The Payment Tax

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What is the Payment Tax?

The Payment Tax is a 1% tax on all payments made in the domestic economy. The beneficial recipient of the payment would be responsible for paying the Payment Tax. In most cases, the actual Payment Tax transaction to the Federal Government would be handled electronically by a financial institution. See below for specific examples.

Cash payments would be subject to the Payment Tax, but it is expected that voluntary compliance rate would be low for cash transactions not involving a financial institution, and the Payment Tax revenue from these types of cash transactions would be minimal.

How does the Payment Tax work?

The key factor for determining who actually pays the Payment Tax is to identify the beneficial recipient of a payment. If a worker gets his paycheck directly deposited into the bank, the worker is the beneficial recipient, and the bank would merely facilitate the payment of the 1% tax to the government.

For example, if a worker has a $100 paycheck directly deposited into the bank, the worker's account gets credited with $99, and the bank electronically sends $1 to the government to cover the Payment Tax. If the worker cashes the check instead, the worker receives $99 (less any check cashing fees), and the business cashing the check sends $1 to the government.

Payment by check

What happens if a shopper spends $100 at the grocery store and pays by check. When the grocery store deposits that $100 check at the bank, the grocery store's account would be credited with $99, and the bank would send in

$1 to satisfy the Payment Tax. There is no Payment Tax due when the grocery store's bank presents the $100 check for payment to the shopper's bank.

Payment by credit card

If the shopper pays the $100 grocery bill with a credit card, something similar happens. The grocery store is the beneficial recipient of the $100 payment, and their account only gets credited with $99 (less the normal credit card transaction fees), and the credit card company sends in $1 to satisfy the Payment Tax.

Payment by debit card

If the shopper pays the $100 grocery bill with a debit card, it is just like the credit card example. The grocery store is the beneficial recipient of the $100 payment, and their account only gets credited with $99 (less the normal debit card transaction fees), and the debit card company sends in $1 to satisfy the Payment Tax.

Payment by cash

If the shopper pays the $100 grocery bill with cash, when the grocery store finally deposits that cash into its bank, the same $1 gets sent for the Payment Tax.

A few benefits of the Payment Tax

Because the Payment Tax couples an unambiguous taxing standard with a very low tax rate on a very large tax base, this means tax avoidance, tax cheating, and tax shelters are minimized, if not eliminated. Compliance costs are also minimal because calculation and remittance of the Payment Tax are mostly electronic and automatic.

What could we do with the Payment Tax revenue?

The tremendous amount of revenue raised by the Payment Tax can be used to eliminate or reduce other taxes. For example, static analysis indicates that the Payment Tax could pay for the entire Social Security obligation over the next decade. That would enable workers to put the ENTIRE 12.4% payroll tax into private accounts versus the present pay-as-you-go Social Security system.

How to implement the Payment Tax?

In the first few years, it makes sense to start the Payment Tax at a rate lower than 1% in order to work out the kinks in the system, as well as to minimize the transition costs. In the first year, the Payment Tax rate could be set at 1/100 of 1%, or one basis point, so that we can evaluate the detailed nature of the Payments System and make better revenue projections based on actual Payments data.

Are Payments to oneself exempted?

No, unless it is a simple transfer of dollars within a financial institution. If the movement of dollars involve two financial institutions or anything like a payment, then the Payment Tax is due. Exempting any Payments opens up a can-of-worms and requires a higher tax rate to raise the same revenue.

Wouldn't the Payment Tax introduce tremendous distortions?

It is tempting to assume taxpayers do not adapt to new taxes because it makes the revenue analysis so much easier. As we all know, taxpayers are resourceful and imaginative in minimizing taxes paid. There is no doubt that taxpayers would flexibly adapt to a 1% Payment Tax, and life would go on. The fact that a 1% tax rate motivates much less adaptive behavior than a 35% tax rate is simply one of the Payment Tax advantages.