The advantages provided by electronic cards in individuals’ dealings with the private-sector (banks, retail stores, airlines, ...) could perhaps also apply in terms of their dealings with the tax authorities. This potential may depend on the functionality of the card.

Electronic cards in general are well 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 datasets. Their possible role in tax administration depends on the kind of taxes under consideration and the way individuals are assumed to behave.

The economic approach to tax policy conventionally marks a sharp distinction between direct taxation (for example the personal income tax) and indirect taxation (for example sales or value-added taxes). The important distinction between the two types of tax is primarily in terms not of the taxes’ legal incidence or of the institutions responsible for administering the tax but in terms of the information required to implement the tax.

For a variety of reasons governments have in recent years relied more on indirect taxes for raising revenue, even though such taxes, being based on broad classes of transactions rather than being tailored to individuals’ ability to pay, are commonly regarded as regressive in their impact on income distribution. Smart cards could, perhaps, change this position in a number of ways:

- more effective “tagging” of individuals by classes of special need or desert to improve the targeting of direct taxes without adverse incentive effects;
- “personalised” tax rates for certain types of goods and services so that, for example, needy people face a lower effective price than others;
- indirect tax rates that are tailored to the quantities purchased by individuals of particular commodities.

However, just because improvements in information technology may make such developments practicable, it does not mean that they are good ideas. Some versions of these “clever” taxes may result in economic nonsense. All of them face serious problems of implementation including persuading people to make use of the cards, the possible emergence of parallel markets and the difficulty of certifying key information about individuals that may be complex and in nature and that may change rapidly and unpredictably.