

on their circulation, one per cent on their capital beyond the amount invested in government securities, and five per cent on their income or earnings. All this is paid from the ordinary earnings of a bank, and reduces its profits to the extent of the taxes paid, whereas all other corporations, manufacturers, &c., are permitted to increase their rates and charges to a sum more than adequate to cover the amount of taxes paid, thus preserving their profits intact, and casting their burdens upon the public, in the capacity of consumers, travellers, &c.

It is not through palpable injustice to vested interests, and by a disgraceful violation of public faith, that the subject of State taxation should be reached. If public policy demands a contribution to State and local expenses at the hands of these institutions, there is a mode of attainment not distant which can be reached without a breach of national honor. Nearly three-fourths of the public debt is either not funded, or matures at the option of the government, within a short period, and almost the whole amount within the next eight years. It is within the power of the government at such time, without violence to its engagements, to try the experiment of issuing bonds subject to State taxation, or of borrowing at a less rate of interest than is now paid, thus extinguishing its present obligations to its creditors. But every dictate of expediency and justice, its character and credit at home and abroad, demand that Congress and the highest judicial tribunal of the nation shall frown upon all attempts to override the constitutional functions indispensable to the preservation of the credit and stability of the government.

But as neither public policy nor constitutional right can at present allow the taxation of national banks for State and local purposes, it would be equitable that these institutions should pay, say one per cent., on their capital, (irrespective of the amount invested in public stocks,) in lieu of all present taxation for revenue purposes, and one-half of one per cent. on their circulation as an indemnity to the government for the expense incurred in furnishing the banks with circulating notes, and meeting the expenditures incidental to the administration of this bureau. Perhaps a preferable method in relation to the expenses thus incurred for circulation and supervision would be found in waiving the tax on circulation, and meeting the expenditures required by such direct assessment on the banks as should be equitable.

There are some amendments to the national currency act suggested by the experience of its practical workings, which, if adopted, would prove of great utility, the most important of which has already been alluded to—requiring banks to redeem their issues at par in either of the cities of New York, Boston, or Philadelphia, as the only certain method of securing for national bank notes a uniform par value in every section of the country, and prevent an excess of issues beyond the legitimate demands of business.

A penalty should be imposed upon banks for issuing notes with the engraved and printed signatures of the officers. The greatest protection against counterfeiting is found in the written signatures of those through whom the bills are uttered. The fact that they are written and not printed renders it incumbent on the counterfeiter to attempt an imitation through the same instrumentality on each note. He may make a fac simile of the signature once, but in the very next attempt make such a variation as to disclose the spurious character of the note. But a printed signature being once correctly imitated, the same result is produced at each revolution of the press with mechanical accuracy. Just as safely might the merchant send his notes to an engraver to have his signature and those of his indorsers stamped thereon, as for banks to have their notes executed through this process. Unless all possible guards which ingenuity can devise be thrown around the currency, it will soon be difficult to

distinguish the spurious from the genuine issue, and banks will be as likely to redeem the former as those of their own promulgation.

By the first section of the national currency act, the bureau under which its operations were to be carried into effect, is made an adjunct of the Treasury Department, and of course located at Washington. During the incipency of the measure there were many reasons rendering contiguity to the treasury desirable and proper; but now that the system has become operative, and what was theory at the first has been reduced to practice, there are many reasons which render it expedient that the operations of the currency bureau should be transferred to the great financial and business emporium of the country, the city of New York. Not only would the convenience of those concerned in the business of banking be promoted by the change of location, but a great saving in expense would thus be effected. Nearly two hundred thousand dollars per annum in express charges alone would be saved to the government and the banks by the change of location proposed; while the risk, loss of time, and personal expenses, which would thus be obviated, are large in the extreme. When the circulation now in use by the banks shall have become worn, and require renewal by exchange of old for new, the inconvenience, loss of interest, and expense, will be increased to a manifold extent.

The government already owns the buildings in New York which a transfer of the office would require for its accommodation, that are now rented for about the sum the Treasury Department is paying for an equal amount of room outside of the treasury building that would be vacated by the removal of the bureau. I am satisfied, therefore, that both the interests of the government, the public and the banks would be subserved by a transfer of the bureau to New York at an early day.

With a system of redemption properly enforced, the banks located out of the cities named as redeeming points, should be relieved from the obligation to keep a reserve equal to fifteen per cent. of their circulation and deposits constantly on hand. It would be a hardship to require banks to be prepared to redeem both at home and at one of the points indicated, and in addition to keep an idle reserve of fifteen per cent. against contingencies.

There is no real strength or safety derived from the provision as it exists. When a bank fails, neither money nor reserve in any shape would be found on hand, and the sooner those that are improperly conducted or are organized for other than a legitimate banking business are closed up, the better will it be for the system and the public.

By the 32d section of the act it is provided "that every association formed or existing under the provisions of this act shall take and receive at par, for any debt or liability to said association, any and all notes or bills issued by any association existing under and by virtue of this act."

The provision is anomalous in its character. To compel a bank to respond to the demands of its creditors in *lawful money*, and yet compel it to receive from its debtors such currency as they may choose to offer, does not seem to be warranted by equity or sound policy. It is even questioned whether a national bank is compelled to redeem its circulation at all, in *lawful money*, if presented by an association organized under the same act, as any "debt or liability" may be discharged by its *own notes* or notes of other national banks, when that "debt or liability belongs to any other association" existing under and by virtue of "the national currency act." The intention and scope of the statute is evidently against such a construction of its provisions, but all ambiguity in reference to it should be removed. All the banks should be required to redeem their notes and pay their balances in *lawful money*, as well to each other as to the public.

Whatever hostilities the national banking system may have encountered in its first inception, it is no longer denied that it has entrenched itself strongly in

the feelings as it has commended itself to the convenience and interests of the whole people. Coming into conflict with local prejudices, and assumed to run counter to private interests, it was natural that its practical operations should have been regarded with jealous suspicions. It is not among the least of the triumphs of the system, that in a period of war, and monetary disturbances, caused by the gigantic requirements of the government, it has stood the test of practical experiment in the most satisfactory manner, vindicating the partialities of its friends, and overcoming by its beneficial effects the hostilities of its most determined enemies.

In a country already celebrated for its commercial, manufacturing, and agricultural activity, no want could be more sensibly felt than that of a homogeneous currency, of equal value at the circumference, as well as at the commercial centres of our extended country. This could not be obtained under the restricted operations of State laws, nor could it be furnished by institutions necessarily circumscribed in their fields of operation, diverse in the extent and character of their liabilities to the public, and without a recognized basis of credit adequate to insure the public confidence in sections remote from the locality where such liabilities were payable. It is not denied that the State banks have been of great, if not indispensable, service in the development of the resources of the country; it is not designed to underrate their usefulness, to question their patriotism, or assail the integrity of the banking institutions of the States; but as in all enlightened communities there will be progress and improvement it cannot be regarded as invidious to claim for the national banking system a superiority over the more limited system of State institutions, inasmuch as it furnishes a safe and convenient paper circulation, based upon the national credit, and which thus far has been, and with a slight amendment to the act may continue to be, of uniform value throughout the length and breadth of the land. Not only are the regulations by which the national banks are governed of equal applicability; not only are they based upon actual capital and individual responsibility, carefully enforced; but underlying these safeguards there is a foundation of unparalleled security in the government bonds which they are required to hold. A system thus anchored, in which the whole community has a common interest, cannot fail to subserve the highest object of its creation, nor cease to be regarded with favor by an intelligent people.

While, in conclusion, it is allowed me to congratulate Congress and the country on the popularity which the national banking system has achieved, I would add the hope that these institutions may never become subject to the schemes and caprices of political parties, but that in them and through them the public faith and credit may be upheld, and the prosperity of the country greatly promoted.

FREEMAN CLARKE,

Comptroller of the Currency.

Statement of the number of National Banks organized in the several States, with capital stock paid in, bonds deposited by, and circulation issued to, on the 1st of October, 1865.

States.	No. of banks organized.	Capital stock paid in.	Bonds deposited.	Circulation issued to banks.
Maine.....	60	\$8,486,500 00	\$7,272,650	\$4,761,550
New Hampshire.....	37	4,606,832 38	4,322,000	2,501,800
Vermont.....	33	5,077,512 50	5,062,600	3,244,800
Massachusetts.....	207	79,207,000 00	58,691,850	44,665,180
Rhode Island.....	59	19,662,500 00	10,045,500	4,837,550
Connecticut.....	82	23,964,220 00	15,966,800	11,223,360
New York.....	308	114,872,791 00	62,504,000	37,548,940
New Jersey.....	54	10,926,534 00	8,531,750	4,763,920
Pennsylvania.....	199	46,684,469 90	37,672,650	29,450,830
Maryland.....	30	12,155,535 00	6,962,300	2,672,400
Delaware.....	11	1,378,185 00	1,076,350	434,250
District of Columbia.....	6	1,525,000 00	1,345,000	1,161,000
Virginia.....	13	1,169,000 00	981,000	622,100
West Virginia.....	13	1,650,400 00	1,342,000	441,750
Ohio.....	136	21,138,675 15	18,540,400	15,479,370
Indiana.....	70	12,147,332 00	11,369,150	8,893,370
Illinois.....	79	10,975,830 00	9,791,800	7,885,035
Michigan.....	38	4,176,310 00	2,755,100	1,728,800
Wisconsin.....	35	2,666,550 00	2,336,650	1,961,400
Iowa.....	38	3,253,675 00	2,737,600	2,064,500
Minnesota.....	12	1,445,000 00	1,323,000	1,046,750
Kansas.....	2	160,000 00	135,000	83,000
Missouri.....	12	3,692,050 00	1,946,000	1,223,700
Kentucky.....	11	2,235,675 00	1,764,000	1,293,550
Tennessee.....	7	925,000 00	745,000	551,040
Louisiana.....	1	500,000 00	200,000	180,000
Mississippi.....	1	50,000 00	30,000	25,000
Nebraska.....	2	115,000 00	60,000	27,000
Colorado.....	1	200,000 00	70,000	45,000
Georgia.....	2	150,000 00	74,000	30,000
North Carolina.....	2	60,000 00	60,000	.....
Alabama.....	2	160,000 00	152,000	.....
Nevada.....	1	155,000 00	155,000	.....
Oregon.....	1	50,000 00	50,000	.....
Texas.....	1	100,000 00	100,000	.....
Total.....	1,566	395,729,597 83	276,219,950	180,847,035

REPORT OF THE COMMISSIONER OF INTERNAL REVENUE.

TREASURY DEPARTMENT, OFFICE OF INTERNAL REVENUE,
Washington, November 30, 1865.

Hon. Joseph J. Lewis having resigned the office of Commissioner, July 1, 1865, and his successor, Hon. William Orton, so lately as November 1, instant, the duty of preparing the annual report of the office unexpectedly devolved upon me at so late a period as, of itself, to preclude the expectation of a voluminous report from me at this time, while the laborious service of the "Revenue Commission," with powers and duties defined in the 19th section of the act of March last, makes it inappropriate that I should present my views upon such subjects as may have come within its consideration before it shall have prepared the report contemplated by the statute. At its request, however, I will at that time, if desired by the Secretary of the Treasury, submit what experience in this office shall have taught me in relation to the several changes it may propose in the law.

In the course of the present report, however, I shall offer a few recommendations affecting mainly the administration of the law, and only those parts of it to which I understand it is not the purpose of the commission to give special attention.

It is a matter of sincere congratulation that, thus far, the people of this country have so patiently borne the burden which has been put upon them, and have so freely contributed of their substance to fill the national treasury. With few exceptions the demand of the tax collector has been met promptly and willingly. And when it is recollected that the present generation only know by tradition, or by reference to obsolete statutes, that taxes have ever been imposed in this country upon articles of their own manufacture, and the objects of internal traffic, or upon the various crafts or professions in which they are employed; and when, too, it is considered that the revenue thus collected for the single year ending June 30, 1865, amounts to a sum nearly or quite equal to all the receipts of this government from whatever sources, except loans and treasury notes, from its organization to the war of 1812; and when it is further considered that this amount was contributed at a time when the commercial marine of the country had been nearly destroyed, and more than a million of hardy men were withdrawn from the productive pursuits of life, we may not only be justly proud that the material strength has been fully equal to the burden imposed, but that it has been borne so quietly and so willingly.

The law requires "that separate accounts shall be kept at the treasury of all moneys received from internal duties or taxes in each of the respective States, Territories and collection districts, and that separate accounts shall be kept of the amount of each species of duty or tax that shall accrue, so as to exhibit, as far as may be, the amount collected from each source of revenue, with the moneys paid as compensation and for allowances to the collectors and deputy collectors, assessors and assistant assessors, inspectors and other officers employed in each of the respective States, Territories and collection districts, an abstract, in tabular form, of which accounts it shall be the duty of the Secretary of the Treasury annually, in the month of December, to lay before Congress."

Tabular statements more specific and comprehensive even than required by statute have been prepared in this office, and are herewith respectfully transmitted. They comprise:

Table A, showing the receipts by collectors from each specific source of revenue, and the amounts refunded in each collection district, State and Territory of the United States, for the fiscal year ending June 30, 1865.

Table B, collections from banks, insurance, railroad, canal, and turnpike companies.

Table C, monthly receipts of internal revenue tax on salaries.

Table D, number and value of internal revenue stamps procured monthly by the Commissioner; and monthly receipts from purchasers of internal revenue stamps, the commissions allowed on the same, and the receipts from agents for the sale of stamps.

Table E, recapitulation of receipts of internal revenue from all sources for the year ending June 30, 1865.

Table F, comparative table showing the territorial distribution of internal revenue, population, and wealth in the United States.

Table G, the gross amounts collected and paid into the treasury, and the amounts expended in the several collection districts, States and Territories, during the year.

Table H, the ratio of the receipts from specific sources to the aggregate of all collections.

AGGREGATE RECEIPTS.

The aggregate receipts of internal revenue for the fiscal year—

*1863 were.....	\$41,003,192 93
1864 were.....	116,850,672 44
1865 were.....	211,129,529 17

These amounts are exclusive of the direct tax, or tax of twenty millions of dollars upon the lands of the country, which has been partially paid in various ways, and the duty upon the circulation and deposits of National Banks, which in 1863 was paid to the Comptroller of the Currency, and has since been paid to the Treasurer, but are inclusive of drawback and sums refunded, which in the several years were as follows:

	Drawback.	Amount refunded.
1863	\$677,106 40	\$57,605 71
1864	687,431 99	237,470 37
1865	698,655 36	422,734 36

RECEIPTS FROM SPECIAL SOURCES.

It may not be unprofitable to present in juxtaposition the amounts received from several of the most important sources of revenue, with brief suggestions in relation to their differences; it should be borne in mind, however, that the law was in operation but ten months for the year ending June 30, 1863.

BANKS, TRUST COMPANIES, AND SAVINGS INSTITUTIONS.

	1863.	1864.	1865.
Dividends and additions to surplus	\$766,605 85	\$1,577,010 73	\$3,987,209 65
Circulation .....	.....	2,056,996 30	1,993,341 88
Deposits .....	.....	780,723 52	2,040,933 26
Capital .....	.....	.....	902,835 18

The tax upon dividends was three per cent. until June 30, 1864, after which it was five per cent.

*NOTE.—The act of July, 1862, took effect September 1st, and the receipts for the fiscal year 1863 are for but ten months.

A discrepancy exists between these amounts and those from the office of the Secretary of the Treasury. The same receipts are not always reported and entered upon the books of the two offices on the same day. The difference is only one of account.

Other discrepancies of like character may be observed arising from the same source.

"Circulation" and "deposits" were not taxed until October, 1863.

"Capital" was first charged under the act of June 30, 1864, when the duty upon "circulation" was increased.

By the act of March 3, 1865, the tax upon deposits was extended to savings banks having no capital stock.

The taxes upon the "capital," "circulation," and "deposits" of national banks are not received at this office, nor included in the above.

RAILROADS.

	1863.	1864.	1865
Dividends	\$338,533 49	\$927,393 38	\$2,470,816 89
Interest on bonds.....	253,998 72	596,859 09	847,683 61

The duty was three per cent. until July 1, 1864; afterwards five per cent. The same tax was then imposed upon all profits carried to the account of any fund, or used in construction. The amount received from this source is included in the dividends for 1865.

INSURANCE COMPANIES.

	1863.	1864.	1865.
Dividends and additions to sur- plus	\$225,485 44	\$445,366 17	\$764,658 38
Premiums and assessments	321,001 69	523,582 42	961,502 99

Tax upon dividends same as upon dividends of banks.

That upon the gross receipts of premiums and assessments was one per centum until July, 1864, payable quarterly to the Commissioner; after that, one and one-half per cent., payable monthly to the collectors.

SALARIES OF PERSONS EMPLOYED BY THE UNITED STATES GOVERNMENT.

1863	\$696,181 71
1864	1,705,124 63
1865	2,826,333 37

This tax is received only from those whose compensation exceeds the rate of \$600 per year, and was at the rate of three per cent. until July 1, 1864, and afterwards five per cent.

PASSPORTS.

1863	\$8,406 00
1864	11,001 00
1865	27,408 29

Tax three dollars each until July 1, 1864; five dollars since. These amounts were mainly paid through the Department of State. A small sum each year was received from collectors.

REVENUE STAMPS.

1863	\$4,140,175 29
1864	5,894,945 14
1865	11,162,392 14

These amounts include the receipts from stamps, required by schedule C as well as schedule B; upon proprietary articles, matches, photographs, and cards, as well as upon written instruments. The law in respect to these duties has been repeatedly and variously modified, sometimes adding, and sometimes subtracting from the receipts. The large increase of revenue is due in no small degree to the growing observance of the law. After September 1, 1864, stamps

were required upon matches, and the receipts from that source for the remaining portion of the fiscal year was probably not less than one million dollars.

ARTICLES IN SCHEDULE A.

1863	\$365,630 93
1864	520,283 35
1865	779,901 79

The taxes here are specific upon carriages, yachts, billiard tables, and gold and silver plate kept for use. In 1864 the schedule was increased by the addition of gold watches and piano-fortes, but the change was made after the annual lists, in which the taxes are included, were in the hands of the collectors, and the receipts reported are mainly from the operation of the statute of 1862.

LICENSES.

1863	\$6,824,178 42
1864	7,145,388 71
1865	12,598,681 25

The receipts from licenses, like those from income and schedule A, are almost entirely in the report of the year subsequent to their assessment. The reassessment under the act of June, 1864, furnishes the principal exception to this rule. The returns are received in May, but the lists upon which they are entered by the assessors, do not ordinarily reach the collectors until after the 30th of June, or the beginning of another fiscal year. The increase in 1864 accrued, in part, from the addition by the act of March, 1863, to the list of persons subject to duty and the increased charge for several descriptions of license; and that of 1865 from the same source, as well as from a like addition under the act of June 30, 1864, and the increased tax upon wholesale dealers, which, by special provision of the statute, was immediately assessed as additional to that assessed under the prior law.

INCOME.

1863	\$455,741 26
1864	14,919,279 58
1865	20,567,350 26

This, with licenses, and schedule A, makes up the annual list.

For the reasons just given above, the tax upon the income of 1862, assessed in 1863, is mainly included in the receipts of the fiscal year 1864; less than half a million dollars having been collected in 1863; and the receipts for 1865 consist almost entirely of the tax assessed in 1864 upon the income of 1863.

Most of the tax upon the income of 1864 has been collected since the commencement of the current fiscal year 1866, and will appear in the next annual report from this office. A small part of it is found in the receipts of 1865.

Of the amounts collected in 1863, \$279,333 76 were returned at five per cent. upon incomes above ten thousand dollars; \$172,770 35 at three per cent. upon incomes of less than ten thousand dollars; and \$3,637 15 upon incomes from United States securities. Of that collected in 1864, \$6,913,834 88 were returned at five per cent.; \$7,930,070 77 at three per cent.; and \$75,373 93 at one and one-half per cent. Of that collected in 1865, \$801,941 99 were returned at ten per cent.; \$9,934,758 55 at five per cent.; \$9,697,246 96 at three per cent.; and \$133,402 76 at one and one-half per cent.

The receipts from the ten per cent. tax were all from taxes upon the income of 1864. It cannot easily be determined precisely how much of the receipts at five per cent. are due to that year.

The special tax of five per cent. upon all incomes above six hundred dollars, as well from banks, railroads, and salaries, as from other sources, brought into the treasury \$28,929,312 02.

IRON AND STEEL IN THE VARIOUS FORMS SPECIFICALLY NAMED.

1863.....	\$1,862,826 36
1864.....	3,694,168 49
1865.....	9,218,808 63

These are the varieties named and described in the seventy-fifth section of the act of July, 1862, amended and somewhat increased by the act of March 3, 1863; still further enlarged with increased rates under the act of June 30, 1864, and twenty per cent. additional to those rates after April 1, 1865. Pig-iron was taxed two dollars per ton by the act of 1864, and during eleven months ending June 30th last, added nearly one and a half million dollars to the public revenue. The additional twenty per cent. to the rate, taking effect April 1, did not increase the receipts until May. Several causes have contributed to secure the tax upon these articles, and it is believed that it has almost universally been paid.

REFINED PETROLEUM AND COAL OIL.

1863.....	\$649,962 09
1864.....	2,255,328 80
1865.....	3,047,212 77

The tax upon petroleum was ten cents per gallon, and upon oil distilled from coal exclusively eight cents until June 30, 1864, after which the rates were twenty and fifteen cents respectively. The increased receipts in 1864, over those of 1863, were owing largely to increased consumption, and to the withdrawal from bond to escape the increased duty. This somewhat overstocked the market, and during the following year checked refining for home consumption.

CIGARS AND CHEROOTS.

1863.....	\$476,589 29
1864.....	1,255,424 79
1865.....	3,072,476 56

Specific taxes, graduated by the different values of the cigars, were imposed by the act of July, 1862. These were largely increased in 1864, but under the act of March 3, 1865, the duty was made uniform at ten dollars per thousand. The anticipation of additional tax largely increased the manufacture in 1864, and the supply at that time has hardly yet been consumed.

TOBACCO—CHEWING AND SMOKING.

1863.....	\$2,576,888 67
1864.....	7,086,684 74
1865.....	8,017,020 63

Plug and fine-cut tobacco were mainly taxed fifteen cents per pound until June 30, 1864, when the rate was increased to thirty-five cents, and in March, 1865, it was still further increased to forty cents.

The tax upon smoking tobacco was at first five cents, increased to twenty-five cents in 1864, and to thirty-five cents in 1865. Smoking-tobacco made exclusively of stems was taxed at two cents until March, 1863, when it was raised to five cents. In 1864 it was increased to fifteen cents, where it still remains.

The regularity of the manufacture has been largely disturbed by expectation of additional duty, as in the case of cigars.

The tax collected in 1863 represents 23,680,056 pounds; that of 1864 63,372,426 pounds, and that of 1865 only 36,639,020 pounds.

Of the amount charged in 1865, 10,061,163 pounds were manufactured and returned in June, 1864, in anticipation of the increased rates, and the duty paid in the following year. The amounts for the first and the last years were less than the ordinary annual consumption, while the amount for 1864 was greatly in excess. This excess was brought into consumption during the last year at rates with which the regular manufacturers could not compete, except with their old stocks, and the production was, of necessity, largely obstructed. It has also been unfavorably affected by the arrival of large quantities of southern tobacco in northern markets.

The average annual taxable production of the different kinds of manufactured tobacco from September 1, 1862 to June 30, 1865 was 42,809,168 pounds, which at present rates would have produced \$15,736,795 65.

FERMENTED LIQUORS.

1863.....	\$1,558,083 41
1864.....	2,223,719 73
1865.....	3,657,181 06

From September 1, 1862, to March 3, 1863, the tax was one dollar per barrel, of not more than thirty-one gallons; from that date to April 1, 1864, sixty cents, and since that time one dollar.

The number of barrels upon which tax was received, as nearly as can be ascertained, was 1,765,827 in 1863, 3,459,119 in 1864, and 3,657,181 in 1865.

DISTILLED SPIRITS.

1863.....	\$3,229,990 79
1864.....	28,431,797 83
1865.....	15,995,701 66

During the fiscal year 1863 the tax was uniformly twenty cents per gallon. For the fiscal year 1864 the tax was twenty cents until March 7, after which it was sixty cents. From July 1, 1864, until January 1, 1865, it was \$1 50 per gallon, and afterwards \$2.

Of the amount reported in the year 1865, however, \$3,862,820 66, or nearly one-fourth the whole amount, was at twenty or sixty cents per gallon. This resulted mainly from the fact that large quantities of spirits were sold by the distillers within the last ten days of June, 1864, thus escaping the increased duty, while the taxes thereon did not fall due until the following month of July, being the first of the next fiscal year. Considerable quantities were removed from the distilleries, too, under transportation bonds, or under bills of lading, prior to the 1st day of July, under conditions which produced a similar result. Even with this explanation, it may occasion no little surprise that the increase of duty was followed by a decrease of receipts. But I regard the receipts of the past year from distilled spirits as no criterion, if, indeed, even an indication of what would have been received had the tax fallen upon the ordinary, natural consumption of the country. This was checked in some measure, undoubtedly, by the tax, but the distillations in the winter and spring of 1863-'64 were everywhere in advance of consumption, anticipating the increased duty, glutting the market, and thoroughly deranging the customary laws of demand and supply. For a long time the consumption has not been of spirits which have paid the duty current at its date, but always of those taxed, if liable at all, at a previous and lower rate. The increase has never been of advantage to the government, but has swelled the income of manufacturers and speculators. For several months of the past year, when holders were disposing of their adventures, the market price of distilled spirits, even in the Atlantic cities, remote from the place of production, was but little, if any, in advance of the tax. It is no wonder, then, that many distilleries were idle and the revenue small.

The receipts from distilled spirits in

1863 (10 months) were from.....	16, 149, 954 gallons.
1864 were from.....	85, 295, 391 “
1865 were from.....	16, 936, 778 “

Average taxable production per year, from September 1, 1862, to June 30, 1865, 40,537,371 gallons.

From the fact that several of the elements involved are so uncertain and fluctuating, it is very difficult, of course, to determine with confidence how much the consumption is reduced by the present tax, and what will certainly be realized from this source of revenue. The Revenue Commission has given much attention to this subject, and its report, I have no doubt, will be full and exhaustive. It may not be amiss for me to state, however, that I apprehend there is a prevalent overestimate of this reduction; and in this belief I am strengthened by the recent “report of the Commissioners of her Majesty’s inland revenue,” from which it appears that the consumption of distilled spirits in the United Kingdom of Great Britain and Ireland during the year ending March 31, 1852, exclusive of the amount used in the arts and manufactures, was 29,866,260 gallons, while the increase of the excise duty in 1860 to the uniform rate of 10s., or \$2 50 per gallon, throughout the kingdom, (at which rate it still remains,) only reduced the consumption during the last year to 26,516,531 gallons. This amount was in addition to 933,649 gallons more employed in manufactures and the arts, methylated and exempt from duty.

In 1852 the tax in England was 7s. 10d.; in Scotland, 3s. 8d.; and in Ireland, 2s. 8d.

The population of the United Kingdom in 1852 was 27,500,000, and in 1864, 29,657,000.

For some years prior to 1860 the rate of duty was uniform throughout the United Kingdom at 8s., or 8s. 1d. per gallon, and in that year it was raised to 10s. From the report of the commissioners for the following year it appears that the domestic production fell off heavily—some nineteen per cent.—immediately after the change in the rate, from 24,985,192 gallons in 1860 to 20,147,824 gallons in 1861, while it will be noticed that the advance in the duty was but slight when compared with that which was imposed under our laws at the commencement of the last fiscal year. The commissioners in the report of 1861, say:

“These figures immediately suggest the question whether the whole of this large decrease is attributable to diminished consumption produced by the addition to the rate of duty. We think that this is not the case. Considerable diminution, indeed, was expected and has doubtless occurred, but various other causes have contributed to the unexpected deficiency above recorded.

“In the first place, we know that unusually large stocks of spirits had been accumulated in February, 1860, in anticipation of an addition to the duty; and, on the other hand, that since the duty was raised to 10s. the stocks have been uniformly kept as low as possible, and the operations of all persons concerned in the spirit trade restricted to the absolute wants of the moment. Rectifiers, for instance, take ten puncheons at a time, instead of twenty or thirty, as they formerly did, and many of the large retailers who used to replenish their stores with one hundred gallons at a time, are now careful to limit their purchases to ten or twenty gallons. This is the consequence of the increased cost of the spirits, and may be expected permanently to alter the habits of the trade; operating in combination with the excessive stocks of the year 1859-’60, it has had considerable effect on the relative quantities charged with duty in that and the succeeding year.

“Yet, after making allowance for all this, there still remains a large deficiency, which can only be accounted for by diminished consumption; not, however, wholly produced by the increase of price in spirits, and therefore not necessarily a cause of permanent falling off in revenue.

“We feel justified in assigning to the bad harvest of last year a large share in restricting consumption, both immediately and consequentially.

“On the whole, therefore, we should infer, from a review of the occurrences of the year, that, although the quantity of spirits brought to charge would in future not reach the same level as in 1859-’60—nearly the highest on record—we should be entitled to reckon with

certainty upon charging at the least twenty million gallons in the present year, and might fairly expect, if the country continues in a prosperous state, an addition to that amount of 1,000,000 or 1,500,000 gallons.”

By the subsequent reports of the same commissioners it appears that their estimates were fully confirmed.

Upon such experience we can now reasonably base our expectations. Our circumstances are not dissimilar. Our markets are now exhausted of spirits distilled before taxation, or subjected only to the earlier rates. The supplies for consumption must now pay the existing duty, and the receipts for the current year will, I am confident, far exceed the aggregate of all receipts from the same source prior thereto.

It is certain that immense frauds have been perpetrated, for such have been discovered and prosecuted to judgment or to compromise; but the increasing experience and vigilance of our officers, and the appointment of others for special duty at distilleries, will prevent large loss to the government. The Revenue Commission will, I hope, suggest additional checks to be authorized by further legislation; but so long as avarice and falsity are a part of humanity, revenue laws, however thoroughly administered, will be sometimes evaded.

The number of illicit distillations detected in the United Kingdom in 1864 was 2,757, and in 1865 3,457; showing that, with all the thoroughness consequent upon careful legislation, long experience, and a more compact population than ours, it was quite impossible to prevent occasional and, undoubtedly, sometimes enormous fraud. It must be the aim and the effort of all persons connected with our revenue laws to insist everywhere and always upon the rights of the government, and, in so doing, the protection of taxpayers who faithfully discharge their duties.

COST OF COLLECTING THE REVENUE.

The cost of collecting the public revenues is naturally a matter of no little solicitude to the Secretary of the Treasury, as it is one of vast importance to the country.

A people heavily subjected to taxation will carefully scrutinize the expenditures of the government, especially so far as they relate to the collection of the revenue they are taxed to produce.

It may not be unsatisfactory to submit, in this connexion, a tabular statement of the costs, from time to time, of collecting the revenues of Great Britain and Ireland, taken largely from the work of J. R. McCulloch, esq., upon “*Taxation and Funding*.”

The percentage cost of collecting inland revenue, after deduction of drawbacks, in the following years, was, (in the £100:)

1840-’41	£5 5s. 1d. upon....	£26,231,172
1850-’51	4 3 4½ upon....	32,018,825
1860-’61	3 13 7½ upon....	42,019,133

The percentage cost of collecting customs, according to the same authority, before deduction of drawbacks, &c., in the following years, was:

In 1840-’41	£5 8s. 8½d. upon...	£26,341,813
In 1850-’51	5 15 8¼ upon...	22,019,784
In 1860-’61	4 6 3 upon...	23,278,250

The actual annual costs to our own government for the collection of its customs for several years cannot be determined with accuracy, because the expenses of revenue cutters, performing the duties of vessels-of-war, have been paid from the appropriations for customs, as have other charges connected with commercial intercourse and abandoned property in insurrectionary districts. They will, however, it is believed, not fall short of three and one-half per centum of the

receipts—a percentage not above the average for many years past in this country, and, as it will be observed, much below the costs in the United Kingdom for either of the years above given.

I have caused the costs of assessing and collecting the internal revenue of the fiscal year 1865 to be carefully ascertained, including the salaries and authorized expenses of revenue agents, special agents, and inspectors of revenue; the contingent expenses of this office, including its pay-roll, and the costs of revenue stamps, but exclusive of its printing at the office of the public printer, not yet ascertained, and find that the percentage, after deducting drawback and sums refunded as erroneously collected, will not exceed two and seventy-five one-hundredths, ($2\frac{75}{100}$.)

This ratio of costs to collections cannot be relied upon for the current year, as the percentage will be greater in the sparsely settled districts of the south. It will not, however, I believe, exceed three and one-half ($3\frac{1}{2}$) per centum of the receipts of the whole country.

ESTIMATE OF RECEIPTS FOR CURRENT YEAR.

As bearing upon the probable amount of revenue for the current fiscal year 1866, I present herewith a statement of the receipts of which certificates of deposit reached this office during July, August, and September, of 1863, 1864, and 1865, respectively:

	1863.	1864.	1865.
July	\$5,298,967 18	\$16,570,548 39	\$21,693,470 75
August.....	5,604,201 35	15,712,066 84	34,087,539 09
September.....	6,136,205 43	15,819,770 72	37,939,415 82
Total.....	17,039,373 96	48,102,385 95	93,720,425 66

I present also the comparative receipts from several large sources of revenue during the first quarter of the fiscal year 1865, and the first quarter of 1866, ending September 30 last:

	1865.	1866.
Fermented liquors.....	\$913,252 53	\$1,230,353 69
Refined petroleum and coal oil	302,411 63	810,056 09
Revenue stamps	2,560,509 85	3,010,135 37
Salaries	471,863 07	1,206,878 59
Paper of all descriptions.....	228,851 60	204,917 76
Cigars and cheroots	526,840 91	600,116 88
Articles in schedule A	316,621 77	981,547 14
Income	13,510,492 98	41,766,016 63
Smoking and chewing tobacco	2,233,926 16	2,078,974 95
Distilled spirits	3,501,071 43	1,085,031 20
Total.....	24,565,841 93	52,974,028 30

Reports due from several collectors have not been received, although their receipts have been regularly deposited, and the above amounts for 1866 will, in some instances, be considerably increased. The receipts from distilled spirits for the months here reported exhibit no evidence of the amounts consumed, nor of the comparative productiveness of the several rates of duty, as \$2,702,257 72

of that reported in 1865 (July, August, and September, 1864) accrued from the imposition of twenty or sixty cents per gallon. The same is true of tobacco, as \$1,766,616 79, or more than three-quarters of the whole amount reported in 1865, was derived from the low rates of duty prior to the statute of June 30, 1864.

It will be observed that the increased receipts are largely from the annual list, and especially from income. Not far from sixty per centum of the latter tax was from income in excess of five thousand dollars, and taxable at ten per cent.

At the date of this writing the revenue from the annual list is almost fully collected, and the receipts for the remaining portion of the fiscal year must be mainly from other sources.

The fluctuation in the value of merchandise will, of course, affect the proceeds from whatever bears an *ad valorem* duty. The revenue from the southern States is altogether problematical. From the most reliable data, however, in my possession, with the present law unchanged, I confidently expect that the receipts of this office for the current fiscal year will not be less than \$272,000,000.

APPOINTMENT OF ASSISTANT ASSESSORS.

By the amendatory act of March last it was provided that assistant assessors, before that time appointed by the Secretary of the Treasury, should, in case of vacancy, be appointed by the assessors of the several districts, subject to the approval of the Commissioner.

The Attorney General of the United States, to whom the question involved in this change was referred, has given to the Secretary of the Treasury his opinion, that under the second section of article second of the Constitution such appointments can be made only by the President of the United States or the head of a department.

The language of that section is that the President "shall nominate, and by and with the advice and consent of the Senate shall appoint, * * * * all other officers of the United States whose appointments are not herein otherwise provided for, and which shall be established by law. But the Congress may by law vest the appointment of such inferior officers, as they think proper, in the President alone, * * * or in the heads of departments."

It would seem, therefore, that if no other provision of law is made for the appointment of assistant assessors than that which now exists, an undesirable as well as an unintended burden is imposed upon the President and the Senate.

The purpose of the law would seem to be answered as well and more conveniently by giving the power of such appointments immediately to the Secretary of the Treasury, as authorized by the above section of the Constitution; and I respectfully suggest that a modification of the law may be made to that effect.

APPEALS UNNECESSARY.

From the almost universal experience of assessors it seems that the holding of formal appeals from erroneous assessments in the annual list, as required in the nineteenth section, is entirely unnecessary. The public always have access to the assessor at his office, and rarely have actual notice of the advertised time of hearing at any other locality. The result is that in many districts none have ever attended the appeals, which have hence proved of advantage neither to the government nor the taxpayer, while they have been a charge both to the local officers and to the public treasury. Between the assessment and collection there is always opportunity for a hearing if desired, either in person or by correspondence, and after collection this office is always open to the complaints of aggrieved taxpayers.

The system of holding appeals in the several counties is borrowed from the direct tax law, under which a certain amount was apportioned to each county, and the increase or decrease of a single assessment affected every landholder. There was need, therefore, of comparison, and often of personal view. Under the revenue law every assessment is independent, and the machinery referred to seems valueless.

LACK OF UNIFORMITY IN RETURNS.

The singular lack of uniformity in the time when the various returns are due the assessors from different classes of taxpayers is often productive of neglect and irregularities, which the necessary amendments to the law would avoid. There seems to be no reason why the monthly returns, at least, should not all be receivable on the same day and payable at the same time thereafter. The more the statutes are simplified and systematized in their details the less will be the friction engendered in their operation, and the more certain their results.

What I have said of the returns is applicable in its spirit to the penalties of the law. They differ largely in amount for the same grade of offence, while the manner of their recovery is as various, almost, as the forms of proceeding known to the courts. The tax upon slaughtered sheep and lambs is five cents each, and the penalty in case of fraud or evasion is ten dollars, or two thousand per centum, recoverable only by suit, while the penalty for neglect, or refusal to make return and payment of tax upon the gross receipts of certain persons, companies, and corporations, is ten per cent. additional to the duty as estimated by the assistant assessor, to be included in the assessment, and for fraudulent evasion one thousand dollars, without regard to the amount of indebtedness, to be sued for in the courts; and no special penalty whatever is provided for neglect to make return of a succession until after notice from the assistant assessor.

These instances are cited simply for illustration of the variety referred to, and could be made as numerous, almost, as the sources of revenue.

In this connexion I may add that section fourteen, from peculiarities in some parts of its language, is of questionable application to many of the returns required later in the law, which it appears from other parts it was intended to cover, and that the forty-ninth section is so involved in its construction as, thus far, to have been of little practical utility.

INCREASED ALLOWANCE TO ASSESSORS FOR RENT, AND ADDITIONAL COMPENSATION TO ASSESSORS AND ASSISTANT ASSESSORS IN CERTAIN CASES.

Under section 22 the allowance made to assessors for office rent can in no case exceed the rate of \$500 per annum. This limit is still much more than sufficient in most districts of the country; but in several of the most populous cities the increase of prices since the passage of the law compels our officers to seek rooms insufficient for themselves and inconvenient to the public, or make payment in part therefor out of receipts designed by Congress as compensation for their personal services. It seems but just to them that this limitation be enlarged, and they be allowed sums actually and necessarily expended, subject to the approval now required.

The last proviso of section 22 authorizes the Secretary of the Treasury to fix such additional rates of compensation to assessors and assistant assessors in cases where a collection district embraces more than a single congressional district, and to assessors and assistant assessors, revenue agents and inspectors, in Louisiana, North Carolina, Mississippi, Tennessee, Missouri, California, Oregon and the Territories, as may appear to him to be just and equitable, in consequence of the greater cost of living and travelling in those States and Terri-

tries, and as may, in his judgment, be necessary to secure the services of competent officers. The suppression of armed hostility in the insurrectionary districts has brought within the active operation of the revenue law other States neighboring to several of those above named, and in which the cost of living and travelling is nearly the same. To the compensation of revenue officers in those States I respectfully suggest that the authority of the Secretary of the Treasury should likewise be extended.

FRANKING PRIVILEGE

Assessors and collectors are allowed for postage actually paid on letters and documents received or sent by them relating exclusively to official business. Their communication with this office through the mails is free, and I respectfully suggest that if they were allowed the franking privilege upon official business between their respective offices it would be liable to little abuse, and be a saving of cost to the government.

SAFES.

My predecessors in their reports to the Secretary of the Treasury alike recommended that the purchase of fire-proof safes be authorized for the use of collectors and assessors. In this recommendation I cheerfully concur. Private enterprise of the amount covered by the books and papers of the most unimportant district of the country is seldom left by prudent managers to the dangers to which our offices are now subject. The loss accruing to the government from a single conflagration might almost equal the expenditure necessary for the protection everywhere required.

SALES OF REAL ESTATE FOR TAXES

Section 30 relates to the seizure and sale at public auction of real estate by the collector when goods and chattels cannot be found sufficient to satisfy the duties imposed.

It provides, among other things, that if no person offers for the estate the amount of the tax to be collected, together with the penalties and charges, the officer shall purchase the same at that sum for the United States, and shall deposit his deed thereof with the district attorney. Although the tax may be large and the realty of disproportionate value, no collection can be made without a full discharge of the duty.

This section is largely copied from the 36th section of the direct tax law of August 5, 1861. The tax to be collected under that law was only that assessed upon the land offered for sale, and the requirement now considered was appropriate. Under the revenue law the land is not assessed, and the requirement is oftentimes embarrassing. I respectfully recommend that the law be so amended that the land may be sold to the highest bidder, and that the United States, through the collector, may be the purchaser.

COMMISSIONER'S CERTIFICATE TO BE REQUIRED IN CERTAIN CASES.

There has been a very general compliance on the part of revenue officers with the requirements of the law and the regulations of this office in preparing and forwarding their various reports. Whenever negligence does occur, however, this office is embarrassed in its operations, and not unfrequently the local officers, who have promptly discharged their duty in this particular, share in the general inconvenience. Sometimes positive damage may result to the government when a person who has neglected to make the returns retires from office. After careful consideration I have concluded to recommend that it be provided by law that no payment shall be made to assessors or collectors on