempt from sales and use tax "direct production items" used in agriculture, such as, vaccines, medications, dietary supplements, and digestive aids for livestock and poultry, defoliants for use on cotton or other crops and chemicals used as plant growth inhibitors, regulators or stimulators, and semen for artificial insemination of animals.
3. Extend the preferential sales tax rate of 1% to include non-automatic feeders, waterers and fountains.
4. Increase the individual income tax deductions for students in college to \$1000 (now \$600).
5. Property taken from farmers by "state or national interests for roads, highways, and utilities should be dropped from county tax lists.

North Carolina Independent Telephone Association, Inc.

1. Taxpayers whose property is assessed by the State Board of Assessment should have the right to be notified of the proposed value of their property and the right to a hearing before the Board on the values before they become final.
2. Taxpayers whose property is assessed by the State Board of Assessment should have the right to be informed as to the methods and standards of value by which their property is valued.
3. In assessing the property of public service companies, the State Board of Assessment should be authorized to use an assessment percentage different from the official county ratio, where such action is required to prevent inequities.
4. Appeals to the Superior Courts from values fixed by the State Board of Assessment should be "de nova" rather than on the record made before the Board.
5. Study should be given to the use of market value of stock in the assessment of public utility property to the end that it not be given more than its proper weight.

North Carolina League of Municipalities

Property should be "assessed" at 100 percent of market value. No fractional assessment should be permitted.

North Carolina State Grange

1. Amend individual income tax law to put personal exemptions on a "per person basis" similar to the Federal Law.
2. Exempt article "entering into processing or manufacturing including products and articles used in production on the farm" from the sales and use tax.
3. Provide for a local option sales tax on a county-wide basis.
4. Disallow deduction under the income tax of losses from farm operations to persons or corporations with "substantial non-farm income."

5. Appraisal of farms for property tax purposes should be based on value as farming enterprises.
6. Intangible personal property should not be exempt from taxation.
7. Farm inventories should be exempt from the property tax, if business inventories are to be excluded.
8. No special tax should be levied on tobacco products.
9. Avoid the use of "hidden taxes."

NCSU Group Insurance and Faculty Welfare Committee

Provide for "tax sheltered annuities" under which income taxes on amounts paid for such annuities are deferred until after retirement similar to federal law.

North Carolina Wholesalers Association

Wholesalers should not be required to maintain detailed sales records.

Southern Bell Telephone and Telegraph Company

1. Taxpayers whose property is assessed by the State Board of Assessment should have the right to be notified of the proposed value of their property and the right to a hearing before the Board on the values before they become final.
2. Taxpayers whose property is assessed by the State Board of Assessment should have the right to be informed as to the methods and standards of value by which their property is valued.
3. In assessing the property of public service companies, the State Board of Assessment should be authorized to use an assessment percentage different from the official county ratio, where such action is required to prevent inequities.
4. Appeals to the Superior Courts from values fixed by the State Board of Assessment should be "de nova" rather than on the record made before the Board.

Southern Railway System

1. Taxpayers whose property is assessed by the State Board of Assessment should have the right to be notified of the proposed value of their property and the right to a hearing before the Board on the values before they become final.
2. Taxpayers whose property is assessed by the State Board of Assessment should have the right to be informed as to the methods and standards of value by which their property is valued.
3. In assessing the property of public service companies, the State Board of Assessment should be authorized to use an assessment percentage different from the official county ratio, where such action is required to prevent inequities.
4. Appeals to the Superior Courts from values fixed by the State Board of Assessment should be "de nova" rather than on the record made before the Board.

5. The market value of securities should be given serious consideration in the valuation of the property of railroads.

Tax Accountants and Practitioners

Permit joint returns under individual income tax.

Wachovia Bank & Trust Co. – L.W. Dalton, Secretary

Substitute an estate tax for the inheritance tax and amend gift tax accordingly.

C.L. Weill, Jr.

Persons owning property jointly should not be required to file partnership returns.

EXHIBIT 2

Proposed wording of Article 26 of Chapter 105 of the General Statutes.

ARTICLE 26

Public Service Companies.

G.S. 105-305. State Board of Assessment made appraisers for public service companies. – The State Board of Assessment established by this subchapter is constituted a board of appraisers and assessors for public service companies as defined in this article.

G.S. 105-351. Definitions. – When used in this article (unless otherwise specifically indicated by the context):

(1) The term “public service companies” means railroad companies, sleeping car companies, refrigerator and freight car companies, express companies, pipe line companies, gas transmission companies, gas companies, electric power companies, electric membership corporations, telephone companies, telegraph companies, water companies, motor carriers of property, motor carriers of passengers, air carriers, trailer-on-flatcar companies, all companies not herein enumerated having the right of eminent domain, and any person, corporation, or fiduciary engaged in a business similar to that of any company herein enumerated.

(2) The term “taxpayer” includes any person, corporation, or fiduciary subject to taxation under this subchapter.

(3) The term “person” includes any individual, firm, partnership, joint venture, syndicate, or other group.

(4) The term “corporation” includes any company, joint-stock company, or association.

(5) The term “fiduciary” means a guardian, trustee, executor, administrator, receiver, conservator, or any person, whether individual or corporation acting in any fiduciary capacity for any person, corporation, estate or trust.

(6) The term “real property” means not only the land itself, but also all buildings, structures, improvements, and permanent fixtures thereon, and all rights and privileges belonging or in anywise appertaining thereto.

(7) The term “intangible property” means franchises, patents, copyrights, secret processes and formulae, good will, trademarks, trade brands, stocks, bonds, cash, bank deposits, notes, evidences of debt, bills and accounts receivable, and other like property.

(8) The term “tangible property” means all property other than intangible.

(9) The term “tangible personal property” means all tangible property other than real property.

(10) The term “operating property” means all tangible property and intangible property, except property not used in any way in nor connected in any way with the public service activity of the taxpayer whose property is subject to assessment under this article.

G.S. 105-352. Report by public service companies. – Every public service company subject to taxation in this State, whether incorporated under the laws of this State or any other state or any foreign nation, will make out and deliver to the State Board of Assessment each year a report for the next preceding calendar year containing such information pertinent to the valuation of its properties for tax purposes as the State Board of Assessment may direct. The report must be filed on or before the last day of March of the current year and must be verified by the oath of the officer or agent of the company making the report. Whenever a company required to file a report under this section shall show just cause to the satisfaction of the Board, the Board may in its discretion allow further time for filing the report.

G.S. 105-353. State Board of Assessment may require additional information. – The State Board of Assessment shall examine each report filed and, if the Board shall deem it insufficient, or in case it shall deem that other information is requisite, it shall require the public service company filing the report to make such other and further report as the Board may call for. In case of the failure or refusal of any public service company to make out and deliver to the State Board of Assessment any report required by this article, the company shall forfeit and pay to the State of North Carolina one hundred dollars (\$100.00) for each additional day such report is delayed beyond the last day of the month in which required to be made, to be sued for and recovered in any proper form of action in the name of the State of North Carolina on the relation of the State Board of Assessment, and such penalty, when collected, shall be paid into the general fund of the State. For good cause shown, the Board shall have the power to reduce or waive any penalties provided for in this section.

G.S. 105-354. Board may subpoena witnesses and compel production of records. – The State Board of Assessment shall have the power to summon and examine witnesses and require that books and papers shall be presented to the Board for the purpose of obtaining such information as may be necessary to aid in determining the valuation of any public service company subject to the provisions of this article. Any officer, employee, or agent of any public service company subject to taxation in this State who shall willfully refuse to attend before the Board when required to do so, or willfully refuse to submit to the inspection of the Board any books or papers of such company in his possession, custody, or control, or willfully refuse to answer such questions as may be put to him by the Board touching the business or property, monies and credits, and the value thereof, of the company, shall be guilty of a misdemeanor, and on conviction thereof before any court of competent jurisdiction shall be fined in any sum not exceeding five hundred dollars (\$500.00) and costs.

G.S. 105-355. Board shall assess operating property. – As soon as practicable after the first day of July of each year the State Board of Assessment shall value the operating property of each public service company at its true value in money as defined in G.S. 105-294 as the first day of January and shall assess such property all in accordance with the provisions of this article. All property other than operating property shall be excluded from valuation and assessment under this article and, if such property

has a taxable situs in this State, it shall be valued and assessed by county and municipal governments in the same manner as other property subject to local assessment.

DIVISION I. ASSESSMENT OF RAILROADS AND UTILITIES.

G.S. 105-356. Valuation of railroads and utilities. – The State Board of Assessment shall determine the true value in money of the operating property of railroad companies, sleeping car companies, refrigerator and freight car companies, express companies, pipe line companies, gas transmission companies, gas companies, electric power companies, electric membership corporations, telephone companies, telegraph companies, water companies, all companies not herein enumerated having the right of eminent domain, and any person, corporation, or fiduciary engaged in a business similar to that of any company herein enumerated by determining the value of the operating property both within and without North Carolina.

In determining the true value in money of the operating property of the companies subject to the provisions of this section, the Board shall take into consideration the following factors, and upon the basis of all of the competent evidence before it in each case, shall determine the weight, if any, each such factor shall be given in arriving at a fair and equitable result:

- (a) the value of the capital stock of the taxpayer plus all indebtedness having maturities in excess of one year from date of issuance; the Board may consider the market value of the capital stock and indebtedness and/or the book value of the capital stock (book value of capital stock is defined as the paid in capital stock plus earned surplus) plus the face amount of the indebtedness;
- (b) the net investment in operating property as reflected in the books of account kept under the regulations of the appropriate federal or state regulatory agency;
- (c) the net operating income and the probable future income of the taxpayer before deduction of interest in indebtednesses having maturities in excess of one year from date of issuance; and
- (d) any other pertinent information which in the view of the Board has a bearing on the value of the operating property of the taxpayer.

The Board shall examine each of the above items for the five years next preceding the year of assessment and where the Board deems it appropriate may consider averages of the latest two or more of the prior years examined.

G.S. 105-357. Apportionment of value. – If the taxpayer is operating both within and without North Carolina, the value of the operating property shall be apportioned to North Carolina through use of the following ratios:

- (a) For railroad companies, the ratios of the number of linear miles of right-of-way on which track is situated owned and/or operated in North Carolina by the company to the total linear miles owned and/or operated by the company everywhere;

- (b) For pipe line companies, gas transmission companies, gas companies, electric power companies, electric membership corporations, water companies, and companies not otherwise specifically mentioned in this section having the power of eminent domain, the ratio of the net investment in operating property in North Carolina to the total net investment in operating property everywhere.
- (c) For telephone companies and telegraph companies, the arithmetic average of the following three ratios: The ratio of receipts from services and rentals in North Carolina to total receipts from services and rentals of the company everywhere; the ratio of miles of single wire and single wire in cable (including single tube in coaxial cable) in North Carolina to total miles of single wire and single wire in cable (including single tube in coaxial cable) of the company everywhere, with miles of single tube in coaxial cable adjusted to reflect difference in cost and/or copper content; and the ratio of the net investment in operating property in North Carolina to the total net investment of the company in operating property everywhere;
- (d) For express companies and sleeping car companies, the miles of lines or routes over which operated in North Carolina to the total miles of lines or routes over which operated everywhere.

Where the State Board of Assessment shall determine that the above method of apportionment to North Carolina gives a greater or lesser value than is property attributable to this State, the said Board may consider actual investment in North Carolina, gross revenue per mile of lines or wire, or such other factor or factors as will in its opinion more accurately reflect the true value of the property in North Carolina.

G.S. 105-358. Operating properties subject to local assessment. – The following operating property of taxpayers covered in this division of this article shall be valued and assessed by county and municipal governments in the same manner as other property subject to local assessment:

For railroad companies, all real estate and tangible personal property used in connection with the real estate, including machines and repair shops, general office buildings and storehouses and the contents thereof, which is located outside of the right-of-way of the railroad;

For sleeping car companies and express companies, all tangible property except rolling stock used over railroad right-of-way;

For electric power companies, electric membership corporations, gas companies, water companies, and companies not otherwise specifically mentioned in this section having the power of eminent domain, all tangible property;

For pipe line companies and gas transmission companies, all tangible property except pipe lines, pumping and booster stations, and right-of-way;

For telephone companies and telegraph companies, all land and buildings.

G.S. 105-359. Determination of corporate excess. – From the total value of the operating property of the taxpayer in North Carolina as determined in accordance with Section 105-357, the State Board of Assessment shall deduct the true value in money

of operating property assessed by the various counties in accordance with Section 105-358. The true value of the operating property locally assessed shall be determined by dividing the assessed value of said property in each county by the assessment ratio adopted by the board of county commissioners of each county in accordance with the provisions of Section 105-294, unless the State Board of Assessment shall determine that some other ratio more correctly reflects the ratio of assessed value to true value in the county. The State Board of Assessment shall also deduct from the total value of the operating property of the company the assessed value of any operating property reported to the State for the purpose of intangible personal property taxation under Schedule H of this Chapter. The remainder of the value of operating property, after making the deductions provided in this section, shall be the corporate excess of the taxpayer.

G.S. 105-360. Allocation of corporate excess to local taxation jurisdictions. – The corporate excess of each taxpayer shall be allocated to the local taxing jurisdiction under the following rules:

Corporate excess of railroad companies shall be allocated to the local taxing jurisdictions in which each operates in the proportion that the miles of line in each taxing jurisdiction bears to the total miles of line in North Carolina, giving due consideration to differences in branch lines, spur lines, and mainlines and differences in double and single track:

Corporate excess of sleeping car companies and express companies shall be allocated to the local taxing jurisdictions in which each operates in the proportion that the miles of line over which it operates in each taxing jurisdiction bears to the total miles of line over which it operates in North Carolina;

Corporate excess of pipe line companies and gas transmission companies shall be allocated to the local taxing jurisdictions in which each operates in the proportion that the miles of line in each taxing jurisdiction bears to the total miles of lines in North Carolina, giving due consideration to differences in capacity and value of various sizes of pipe;

Corporate excess of electric power companies, electric membership companies, gas companies, water companies, and companies not otherwise specifically mentioned in this section having the power of eminent domain shall be allocated to the local taxing jurisdictions in which each operates in the proportion that the true value in money of operating property of the company locally assessed in each taxing jurisdiction bears to the total true value in money of all locally assessed operating property of the company in North Carolina, the true value in money of operating property locally assessed having been determined in accordance with Section 105-359;

Corporate excess of each telephone company shall be separated into two parts in the proportion that the original cost before depreciation of the property in each of two classes bears to the total original cost before depreciation of the property in both classes as follows:

(a) Property located in North Carolina classified, under the applicable uniform system of accounts, as "central office equipment" or "large private branch exchanges," and

(b) all other tangible property in North Carolina not locally assessed.

The corporate excess attributed to each class shall be apportioned to taxing jurisdiction as follows:

(1) The portion of the corporate excess allocated to the class of property named in (a) above shall be allocated to the local taxing jurisdictions in which the company has such property in the proportion that the original cost before depreciation of such property in each taxing jurisdiction bears to the total original cost before depreciation of all such property of the company in North Carolina.

(2) The portion of the corporate excess allocated to the class of property named in (b) above shall be allocated to the local taxing jurisdictions in which the company operates in the proportion that the miles of single aerial wire and single wire in cable (including single tube in coaxial cable) in each taxing jurisdiction bears to the total of such wire miles of the company in North Carolina, with miles of single tube in coaxial cable adjusted to reflect differences in cost and/or copper content.

The corporate excess of each taxing jurisdiction shall be the sum of the amounts allocated to such taxing jurisdiction under (1) and (2) above.

Corporate excess of telegraph companies shall be allocated to the local taxing jurisdictions in which each company operates in the proportion that the net book value of its tangible property, other than land and buildings, in each taxing jurisdiction bears to the total net book value of its tangible property, other than land and buildings, of the company in North Carolina;

G.S. 105-361. Assessment of corporate excess. – After the corporate excess allocated to each local taxing jurisdiction has been determined, the State Board of Assessment shall assess the corporate excess so allotted by applying the assessment ratio adopted by the board of county commissioners of the county in accordance with the provisions of Section 105-294, unless the State Board of Assessment shall determine that some other ratio more correctly reflects the average ratio of assessed values to true values of other property in the county. The resulting assessed values shall be certified to the tax supervisors of the counties and to the clerks of the municipalities in which the taxpayer has operating property. Taxes shall be levied against the assessed value of corporate excess by each local taxing jurisdiction at the same rate levied against other property in the taxing jurisdiction.

G.S. 105-362. Railroads; in cases of leased roads. – If the property of any railroad company be leased or operated by any other corporation, foreign or domestic, the property of the lessor or company whose property is operated shall be subject to taxation in the manner hereinbefore directed for railroads; and if the lessee or operating company, being a foreign corporation, be the owner or possessor of any property in this State other than that which it derives from the lessor or company whose property is operated, it shall be assessed in respect to such property in like manner as any

domestic railroad company. If the lease agreement provides that the lessee shall make reports and pay the taxes required of the lessor, the lessee may file the reports and pay the taxes required of railroad companies under the provisions of this article: Provided, however, nothing herein shall be construed to relieve the lessor from liability for the taxes levied under the provisions of this subchapter in the event the lessee does not file the reports and pay the taxes.

G.S. 105-363. Assessment of leased rolling stock of railroads. – Whenever any railroad company subject to assessment under this article shall lease from others locomotives, cars, other rolling stock, or trailer-on-flatcar trailers, or other property for use or operation by the railroad company, it shall report the leased property to the State Board of Assessment in such manner and on such forms as the Board shall require. Leased equipment of railroads taxed under G.S. 105-363 shall be valued by the Board giving due consideration to the gross rental paid for the use of such equipment, the replacement cost less depreciation and such other information as the Board shall consider pertinent to the valuation of such property, and the apportionment to North Carolina and allocation to the local taxing jurisdictions in North Carolina shall be on the same basis as that provided for other operating property of the railroad company. Each railroad company operating leased property shall pay the tax levied on the property in behalf of the owner unless the lease contract provides otherwise. In the event the lessor has reported the leased property and is liable for the taxes levied on the property, the lessee shall be relieved of this requirement.

G.S. 105-364. Refrigerator and freight car companies. – Every person, firm, or corporation owning refrigerator or freight cars operated over or leased to any railroad company in this State or operated in the State shall be taxed in the same manner as hereinbefore provided for the taxing of sleeping car companies, and the collection of the tax thereon shall be followed in assessing and collecting the tax on the refrigerator and freight cars taxed under this section: Provided, if it appears that the owner does not lease the cars to any railroad company, or make any contract to furnish it with cars, but they are furnished to be run indiscriminately over any lines on which shipper or railroad companies may desire to send them, and the owner receives compensation from each road over which the car runs, the State Board of Assessment shall ascertain and assess the value of the average number of cars which are in use within the State as a part of the necessary equipment of any railroad company for the year ending with the day as of which property is assessed, next preceding the report, and that tax shall be computed upon this assessment. In making distribution of any taxable valuation by virtue of the provisions of this section, the State Board of assessment shall give primary consideration to the county or counties in which the taxpayer has the greater car mileage. The operation of this section as to companies taxed under Section 105-228.2 shall be suspended during the continuance of Section 105-228.2, prescribing a method of taxing freight car line companies on the basis of their gross receipts from operation of their properties in this State. If for any reason such method of taxing freight car line companies prescribed in Section 105-228.2 should be held to be invalid, the provisions of this section shall again become operative with respect to the companies taxed thereunder, as if it has not been suspended, and it shall be the duty of the State Board

of Assessment to assess for ad valorem taxation all properties of freight line companies subject to tax under this section and all properties of such freight line companies not heretofore assessed under this section.

DIVISION II. ASSESSMENT OF CARRIERS.

G.S. 105-365. Valuation of carriers. – The State Board of Assessment shall value certain property of trailer-on-flatcar companies, motor carriers, and air carriers as provided in the following sections of this division.

G.S. 105-366. Valuation of certain property of trailer-on-flatcar companies. – The State Board of Assessment shall determine the true value in money of the trailers of any taxpayer engaged in the business of owning, operating, or leasing trailer-on-flatcar trailers in this State and shall assess the trailers for taxation as hereinafter provided. In determining the true value in money of the trailers, the State Board of Assessment shall consider the original cost less depreciation, the replacement cost less depreciation, the gross annual rental rate of any leased trailers, and any other information having a bearing on the value of the trailers. The portion of the total true value in money of the trailers of a trailer-on-flatcar company engaged in business both within and without North Carolina which shall be taxable in this State shall be deemed to be that portion of the total value which the total miles of lines or routes over which moved everywhere. The portion of the value taxable in this State subject to taxation in any local taxing jurisdiction shall be deemed to be that portion thereof that the miles of lines or routes over which said trailers are moved within the taxing jurisdiction bears to the total miles of lines or routes over which moved in this State. In the event the trailers valued under this section have been reported to the Board by a railroad lessee, and it becomes liable for the taxes on the trailers levied by this subchapter, the lessor shall be relieved of the requirements of this subchapter as to reporting and paying the taxes thereon.

G.S. 105-367. Valuation of certain property of motor carriers. – The State Board of Assessment shall determine the true value in money of the rolling stock owned or operated by motor carriers operating in this State and shall assess the rolling stock for taxation as hereinafter provided.

For purposes of this article:

(1) The words “motor carrier” shall mean a taxpayer engaged in the business of transporting passengers or property for hire over regular or irregular routes and being regulated by the Utilities Commission or the Interstate Commerce Commission.

(2) The words “rolling stock” shall mean motor vehicles, machines, busses, trucks, tractor trucks, trailers, semi-trailers, or combinations thereof, which are propelled or drawn by mechanical power and used upon the highways, but shall not include automobiles or wreckers unless said automobiles or wreckers are used as revenue producing or freight hauling equipment.

(3) The words “motor vehicle miles” shall mean the miles traveled by rolling stock, whether upon streets, highways or other public thoroughfares.

(4) The words “originating passenger revenue” shall mean revenue to a motor carrier from the transportation of revenue passengers.

(5) The words "revenue cargo tons" shall mean the weight in tons of revenue cargo (not including passengers) received and discharged as originating or terminating traffic.

In determining the true value in money of rolling stock owned by motor carriers, the State Board of Assessment shall consider the original cost thereof less depreciation as reported on the books of the carrier in the manner of reporting prescribed by the Utilities Commission or the Interstate Commerce Commission and may also consider replacement cost less depreciation and any other information having a bearing on the value thereof. If the determination is the true value in money of rolling stock operated but not owned by the motor carrier, the Board of Assessment may consider the gross annual rental rate therefore and any other information having a bearing on the value thereof. In the event the lessor has reported the leased property and is liable for the taxes levied on the property, the lessee shall be relieved of this requirement. The portion of the true value in money of all of the rolling stock of a motor carrier engaged in business both within and without North Carolina which shall be taxable in this State shall be deemed to be that portion of the total value of rolling stock which the motor vehicle miles traveled by rolling stock of the company in this State in the preceding calendar year bears to the total motor vehicle miles traveled both within and without this State by rolling stock of the company in the same period. In the case of a motor carrier of passengers, the portion of the value of rolling stock taxable in this State subject to taxation in any local taxing jurisdiction shall be deemed to be that portion of the value which the originating passenger revenue of the carrier within the taxing jurisdiction in the preceding calendar year bears to the total originating passenger revenue of the carrier in this State in the same period. In the case of a motor carrier of property, the portion of the total value of rolling stock taxable in this State subject to taxation in any local taxing jurisdiction shall be deemed to be that portion of the value which the revenue cargo tons handled by the carrier through its terminal or terminals within the taxing jurisdiction in the preceding calendar year bears to the total revenue cargo tons handled by the carrier through its terminal or terminals in this State in the same period.

G.S. 105-368. Valuation of certain property of air carriers. – The State Board of Assessment shall determine the true value of the flight equipment owned or operated by air carriers operating in this State and shall assess the flight equipment for taxation as hereinafter provided.

For purposes of this article:

(1) The words "air carrier" shall mean a taxpayer engaged in the business of transporting persons or property for hire by airplanes operating over fixed routes and subject to regulation by a federal regulatory agency.

(2) The words "flight equipment" shall mean aircraft fully equipped for flying and used in any operation within the United States.

(3) The words "aircraft arrivals and departures" shall mean:

(a) the number of scheduled lands and takeoffs of the aircraft of an air carrier,

(b) the number of scheduled air pickups and deliveries by the aircraft of such carriers, and

(c) in the case of nonscheduled operations, shall include all landings and takeoffs, pickups and deliveries.

(4) The words "revenue tons handled" by an air carrier shall mean the weight in tons of revenue passengers and revenue cargo received and discharged as originating or terminating traffic.

(5) The words "originating revenue" shall mean revenue to an air carrier from the transportation or revenue passengers and revenue cargo.

In determining the true value in money of flight equipment of air carriers, the State Board of Assessment shall consider the original cost less depreciation, the replacement cost less depreciation, the gross annual rental rate of leased equipment, and any other information having a bearing on the value of the equipment. The portion of the true value in money of all of the flight equipment of an air carrier engaged in business both within and without North Carolina which shall be taxable in this State shall be deemed to be that portion of the total value of the flight equipment which is obtained by use of the arithmetical average of the following three ratios:

(a) The ratio which the aircraft arrivals and departures within this State by the air carrier during the preceding calendar year bears to the total aircraft arrivals and departures within and without this State by the air carrier during the same period;

(b) The ratio which the revenue tons handled by the air carrier at airports within this State during the preceding calendar year bears to the total revenue tons handled by the carrier at airports within and without this State during the same period; and

(c) The ratio which the air carrier's originating revenue within this State for the preceding calendar year bears to the total originating revenue of the carrier within and without this State for the same period.

Having determined the true value in money of the flight equipment of each air carrier allocable to this State for purposes of taxation, the State Board of Assessment shall apportion the figure so determined among the local taxing jurisdictions of the State in the proportion which the number of aircraft arrivals and departures within each taxing jurisdiction during the preceding calendar year bears to the total number of aircraft arrivals and departures within this State during the same period.

G.S. 105-369. Assessment and certification to local units. – Having determined the true value in money of the flight equipment of air carriers, the rolling stock of motor carriers, and the trailer-on-flatcar trailers of companies operating or leasing trailers to be apportioned to each local taxing jurisdiction, the State Board of Assessment shall assess the property by applying the assessment ratio adopted by the board of county commissioners of the county in accordance with the provisions of Section 105-294, unless the State Board of Assessment shall determine that some other ratio more correctly reflects the ratio of assessed value to true value in the county. The resulting assessed values shall be certified to the tax supervisors of the counties and to the clerks of the municipalities to which a portion of the taxable property has been apportioned under this article. Taxes shall be levied against the assessed value of the property by each local taxing jurisdiction at the same rate levied against other property in the taxing jurisdiction.

G.S. 105-370. Equipment not subject to local listing. – Flight equipment, rolling stock, and trailer-on-flatcar trailers assessed by the State Board of Assessment under the provisions of this article shall not be listed and assessed for taxation under the provisions of Sections 105-302, 105-333, 105-334, or any other section requiring property to be listed with county and municipal authorities. Carriers subject to the provisions of the preceding sections of this article shall list all property not covered by this article with the appropriate county and municipal taxing authorities as required by this subchapter.

DIVISION III. GENERAL PROVISIONS

G.S. 105-371. Notice, hearing, and appeal. – Each taxpayer subject to assessment under this article shall be notified in writing of (a) the proposed valuation of its property within North Carolina as soon as practicable after the value has been determined, and (b) the assessment ratios which the State Board of Assessment proposes to use in assessing the property of the taxpayer. The taxpayer may within twenty days of the mailing of the notice request in writing a hearing before the Board on the proposed valuation or the proposed assessment ratios or both. If no timely request for a hearing is made, the proposed valuation and assessment ratios shall be final and conclusive.

At such time and place as the Chairman of the Board shall designate, a hearing shall be held following which the value of the property of the tax payer and the assessment ratios to be used shall be fixed by the Board. Notice of the time and place of the hearing shall be given to the taxpayer if the hearing involves the proposed valuation, and notice of the time and place of the hearing shall be given to the taxpayer and to the county or counties involved if the hearing involves the proposed assessment ratios.

As soon as practicable after said hearing, the Board shall notify the taxpayer of the value of its property, and it shall notify the taxpayer and the county or counties involved of the assessment ratios. The taxpayer and any county involved may within thirty days after the mailing of the notice appeal to the Court of Appeals from the value so fixed or the assessment ratio so determined. The appeal shall be governed by the provisions of G.S. 143-306 et seq.

Each taxpayer subject to assessment under this article shall be entitled, upon written request, to know the methods by which his property is valued and shall also be entitled to know the methods used in valuing the property of other taxpayers engaged in the same business.

- G.S. 105-371.1. Taxes on public service companies shall be a lien on property.
- (a) Priority of lien on real property:
1. The lien of taxes shall attach to all real property of the public utility in the taxing unit as of January 1.
 2. The liens of taxes of all taxing units shall be of equal dignity and shall be superior to all other assessment, charges, rights, liens, and claims of any and every kind in and to said property, regardless of by whom claimed and regardless of whether acquired prior or subsequent to the attachment of said lien for taxes: Provided, that nothing herein shall be construed as affecting such relative priority as may be prescribed by the Revenue Laws for the lien of state taxes.
 3. The priority of the lien shall not be affected by transfer of title to the real property after the lien has attached, nor shall it be affected by death, receivership or bankruptcy of the owner of said property.
- (b) Discharge of lien: The tax lien shall continue until the taxes, plus interest, penalties, and costs as allowed by law, have been fully paid.

(c) Priority of lien on personal property: The tax lien, when it attaches to personal property, shall, insofar as it represents taxes assessed against the property to which it attaches, be superior to all other liens and rights, whether such other liens and rights are prior or subsequent to the tax lien in point of time. Insofar as the tax lien represents taxes not assessed against such property, the tax lien on personal property shall be inferior to prior valid liens and superior to all subsequent liens. As between the liens of different taxing units, the lien first attaching shall be superior.

(d) Preference accorded taxes in liquidation of debtor's estates: In all cases in which a public utility's assets are in the hands of a receiver or assignee for the benefit of creditors, or are otherwise being liquidated or managed for the benefit of creditors, the taxes owed by such debtor, together with interest, penalties and costs, shall be a preferred claim, second only to administration expenses and specific liens: Provided, that this shall not be construed to modify or reduce the priority by this subchapter given to tax liens on real property or, in case of levy or attachment, the priority by this subchapter given to tax liens on personal property.

(e) Remedies for enforcement of liens: Taxing units shall have the same remedies against the personal property of public utilities that they are accorded against the personal property of all other taxpayers by G.S. 105-385, and the same remedies against the real property of public utilities that they are accorded against the real property of all other taxpayers by G.S. 105-391, G.S. 105-392, and G.S. 105-414.

G.S. 105-371.2. Failure to pay tax; remedies; penalty. – If any public service company as defined in this article shall fail to pay any taxes levied against it by any county, municipality or other taxing unit in this State, in addition to other remedies provided by law for the collection of taxes, an action may be prosecuted in any court of competent jurisdiction by any local taxing unit for the recovery of such tax and the judgment rendered therein shall include as additional tax a penalty of 50% of the taxes as assessed and unpaid, with interest thereon at the rate of 6% per annum from the date the tax was due to be paid, plus reasonable attorney fees to be fixed by the court. The awarding of attorney fees by the court shall not prevent the local taxing unit from paying an additional fee pursuant to contract, nor shall it prevent the local unit from requiring that the fee awarded by the court be paid into the general fund of the local unit in accordance with any arrangement between the taxing unit and its attorney. The judgment rendered by the court may include a mandamus ordering the payment of the judgment, penalty, interest and costs, including the attorney fee as part of the cost.

If, during the pendency of an action as herein authorized, there shall accrue subsequent taxes, such taxes, penalties and interest may be included in the judgment to be rendered upon the filing by the tax collector in the court in which the action is pending a certificate setting forth such subsequently accrued tax. Such certificate may be filed at any time prior to the rendition of judgment.

In any such action the assessed valuation as fixed by the State Board of Assessment as apportioned and certified to the local taxing unit shall be conclusive with respect thereto and shall not be subject to collateral attack.

APPENDIX B

STATE SALES TAX – MERCHANTS' DISCOUNT

Dissenting Opinion of Sneed High and John A. Williams, Jr.

We dissent from the recommendations

THAT the discount allowed to retail merchants for early payment of sales tax be repealed.

We contend

THAT merchants should be given the discount of 3% of the tax due

- (1) to compensate the merchant for his expense of keeping records
- (2) for early payment of the tax and
- (3) to give an adjustment for the difference between the face amount of a credit sales and the cash value of the merchandise sold.

1. It is recognized by a number of states that record keeping for sales tax purposes imposes an undue burden upon the small merchant. The sales tax is the most complicated tax which is collected and remitted. The exempt articles and the exempt taxpayers make the cost of compliance with the law far greater than the discount allowable. A small merchant will find it impossible to employ an accounting firm or an accountant to prepare his monthly sales tax return for a fee equal to the 3% discount.

The expense of maintaining records and preparing returns for sales tax purposes is many times that involved in the record keeping and payment of income taxes withheld.

2. Under the present Revenue Act the merchant is required to file a return and to pay the sales tax on or before the fifteenth of the month to earn the 3% discount. In some cases, in which all sales are made for cash, a merchant uses the tax collected for a short period and then remits it to the State. However, with a few exceptions, almost all sales are charge sales. The average collection period of accounts receivable of retail merchants is over 60 days. Therefore, the State has had the use of the merchants' money for 45 days. All merchants who make charge sales have bad debt losses. Although a credit is allowable to the merchant for uncollected sales tax on bad accounts, the credit is not allowable until the bad debt loss is realized. This occurs several months and possibly well over a year after the tax has been paid.

The merchant must pay an intangible tax on his accounts receivable outstanding at the end of his year. The sales tax which has been charged to customers is included in the total amount of accounts receivable subject to tax but the accrued sales tax is not deductible from the accounts receivable. Thus, the merchant pays an annual intangible tax on uncollected sales tax, a part of which he has already remitted to the State.

Thus, we contend that the early payment of the sales tax imposes an undue hardship on the merchant because he loses the use of funds, and a hardship in that the merchant must pay an intangible tax on accounts receivable for funds which he has advanced to the State.

3. It is well recognized that merchants who extend liberal and unusual credit terms charge a higher price for goods than one who sells for cash. The difference between the credit price and the cash price is compensation to the merchant for the risk that he takes plus compensation for the use of the funds. This is, in fact, interest rather than the sales price of merchandise.

It was not intended that a sales tax be paid on interest or any service charges. However, when these are included in the sale price of merchandise the full amount is subject to tax.

The merchant is entitled to relief from tax which he must charge and remit on that part of a sales price which represents interest.

The sales tax payable is calculated on stated price of merchandise even though a cash discount may be allowed to the customer. It is customary for building supply, electrical supply, hardware, plumbing supply, and other merchants who sell to contractors engaged in construction to allow a 2% cash discount for timely payment of the account. Although the merchant pays sales tax on the entire amount he does not collect tax on but 98% of the sales price. In this instance, he should be allowed at least a 2% discount to break even.

SUMMARY

The reasons set forth for continuing to allow the 3% discount for early payment of tax are numerous. However, not all of these apply to any particular group of merchants and perhaps none of them apply to others. The discount has served a useful purpose to the State of North Carolina in that it has caused its taxpayers to feel that the State has a sense of fair play and is willing to compensate for the hardships imposed by this tax. Certainly, an acceleration of the due date for tax from the last day of the month to the fifteenth day of the month may be a hardship on those merchants who have not collected the tax but must pay it. We believe that in consideration of all that is involved that it is in the best interest of the State of North Carolina to continue the allowance of a discount and to continue the due date of the tax as the Revenue Act now requires.