Identity Cards
The Major Issues

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Identity Cards - The Major Issues

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CONTENTS

Introduction 1
Background 2
The Australia Card Proposal 3
The Type of Identity Card 5
Uses and Advantages of Identity Cards 6
Comments Supporting the Introduction of Identity Cards 7
Arguments Against Identity Cards: Philosophical 8
  Case Study - possible wider uses of specific purpose cards 11
  The Dehumanising Effect 12
Arguments Against Identity Cards: Practical 12
  Costs 12
  Forgeries 13
  Specific Purpose Identity Cards 13
  Social Security Fraud 14
Conclusion 14

Appendices
  Methods of Identifying Social Welfare Recipients in Selected Countries 17
  Arguments Related to Tax Evasion (Michael Peacock) 18
Identity Cards - The Major Issues

INTRODUCTION

One of the hardy perennials of Australian politics and public debate is the issue of whether or not Australian citizens should be issued with identity cards. Every so often someone in the community calls for identity or ID cards to be issued, describing them as the answer to a particular problem.

This paper seeks to contribute to the current debate by presenting some of the major issues. The first part identifies the factors which have generated the present public debate. Then follows an outline of the Commonwealth's proposals for a national identification scheme, called the Australia Card. The discussion then turns from the specific proposal to the issues which relate to any plan for ID cards, national identification systems, Australia Cards or whatever they may be called. First, there is discussion of the uses and advantages of such a system and a review of the opinions of those who support or do not oppose the idea of all Australians being issued with identity cards. Secondly, the paper considers the arguments and opinions of opponents of any such national system of identification. Finally, there are two appendices: one discussing methods of identifying social welfare recipients in selected overseas countries; and the other, the use of ID cards to reduce tax avoidance.

BACKGROUND

There have been three factors which have prompted the current debate on ID cards.

First, David Simmons, M.P., moved the following resolution at the meeting of the Federal ALP Caucus on 7 May 1985:

That the Government examine the feasibility of issuing photographic identity cards to all Australian citizens and permanent residents as a positive means of combatting fraudulent practices in Commonwealth Government administration.[1]

In supporting the resolution Mr Simmons made the following points, inter alia:

- the use of identity cards of one sort or another is now required by many governments throughout the world including Canada, Denmark, West Germany, Sweden and the United States;
- the issue and use of identity cards will create problems of achieving a balance between efficiency and individual privacy;

Identity Cards - The Major Issues

- it should not be compulsory to carry the card;
- Australians are now used to carrying various cards and forms of identification; and
- the card could be used in the following situations - using Government services such as legal aid, obtaining pensions and benefits, beginning employment, opening and changing bank accounts.

Secondly, Mr Eric Risstrom, Secretary of the Taxpayers Association, has in recent times been campaigning for the introduction of an identity card as a means of reducing tax avoidance. Mr Risstrom's arguments are discussed in the body of the paper.

Thirdly, the recently published White Paper Reform of the Australian Tax System raised the subject of ID cards. In its discussion on tax avoidance, the White Paper suggests that, in the search for ways to reduce avoidance, "... consideration might also be given to ... the introduction of a national identification system, involving the issue of a unique identity card to individuals".[2]

THE AUSTRALIA CARD PROPOSAL

On Monday, 24 June 1985, the Federal Cabinet considered a report from an Interdepartmental Committee (IDC) formed to consider the introduction of a national identity card system. The IDC comprised representatives from the Tax Office and the Departments of Prime Minister and Cabinet, Treasury, Social Security, Health, Attorney-General and Immigration and Ethnic Affairs. According to newspaper reports during the week before the Cabinet meeting the IDC report covered, inter alia: tax benefits which might be gained from the introduction of an ID card; the 'cost' of the loss of civil liberties; what supporting legislation would be required; and possible uses for the ID card, such as when opening new bank accounts.

On 21 June 1985, the Sydney Morning Herald reported that Minister for Health, Hon. Neal Blewett, M.P., had been given charge of the identity card project. This move was apparently the result of Dr Blewett's role in the successful introduction of the Medicare Card in 1984 by the Health Insurance Commission. During the period September 1983 to February 1984, 95 per cent of Australians had enrolled with Medicare and had received a Medicare Card.

At the afternoon session of the Tax Summit on Tuesday, 2 July 1985, Dr Blewett presented the Commonwealth's proposal for a national identity card. In an explanatory booklet, the Commonwealth outlined its proposals:

Identity Cards - The Major Issues

The concept is simple. A system which is a national register of all Australians, designed to assist with identification. It would provide every adult with a personal card, similar to a Medicare card or credit card, containing only basic information: name, identification number and colour photograph.

Whilst assisting the government to establish records and verify information, the card would not reveal any more than that. In this way the privacy of every individual would be maintained.

The principal objectives of the system and the card would be to:

- Generally assist government agencies to carry out their functions more effectively. In particular, prevent or reduce the incidence of: tax avoidance and evasion - incorrect payment of benefits and other government monies - other abuses of government programs.

- Aid the fight against organised crime and drug trafficking.

- In the longer term, rationalise the many government identification systems currently in operation and simplify dealings with government for all Australians.

The system could be operated by the Health Insurance Commission, which currently administers the Medicare programs.[3]

The Benefits

The system could aid identification for tax, social security, employment and other purposes.

This would make it easier to track tax evaders and also reduce health and welfare fraud.

And with a fully operational system, the reduction in tax evasion alone could be up to $800 million per year.

It could also help detect illegal immigrants and open up employment opportunities for legal residents.

This would lead to substantial reductions in the payment of unemployment and other benefits.

3. Australia Card, explanatory booklet, p.3.
And because the data on all Australians would be complete, totally up to date and available from a single source, the community as a whole would benefit from the elimination of much duplication of effort by government agencies.

The system could also provide improved demographic data to allow for much better planning of community services.

This register could take on even more significance in emergencies. Through the system, arrangements might be made to provide hospital and other emergency services with life-saving information at a moment's notice: blood groups, organ donors, next of kin and name of family doctor. Information that is vital. Diabetics could be quickly identified, as could people with rare diseases or those requiring special medication.

But the option to include this type of information on the register would be at the sole discretion of the cardholder.[4]

The proposal for the Australia Card also estimated the financial costs and savings associated with the introduction of an identity card. Tax savings were estimated as $150m in the first year, $450m in the second year, $750m in the third year and $800m in each subsequent year. Other savings in government expenditure, the proposal continues, would accrue from the reduction in unemployment 'and other welfare benefit costs'.[5] As well, government identification systems could be rationalised, thereby reducing administrative costs.

The establishment and operating costs of the Australia Card, as estimated by the Health Insurance Commission are, in 1985 terms, $38m for establishment and annual operating costs of $49m. The estimate of costs is accompanied by the rider that they may vary from the estimates because they 'will be dependent upon the implementation strategy decided by the Parliament.'[6]

The proposal document then describes how the Australia Card system will operate:

In most cases, cards would be issued to the individuals concerned from Medicare offices. This would protect privacy, ensure correct delivery and allow recipients to check and amend details on the spot. Special arrangements could be made for those who do not have ready access to a Medicare office.

4. Ibid., p.4.
5. Ibid., p.5.
6. Ibid., p.5.
Identity Cards - The Major Issues

Having identified individuals, the Commission would write and invite them to call at a convenient location to collect their card. At this time a photograph would be taken and affixed to the card. The details on the card and in the register would be checked and amended if necessary. Children would be recorded in the register but cards generally not issued for them.

The register could be updated with information from other government sources and cards would be reissued periodically.[7]

According to the Commonwealth's proposal 'the privacy and security of an individual's information will be paramount'.[8] This discussion on privacy and security said that the national identification system's register will contain basic identifying information such as name, sex, date of birth and address. The register would not include information from other government sources such as medical and taxation data.[9] It is proposed that the legislation needed to establish the Australia Card would 'tightly define the uses of the card'.[10] One particular claim made in this section of the proposal is 'the Health Insurance Commission already has a proven record of security and is totally familiar with the need to protect sensitive data'.[11] During the recent New South Wales doctor's dispute the Sydney Morning Herald published information concerning the claims for Medicare benefits made by prominent doctors. Those doctors and their organisations accused the Health Insurance Commission of being the source of the journalists information but this matter was never resolved.

Finally, it is worth noting that nowhere in the glossy booklet which outlines the Government's proposal for the Australia Card, is the term identification card or ID card used. This perhaps reflects the Government's appreciation that the term ID card implies to some Australians a de facto internal passport which must be carried at all times and produced on demand.

THE TYPE OF IDENTITY CARD

The use of identity cards of one sort or another is required by many governments throughout the world. Generally, these fall into three categories:

1. a multi-purpose identity card containing such personal information as name, birth-date, sex, marital status and sometimes a photo; similar to that advocated by Eric Risstrom;

7. Ibid., p.6.
8. Ibid., p.7.
10. Ibid., p.7.
11. Ibid., p.7.
2. a system of numbers usually linked to a central computer where the number on the card serves as a key to more detailed information and to certain identification, as exists in USA; and

3. specific purpose cards, like the Australian Medicare card.

USES AND ADVANTAGES OF IDENTITY CARDS

Some countries enforce the universal use of identity cards for internal security purposes and to monitor the movement of individuals within the country. They serve as internal passports and as an easy means of identification of individuals in their dealings with the State. In these circumstances identity cards may be a useful aid in maintaining law and order.

In some countries identity cards are used to obviate abuses at the ballot box by requiring citizens to produce them before they vote. They are also widely used for purposes of identification in the course of private commercial transactions - in much the same way as a driver's licence is often demanded in Australia as evidence of identity when writing cheques.

A system of numbers as a form of identification is used in some countries for recipients of social security benefits. The number serves as identification and authentication of the recipient of the pension or benefit and is aimed at preventing multiple registration either by using false names or by registering at various offices. This system is also intended to help in speedier and more accurate delivery of State services to eligible citizens, and is particularly useful where many citizens have the same name, e.g. Smith or Jones.

The advantages of identity cards arise from the purposes to which they are put in any particular country:

- in countries such as the Federal Republic of Germany they provide a means of checking on the movements of individuals for internal security purposes;
- in South Africa they identify different racial groupings and control the movements of non-whites;
- in the United States they are used to register social security accreditations; and
- in Israel they are used for internal security and to obtain social security benefits.

It can therefore be seen that the advantages would be perceived differently according to the extent to which the State's right to control and have knowledge of its citizens is accepted.
COMMENTS SUPPORTING THE INTRODUCTION OF IDENTITY CARDS

Among those who do not strongly oppose the introduction into Australia of ID cards, there are two groups of opinion: those who advocate the introduction of the ID cards; and those who, while not directly advocating such an action, are not completely opposed to the idea. Both of these groups appear to build their opinions from the same premise: that Australians already carry many forms of identification which they may be required to produce. Mr Eric Risstrom of the Taxpayers Association is quoted as saying, 'Everybody already has credit cards or Medicare cards and the like, so what have they got to fear?'[12] This argument was also promoted in an Australian editorial.[13]

The average Australian today has a Medicare card, a Bankcard and probably one or more other credit cards issued by department stores, credit unions or organisations such as American Express or Diners Club. The Australian Taxation Office has a record of his income and tax-deductible expenditure, and the Immigration Department knows if he has a passport and has travelled overseas. The Electoral Office has a record of his address and occupation, and his State Government knows if he has a driver's licence and owns a car.

It is hard to see how a single card bearing a photograph and encoded with information such as address, tax file number and perhaps blood type could infringe the liberties of someone about whom so much is already known.

No proposal along these lines could be totally immune to the devices of determined cheats. But it would benefit the majority of honest Australians at no cost to their civil liberties.

The Canberra Times editorial of 7 June 1985 followed a similar line to that taken by Mr Risstrom and the Australian, when it advocated the use of ID cards for Australian citizens. It concluded,

Citizens in a democracy have obligations as well as rights, and it should be an obligation to carry an identity card, not only to prevent the unprincipled from cheating the system but to ensure that people unconscious or dead after an accident can quickly be identified. Honest people would have nothing to fear, but would benefit from an assurance that others are not misusing taxpayers' funds or avoiding paying their share of the tax bill.

In its issue of 28 May 1985, the Age quoted the views of various people for and against identity cards. Among them was Professor Colin Howard who, while not advocating identity cards, did not see them as significantly contributing to the invasion of the privacy of individuals. While supporters of the ID cards quoted above took the line that Australians were used to being asked to identify themselves, Professor Howard's argument was that government at all levels, and in all guises, already knows a great deal about all of us. Therefore any new identity card would not really add a further threat to our freedom. According to the Age,

... the whole debate is too late for Melbourne University's Professor Colin Howard. He points to the innumerable ways we are already on official social security and tax files, electoral rolls, employment records - everything from birth to death certificates.

'It is easy to get out of touch with the times', he says. 'The idea that in some sense we can preserve some sort of privacy by not having ID cards seems to be somewhat of an illusion.

'We have all been brought up to believe that we live in the best possible system, and nobody should tamper with it. Just the very expression 'ID card' puts people off. If they were called something else, it might not produce the same reaction.'

Professor Howard says an ID card would not make it any easier than now for a government to abuse citizens' rights. 'It is only the force of public opinion that keeps them in check.'[14]

ARGUMENTS AGAINST IDENTITY CARDS: PHILOSOPHICAL

The so-called philosophical arguments against the introduction of identity cards for all Australians have two themes. The first concerns the idea of Government assuming the role of 'Big Brother' and the consequential invasion of the civil rights of citizens as Australia moves towards becoming a police state. As will be obvious from the reactions below, the advocacy of ID cards attracts strong and emotional responses. In a letter to the editor of the Australian, Ron Castan Q.C., President of the Victorian Council for Civil Liberties, highlighted the major philosophical worries:

SIR - Your editorial (8/5) supporting the introduction of identification cards reflects an appallingly naive view of the way in which bureaucracies function.

Identity Cards - The Major Issues

In totalitarian countries one of the most effective means of control of the population is the monitoring of every citizen's activities, by a process of registration. In order to undertake such a monitoring exercise it is necessary that each person be issued with a 'pass card' (as in South Africa), or an 'internal passport' (as in the Soviet Union).

This must be produced on every occasion on which the citizen changes residence, travels across State or municipal boundaries, has any dealings with any governmental agency or joins any organisation.

Controls on freedom of movement, thought and action of citizens cannot be effectively implemented unless each citizen carries a 'pass'.

The first stage in the destruction of the liberty of the individual is the requirement that every person carry the 'pass', which can be required to be produced on all occasions desired by the State.

Once such a system is introduced, the occasions for its use will proliferate. Every governmental organisation will find it necessary to require production of the 'pass'. And every time the pass is produced, the computer records will be updated.

Your editorial suggests that the introduction of such cards will only affect the dishonest and only harm those who have something to hide.

The same argument is put in relation to every proposed intrusion into our civil liberties. The argument is spurious.

Unless we are vigilant to prevent the establishment of a system which facilitates the control of our lives by the State, that system, once introduced, will inevitably lead to that very control. The introduction of the 'pass' will itself become the reason for the use of it in an oppressive manner.

In considering such a proposal, the fundamental starting point must be that the bureaucracy is not to be trusted. An additional instrument for the control of people's lives should not be placed in the hands of government upon the assumption of a misplaced faith in the ability of governmental bureaucracies to administer such powers fairly and well.

Experience demonstrates that massive governmental bureaucracies do not administer such powers fairly or well. They are not geared to the protection of the rights of the
Identity Cards - The Major Issues

Individual. They are geared to the promotion of their own systems.

The proposal for the introduction of a 'pass' is outrageous and should be resisted at all costs.[15]

Opponents of ID cards fear that if the cards are introduced for one or two specific purposes, such as to reduce social security fraud or tax evasion, the number of purposes for which the cards are used will increase rapidly as other government agencies, and perhaps non-government organisations, realise the value of such a system of centralised information and data. The existence and rapid improvement in computer technology adds to their fears:

The President of the New South Wales Court of Appeal, Mr Justice Kirby, warns: 'What is at stake is nothing less than the nature of our society, and the power and authority of the state in relation to the individual'.

Mr Justice Kirby says technology has starkly thrown up key issues for our society. 'Will we retain our British traditions and keep great power under control?' he asks. 'Or will we succumb to the destruction of personal autonomy and privacy as a result of a frightening combination of amazing new technology and enthusiastic efficiency experts who would throw away our freedoms?'[16]

In past years as attention has focussed on organised crime in Australia, the suggestion has been made that any attempt to combat such crime would be made easier if all Australians carried identification cards. This, for example, would make it more difficult to obtain a false passport. In his 1983 Royal Commission Report on Drug Trafficking, Mr Justice Stewart said that Australia had not reached the stage where the community would find a compulsory system of identification acceptable. According to the Age, Mr Justice Stewart's views 'still stand':

At the moment a system of compulsory identification cards, or a statutory requirement that any citizen must be able to produce satisfactory identification, 'would be repugnant to many Australians as resembling too much the apparatus of dictatorship'.[17]

Of course, the idea that identity cards constitute a threat to personal liberties by offering opportunities for Government to centralise all personal data and use it as it wishes, is not a recent one. In a report in June 1976 the Federal Advisory Committee on False

17. Ibid.
Identification in the United States rejected proposals for a national identity card. One of the grounds for rejection was that it represented an invasion of personal privacy, and data required for citizenship identification could be abused by government or private interests.

In Australia in the 1970s, during the debate preceding the introduction of Medibank, the Committee of Enquiry into Protection of Privacy in its Second Interim Report to the then Attorney-General, Senator Murphy, looked at various aspects of proposed health insurance cards and considered that such details as date of birth, sex, address and signature should not appear because they constituted an undesirable invasion of privacy.

It is the existence of computerised data banks to which identity cards may be linked which constitutes the major threat to privacy. A card may have only a simple identification or even a number but by means of a computer link much more detailed information can be readily obtained whether it is relevant to the purpose for which the card was presented or not. For instance, in Australia Taxation Department files are said to be confidential but the exemptions under the secrecy provisions of the Taxation Act include Boards of Review, the Repatriation Commission, the Director-General of Social Security, the Director-General of Health and others. This means that information from a variety of government departments could be pooled in a way not originally intended.

Case Study - possible wider uses of specific purpose cards

In the USA, 98 per cent of households hold social security cards.[18] Social security legislation was first passed in 1935 and by the end of the first year of operation 45 million social security accounts were opened and numbers issued to account holders. Because of the advantages associated with participation in Social Security, the number of accounts rose quickly to approximate the number of employed persons. By mid-1983 there were 205 million active accounts, each with a Social Security number and card corresponding to it. Some 5.5 million new accounts are being added each year. Because nearly every economically active adult in the United States has a Social Security number, the number is ideal for other surveillance and management purposes. Since 1961, the Internal Revenue Service (IRS) has adopted the use of Social Security numbers for ordering income tax records and for identifying taxpayers.[19]

The use of a person's social security number as both a means of identification and as a method of collecting data is now much greater than must ever have been envisaged in 1935. Some examples:

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19. Ibid.
Identity Cards - The Major Issues

To open a bank account, one has to quote one's social security number. The new account is then reported to and recorded by the IRS.

The same occurs when a person buys shares.

Some US States now use a person's social security number as the number for their drivers licence.

The Dehumanising Effect

The second philosophical objection to the use of identity cards or any form of compulsory identification system is the de-personalising effect of such systems. The number or card replaces the person:

The danger is that the personality becomes not the living flesh and blood but the face on the card. Just as the person needing medical care is not the body but the Medibank number or the person wanting credit is the Bankcard or Diners Card.

To be a number for official purposes has a dehumanising effect. This has been found in prisons and the Nagle Royal Commission into Prisons in NSW in 1978, recommended that the use of numbers be abolished. Prison activist Brett Collins recently wrote, 'Because its members have worn numbers and names on their chests for decades in prison, the Prisoners Action Group finds the proposition for a universal ID system shocking'.

Commenting on this aspect of the ID card system as mentioned in the Tax White Paper, Peter Cole-Adams wrote,

If Bob Hawke and Paul Keating have their way, Australians in the closing years of the 20th century will be confident of their existence only if they have a little plastic-coated card to prove it.

ARGUMENTS AGAINST IDENTITY CARDS: PRACTICAL

Costs

The actual costs involved in establishing and maintaining a national scheme of identification will obviously vary according to the type of system adopted and the purposes for which it is used. However there are some costs which will be common to any type of system using an ID card or number:

- establishment costs - e.g. publicity, mailing, computers, recruiting, materials; and

22. Age, 8 June 1985, p.11.
Identity Cards - The Major Issues

- costs of maintaining and policing the system - e.g. size of bureaucracy needed to maintain system and to check applications for new cards or renewals; pursuing forgeries; handling information about card-holders.

At the time of the establishment of Medicare, estimates of the cost of issuing Medicare cards were:

1. Set up costs - machinery, postage etc.:
   - if sent to all households - $11.2m
   - if sent to all individuals - $14.5m

2. Cost of replacement every two years:
   - to households - $2.5m
   - to individuals - $4.6m

In its 1976 Report the (US) Federal Advisory Committee on False Identification also listed as a major objection to a national ID scheme, the expense involved in verifying and storing information supplied by cardholders.

As discussed earlier, the Government's proposal for the Australia Card includes estimates of the costs of its establishment and operation. They are, in 1985 terms, $38m for establishment of the system and annual operating costs of $49m.

Forgeries

A further objection is the fact that such a system would be subject to defeat by imposters and counterfeiters taking advantage of careless inspection of documents or through the corruption of officials. The forging of identity cards would not be difficult and attempts to make this more difficult by the use of photographs or fingerprints would complicate the system and arouse strong opposition.

In an attempt to reduce forgery attempts, the proposed Australia Card includes a holographic diagram of the map of Australia and the Australian flag.

Specific Purpose Identity Cards

Since its introduction the Australian Medicare card has maintained a low profile. It has attracted little attention because the only time it is really needed is when a doctor bulk bills a patient, or when being treated in some public hospitals. Furthermore, it is not compulsory to carry the card. There has been little or no publicity about the card being demanded for other purposes.

However, as already discussed, the US social security number is an example of how easily an identification system and its centralised data and information facilities can be used for purposes
other than the original one. The growing use of social security numbers for a wide variety of purposes caused concern in the United States, and in 1974 became the subject of a federal investigation. Although a 1939 law guaranteed that information in social security files would be used only for that program, so many exceptions had been granted by Congress that it was stated in 1975,

... the Social Security Administration is a fount of information for Federal, State and municipal-government agencies. In at least 30 situations, personal data from Social Security records may be released to other agencies without the consent of the individual involved.[23]

In addition to the official agencies which had access to the files, the federal inquiry was investigating why social security numbers were often included on mailing lists sold commercially.

Social Security Fraud

According to reports in the Age and the Australian Financial Review[24] the submission on identity cards from the Department of Social Security was less than enthusiastic. As well as commenting on the costs of such a scheme and its possible effect on the privacy of its clients, the Department, according to press reports, offered the following opinions:

- ID cards would assist in correcting overpayment problems.
- Unless the security of the cards was virtually absolute, the existence of the ID cards might exacerbate the degree of fraud. While the cards might deter the amateur, it might have no effect on the professional defrauder. 'They argue that once a card is forged the whole system is unlocked.'[25]
- The existence of ID cards will not assist the Department of Social Security in its major problem of people supplying false information about their income levels and domestic circumstances.

CONCLUSION

It is up to each individual to decide whether he or she agrees or disagrees or even cares whether Australians should be issued with identity cards. This paper has sought to raise the issues on which

Identity Cards - The Major Issues

this decision might be based. Probably the practical objections are not as important as the philosophical arguments. The decisions made on certain issues and the assurances offered by a Government responsible for the proposal to introduce an ID cards scheme will probably sway public opinion for or against the idea. Those issues include:

- whether or not it will be compulsory to carry the card at all times;
- what information the card will contain, e.g. will it carry only a number or many personal details, with or without a photograph;
- whether the card will be for a specific purpose or whether its use may be changed by the Government of the day;
- whether Australian citizens can be assured that the information that they are compelled to supply will remain confidential and will not be passed between government agencies and even commercial organisations;
- what rights Australians will have to see their files to ensure that all information is accurate, and whether there will be avenues of appeal against incorrect, unfair or inaccurate entries;
- finally (and impossible to answer), how will Australian citizens know whether or not they can trust the Government of the day and the bureaucracy not to abuse the power which is presented to them by centralised, computerised information on every citizen in Australia.

Identity cards or numbers as such are neither good nor bad. It is in their potential for abuse that the danger lies. If they are adopted in any form it would seem to be necessary for the controlling authority to ensure that their use is not extended to unrelated purposes, that access to the collected data is not exploited and that the privacy of individual Australians is completely safeguarded.

So the question of accepting or rejecting ID cards is a question of balance. There are those people who completely reject the idea because they see them as a threat to the rights and liberties of individual Australians. To such people assurances from governments that there will be no abuses of power, intentional or unintentional, are not good enough: identity cards are merely Big Brother's foot in the door.

On the other side of the debate are those people who feel so strongly about a particular issue, such as social security fraud or tax evasion, that they advocate identity cards as a method of overcoming these problems. They do not see the dangers to be as great
as feared by opponents of the idea. As has been asked, which is a
greater abuse, an identity card or having to pay more than your fair
share of tax? David Simmons M.P. commented on this situation,

You have to balance out with considerations of civil
liberties. There have obviously got to be questions of
cost-benefit, balancing the efficiency of the bureaucracy
with the privacy of the individual.[26]

Perhaps the answer is somewhere in between these two
positions. A final word of warning is contained in a 1927 comment
from Mr Justice Brandeis of the US Supreme Court,

Experience should teach us to be most on our guard when the
Government's purposes are beneficial. Men born to freedom
are naturally alert to repel invasion of their liberty by
evil-minded rulers. The greatest dangers to liberty lurk in
insidious encroachment by men of zeal, well-meaning, but
without understanding.[27]

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Appendix 1

METHODS OF IDENTIFYING SOCIAL WELFARE RECIPIENTS IN SELECTED COUNTRIES

Canada. The SINCARD system, introduced more than ten years ago, was originally intended for social security purposes but has expanded in use, despite widespread protests. By computerisation it links into income tax as well as social security. The individual has a SINCARD giving name and number but there is no provision for signature, photo or fingerprint. The number is essential for employment. However, its main advantage is convenience; as a means of identification it has little advantage over a driving licence, for example.

Denmark. Each individual has a postal registration card, with a number based on birth date and year: this is used for social security registration and identification. Social Security is administered by a single centralised, computerised system which is the main control mechanism.

Federal Republic of Germany. Each individual has an ID card with photo and other details as in a passport (address, date of birth, signature, height, eye colour) and a number based on name and birth date. Control of illegal payments is effected by the requirement for individuals to register annually and to update family circumstances. Payments are made through a bank account or personally on production of identification.

Netherlands. There is no national ID system. Abuse of the social security system is made difficult by the fact that each adult is subject to registration of address with the local authority. The social security system is computerised and centralised, and all benefits are paid by the GIRO system (the postal banking system) for which there is no charge and which all beneficiaries are required to use.

New Zealand. The situation in New Zealand is similar to Australia. There is no national ID system, nor is there a specific social security card. The main means of control are through the efficiency of the preliminary registration system and the requirement to re-register or report periodically. There is also a benefits control division, as in other countries, which investigates suspicious cases or allegations made by members of the public.

Sweden. Each individual has an identity card and the number is used by banks and for taxation and social security purposes. There is an elaborate Data Act to limit and prevent abuse of the ID card and related information systems.

United Kingdom. The social security system in Britain is funded through individuals (as well as employers' and government) contributions. An essential document for employment is the social security card which keeps account of contributions and is used for social security benefits as well. The only identification is the name, number and signature.

United States. All employees in formal employment (other than federal and some other government employment) have a social security card which carries the name and number but no signature or other identification. It is used for income tax as well as social security.
ARGUMENTS RELATED TO TAX EVASION
by Michael Peacock, Economics and Commerce Group

Arguments for identity cards

If identity cards were introduced and laws enacted to require people to produce the cards for taxation purposes, tax evasion in two areas in particular would be curtailed if not eliminated. These areas are discussed below.

(a) Curtailment of evasion of tax deductions at PAYE stage

By way of background, the general PAYE tax instalment scale takes into account the zero rate of tax that applies on the first $4595 of a person's income (titled the 'General Exemption' for PAYE purposes). The tax instalments deductible in accordance with the general scale apply to the great majority of employees who do not claim concessional rebates (e.g. the dependent spouse rebate) and the instalments in that scale are reduced for people claiming concessional rebates for PAYE purposes by the weekly value of the rebate(s) claimed.

Another scale, which sets out the PAYE instalments to be deducted where an employee has a second job, makes no allowance for the zero rate step nor is the scale reduced by the value of any concessional rebate. Furthermore, the scale (described as the 'no declaration scale' in these notes) assumes the employee earns a certain amount of income in his or her main job. It is necessary to make this assumption in order that the higher marginal rates of tax that apply at the higher levels of income are reflected in the PAYE deductions made from earnings in second jobs.

To have the general scale applied in determining the PAYE deduction from his/her pay an employee has to lodge with his/her employer a completed Income Tax Instalment Declaration form claiming the general exemption. Any concessional rebates to which the employee is entitled may also be claimed in that declaration. Legally employees may have only one declaration in force at any time. Accordingly, an employee with two jobs who complies with the law and furnishes a declaration to only one of his/her employers would have the general scale (or that scale less the value of any concessional rebates claimed) applied by the employer to whom the declaration was furnished, and the no declaration scale applied by the other employer.

A large number of employees are overcoming the rule that an employee may have only the one Income Tax Instalment Declaration in force at any time - perhaps in some cases with the collusion of their employers - by working under a false name in one or more of their jobs. Some of these employees also insert false dependants in their false declarations to ensure that no PAYE deductions, or only negligible amounts of deductions, are made from their earnings. Of course, the second job earnings of these people are not shown in taxation returns.
Other categories of employees who use false names and who claim false dependants for PAYE purposes are seasonal workers and employees in other casual employment. Some of these employees lodge false declarations with all of their employers.

If people who are evading tax in the way described above have to identify themselves correctly and have the appropriate amount of tax deducted each week this avenue of tax evasion would be closed off.

(b) Curtailment of evasion of tax on dividend and interest income

There is evidence that a very substantial amount of the interest that is paid to people, and to a lesser extent dividends, is not being included as income in taxation returns. Some of the income distributed by unit trusts would also, no doubt, not be declared for taxation purposes.

The Taxation Office has a program for checking that interest paid to people is shown by the recipients as income in taxation returns. For the purpose of these checks certain of the financial institutions report to the Taxation Office the interest (or interest over a certain moderate amount) that they have paid to each account holder. Also, dividend payments are checked by the Taxation Office from company records.

Reports indicate that the program is having only a limited effect, mainly because it is difficult for the Taxation Office to match information supplied by the institutions with information extracted from taxation returns. This is because there are often several people with the same name (father/son for example) and a large number of people change their address each year.

Apart from the difficulty of checking that amounts paid to people who have accounts in their correct names are declared as income, there is also the problem that some people may be evading tax by opening accounts in false names early in a financial year and closing the accounts in the next financial year before the Taxation Office can make its checks. The process can then be repeated with another financial institution. It was recently reported in the press that an elderly person had been advised by a financial adviser to open an account with the adviser's company in a false name to avoid the assets test affecting the person's pension. Is it possible then that suggestions to this effect are being made to people concerning evading tax on such payments as interest?

Identity cards would overcome the problem of people avoiding tax on interest and dividends and unit trust declarations by opening accounts in false names. Furthermore, the cards would change the Taxation Office's task of checking that the payments in question have been declared as income, from a time-consuming and not greatly effective task to a relatively simple and very effective one. With identity cards in operation the banks, building societies, credit unions, trusts and businesses paying interest to other than banks, building societies and credit unions (these groups are referred to as financial institutions in this paper) could report interest, dividends and interest payments by identity. Details of these payments could then be inserted into a computer and compared with amounts extracted from taxation returns which could have the same identity number.
It may be thought that the evasion of tax by way of interest and dividend payments not being shown in taxation returns could be simply overcome by withholding tax from such payments at source. Under such a system the financial institutions would withhold tax from interest, dividends and unit trust payments at the time of payment, or crediting of payments in question in the same way as employers withhold tax from the pay of employees under the PAYE system.

The problem with such a system would be that the financial institution would have no means of knowing at what rate tax would be payable by a person on his/her payments. That rate would depend on not only the payment concerned but on the person's net income from other sources, and in some cases the person's entitlement to tax rebates. Accordingly, unless avenues are to be left open for those on the higher incomes to evade tax by not including their dividends and interest payments in taxation returns, tax would have to be withheld from the payments in question at the maximum rate of tax.

It may be said that the overwithholding of tax from interest, dividends and unit trust payments would not be a serious problem, as the amount withheld would be allowed as a credit against the person's total tax liability at the assessment stage following lodgment of income tax returns. Any excess over that necessary to pay the assessed tax would then be refunded to the taxpayer, or deducted from the tax payable on income from other sources. Despite this, a large number of people would, no doubt, think that because tax was being withheld at the maximum rate of tax the Government was taking half or more of their interest receipts in tax.

A withholding system would be particularly inconvenient (or disadvantageous) for those pensioners who supplement their pension with income from interest, dividends or unit trusts, and who, because their total income is less than the tax threshold, are not required to pay tax. With a withholding system operating these pensioners would either have to lodge taxation returns (in the meantime going without the income that was withheld for tax) or apply to have their interest exempt from withholding. In the latter case they would, in effect, be revealing to the financial institutions that their total income each year was below the tax threshold.

The pensioners and beneficiaries whose income is of a level that requires them to pay only small amounts of tax would also be disadvantaged by having to wait, for up to a year, for that part of the withholding deduction that was in excess of the tax actually payable on their interest payments.

A further point against a withholding system for interest and dividend payments is that unless some method could be found to enable the Taxation Office to readily identify people who had been paid interest and who were entitled to credit for tax withheld, the financial institutions would have to issue certificates to all their account holders showing the interest earned and tax withheld. There would be an enormous number of certificates required and the exercise would be costly for the financial institutions.
(c) **Curtailment of some other avenues of tax evasion**

There are, no doubt, a number of other areas where the correct identification of people would result in the closing off of tax evasion avenues. For example, correct identification for foreign exchange transaction purposes may be helpful in overcoming tax evasion on off-shore transactions.

(d) **Gain to taxation revenue**

According to the White Paper on the reform of the taxation system the gain to taxation revenue that would follow from the introduction of identity cards is put at $800m annually within three years of implementation.

**Arguments Against Identity Cards**

Leaving aside the civil liberties argument, the cost of issuing the cards and the fact that the great majority of taxpayers already correctly identify themselves for both PAYE and other taxation purposes, there would be few points against the issue of cards from a taxation point of view.

A number of taxpayers, especially those whose avenues for evading tax were closed off, would criticise the cards as a further discriminatory move against PAYE taxpayers or the 'little people'. They would point out that these people are already disadvantaged, as compared with taxpayers with a business or a profession, in that they are not able to split their incomes with family members for taxation purposes. However, the great majority of employees should welcome the introduction of the cards if they can be convinced that the revenue that will be gained, as a result of people being required to correctly identify themselves, will permit a reduction in the tax payable by them.
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