Golden Rule: Don't Mess with the Taxman

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In a bizarre American tax trial, businessman Robert Kahre is being charged with intentionally paying his employees with legal tender.

The American government mints and circulates a series of gold and silver coins, with the highest face value being the golden $50 American eagle. According to American law, these can be used as currency at face value.

Most people don't use these coins as currency because their metal value is higher than the face value. But Kahre does. In 1993 he paid $240 in court filing fees using silver coins with a face value of $240 but a higher silver value. As per the law, the government took the money at face value.

No problem so far.

But paying court fees wasn't the only way that Kahre used the legal coins. He also used them to pay wages. Employees used the face value to determine their tax liability, which meant they paid less tax. At this point, the government had a problem.

In 2003, dozens of heavily armed representatives from SWAT, the IRS and FBI ram-raided Kahre's business and successfully subdued and arrested the handful of ordinary tradesmen and office workers. To hide the carnage they smashed the surveillance cameras, but forgot to wipe the computer hard drive that had a copy of the incident … oops!

The government presented 161 charges and in 2007 they got zero convictions. Undeterred, the government is trying its luck again before the courts with a similar case (mixed with other charges). If convicted, Kahre could spend the rest of his life in jail.

While dramatic, all of this leaves unanswered the legal status of the gold and silver coins. Should they be treated at face value (as insisted by the government) or the metal value (as insisted by the government)? Or should the treatment change at the convenience of the government?

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