

NOT FOR PUBLICATION.

SUGGESTIONS FOR TAX REFORM BY H. F. BYRD.

As a candidate for Governor of Virginia I pledged my best thought as a business man to reform and simplification of our tax system. After careful investigation and reflection, I have reached certain conclusions which it is proper I should state in advance of my inaugural that I may have the benefit of constructive criticism and helpful suggestions.

The questions involved concern an equitable distribution of the tax burden between both the taxing units and the owners of the several subjects of taxation. Tax reform primarily requires the establishment of efficient machinery of administration, for the success or failure of any tax system depends upon its fairness and efficiency in practical operation.

A system for the collection of revenue that will be at once equitable and workable is essential to our unity and progress. Mere makeshift measures will not give us such a system. We must lay a foundation sound and broad in principle upon which we can build a tax structure that will stand the strain of a developing state. Nothing less than such a system can facilitate the development of our great natural resources and enable us to take full advantage of our agricultural and industrial opportunities and encourage desirable immigration.

Like every other advance in governmental efficiency, tax reform must be supported by intelligent public opinion. The educative process has passed through the first stage; the State is aroused to the fact that the new progress, to which the forward-looking men and women of Virginia are so hopefully looking, cannot be enjoyed without such reform.

Our Present Expenditures.

The power to tax has well been defined as the power to destroy. Certainly nothing can operate more effectively to curb the progress of industry and agriculture than the imposition of oppressive tax burdens. As the tax burden is controlled by the aggregate expenditures of the government, an intelligent consideration of tax reform involves fundamentally a study of State disbursements. Only sufficient taxes should be levied to adequately and efficiently finance the functions imposed upon our government by the necessities of civilization. As the rising cost of government throughout the United States is, in my judgment, a great economic problem, I present for the information of the people of Virginia the following facts as to our expenditures and our relative standing in this respect among the states of the Union.

The net expenditure of both the state and local governments of Virginia for the year ending July 1, 1925, was \$89,010,195, not including the expenditure for town purposes by incorporated towns, information for which is not available. Of this amount, \$23,687,390 was spent for local and state roads, and \$21,105,840 by the state and localities for schools. Our federal income taxes, exclusive of other federal taxes, last year were \$15,303,807.

Virginia expended from the State treasury \$8,835,293 in 1915, and \$33,103,972 in 1925, an increase of 275 per cent. During the same period the expenses of all the states increased only 185%. (This latter includes bonds issued by other states). During the same period prices increased 40 per cent.

If the total wealth of Virginia, much of which lies dormant, were invested in profit-producing business, our state and local taxes, exclusive of federal taxes, would take a yearly toll of 2 per cent.

How Virginia Stands.

Virginia is the 19th state in wealth, the 19th in population, and the 33rd in area. Due to our large colored population in per capita wealth we stand 38th.

In 1924 Virginia was the 15th state in total tax income derived from revenue, exclusive of the proceeds of bond issues. In 1924 we led all Southern states, except Texas, in both total expenditures from revenue and in per capita expenditures from revenue.

With 300,000 less population, Virginia expended in 1924 from current taxation \$7,000,000 more than North Carolina.

In 1924 the per capita revenue from taxation in Virginia was \$11.64, while the average of all the states, including the rich states of the North and West, was \$12.31 per capita.

In the conservation of health and in sanitation Virginia ranks 11th, and leads every other Southern or South Atlantic state, spending in 1923 \$.28 per capita as compared to \$.20 per capita for all the states.

In money spent for the maintenance of state roads, Virginia stands 7th, and in 1924 spent \$1.95 per capita, as compared to \$.99 average among the states.

For education (the operation of public schools and state colleges) Virginia stands 11th in revenue from taxation, and spends more per capita from the state treasury than any other Southern or South Atlantic state excepting Texas, and appropriates more than the average per capita of all the states. The average for education from the treasuries of the states is \$3.17 per capita, and Virginia spends \$3.31.

In appropriations for the operation of state educational institutions, exclusive of public schools, Virginia stands 18th, and exceeds every Southern and South Atlantic state except Texas and Oklahoma.

In state disbursements for agriculture, Virginia stands 14th, and expended \$.39 per capita, with \$.43 as the average.

In charities, hospitals, and corrections, Virginia stands 20th, with a per capita expenditure of \$1.10 as compared to the average of \$1.57.

The above figures are all taken from the financial statistics compiled by the federal government and relate only to state revenue derived from taxation and expended for operation.

In capital outlays - which many other states have financed by bond issues - for highways Virginia stands 15th, and exceeds every other Southern state except Texas and North Carolina.

In capital outlays for education Virginia stands 21st.

In consideration of the future expenditures of Virginia, we should bear in mind that, in the past five years, Virginia was one of five states in the Union to reduce appreciably its public debt, inherited from pre-Civil War days. As the years go on her

revenue can be nearly all applied to public work. She will not labor under huge interest charges and the burden of principal repayment as very many of her sister states must do.

In a comparison of our per capita expenditures due allowance should be made for the important fact that Virginia has a population one-third Negro.

An equalization of benefits is as important as an equalization of taxes. If our tax revenue be unequally distributed among our several state functions it is within the power of the General Assembly to apportion it so that the best interests of all the people may be served.

Progress by Efficiency.

True progress is not measured by the number of dollars expended but by the benefits derived from such expenditure. The demands of progress can be frequently met by increasing the purchasing power of the tax dollar. Virginia is a great business corporation and the people have the right to demand a dollar's value for every dollar expended. Numerous suggestions have been made to me of new taxes to impose upon the people but few have shown the way to give more service for the money now spent.

It has been the historic mission of Virginia to lead the way in great movements. Today a great opportunity is again offered us to set an example in efficient and economical government divorced from political considerations, with progress equal to that of our most worthy competitors.

The federal government is constantly invading fields of activity heretofore considered state functions. The state government is doing the same with the localities. Duplicated governmental activities increase our taxes, interfere unduly with the liberties of the citizen and pervert government from its proper purposes.

I am well aware that the progress of civilization demands at times new governmental functions. Yet our fundamental duties to our citizenship should be first worthily performed before embarking upon new state activities, costing little, perhaps, at the start, but becoming more costly as they develop.

The danger of expanding state activities, financed from untried but seemingly attractive sources of revenue, which may later dry up and leave a great state plant to operate as a burden on the general treasury, will, I am sure, be apparent to every thinking person.

During my service as Governor I dedicate myself unreservedly to the wholesome progress of Virginia, but the government should be conducted upon business standards of economy and efficiency and taxes kept within the ability of the people to pay.

I will be mindful of all our essential state functions so that every proper arm of the state may be developed in proportion to its contribution to our general welfare.

Inherent Inequalities In Our Present System.

The time has come when we must remove the inherent inequalities in our present tax system. As now constituted, this system encourages the evasion of intangible taxes, as well as the competitive under-assessment of land by offering the temptation to one locality

to benefit at the expense of another. A state united in common purpose and effort is necessary to our progress. Such unity is not attainable when our tax laws unequally distribute the burden between tax units and cause sectional prejudices.

Agriculture.

To my own knowledge, agriculture in Virginia is bearing a heavier burden of taxation, in terms of net income, than any other industry is bearing. The state would be quickly rewarded by a re-adjustment of our tax burden in order to give reasonable relief to agriculture and stimulate and encourage the progress of the basic industry of the state.

The farmers of Virginia, as elsewhere, have suffered a deflation which depressed the price of all they had to sell while continuing the high war price level of most of the necessities they buy. With characteristic intelligence and sanity the Virginia farmer made no demand for legislative panaceas. He set himself to the task of economic rehabilitation by hard work and the elimination of non-essential expenditures. He has the right to demand that his government be likewise conducted with the same rigid economy and business simplicity.

I favor the removal of the state tax on land and tangible personal property, which will do much to accelerate the slowly returning prosperity of the Virginia farmer and will also help the householder and wage-earner.

Relief to Industry.

My investigation leads me to the conclusion that reasonable relief in the taxation of capital used in industry is necessary to promote our industrial development, the benefits of which will be reflected in every walk of life. The laws imposing this tax should be clarified and the tax itself made less.

The Tax That Keeps New Citizens Away.

I am convinced that the tax of \$1.10 per \$100 on the assessed value of stock owned by Virginia citizens in non-resident corporations is doing more to prevent new citizens from locating in Virginia than any other one thing. This tax is unjust because the non-resident corporation is taxed in the State of its location. It is twice as much as the rate on other intangibles, such as notes, bonds, and other evidences of debt. This excessive rate defeats its purpose as a revenue producer, as is shown by the relatively small assessment of this class of property.

My Recommendations.

I announce a tax reform program, complete in detail, which I hope may be accepted as a safe and constructive reorganization of our tax system upon fundamental principles. I believe the changes I suggest and urge will cause the minimum disturbance in the sensitive arteries of business and will promote a constructive progress in our essential state activities.

The limitations of the State Constitution preclude the consideration of certain other suggestions. Tax reform dependent upon constitutional amendment would delay relief for four years.

Tax Equalization Between Localities.

Two suggestions have been made to equalize the glaring inequalities of assessment of real and personal property now existing among localities throughout the state.

One was to establish a central state tax board at Richmond to control real estate and tangible personal property assessments. I opposed this board for reasons I made clear in my campaign. It was a major issue. I consider my decisive nomination and election to be a direct mandate from the people of Virginia against the control of real and tangible personal property assessments by a central state tax board.

The other suggestion, favored by me in my campaign, was to repeal the state tax on real and tangible personal property, thus removing the necessity for equalization between the tax units, but still leaving the question of inequality between the citizens of the same community, to which I will later refer. Because of the adjustments necessary, this repeal cannot be effective until 1927, but it can be made effective then as I will undertake to show.

This plan avoids the dangers of a state central tax board to control the assessment of land and tangible personal property, with the expense and concentration of power incident to its establishment. Such a board would of necessity be compelled to increase the assessments in a large majority of the counties and this would result in increased taxes on the farmers, who are the least able to pay.

From the 25-cent state tax on real and tangible personal property, on a basis of the 1925 re-assessment with normal increases, and the public service corporation realty, the revenue derived in 1927 is dedicated as follows:

Schools	\$1,961,500.
State Roads	1,438,800.
Health	143,880.
Total	\$3,544,180.

From the remaining twenty-five cent state tax on intangibles and rolling stock of railroads - which my plan does not disturb inasmuch as no inequalities of assessment exist - the following revenue will continue to be derived:

Schools	\$ 761,600.
State Roads	498,750.
Health	49,875.
Total	\$ 1,310,225.

My plan provides that every dollar lost by the repeal of the 25-cent land and tangible personal property tax for roads, schools, and health, shall be made up, so that the state shall continue to contribute for these purposes to an extent equal to the 1925 re-assessment of land with normal increases.

I do not favor partial segregation. I favor giving to the localities for exclusive local taxation all real and tangible personal property and to the state all intangible property for exclusive state taxation.

Now, let us see how we make up to the state the loss she suffers by this plan:

Plan of Making Up Loss to State.

Segregate to the State:		
Class 1. (Notes, bonds, and other evidences of debt)		
20 cents now being taxed by locality	\$	400,000.
Segregate to the State:		
Class 2. (Capital).	30 cents now being taxed by locality	430,000.
Segregate to the State:		
Bank Stock - 85 cents now being taxed by locality		800,000.
(No increase in the total tax rate is made)		
The repeal of the state tax on public service realty amounts to approximately \$400,000. Increase tax on gross income of public service corporations to the equivalent		400,000.
In 1915 the rolling stock of railroads was segregated to the State at the average of all local rates. Rolling stock is now taxed at \$1.75, while the average rate is \$2.42. This additional assessment of \$.67 per \$100 will realize		335,000.
Transfer the \$700,000 county road appropriation, without disturbing the one-cent gasoline tax now going to counties for farm-to-market roads. Increase in receipts from gasoline tax will absorb loss. In 1927 Mr. Shirley estimates the one-cent county gasoline tax will amount to \$1,750,000.		700,000.
Equalization of automobile licenses on basis of 3/4¢ per pound of weight instead of horse-power, effective in 1927, and devoted to roads. Increased revenue		600,000.
Saving in administration and commissions for collections and assessments		195,000.
	Total	\$ 3,910,000.

(Note - If the rate on intangibles is decreased and an increase on net incomes above \$5,000 is made as proposed, this loss in revenue from intangibles would be made up by increased revenue from incomes.)

By this plan ninety-four counties will gain, after deducting all losses, including each county's proportion of the \$700,000 road appropriation. Nineteen cities will gain and four will lose. My own city of Winchester is one of the four losers.

All cities will gain
Cities will lose in intangibles _____
Net gain

All counties will gain
Counties will lose in
intangibles
Loss county road appro-
priation _____

Net gain to counties

Note - Loss to counties of \$700,000 county road appropriation will be made up by increased receipts from one-cent county gasoline tax before 1927 when Act is effective.

Total gain to cities and counties

Made up as follows:

Increased tax on incomes of public service corporations equivalent to repeal of state tax on public service realty	\$400,000.
Equalizing tax on rolling stock of railroads with average rate	335,000.
Equalizing automobile license tax	600,000.
Saving in cost of administration	<u>195,000.</u>
Total	\$ 1,530,000.

It should be understood that the gain to the localities is based upon the present ratio of assessed value of land and tangible personal property. The average assessments of the twenty-three cities as compared to actual value is 56 per cent. The average of the one hundred counties is 32 per cent. The grand average for the entire state is 41 per cent. In 1923 four cities were assessed less than the grand average and seventy-five counties were assessed below this average. The repeal therefore of the state land and tangible property tax gives relief to each locality proportionate to the ratio of assessed value to real value of that locality.

Increase in Tax on Rolling Stock of Railroads
and Public Service Corporations.

The increase in the tax on the gross income of public service corporations to an amount equivalent to the repeal of the state tax of \$400,000 derived now from the assessment of public service realty, is justified by business conditions.

The increase in the tax on rolling stock of railroads to an amount equal to the average of the rates throughout the state is necessary to secure an equality of taxation with other classes of tangible personal property.

Transfer of the \$700,000 County Road Appropriation.

The amount of \$700,000 is being appropriated for the improvement of county roads. It must be matched dollar for dollar by the county and the joint fund is expended under the control of the State Highway Commission. In about thirty counties this fund amounts to less than \$2,500 per county. Farm-to-market roads improvement is

essential to our progress. In suggesting the transfer of this appropriation to the general treasury, I am confident that the development of these important roads will not be retarded. The one-cent county gasoline tax will continue to go to the counties in monthly payments, and will amount to \$1,750,000 in 1927, an average of \$27,500 to each county, according to Mr. Shirley's estimate. Therefore the increase in the receipts from the gasoline tax will, before the repeal of this \$700,000 road appropriation in 1927, nearly absorb the loss occasioned by this transfer. The county gasoline tax in 1927 will approximately equal the combined receipts from both the 1925 county one-cent gasoline tax and the present appropriation.

It should also be considered that, in the plan of segregation above proposed, a large percentage of the intangibles segregated to the state are returned from the cities. In view of the gains to the counties by the repeal of the state tax on land and tangible personal property it is not unjust to the counties to transfer this fund to the state, while still giving the counties the constantly increasing one-cent gasoline tax for their road purposes.

If it is desired to replace each county's proportion of this road fund, ninety-six counties can levy a sufficient part of the 25-cent state tax removed and a large majority of the counties can still give a direct reduction to the taxpayers.

From 1918 to 1923 the State maintained approximately two thousand miles of road. Since 1923 the State has been maintaining approximately five thousand miles, thus relieving the counties of such maintenance. Each year further additions are made to the State system and all highway routes through townships up to 3,500 population are maintained by the State.

I believe the one-cent county gasoline tax should be used primarily for maintenance and thus preserve many farm-to-market roads now disintegrating through lack of adequate maintenance.

Equalization of Motor License Tax.

Twenty-five states have adopted either a weight basis or combined weight and horse-power basis for taxing motor vehicles for licenses. This is done in recognition of the fact that the damage to the roads is in proportion to the weight and not horse-power. Makes of cars weighing twice as much as the Ford are now paying the same license tax as the Ford in Virginia.

In our general program of tax equalization this glaring injustice to the owners of the lighter cars should be corrected by following the example of other states and fixing the license by weight.

A tax of $\frac{3}{4}$ of a cent per pound of weight will reduce the license tax on the Ford touring car about \$1.00, and the Ford run-about by more than \$2.00.

This tax will make available \$600,000 additional.

If the equalization of the automobile license tax is adopted I hope to be able in two years to recommend a reduction in the license tax, by reason of the increases in the gasoline tax, which is the fairer tax. But we should equalize first.

I will welcome practical suggestions for the consolidation of the different motor taxes: (1) state license; (2) city license; (3) local property tax; so that the payment of the motor taxes may be simplified.

The loss of \$1,961,500 to schools will be made up by increasing the appropriation from the general treasury to this extent.

The loss to State roads of \$1,438,800, will be made up as follows:

Transfer of county road appropriation	\$ 700,000.
Equalization of license tax	600,000.
Increased appropriation from gen. treasury	<u>138,800.</u>
Total	\$ 1,438,800.

The loss to health of \$143,880 will be made up by increasing the appropriation from the general treasury to an equal amount.

Now, where will the general treasury get the money?

The general treasury would gain as follows:

Segregation of intangibles and bank stock	\$1,680,000.
Increase in tax on public service corporations and rolling stock of railroads	735,000.
Saving in administration	<u>195,000.</u>
	\$2,610,000.
Less increased appropriations from general treasury for roads, schools, and tuberculosis as above	<u>2,244,200.</u>
Balance	\$ 365,800.

The balance of \$365,800 is a margin of safety, which added to the other gains later outlined can provide in part for the existing deficit.

I am advised by competent authorities that section 135 of the Constitution, which requires an appropriation to schools equal to a mill tax, is satisfied by an appropriation from the general treasury equal to the proceeds of the mill tax. Such an appropriation is provided in this plan. This removes any constitutional inhibition to complete segregation.

Objections Considered.

I will very briefly refer to the major objections that have been advanced to segregation:

1. That it has been tried and has failed.

This is not true. We have never had real segregation. In 1925 the State retained the mill tax on real and tangible personal property and the localities continued to tax intangibles.

2. That with segregation, the revenue for the general treasury of the State is not flexible enough to meet the demands of progress.

The conditions existing today are quite different from the conditions of 1918, when the demand for increased appropriations for roads, especially to meet the Federal Aid, contributed to the increase in the State tax on land and personal property, and disrupted the partial segregation plan adopted in 1915. The gasoline tax was not then considered. Today the gasoline and license taxes are largely providing for roads under the pay-as-you-go plan. With an increase of one-cent in the present gasoline tax (to which I was pledged in my campaign, and which I believe is generally endorsed throughout the State), combined with the normal increase in the gasoline tax receipts, there is a dependable and progressive source of revenue for road building. Indeed there is a prospect after the bi-

ennium of 1926 and 1927 that a part of the road appropriation from the general treasury may be transferred to other State activities, as the judgment of the General Assembly may approve.

I have stated and again repeat my opposition to dedicating either the gasoline tax or the automobile license tax to purposes other than roads. A diversion of this fund to other purposes destroys the inherent justice of this tax, which is being cheerfully agreed to by the motor owners of Virginia because it is expended for the improvement of roads, and thus benefits directly those who pay it.

Again, under our present business development, there is a continuing and notable increase in the assessment of intangibles now segregated for State taxation. This source of State revenue now yields a great deal more money than could have been collected in 1918.

3. That if the tax on land and personal property is removed, legislative representatives may vote for extravagant appropriations because the districts they represent contribute so little to the general treasury.

This will not be true under conditions existing today for the same reasons as outlined in answer to objection No. 2. Intangibles segregated to the State are widely distributed. The gasoline and license tax, devoted to the State system of roads, including the one-cent tax for county road purposes, are paid by 300,000 automobile owners located in every corner and section of Virginia. At present many counties contribute as little as \$5,000 and even less to the State treasury by the 25-cent tax. The repeal of this tax is not likely to influence representatives to engage in the unpatriotic and wasteful expenditure of public funds.

4. That the State tax on land and personal property will again be imposed and will work a hardship on those localities that have surrendered intangibles.

As an answer to this, I propose an amendment to the Constitution to be voted on in the presidential election of 1928, when a representative vote is assured, to prohibit the State from taxing land and tangible personal property. This will afford a referendum to settle this question which is now threatening the unity of Virginia. Such a referendum should remove this question from political campaigns thereafter.

If the amendment be adopted, it means an endorsement, after a fair trial, of real segregation and a perpetuation of this policy by a constitutional provision. If disapproved, a mandate will be given to the General Assembly to abandon segregation and adopt another plan.

Equalization and Reduction of Intangible Taxes.

I favor a reduction in the tax on the ownership of stock in non-resident corporations already taxed in other states, from \$1.10 to \$.50 per \$100 of assessed value, effective for 1926, and segregating this tax to the State.

I favor a reduction in the tax on notes, bonds, and other evidences of debt, effective in 1926, from \$.55 to \$.50 per \$100 of assessed value.

In order to encourage industrial development, essential to our prosperity, I favor a reduction in the tax on capital, effective in 1926, from \$1.15 to \$1.00 per \$100, and lower if possible, and a reasonable adjustment and clarification of the definition of capital.

Losses to the State treasury by the above reductions will be as follows:

Loss to State by reduction in tax on ownership of stock of non-resident corporations, but gain to individual taxpayer	\$ 180,000.
Loss to State by reduction in tax on notes, bonds, and other evidences of debt, but gain to individual taxpayer	100,000.
Loss to State by reduction in tax on capital, but gain to taxpayer	<u>240,000.</u>
Total	\$ 520,000.

I favor an increase in the income tax above \$5,000 of net income sufficient to make up this loss. The present income tax is one per cent. up to \$3,000 of net income, and two per cent. above \$3,000. By increasing the rate from two to three per cent. above \$5,000 net income, an additional revenue of \$579,675 will result, according to the Auditor's estimate. This places the loss, with a margin of safety of \$60,000, in reducing the rate on intangibles and capital in industry, in a measure upon the same class who receive the benefit, but the burden will be more equitable as it will fall upon the taxpayers most able to pay. The barrier now existing against desirable immigration into the State will be removed and industrial development stimulated.

Administration.

I well know that tax segregation is not the end of tax reform. It is merely an incident in its progress. Administration is the key to genuine tax reform.

If the plan above outlined be adopted, just and efficient administration can only be secured by a competent state tax board to control and supervise the collection and assessment of intangibles.

I would favor a paid chairman of proven executive ability and knowledge of taxation, the other two members to be the Governor and Auditor. The appropriation for the State tax board is now \$18,400 annually.

The tax board as thus constituted should supervise the assessments of intangibles and give advisory aid, if desired, in equalizing real estate assessments as between citizens of the same community; but with the express provision that, so far as land and tangible property are concerned, this advisory authority is to be exercised only when requested by the local board of equalization. I am convinced that the return from intangibles, capital, and incomes can be greatly increased by efficient administration.

Reduce Commissioners of Revenue.

I favor a State law to reduce the commissioners of revenue, after their present terms, to one in each county, with the power to appoint deputies in the large counties where one man cannot do the work. Forty-five counties have one commissioner of revenue. The remaining fifty-five have a total of 154. This will reduce the office-holders by ninety-nine and save \$88,189 to the counties and \$40,440 to the State, and make a total saving of \$128,629. It will add to efficient administration.

The Deficit.

This plan will provide a margin of safety to partially retire the deficit in the State treasury, which every dictate of good business demands. Other arrangements for its extinction in a reasonable period should be made.

I have made no allowance for increased assessments of intangibles, which I think will certainly result from the reduction in rate and more efficient administration.

Incorporated Towns.

Great care has been taken not to work a hardship on incorporated towns. The majority of intangibles within the counties is in the townships and the local tax collected is applied to town, not county, purposes.

A table carefully prepared shows that, if the tangible personal property within each township is segregated to the towns for exclusive taxation without increasing the present tax, the towns will in most instances be compensated for the loss incurred by segregating intangibles to the State. I am considering other methods of compensating the towns which may be preferable.

Exact Information.

I am prepared to furnish, upon request, exact information as to how this plan affects each city, county, and town.

Simplification of Tax Laws.

By my investigation of our tax laws, I am convinced that a most useful work can be accomplished by a codification and simplification of our tax laws. No revision of our tax laws has been made since 1903. Our tax laws should be codified in one Act entitled, "The Tax Code of Virginia." Our tax laws are in a state of confusion and are difficult to understand. In many instances their meaning is ambiguous or obscure.

We have a calendar year for taxing incomes, the regular tax period of February 1, the license year of May 1, the appropriation year of March 1, and the fiscal year, when all departments report, of July 1.

A constitutional amendment is voted on next fall to change the appropriation year to July 1, which, if adopted, will greatly improve present conditions.

I will suggest the appointment of a non-salaried commission, of which the head of the Legislative Reference Bureau will be chairman, to present to the next General Assembly a simplified code of our tax laws.

Income and Inheritance Taxes.

I am investigating the question of harmonizing, as far as possible, the computations of the state income tax and the federal tax, so that the federal income report can serve as a basis for the state report. I also favor giving to the taxpayer the right to choose a fiscal year as is now given by the national government.

With adequate authority vested in the state tax board, I would favor the assessment of incomes exclusively by this board, using the tax returns of the federal government as a check on the returns under the state tax law. This will result, I am assured, in a much better administration of our income tax law.

I favor a practical arrangement with the federal government whereby a joint state and national inheritance tax may be imposed without increasing, and if possible, reducing the present tax. The receipts from the state inheritance tax last year were \$409,000, segregated to schools. I expect later to make more specific suggestions as to this tax.

Abolish Land Assessors.

I favor an amendment to the Constitution to abolish land assessors, and the necessity of quintennial assessments, giving the right to each locality to order re-assessments whenever desired. I would impose this work upon commissioners of revenue, with reasonable compensation.

373 land assessors were appointed in 1925 and cost the State alone approximately \$150,000, with an equal or greater cost to the localities.

The commissioners of revenue are among our most important officials. By a reduction in the number and a consolidation of duties now performed by land assessors, adequate compensation can be paid without increasing, and, in fact, reducing the total burden on the State, and at the same time attract to this important service men of ability and industry.

Equalization among the taxpayers of each locality will be promoted very much by the repeal of the state land and property tax - perpetuated by constitutional amendment - as the fear of increased assessment by a central state tax agency will be removed.

Abolish Present Boards of Review.

I favor the repeal of the present law providing for the appointment of three citizens to act as members of local boards of equalization for land and personal property assessments, which will abolish 369 officials, and in lieu thereof I recommend a board composed of the chairman of the board of supervisors in counties, and president of the city council, or other officer designated by the city council, in cities, together with the clerk of court and the county or city treasurer. The chairman shall receive a reasonable per diem compensation for this work, while neither the clerk nor treasurer shall receive additional compensation. This Board, as thus constituted, shall sit once each year when the books of the commissioner of revenue are complete, and by advertisement notify the public that consideration will be given to all complaints of inequality of assessment between citizens of that locality, and shall equalize such property assessments.

An aroused interest in local assessments by the repeal of the State land and tangible personal property tax will impel the equalization board, selected from officers elected by the people, to give heed to the removal of inequalities between citizens of the same locality. This, combined with one commissioner of revenue, and advisory aid from the State Board will provide adequate machinery for local equalization.

Multiplicity of State and Local Officials.

The people of Virginia justly complain of the multiplicity of State and local officials. The consolidation of duties will vest public office with a greater responsibility to the people and improve the service by attracting men of capacity to fill these offices. In this statement I suggest the abolition of 99 commissioners of revenue, 373 land assessors, and 369 members of local equalization boards, and the transfer of their duties to existing officials, with a substantial

saving to the State. I will later make other suggestions along this line.

Cost of Local Government.

Nearly two-thirds of the tax burden of Virginia is imposed by the local governments. Tax relief must largely come from a better business administration of local governments, which have enormously increased in cost. I will later submit practical suggestions for greater efficiency, and for an intelligent publicity that will inform the taxpayers about the business operations of their own local governments.

I can only recommend. It is for the General Assembly and Virginians to act. I have presented a tax plan which I believe fundamentally sound. I believe that the following principles are carried out, without retarding the reasonable progress of the State:

1. Equalization of tax burden as between tax units.
2. Relief to the farmers and land owners and wage earners by repeal of state land and tangible personal property tax, which in many localities should be passed on at least in part to the taxpayer.
3. The removal of the barrier now existing against desirable new residents by the virtually prohibitive rate on stock owned in non-resident corporations.
4. Relief to industries in order to promote our industrial development.

I hope that I interpret intelligently the new spirit of progress in Virginia. My contact with the Virginia people during a spirited primary campaign convinces me that this people are demanding progress as never before, but they are equally insistent that their public affairs be conducted with an efficient economy. The people of Virginia have been very generous to me; but their very generosity has made me more conscious of my solemn obligations to them. I am not vain enough to feel that they estimate my abilities as superior to many public men who would serve them, but I do believe that they agreed with my platform and trusted me to be faithful to the promises I made.

This faith I have kept in the tax plan I have outlined here; this faith I will try to keep in all that I do as Governor. In the same spirit of fidelity to the expressed will of the people the members of the General Assembly will consider the tax plan it is my duty to present to them.

I desire above everything else co-operation and sympathetic team-work on the part of the General Assembly by members of both political parties and all Virginians.

Tax reform lies too close to the heart of progress in Virginia to permit political differences to darken or disturb the patriotic obligation to accomplish a great work for the State. But this work must be done within the boundaries prescribed by the expressed will of the people. They have declared themselves upon the general principles upon which we may work out an improved tax system. If some men of strong convictions contrary to those expressed at the polls at the time of my nomination and election cannot agree that the plan here outlined is the best possible plan, I nevertheless welcome them to join us in this translation of the popular will, expressed in general terms, into a law to be worked out in detail. For this reform, when accomplished, will quicken the progress that beckons Virginia to a new day of development and prosperity. We are all Virginians, infinitely proud of our State and all its sections. Can we not get together and agree on the noble conception that what is best for all is in the end best for each?