

The death of the income tax?

Death and taxes are among life's certainties. Far less common, but much more enjoyable to contemplate, is the death of a tax.

In fact, a little-known technology may be about to accomplish what generations of Americans have joked and dreamed about -and both the new Ways and Means Committee Chairman Bill Archer and his predecessor, Chairman Sam Gibbons have said they desire: the annihilation of the income tax. But now it is becoming possible, and perhaps even necessary.

Before proceeding to describe - in loving detail - its imminent demise, let's remember why the murder is justifiable. The income tax discriminates against savings and investment. Economic growth and job creation are penalized. As the tax system grows ever more complex, and changes pile on changes, the cost of compliance grows even more rapidly - unalloyed economic dead weight.

Think of the resources that would be freed, and the human happiness that would accrue, if all the tax lawyers and accountants were put to work doing something useful. Think of all the gains to taxpayers once they were freed from the burden of compliance.

The cost is more than economic. The complexity of the system also causes fear. One rarely knows what the proper tax liability is. For most large businesses and many individuals, the only thing they know for certain is that the amount they paid is wrong. And though the media reports every April - the stories of leading accounting firms and Internal Revenue Service offices each calculating a different liability from the same data - may be amusing, the reality is otherwise. Each year the IRS tries to send people to jail for not determining a liability that is, by the very nature of the system, almost impossible to calculate.

Unfortunately, also, the very Congress that claims to want to get the government off people's back is complicating things even further. Among the various tax-cut bills that have been introduced, only Rep. Dick Armey's flat tax bill will produce significant simplification. Left to themselves, it is unlikely that the legislators, buffeted as they are by the lobbyists and lawyers, will ever summon the courage to put the IRS out of its, and our, misery.

Fortunately, computer hardware and software may soon do what representatives and Senators will not. For centuries, people have paid their bills, and received their income, by cash or check. These costly methods of payment may be coming to a rather abrupt end.

Electronic transfers greatly reduce the cost of transaction and the possibility of loss. Americans are now starting to pay their bills by using credit cards, and by inexpensive "Smart Phones." These systems provide customers with a full record of income and payments: good for record-keeping, but bad for privacy. In fact, the IRS is already working on a system to gather all your financial information electronically and prepare your tax return for you. That might crimp the tax lawyers and accountants a bit, but the Big Brother police state aspects are at least as unpalatable.

There is, however, a technological alternative. An experiment now under way, called "E-cash," operating in Amsterdam by a company named DigiCash. The electronic version of the anonymous paper dollar is now with us. Individuals will be able to move their funds around the world, literally at the speed of light, from one bank to another or to a creditor, without the bank knowing to whom the money was paid, or the creditor knowing from which bank or even country the money came.

Through the use of cryptographic technology (scrambled numbers for personal codes), the ease of conducting electronic transaction would be combined with the elegant anonymity of paying in cash. The two most important features of the "E-cash" system - security and anonymity - will be ensured by using cryptographic digital signatures to establish the authenticity of the payer, while at the same time assuring his anonymity and untraceability. The virtual electronic dollar bills will, at the same time, be assigned individual electronic serial numbers, which will also be checked for authenticity. The bank will know how much to pay and what code to pay it to, but will not know the owner of the receiving code, hence the payee too remains anonymous.

Naturally, the IRS doesn't like it. But the matter may be beyond its control. In the next few months, Americans will be offered two competing versions of the future. The first is the society in which all of your transactions can be monitored by the government (and other interested parties). The second is where you as an individual choose which of your transactions will be made available to curious eyes, and which will remain anonymous.

Many in the government and other organizations will argue for a ban on anonymous systems, contending that such capabilities benefit primarily drug traffickers, money launderers, assorted terrorists and plain old tax dodgers. Libertarians, on the other hand, will warn of the dangers that accrue when government has almost total scrutiny of individuals. One doesn't have to envision what a Hitler or Stalin could have done with such a system; just try to imagine the kind of ordeal investigators could inflict on anyone trying to get Senate confirmation for government service.

The fact is that the fears of both sides are correct. But some of the legitimate fears of the government can be mollified by repealing the income tax and substituting a value-added or business-transfer tax. Anonymous systems will make it easier for criminals and evaders to do what they are already doing successfully, especially as private encryption protocols are developed.

But without an income tax, it won't matter. The gains to the American people, economically and psychologically, will be magnificent. Even the government, which relies on public trust, will gain. An on such terms, that would be a very good thing.

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