

Problems and Promise of Smart Cards in Taxation
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Final Summation

Administrative issues do not usually make for exciting economics. They usually fall into the forgotten footnotes of scholarly articles that are primarily concerned with grander visions of economic mechanisms. A discussion of the possible impact of developments in information technology for the implementation of government policy might seem to fall into that category. However, it is also possible to identify key innovations in recent history that have become, not just background items in a more interesting economic story, but, indeed, the story themselves.

Electronic cards in general are understood as devices for enriching and certifying information related to individuals and transactions. Smart cards are a subclass of these that may perform additional functions including dynamic updating and linking of disparate data sets. What do we mean by “smart” and what more might smart cards do? The focus presumably ought to be on “smartness” in the encoding of information that is potentially useful in tax design. Three ways in which the encoding can be said to be smart are quantity of information, automatic updating, and information linking.

A key distinction that could be considered is not whether cards are dumb or smart but whether they are static or dynamic. In the static case the role of the card is summarized in an electronic statement: “this certifies my characteristics” – it is just the electronic tattoo and it may be convenient for both individuals and officials. However, dynamic cards could perhaps achieve something more subtle. Their mission statement is something like: “this certifies the history of my transactions” or “this certifies the history of my characteristics,” or perhaps both statements combined.

Bearing in mind that the fundamental difference between direct and indirect taxes is not to be found in their legal incidence but in terms of the information associated with them, a device that could link disparate databases and update information in real time has the potential for changing some of the fundamentals of the economics of taxation. Improvements and possible innovations in economic mechanisms could be attainable.

The key question is whether the tax system is capable of implementing these innovative mechanisms in ways that are consistent with individuals’ economic rationality and normal modes of life. Where there are problems they will probably not be because of failing in the IT innovation – because the smart cards are not smart enough – but because human economic behavior will still follow the same rules that we have become accustomed to under the old technology.