A Theoretically Perfect Tax

Unfair taxation is one of my pet peeves. The present system of personal and corporate income, sales, excise, capital gains, import and export duties, gift and estate taxes is complicated and subject to evasion. Human nature being what it is the wealthy and large businesses have used their money and power to obtain tax breaks and loopholes. They also have tax lawyers and accountants to assist in minimizing their taxes. In 1989 Professor Edgar Feige of the University of Wisconsin proposed replacing the present tax system with the Automated Payment Transactions (APT) tax (https://www.academia.edu/30138339/Taxing_all_Transactions_The_Automated_Payment_Transactions_APT_Tax), a tax that is simple, fair, and much less corruptible. It proposes taxing the broadest possible tax base at the lowest possible tax rate (theoretically perfect!) by introducing a transaction tax on *all* transactions. As stated by Feige, "The APT tax introduces progressivity through the tax base rather than through the tax rate structure. The volume of transactions is highly skewed toward the wealthy since they carry out a disproportionate share of total transactions and therefore bear a disproportionate burden of the tax despite its flat rate structure." The APT tax is automatically assessed and collected when transactions are settled between accounts by computer. In theory it could also be applied to cash transactions because it is possible to have computer traceable cash.

First a little background to explain the enormous economic advantages of this tax. The Gross Domestic Product (GDP) of the United States was roughly $21 trillion in 2019 ($20.5 trillion in 2018 and $16.2 trillion in 2012 for comparison). The U.S. Federal Budget was $4.79 trillion for 2019 ($3.54 trillion in 2012 for comparison). The 2019 U.S. Federal budget was 22.81% of the GDP. The 2012 Federal budget was 21.85% of that year's GDP.

The U.S. National Debt was about $15 trillion in 2018 (data for 2019 and 2020 not available, $10.5 trillion in 2012 for comparison). The U.S. National Debt was 64.8% of the 2012 GDP, and 73.2% of the 2018 GDP.

By comparison, as of 2012 more than ***$14 trillion per business day*** of dollar-denominated transactions were routed through different accounts in the United States as money was transferred from account to account (all accounts including private, business, bank, stock, bond, and government accounts) (https://libertystreeteconomics.newyorkfed.org/2012/08/intraday-liquidity-flows.html). It is extremely revealing that the money transactions occurring in one day could pay off the U.S. Federal Budget almost three times over! Or the entire National Debt!

The $14 trillion per business day amounts to $3500 trillion per year (250 business days per year). The entire 2012 U.S. Federal budget of $3.54 trillion was 0.101 % of that year's transactions. That APT tax would have fully funded the U.S. Federal Budget. If the APT tax rate was divided evenly between the transacting accounts as proposed by Feige, each would have paid 0.05% of the transaction amount. Also, because transactions would be taxed automatically and the funds immediately transferred to the government (https://en.wikipedia.org/wiki/Automated_Payment_Transaction_tax), there would be no need to file forms or hire lawyers and accountants.

In its most perfect form the transaction tax should be adopted worldwide in order to eliminate tax shifting (https://en.wikipedia.org/wiki/Tax_shift) and tax competition among nation states.

Advantages are:

1. The APT tax is much less than the income tax. Typical workers earn their income, have it deposited in a bank, and spend it. That requires three transactions for which they are personally taxed by APT. Thus, their total amount of transactions is roughly three times their income. For example, a worker earning $50,000 per year would have to pay an APT tax on $150,000 of transactions. If the APT tax was 0.05%, their total yearly tax bill would be $75. For comparison, if their Federal income tax rate was 10%, they would have to pay $5000. Which would you prefer?

2. Since every account pays the same tax rate and no one gets out of it, the value of the currency is reduced uniformly by that amount. Therefore, the transaction tax is embedded in the currency itself and is in that sense invisible. It is totally fair. Note that the transaction tax rate is less than the average daily variation in the exchange rate of the dollar. The APT tax does not hinder capitalism. It hinders greed.

3. The transaction tax rate is so low that it would enable the government (or governments) to pay off debt and provide more services to their people. It could be used to fund existing programs such as Social Security and Medicare. It could be used to fund state governments and public education. Governments would have the money to fund ambitious projects such as universal health care, infrastructure improvements, space exploration, universal basic income, etc. Even if the APT tax became as large as 1% to cover such programs, the yearly tax bill for a worker with an income of $50,000 would still only be $1500.

4. Also, because everyone pays it, everyone contributes. It is an inherently democratic tax. No one could ever be accused of not paying their fair share.

5. Crooks (I can think of some, can't you?) who try to avoid taxes by transferring money from account to account would automatically pay more.

6. When there are emergencies such as the present global pandemic that slow down the number of transactions in the economy and reduce the funds available to government, the government can directly provide basic income to its people. This would stimulate more transactions in the economy and *could* generate more tax revenue for the government than required for the basic income itself.

Limitations are:

1. The APT Tax does not tax accumulated wealth, so it should be augmented with a wealth tax.