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The President's Advisory Panel on Federal Tax Reform  
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Dear Mr. Kupfer,

Secretary Snow has told the public that your panel was formed to work out solutions to the taxation problems this country now faces. Both the Secretary and President Bush have announced in public speeches: "All options are on the table." I would like to present an option for an unconventional type of tax, which I believe, could make a significant contribution to solutions. I hope that you are indeed soliciting input on these issues and will consider this option.

My background is in economics and I make my living by speculating in currencies and interest rate instruments. My avocation is working out principles which help us to understand why societies function as they do, and particularly why they seem to have certain inherent problems which are (apparently) impossible to solve. In the process of this analysis, I have come to realize that there is a type of tax that we have ignored which would make a significant contribution to solutions to our tax related problems. I would like to give you and other members of the panel some idea how it works.

I call it the *virtax* which stands for virtual interest rate tax. This is a tax that mimics a real interest rate. It exploits the relationship between the costs of ownership of productive assets and the prevailing rate of return on money as reflected in both interest rates and other returns. The *virtax* has several characteristics that make it unique. A few of the characteristics that your panel might consider important are:

1. Conventional taxes require a great deal of record keeping and monitoring to ensure correct payment and non-evasion. The *virtax* is simple, requires no record keeping, and is virtually impossible to evade.
2. All conventional taxes such as income taxes, sales, property taxes, duties and tariffs take some portion of money that is earned by someone and needed as compensation for a vital human input into production. They thereby penalize production in ways that reduce the creation of wealth. The *virtax* does not penalize production. Any change that shifts revenue from conventional taxes to a *virtax* will lead to improvements in production incentives and increases in the creation of wealth.
3. The *virtax* has the potential to raise a great deal of money, enough to allow us to eliminate many other taxes which are complex, difficult to collect, and discourage productive activities.

The *virtax* meets the requirements for consideration that the President and Secretary Snow laid out. I therefore hope that it can be placed "on the table" and considered as a viable option that can assist in solving our current taxation problems.

### **What income Stream does the virtax divert?**

The virtax is an virtual interest rate, which diverts a part of a certain flow of funds in an economy. This flow of funds is the flow of "free cash" from productive assets. Before I can explain how the tax works in a way that makes sense, I have to explain the flow it diverts.

Imagine you are considering the purchase of a rental property, a single family home, during a period when the mortgage rate on home loans is 6%. The property will be sold at auction. You want to know what you will have to pay to win the auction. Your real estate agent tells you that professionals in his field use a simple formula to determine the prices that income-generating properties bring in market transactions such as auctions. They first calculate something they call the "free cash flow" of the property. Simply put, after collecting the rent and other money benefits of owning the house and paying operating and management costs from the income, a certain amount of money is left over each year. This is called the free cash flow. Your agent has analyzed this property and determined that its free cash flow is \$12,000 a year. To estimate the price the property will bring at auction, divide the free cash flow by the interest rate on mortgage loans. If the interest rate is 6%, a rental property with a free cash flow of \$12,000 a year will be expected to sell for \$200,000, (\$12,000 divided by 6%) plus or minus a small amount.

If you purchase this rental property you will get a benefit of ownership (the free cash flow) and pay a cost of ownership. The cost of ownership is *not* the price. The price is an investment, and accountants would not put it in a cost column on a balance sheet and the government would not allow you to deduct it from your income when calculating your taxes. Although the price is not the real cost of owning, it is extremely important because it determines this cost. If you must borrow money to pay the price at 6% you will have to pay interest equal to exactly the price times 6% each year you own this property. If you use your own savings you will have to take the money out of some account where it had been (or could have been) collecting 6% a year. You must stop receiving an income you had been receiving, and this is just as much the payment of a cost as if you had already gotten the money and *then* paid it out. This means that if you use your own money to pay the price you will *also* have to give up 6% times the amount the market sets as a price each year you own the house. The way you pay this cost is different if you use your own money rather than borrowed money, but the amount of the cost of owing the property over time is the same.

If you pay the price that the common-use real-estate formula indicates this house will likely sell for, your cost of ownership will turn out to be \$12,000 a year (6% times the price of \$200,000), the same amount as the amount of free cash that flows from the property each year. This makes a great deal of sense. There is something flowing from the property for free (the free cash flow). It would be nice to get something for free but markets would not work if people could wind up with something for free. Markets "equalize" this asset, making the decision to purchase about things other than the free cash flow. They do this by setting a cost equal to the free cash flow. As owner you collect the free cash that flows from the property and pay or give up this amount of money as a cost. This "flow" of "free cash" from the asset to the owner, then from the owner to somewhere else, is the flow that the virtax diverts.

## **The Virtax**

In a system with a virtax you will still have to pay (or give up by forgoing) the cost of ownership described above. It makes no difference whether you pay the price with savings or borrowed money, the amount of this cost will still be the prevailing rate of return on money, a percentage, times the price. The tax will add *another* cost which is a percentage times the price. The percentage can be set at different levels but I will start by describing a virtax rate of 3%. If the prevailing rate of return on money is 6% you now pay two costs to own this house, both of which are a percentage of the price. The first is the real interest cost of 6% of the price and the second is the virtual interest rate (the tax) which is 3% of the price. (*Real* here does not mean inflation adjusted; it means *not virtual*.)

Lets say that you pay a price of \$133,333 for the rental property (I will explain why I use this figure rather than \$200,000 shortly). Your real interest rate cost will be 6% times this number or \$8,000 a year. Your virtual interest rate (tax) cost will be 3% times this number or \$4,000 a year. Your total cost to own this property for a year will be 9% times the price, or \$12,000 a year.

You can not own this property without paying both of these costs. Whether you pay the price with your own money or borrowed money, you will have to pay the real interest cost and it will be a true cost to you. If you used your own money to pay the price, you miss out on interest or other returns on the exact amount of money you use at the rate of  $1/365^{\text{th}}$  of the real prevailing rate of return times the price, each day you own. If you borrow you must pay interest at the same rate or the lender will repossess and terminate your ownership. You will also have to pay the virtax as a condition of remaining the owner. This cost will also be equal to  $1/365^{\text{th}}$  of the "virtual" rate times the price, every day you own. If you fail to pay, your registration will expire and you will lose the protection of your ownership rights. In practice, this means you will lose the property.

## **Why the virtax is not a cost to the person who writes the checks**

This tax is a unique tax in many ways. One of the most important is that it is not actually a cost to the person who writes and sends in the tax checks. This tax does not increase the cost of ownership, it merely changes how this cost is paid. The total amount owners will pay to own productive assets is set by markets and markets will set the same cost (a cost equal to the free cash flow) whether or not there is a virtax.

Consider the rental property again. It clearly would not make sense for you to pay \$200,000 as a price with a virtual interest rate tax of 3% and a real prevailing return rate of 6%. Your costs of ownership would be \$18,000 a year (\$12,000 as an interest cost and \$6,000 as the virtual interest rate tax) and you would only have \$12,000 in free cash flow to pay these costs. You will lose money each year you own the house. There is however a price that makes sense. If you pay \$133,333 as a price, your costs of ownership are \$12,000 a year (just as they were without the virtax) the same as the free cash flow of the property. (To calculate this price, use the common-use real-estate formula, dividing the free cash flow by the costs of ownership as a percentage of the price, in this case 9%.)

Of course, you would like to get the house for a lower price than this. If you did, the free cash flow would be more than the cost of owning and you would get to keep part of free cash that flows from the property each year. You would essentially get the amount you need to pay the costs, and a "something for nothing" income above this. Unfortunately, everyone would like to get something for nothing. If the price is low enough that this is possible, people will continue to bid up the price. They will keep bidding the price up until the costs of ownership (a percentage of the price, per year) equal the free cash that flows from the property over time. If this property is sold at auction its price might start at a very low level but will eventually get up to \$133,333 or some amount so close that differences aren't important for practical purposes.

If you pay this price with your own money, you give up \$12,000 a year two different ways. First you give up \$8,000 by missing out on this much in returns each year your money is tied up in the property. This is a true loss to you and a true cost. Then you pay \$4,000 in the form of a check to pay the tax. But writing this check does not affect your cash flow or income, because you now have \$66,667 (the amount you no longer have to skip returns on, because you don't have to "use" it to pay the price) collecting returns that you would not have had collecting returns if not for the virtax. This money generates exactly enough in returns to pay the tax. This means you are breaking even, with exactly the same income and cash flow you had without the virtax. If you pay the price with borrowed money, you still make payments of \$12,000 a year. Of this \$8,000 goes to pay returns at the prevailing rate the other \$4,000 goes to the government as tax. Again, you are paying exactly the same cost to own the property as you were without the virtax and both your income and cash flow are unchanged.

### ***MACRO EFFECTS—what the virtax really does.***

Now something seems to be wrong. The government is collecting \$4,000 a year from the property but the owner doesn't seem to be giving up an equivalent amount of money as a yearly cost. The money the government collects does not appear out of the thin air. Someone pays a true cost exactly equivalent to the revenue the government collects. In order to show who pays this cost (and therefore who pays the tax), I will have to show how it will affect the economy as a whole.

There are actually two different ways that markets can react to the virtax: They can lower the prices of productive assets or they can lower the prevailing rate of return on money. If rates of return on money can't fall, prices will fall as discussed above. However, in current systems, interest and other rates of return on money depend on the relationship between the supply and demand for money. The virtax will reduce the demand for money but it won't reduce the supply, and this will cause the cost of money, (interest or other rates of return) to fall.

The total market value of all productive assets in the United States is about \$45 trillion. (About \$15 trillion for stocks in the Wilshire 5000, about \$15 trillion for residential real estate, and about \$15 trillion for everything else. The exact number isn't important here, I just need some numbers to work with.) We could therefore say that the demand for money to own productive assets is \$45 trillion, and, because the market is in equilibrium, the supply is also \$45 trillion. If we add a virtax of 3% and the rate of return on money doesn't fall, the market will react by setting lower market prices for all productive assets. This means that if the market value of all productive assets was \$45

trillion before the tax (with a rate of return on money of 6%), and interest rates don't change, the total amount of money that is used to own productive assets will fall to \$30 trillion after the tax. People will not demand more money than this to own productive assets because they will not be able to justify paying higher prices (if they do, the cost of ownership of each asset will be greater than the free cash flow.) Demand for money will fall by one third or \$15 trillion.

In this country the supply of money is controlled by the Federal Reserve Bank. Normal Fed policy is based on the premise that the money supply should always remain steady or rise (never fall) and there is no reason for this policy to change here, so let's proceed under the assumption that the Fed takes no action to force the money supply lower and instead allows it to remain stable.

The supply of investable money is \$45 trillion and the demand is \$30 trillion, leaving \$15 trillion in excess supply. People will compete to get their money invested by agreeing to accept lower returns. Interest and other rates of return on money will fall and they will continue to fall until demand for money is again equal to demand.

Consider what this does to the rental property. With no virtax the supply of money to own this particular asset is the same as demand, \$200,000, with prevailing mortgage rates of 6%. When we add the virtax, demand falls to \$133,333 but the supply remains the same. The surplus of investable money will force all rates, including mortgage rates lower. As this happens the market value of the property rises and demand for money rises. Demand gets back into balance with supply when the total cost of ownership (as a percentage of the price) is again at 6%.

<b>Prevailing Mortgage Interest Rate</b>	<b>6.00%</b>	<b>6.00%</b>	<b>5.00%</b>	<b>4.00%</b>	<b>3.00%</b>
<b>Virtual interest rate</b>	0.00%	3.00%	3.00%	3.00%	3.00%
<b>Total cost of ownership rate (% of price)</b>	6.00%	9.00%	8.00%	7.00%	6.00%
<b>Free cash flow</b>	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
<b>Demand for money to own this asset (price)</b>	\$200,000	\$133,333	\$150,000	\$171,429	\$200,000
<b>Supply of money</b>	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
<b>Surplus supply of investable money</b>	\$0	\$66,667	\$50,000	\$28,571	\$0

This means that if we add the virtax the rental property won't fall in value. Instead, all rates of return on money, including mortgage rates, will fall by the amount of the virtax. The virtual rate will replace enough of the real mortgage rate to keep the price of this property stable. This will happen for all productive assets and market values of productive assets will be unchanged with or without the virtax.

### **How much will the virtax collect**

This makes it easy to calculate the amount this tax will collect: 3% times the market value of all \$45 trillion in productive assets in the country, or \$1.35 trillion each year. This is the same amount as we now collect with all Federal taxes (ignoring social insurance premiums which are not strictly taxes and would be better dealt with separately). I chose to explain a virtax rate of 3% because this is the rate necessary if we want to eliminate all other taxes at the Federal level with no loss in Federal revenue.

## Who Pays the Virtax?

I still haven't yet answered the question posed above, about who will actually pay the cost of this tax. But now we have enough information to see who this is. Before the virtax, a total of \$2.7 trillion in free cash flow had come from productive assets each year. (To calculate this, take the common-use real-estate formula in reverse. If the price is the free cash flow divided by the prevailing rate of return on money, then the free cash flow is the price times the prevailing rate of return on money, \$45 trillion times 6% or \$2.7 trillion.) This money had all "flowed" through various mechanisms I haven't described yet, to investors as returns on their money. The virtax has caused the prevailing rate of return on money to fall to 3%. This has affected all investors. They now collect only half of the \$2.7 trillion in free cash that flows from productive assets each year. The other half (\$1.35 trillion a year) has been diverted to the government.

The structure I call the virtax takes advantage of a flow of value that is already taking place. What is happening is this: A river of money starts with the free cash flow of millions of productive assets throughout the world. Markets work as I have discussed briefly above to set some kind of cost equal to the free cash flow of productive assets. These markets don't require that the free cash goes any specific place after it is subtracted out, they only require that owners not get it as a (free) benefit of ownership. The markets create a river of money which flows away from the assets.

The money in this river has to go somewhere. But there really isn't any market structure in current systems to direct it after it leaves the assets. Bankers and other financial intermediaries can't get free money because they too operate in markets. These people can't charge borrowers more than prevailing rates because borrowers won't pay. They can't pay investors less than prevailing rates because investors simply have to make a phone call to move their money to other intermediaries. So intermediaries only get compensated at rates markets set for their services, and get nothing for free. In effect, they take a tiny bit of money out of this river in exchange for providing services for investors (collecting the returns, spreading risk among many different investments, and providing default risk insurance to make sure investors are paid whether or not borrowers pay, for example) and send the rest of the river on its way.

This money has to go somewhere. If we had a virtax we could divert money from this river. If we don't have a virtax, this river will flow until it gets to the end of the line. In current systems, the people standing at the end of the line are people with money. They collect the returns by default, because there simply isn't any place for these returns to go. (The explanations required to show this are too complex to include here, but they are conclusive and I will be happy to provide them on request.) To see that these people are not getting this river of money as compensation for anything they do, consider what happens when its flow (the prevailing rate of return on money) declines. Do investors mount revolutions? Do they suddenly decide they will no longer invest? Do they go out and burn their investment money in protest of the low rates? Of course not. They don't do these things because there is nothing they can do to cause prevailing rates of return on money to rise. The rate of flow of money to money therefore does not and can not depend on anything investors do. The rate of this flow, in fact, depends on something that investors have absolutely no control over, and that is the amount of free cash that flows from the productive assets in their system. If more cash flows from the assets, they get more and if less flows from them, they get less.

The virtax diverts money from the river that would otherwise flow to wealthy people as returns on their money. The result is that they still get free money (at least in this example, where the virtax rate is 3%), they just get less free money.

### **The Bounty of Our Country**

This money the virtax diverts starts out as free money, and ends up as free money. In a very real sense, we could think of this as the bounty of our system. We happen to live in a bountiful system. It would be nice if the existence of this bounty benefited all of the people in the system. But this does not happen. This bounty winds up flowing to various people who spit it amongst themselves in proportion to the amount of money they already have.

Conventional taxes can not effectively collect part of this bounty. The reason is that the people who collect it can avoid all taxes on returns on money by moving their money overseas. When the money is invested through a bank in Switzerland, Austria, Liechtenstein, Andorra, Cayman Islands, Panama, or any of dozens of other countries that don't tax returns on money and don't cooperate with the IRS. A large portion of this money flows to foreigners who don't pay tax to the United States anyway, and another large part of it flows to foreign governments. Once this money leaves the United States, it is beyond the reach of United States government taxing authorities.

The virtual interest rate doesn't take this stream away from person who would otherwise get this money, it diverts it before it is ever paid as to these people in the first place. If a productive asset (such as a rental property) is physically in the United States, someone somewhere in the world must own it and to remain registered (and therefore obtain the protection of ownership rights from the United States government) and that person must pay the *virtax*. We don't have to assess or tax anyone's income to collect his flow of money because we collect it before it become income to anyone.

I will explain the practical aspects of this tax below and show that it mimics the real interest rate in several ways. No government bureaucracy is needed to assess or collect interest in current systems, the amounts are assessed by markets and paid voluntarily by borrowers to protect their ownership rights (their right to continue to own the collateral and not have it repossessed by the lender). The *virtax* works the same way; its amounts will be set by markets and paid voluntarily to protect ownership rights. I will show that it can't be avoided or evaded. With this structure in place, we can divert the bounty of our country back to the country in a way that will allow it to benefit everyone in our country.

### **Side Effects of the Virtax**

A structure within current systems (systems *without* a *virtax*) allocates massive amounts of wealth to people who do things that harm society. One example involves forests. Say you own a forest which grows at rate of 3%. The highest return you can collect taking good care of this forest is 3% times the value of the lumber in the forest. But if the prevailing rate of return on money is 6%, you can destroy your forest, sell the lumber, and collect these higher returns on the money. Your incentive is clearly to destroy the forest. Every day you wait costs you money, so your incentive is not just to destroy it but to destroy it as fast as you possibly can. As I write this, forests throughout

the world are being destroyed at virtually the most rapid rate that technology allows. Forest owners (which includes government owners) are being paid massive amounts of money to do this. Where are the enormous sums of money coming from that induce them to destroy?

There is a flow of wealth that originates with something I call productive assets and flows unimpeded to people who have money. People can get money to collect a part of this flow by destroying forests so this flow of wealth is the source of the incentives to destroy forests. To come back to the rental property example, if you own it you send \$12,000 out (in one of several ways) to be added to the total amounts paid to people with money as returns on money. The river of money has more in it and is thus more valuable to people who might gain a claim to it by destroying their forests. You are subsidizing the destruction of forests. Obviously this is not what you intend. It doesn't happen because you or anyone else intends it to happen. It happens because a key structure in our societies works in a way that cause it to happen.

The *virtax* diverts money from this flow. There is less in the river of money so there is less incentive to destroy to gain a claim on this river of money. I can show that a *virtax* will cause the incentives that affect resource owners to change and alter the way people treat resource caches such as forests. They will begin to take care of them.

Another example involves solar energy. Totally automated solar plants can be built with no operating costs. The money paid constructing a power plant is an investment, not a cost, so if these plants don't depreciate they have no building *or* operating costs. Why aren't they built? The only true cost to produce electricity with these plants is the prevailing rate of return on money times the construction expenses, which is the cost of paying the returns investors require before they will allow their money to be used to own these plants. With our high rate of return on money, this cost exceeds the cost of the millions of tons of coal that must be mined and burned in conventional plants. If people choose to build coal rather than solar, they will have extra money that they can collect returns on. They will have gained the right to draw out of the river of money in exchange for choosing to use destructive options. They are being paid to destroy.

If we divert money from this river their incentives to destroy are weaker. Each dollar we divert from this river will lead them closer to a different method of production, one where they consider the costs of the materials and labor that must be used up or destroy in production, and choose the option that destroys the least. These options are inherently environmentally sound. One side effect of the *virtax* will be a much cleaner world.

Another side effect will come from the elimination of harmful incentives that result from conventional taxes. The money the *virtax* diverts is essentially the bounty of our country. If we don't collect taxes out of this bounty we must still collect taxes from somewhere. Our only option is to take them from the other part of production, the part that is earned by people through hard work and contributions they make to production. Taxes on this part of production cause many problems. People don't want to give up the money they have worked hard for. When we tax them they stop working as hard or as much. When we tax people for doing things that benefit the economy, we harm the economy. When we tax people for doing things that improve the world, we harm the world.



The virtax does not reduce production because it is not tied to production. In fact, it is not tied to any behavior at all. People who collect returns don't have to do anything except take on risk to collect returns. Part of returns people collect are compensation for taking on risk. The other part is an underlying risk-free return which everyone can get without risk. The right to get this part of their return is not tied to any behavior. (If you have money you must passively accept the prevailing risk-free rate. You will, of course, be happy to get more but there is nothing you can do if you get less.) The right to get this part of returns on wealth (the risk-free part) is not tied to any productive behavior, so if the government diverts part of this flow, this can not possibly affect any productive behavior. The virtax will allow us to eliminate taxes that harm the economy and replace them with taxes that do not harm the economy.

A third side effect is lower interest rates. Lower interest rates benefit economies in many ways. They make it cheaper to fund improvements. They force producers to look at the long term costs and benefits when they make decisions. They stimulate economic growth. They make life better for people. (In current systems we can't have lower interest rates for very long because low rates require expansion in the money supply, which is highly inflationary. The virtax reduces interest rates with no monetary expansion and it therefore produces no inflation.)

One final side effect, the one which I believe is the most important, is that it will allow us to reduce the size and power of our governments. Conventional taxes are paid by people who work for the money and resist having to turn over the money they have earned money to people who didn't earn it. These taxes must be extracted from people and this requires a powerful government. Because these taxes harm the economy, the tax codes must be immensely complicated. Millions of people must be employed full time to ensure compliance, and virtually everyone must waste many hours each year keeping records to verify that they paid all taxes due. Each additional tax gives the government more power to interfere in people's lives, to take things they have worked for, or require them to account for things most people would prefer not to have keep track of or tell their government about. When you tax something other than the "free cash" that the virtax collects, you need to give governments enormous powers. Anytime you give people enormous power over you, you take enormous risks.

The virtax takes advantage of structures that already exist. I explain the practical aspects of the tax below and show that it can be implemented with no significant taxing bodies, with no need for enforcing bodies, with no need for anyone to keep any kind of records, and with no need to ever worry about tax evasion or compliance. It doesn't even require that anyone or any agency have the right to confiscate anything from anyone or put anyone in jail. We don't have to give our governments these powers if we have and rely on this tax structure. (Imagine what kind of a better world we could build if we didn't have to give our governments these powers!)

### **Conclusion**

I did not develop the structure I call the virtax because of an interest in taxation or public policy, but as an aid to solving problems which I believe can't be solved without it. I believe that this structure is essential if we want to deal with our escalating environmental problems. We can't end these problems by trying to persuade or force people to ignore incentives, which are inherent in current systems, to destroy. To end

them, we must eliminate the incentives themselves. The virtax can help us do this. We can't end war by building ever more powerful weapons. We must find structures that unify the world and the virtax will force unification on an unprecedented scale. (I haven't discussed this here but one of the main advantages of the virtax is its unifying abilities.) We can't end poverty by taking money from people who work hard (thereby reducing their incentive to work hard) and giving it to people who don't work. If we want to eliminate poverty we must cause production to grow faster than population grows. We can do this by eliminating the enormous disincentives to produce efficiently that exist in current systems as a result of taxes on production, the wasted effort of compliance, and the high interest rates that exist in a system where the wealthy share the bounty of our productive assets. I am convinced that the virtax is a necessary structure if we are to have a society capable of solving any of these problems.

It is possible that there is some key flaw in the basic theories I have developed regarding these problems which would render some of my arguments invalid. I don't think this is the case, but it may be true. However, even if this is the case, the structure I have called the virtax has important practical advantages for its own sake. I propose we consider this tax as a revenue source in the United States.

If you have read this far you probably either think that I am (hopelessly) insane or that I might possibly know what I am talking about. If you believe the former, no harm and no foul. I hope, at least, you have gotten some amusement from my ravings. If you believe the latter, I would like to place myself at your disposal. I would like a chance to explain these points to a critical audience capable of understanding them, something I have not yet been able to find. I would very much like to discuss this with you, both as an individual and member of the panel. Please respond.

Sincerely yours,

David Simmons

## **Practical Aspects of the Virtax**

When people purchase productive assets, they will have the option to register their ownership with a county recorder. People will register for the same reason they register now, to have proof that they are entitled to protection of their ownership rights. (Say you should happen to find out that your neighbor's house is not registered. You could register it yourself, complying with the terms of registration listed below. You can then evict your neighbor and do anything you want with that house—which is now your house—including sell it and keep all the proceeds.) People will go to great lengths to ensure their ownership is properly registered.

As a condition of registration people must state a market value which will determine their tax. If they buy assets in bonded markets (most markets, including stock markets such as the NYSE, electronic real-estate markets such as the one run by Ebay, and auction companies of all types, will become bonded, as people will much prefer to buy in bonded markets) owners can register the amount listed on the certificate of sale as the value. If they do this the registrar will *not* have the option to purchase the asset for the registered price. Most people will buy in or through bonded markets to gain this protection.

When people register their ownership and have not purchased through a bonded market (perhaps they traded for the asset, bought it in directly from an individual, or became owners as the result of a gift or bequest) they might try to register a number less than the market value to get a lower tax. The registrar will have the right to buy assets like this for the registered value and sell for their higher true market value. This option will last only a short period of time, say 72 hours. This could be done many ways but to see how easy it is to do (and why it would not require any government bureaucracy to implement), imagine that these assets are posted automatically on a website where they are offered as available to purchase with a reserve equal to the registered price. People can bid on these assets electronically and if the bid goes above the reserve, the highest bidder will win and must pay immediately. The new owner will be able to register the price he paid which, of course, is the true market value. Of the auction proceeds, the amount of the reserve (original registered value) will go to the person who registered originally (who at this point is really just the seller) and the balance, after deducting auction fees and the three day difference in tax (the *virtax* for the three days the auction was taking place) will be disposed of in some manner determined by the courts. Most likely, people who register too low of market values will simply lose the difference between the amount they registered and the amount they should have registered. This will give them incentives to register correctly but, whether or not they do, the public will get the correct tax on every asset for every day.

As long as owners wish to remain registered, they must pay the *virtax*. If the *virtax* rate is 1%, they have to pay 1% of the registered market value per year. They can pay daily, monthly, or yearly as long as the tax is paid at least one day in advance. If you purchase a house for \$240,000, your tax is \$2,400 a year or \$6.57 a day. As long as you are paid up for tomorrow, your registration will continue.

Each day a website will list assets that were registered but no longer are registered. This is a list of assets that are not paid up with their *virtax*. These items will be auctioned off in an electronic market. People who let their registration expire will lose everything they have invested in their assets and the government will always collect enough from the sale to pay the tax and will never lose even a single day's tax on even a single asset. Ever. This tax requires almost no government structure to enforce, never has to be collected, and is impossible to evade.