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Dreaming Out Loud: One Tiny Little Tax

By DANIEL AKST

THINK of your economic life as a highway. It's decently paved. But thanks to the tax system, there are tollbooths all over, with rates so complicated you need an expert in the car with you to figure them out. Sometimes you drive well out of your way just to get around them.

Now imagine that a sort of tax-system E-ZPass comes along, enabling you to whiz through the booths without an accountant in the back seat. Suddenly, it's smooth sailing.

President Bush has proposed a controversial tax plan and has made noises about wanting to overhaul our generally abominable income tax system. In recent years, people have suggested simplifying the tax code, adopting a flat tax or taxing consumption instead of earnings. Mirror, mirror on the wall, what's the fairest plan of all?

My vote goes to the Automated Payment Transaction tax, an efficient system dreamed up by Edgar L. Feige, a retired economist from the University of Wisconsin. His plan is so appealing that after he presented it at a conference in Buenos Aires in 1989, six Latin American countries, including Argentina and Brazil, tried it. But it was never intended for developing countries, and it's supposed to replace other income taxes, which create perverse incentives and impose heavy costs. In Latin America, his plan was simply piled on top of existing taxes as a new revenue source.

Doing such a thing ignores the plan's main appeal. Basically, Dr. Feige proposes to eliminate the entire federal tax system - including corporate, excise and estate taxes - in favor of a tiny tax on all financial transactions that would be automatically deducted from special taxpayer accounts resembling those of E-ZPass holders. (Drivers with E-ZPass have a little windshield gizmo that is automatically read when passing through a toll plaza; the toll is then deducted from their E-ZPass accounts, which are replenished periodically by credit card or check.)

In a stroke, the Feige plan would sweep away the Rube Goldberg system we've come to loathe: no deductions,

no income tax returns, maybe even no Internal Revenue Service. The whole thing would raise the same amount of money as today's system does while saving hundreds of billions of dollars in compliance costs, tax evasion and inefficiencies, according to Dr. Feige.

I know about all the lobbyists with their own special interests, but let's just dream for an instant. No longer would economic players contort themselves to avoid taxes - mostly it wouldn't be worth it. And no longer could the government direct the economy through the tax code, which encourages people to do things they might not otherwise do. Most of these things - like buying overweight sports utility vehicles to get a light-truck deduction - are a bad idea anyway.

Instead, Dr. Feige would levy a little toll - just 0.6 percent - on the economic highway of life. This amount - the professor's conservative calculations mean we might get away with even less - would be split by payer and payee in any transaction, meaning on average you would pay 0.3 percent whenever you spent or received money. It would all be taken care of by your bank's computers when they paid your check or you withdrew cash. You'd hardly notice it - especially since even someone spending \$100,000 a year would pay just \$300 in tax.

But I said the plan is "revenue neutral." So where would the bulk of the tax revenue come from? Well, most of the value of transactions in a modern economy consists of financial dealings: sales of stocks and bonds, currency trading and the like. And these would be taxed. Financial services firms would scream, but even they would get some benefit. There would be no corporate income tax, after all, and while liquidity might be slightly reduced, some economists figure a small tax on financial transactions would cut speculation and dampen volatility.

Dr. Feige's plan would be quite progressive because most of the financial dealings that would supply the bulk of revenue are conducted on behalf of corporations and rich people. The plan wouldn't eliminate Social Security taxes (probably the least progressive kind), but there's no reason a higher rate couldn't be adopted to cover this. State taxes could easily be piggybacked.

In short, the Automated Payment Transaction tax offers fairness, simplicity, and efficiency. It may not be a free lunch. But it sure smells better than the one we eat now.