

## **A Subside to Greed, Revenge, and Harassment**

By Fred E. Foldvary

The great American economist and social reformer Henry George declared that **a tax on selling or on income is a tax on truth, a tax on honesty, a tax on morality**. The taxpayer has to divulge all sources of income and submit to having a large chunk of his earnings taken away. Suppose one receives \$1000 for doing some service, and the tax rate is 30 percent. The worker has a choice, whether to declare this income to the government, and get paid a net \$700, or not declare it, and get paid the full \$1000.

The honest worker will end up with much less than the tax cheater, so the honest get punished and the dishonest get rewarded. The tax evaders take on a risk, but if they get paid in cash, the risk may not be so high. That is how a tax on wages and profits is also a tax on truth, honesty, and morality.

The risk to the tax evader is higher if the one who paid him suspects tax evasion and reports this to the Internal Revenue Service. If the informant gets rewarded for snitching, then there is less tax evasion, but the policy of rewarding those who tell on others then incites people to become spies and snitches because of greed and revenge. Is there someone you have a grudge against? The government invites you to harass him by reporting him for possible tax evasion. This bounty becomes a subsidy to greed, revenge, and harassment.

The Wall Street Journal of September 9, 2004, has an editorial, 'Scrutiny on the Bounty,' on an attempt to turn more Americans into bounty hunters. Charles Grassley, Republican-party Senator from Iowa and Finance Committee Chairman, has added a provision to a tax bill to give informers part of what the IRS collects from the evader. This measure is adapted from a 1986 amendment to the False Claims Act, which Grassley introduced for fraud cases. The IRS already pays snitches, but this bill would increase the loot.

There is indeed a vast underground economy in the US, as in all other countries. In Senate hearings in July, an estimate of \$310 billion in uncollected tax revenue was reported. But turning Americans into tax spies will not bring in anywhere near that amount of extra revenue. People will shift to legal ways of avoiding taxes, or shift operations to other countries, or become more secretive. There will also be a lot of spying and telling on innocent persons who were paying their full taxes.

The WSJ editorial points out that the government has an obligation to keep tax records confidential. An inherent problem with the income tax is that it intrudes into financial privacy. The taxpayer has to report where his income came from and what expenses he is deducting, highly personal and sensitive information that the

government has a duty to safeguard under the requirement of the US Constitution to avoid infringing on the papers and effects of the citizens.

A bounty for snitching creates a perverse incentive for the informant to invade the privacy of the subject in order to gather information. As the WSJ editorial states, someone with a grudge gets an incentive to get back at the subject, and get the bounty in addition. People can then use the IRS to harass people they don't like, even if they don't suspect tax evasion. Imagine several million people using the IRS to get back at a former spouse or employer, or just to harass a neighbour because of his religion or ethnicity. The cost of all these investigations can be more than the gain in tax revenue. The beneficiaries are the tax accountants and tax lawyers.

The WSJ editorial proposes that we reduce tax evasion by reducing tax rates and simplifying the income-tax code. Let us carry this to its logical conclusion: reduce tax rates on earned income to zero, and simplify completely by repealing the whole income tax code. Then there will be zero income-tax evasion. Problem solved.

There is one source of government revenue that is immune to cheating. There is a tax source that does not hide, shrink, or flee when taxed: land. The cheat-proof tax is on the economic rent of land, the income that one would get by renting the land to the highest-bidding tenant. The tax base is this potential implicit rent, regardless of what the tenant is actually paying and regardless of who has title to the land. The same tax rate is applied to owner-occupied land and landlord-rented land, to commercial and residential land and government-held land. We don't even have to know the identity of the owner, so long as it pays the bill when due.

Any tax on wages, profits, sales, value-added, and produced goods is subject to cheating, evading, hiding, and camouflaging. The government must then intrude into financial privacy, harass people with audits, and impose penalties, fines, interest, and imprisonment. Henry George was totally right. These are taxes on honesty, morality, and truth. They corrupt society and turn people into spies, creating social conflict. And this Senator wants to increase this social disharmony! Government then turns society into a war of all against all, exactly the opposite of what government is theoretically supposed to do, promote social peace!

-- Fred Foldvary

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