

# Money and Taxes

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## Introduction

Most money transactions now are electronic, not cash. The proposal in this essay is modest: to increase that to all electronic and do away with cash. The proposal enables a drastic simplification to taxes that has interesting consequences for the financial industry and for all of us.

## Money

In this proposal, each person carries a handheld electronic device for money transfer. I will call this device a “mun”. It could be a device specially for that one purpose, or it could be a “mun app” on a smartphone or computer. Ideally, a mun should have biometric technology that recognizes its user, and gives access to its user's account(s), and not to any other accounts. Alternatively, we can use password protection, as we do at present with credit and debit cards.

To make a transaction, a person must be holding a mun, and must give the mun the receiver's identity and the amount. To make this easy, a mun can store the identities of frequent recipients. And perhaps two nearby muns can be coupled so that the recipient gives the sender its identity. On request, a mun shows the current amount in its user's account(s), and a list of past transactions to and from other accounts.

## Accounting

An account is just an electronic memory location. For each currency (US\$, €, £, ...), a single government agency keeps the accounts. An account is designated either as a “resident person's account” or as an “other account”, but beyond that there are no further attributes or characteristics like “savings”, “chequing”, “investment”, etcetera. It is not interest bearing, there are no service charges, and the amount in the account cannot be negative. A transaction transfers an amount from one account to another. For efficient access, accounts may physically be located regionally, and an account migrates automatically to a new region when transactions from that account become predominantly from the new region. But that is an implementation detail beneath the concern of people using their accounts.

All accounts, and the record of transactions, are kept by a government agency. Each person resident in the currency zone has one “resident person's account” and as many “other accounts” as desired. An organization, which could be a single person, a large corporation, or anything in between, can have as many “other accounts” as desired. A visitor to the zone can have an “other account”. Although each person can have as many accounts as desired, we see in the next section that it is not in their interest to have many. But their mun can make it appear to them to be as many accounts as they wish, named for whatever purposes they wish.

A mun is a communication device privileged to access accounts. The correspondence between muns and accounts is not necessarily one-to-one. One can arrange for a single mun to access more than one account, and for a single account to be accessed by more than one mun.

## Taxes

Each transaction is taxed. When person A pays person B an amount  $d$  dollars,  $d$  dollars are subtracted from A's account,  $d \times (1 - t/100)$  dollars are added to B's account, and  $d \times t/100$  dollars are added to the government's tax account, where  $t$  is the tax as a percent. This is the only tax, replacing income tax, sales tax, property tax, and all other taxes.

It is possible to choose  $t$  so that the government receives no less and no more tax than at present. It might be reasonable to choose  $t$  so that the government receives less money than at present because the entire tax department disappears. The one and only tax decision to be made by the government, perhaps annually, or perhaps whenever needed, is to choose  $t$ . A reasonable initial choice will take some careful calculation plus some astute guesswork, but we might imagine something like 5% for reasons to be explained in the next section. When A pays B one dollar, A loses one dollar, B gains 95 cents, and the government gets 5 cents.

It is possible to adjust salaries so that an employee receives exactly the same net amount after the transaction tax is subtracted as the employee now receives after the current income tax is subtracted. If the income tax being replaced is a graduated tax, the effect will be to reduce larger salaries by more than smaller salaries. If a \$50,000 employee currently pays \$10,000 income tax, and a \$100,000 employee currently pays \$30,000 income tax, then assuming the new tax rate is 5%, in order to keep exactly the same net income, \$50,000 pay should be reduced to \$42,105.26, and \$100,000 pay should be reduced to \$73,684.21. Alternatively, rather than giving the gain all to the employer and leaving the employee's net salary unchanged, the gain could be shared.

The current tax system includes a myriad of loopholes, preferential treatment, tax holidays, and tax exemptions. For example, some religious organizations (those lucky enough to be classed as official religion) pay no taxes. Some wealthy individuals and organizations use questionable donations and shelters to avoid their share of taxes. All tax loopholes and exemptions are gifts from the general population to the loophole users. The proposal is to sweep away the patchwork of tax loopholes and exemptions. If the government decides that the general population should give a gift to a person or organization, it can do so. But it should not do so by means of the tax system, or any other indirect mechanism. There is no reason why the amount of the gift should be tied to the tax a person or organization pays; it could be more or less. Who should get gifts, and how much they should get, should be a conscious decision based on merit, not an accident of the tax rate.

## Legal Tender

In this proposal, the only money and the only monetary transactions recognized by the courts are the government administered accounts and the transactions between them. As the government allows, foreign money can be converted and deposited into an account untaxed. Foreign money can be purchased with the usual tax subtracted. A large amount of the world's wealth currently resides in "offshore" tax-free havens (Jersey, Cayman Islands, Switzerland, ...). With the proposal of this essay, these havens serve no purpose. Any use of money, whether to buy goods, services, or another currency, is taxed.

There is currently an enormous illegal underground economy consisting of services performed for cash that is not reported as income. If all these transactions are taxed, there is an enormous increase in the tax base, resulting in a low tax rate.

Why won't the underground economy continue, or even increase, in order to avoid the tax? There are two limitations: inconvenience and lack of trust. Nothing will stop two people from avoiding the tax by exchanging goods or services directly with each other, except that it is difficult to find someone else who wants what you have and has what you want of equal value.

To be practical, an underground economy needs to allow indirect exchanges of various values among a larger group (a local exchange trading system). For that, a system of accounting, or a form of currency (which is just a distributed system of accounting), becomes necessary. The most convenient system of accounting is the one provided by the government accounts. Still, it might seem worth some inconvenience to avoid taxes, so the group might employ an accountant (that is exactly what a company does, and its internal accounting is an untaxed economy). Of course, the accountant must be paid, and trusted. Or perhaps a new, group currency is printed or minted; the group then takes upon itself the problems of credit, money supply, theft, and counterfeit. Or perhaps an existing foreign currency is used.

To illustrate the problem, consider this scenario: Person A does some work for person B, and person B pays person A in the underground currency. Person A accepts the payment and makes use of it. Then, with the encouragement of the legal system, Person A sues person B for lack of payment. The only proof of payment accepted by the court is an entry in the transaction list of a government account. Person B is forced, by law, to pay person A again, this time in legal tender. That's why person B won't pay in the underground currency in the first place.

The current underground economy does not have these problems because it uses the existing legal tender untaxed. The proposal in this essay makes it impossible to use the legal tender untaxed. The inconvenience and lack of trust inherent in the use of an untaxed tender make paying taxes the better option, especially at the low rate that results when everyone pays taxes.

Elimination of off-shore tax havens, and elimination of the underground economy, will allow the tax rate to be low. In the long run, my 5% estimate may be too high, but I recommend starting a little high in order to pay off national debt quickly.

## Winners and Losers

Banks lose their role as the safekeepers of money, and the facilitators of transactions for daily living; that's an enormous loss for banks. But people still want to invest, and people still need loans. Banks can continue to play the important role of connecting savers and borrowers. The difference between interest charged to borrowers and interest paid to savers (over the lifetime of savings and loans) must be sufficient to cover the transaction taxes plus bank costs.

The transaction tax makes rapid money movement unprofitable. "Investments" that last for hours or days, quick property flips, daily money trading, and any quick speculation will all disappear. To be profitable, an investment must last long enough to accrue interest greater than the one-time transaction tax. A well-run company will be able to count on retaining investment long enough to plan and prosper. Investors will have to take much more care, investment will become much more stable, and the economy will be much healthier. This is achieved without legislated regulation, without policing, and without prosecution.

Some people produce real products (food, manufacturing, building, ...). Some people provide real services (education, medical care, transportation, entertainment, advice, ...). Some people just "make money", which means "take money" for no real production or service. A large part of the financial sector produces no real goods and provides no real services. The service they claim to provide is to advise the rest of us, and to help us, to join them in taking money for no real production or service. To join in, we just need to give them some money. The money we give is called "investment", but in a typical portfolio, the "investment" goes mostly to financial institutions. It is large scale gambling, and the house always wins. The financial sector has brilliantly convinced us that the more money they drain from the economy, the healthier is the economy.

## Allowance

The preceding sections propose replacing the current patchwork of taxes with a single transaction tax. Similarly, we could replace the current patchwork of payments from governments to people (social security, unemployment insurance, welfare, ...) with a single allowance. The amount of the allowance is a government decision. Considering the savings to the economy won by the transaction tax, the amount could possibly be enough to cover all basic needs. It is paid to each resident person's account (and that is the only reason for distinguishing a resident person's account from all other accounts). Determining individual differences in need would be expensive and contentious, so the proposal is to pay the allowance to each resident person's account without regard for need.

The automation and uniformity of the allowance makes it possible to pay the allowance daily. This frequency has psychological advantages over larger less frequent payments. People who budget poorly, given monthly payments, tend to spend unwisely at the beginning of the month, followed by the resulting end-of-month shortage. The monthly up-and-down is eliminated by daily payment.

## Crime

The purpose of biometrics or a password is to make sure that only the owner of an account can see what's in the account, and pay money from it. A thief can hold a gun to your head and demand that you pay them money. But then you have a record of the transaction, including the account where the money went, from which the thief can be caught. Any crime involving payment of money leaves a record of the payment. Police who obtain the proper warrants can see the transaction record, and that aids crime detection. Criminals will have to find some other form of payment, and that will make their business much more difficult.

At present, most monetary transactions are made by computer, and many of them are made automatically on a prearranged schedule. The use of computers for transactions makes theft far too easy. Private and company and bank computers are corruptible by viruses, by reprogramming, or just by the accidental use of insecure communications. According to the proposal in this essay, accounts are kept and managed by government computers kept in high security. A mun need not be a general purpose processor that can be reprogrammed or corrupted by a virus. A mun's program can be compiled to silicon, making it a nonreprogrammable circuit.

In this proposal, a company's payroll computer cannot, by itself, make money transfers. It makes payments through a mun held by the right person. The need to have the right person present greatly reduces the opportunities for theft. And again, if anyone finds a way to make an unauthorized payment, there is a record of it saying where the money went.

## Privacy

Many people will be concerned that a government agency keeps track of every transaction they make. Certainly people who make illegal transactions and tax-evading transactions will be concerned, but we should not be swayed by them. Currently, private companies and financial institutions do track and record transactions for the odious purpose of target advertising; this may account for some of the concern. But a government agency does not have any interest in target advertising, so we should be less concerned about a government agency having our transaction history than about a bank or other private institution having it. We do want a transaction history kept by someone, in order to protect ourselves against theft and fraud, unless we are the thieves or fraudsters.

At present, the tax department employs people to verify tax return statements, and to audit people and companies it considers questionable. Under the proposal, there will be no verifiers or auditors, and that should result in better privacy.

A single government agency is easier to monitor for any breach of privacy than a myriad of private institutions. If there are any remaining privacy concerns, they must be weighed against the enormous benefits of convenience, security, simplicity, and economy of the proposal in this essay.

## **from Here to There**

Most of the financial industry takes money from the rest of the economy without producing any real goods or services. It does so by constantly moving money, taking a fee with every movement. The proposal of this essay would make that unprofitable, and the rest of society would be that much richer. But at present, the financial industry is large and rich, and it won't like losing its business. So we can expect it to oppose the proposals of this essay. They will not admit that their loss is everyone else's gain; they will convince us that their loss is everyone's loss. With that much opposition, I don't think the proposal stands much chance of success.

Here's what will happen. Programmers will create new accounting services (like PayPal) that bypass banks, are more convenient than banks, and charge less than banks. The old banks will lose business. The new services will then be our new banks; they will make quick speculation and trades easier, and the economy less stable. They will make the underground economy and tax evasion easier. They will increase the opportunities for fraud and default.

## **Summary**

I have proposed a device and an accounting means to replace existing money. I have also proposed a tax to replace all existing taxes. I think the proposals are good ones in the sense that we would be better off with them than we are at present. But I have little hope that they will be implemented.