THE LABOR REPLACEMENT TAX

A Policy White Paper for Financing Government in the Machine-Labor Economy

GOVERNING PRINCIPLE

THE TAX BASE MUST FOLLOW THE WORK.

REPLACE THE LABOR, REPLACE THE REVENUE.

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Really Knows AI / Really Knows Network

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Policy framework for discussion, modeling, legislative development, and technical review. Not final statutory language or a legal opinion.

Executive Summary

America built much of its public revenue system around people working, earning income, spending money, and paying taxes. AI agents, autonomous systems, robots, and machine-run workflows are changing how that work gets done. Companies can increasingly produce the same or more with fewer human labor hours, even while output, revenue, or capacity continues to rise.

This paper proposes the Labor Replacement Tax (LRT), a phased tax that would apply when AI or machines replace human work and create measurable value for a company. The LRT is not a tax on software, research, AI adoption, or ordinary productivity. When AI or machines replace human workers, some of the value they create should help replace the public revenue those workers once generated.

In plain English: Replace the labor, replace the revenue.

THE CENTRAL QUESTION

WHAT HAPPENS TO A LABOR-FUNDED PUBLIC SYSTEM WHEN THE WORK CONTINUES BUT THE HUMAN WORKER IS NO LONGER REQUIRED AT THE SAME SCALE?

Before arguing about the solution, government should first measure the size of the problem. Treasury reported approximately $5.235 trillion of federal receipts in FY2025, including about $2.656 trillion of individual income taxes and $1.748 trillion of social insurance and retirement receipts. Those two categories total approximately $4.404 trillion, or 84.1% of federal receipts. This paper does not claim that all $4.404 trillion is wage-derived. Individual income tax includes substantial non-wage income. The figure is used as a high-level exposure reference base that requires more precise labor attribution.[1]

Existing federal programs are already tightly linked to payroll participation. The 2026 Social Security and Medicare Trustees summary reports that payroll taxes supplied approximately 91% of OASI income, 96% of DI income, and 87% of Hospital Insurance income in 2025. Medicare Parts B and D are financed differently and rely heavily on premiums and general federal revenues. The LRT argument is not that AI caused today's program-financing pressures; it is that large-scale machine labor could add a new labor-base shock to systems that already depend heavily on taxable work.[3]

The federal budget is already under serious pressure. CBO projects a federal deficit of approximately $1.9 trillion in FY2026, with debt held by the public at 101% of GDP in 2026 and rising to 120% by 2036 under current-law baseline assumptions. A major loss of labor-based tax revenue would hit a federal budget that is already carrying very large deficits and debt.[2]

What this paper asks government to do now

- Convene a National Conference on the Machine Economy and Public Finance in 2027.
- Measure federal, state, county, and city exposure to lower human-labor intensity before attempting broad taxation.
- Adopt common definitions for machine execution, labor replacement, labor compression, machine-attributable value, and protected human augmentation.
- Create a limited machine-labor reporting regime for large firms, with explicit small-business safe harbors.
- Run sector pilots, incidence analysis, competitiveness analysis, legal review, and revenue scoring before mature rates are imposed.
- Design a federal-state-local allocation architecture so the jurisdictions absorbing labor-market consequences are not excluded from machine-era revenues.

The immediate proposal is therefore not a demand that Congress enact a 28.5% tax tomorrow. The immediate proposal is to establish the measurement, legal, administrative, and political architecture before the country reaches

what this paper calls the Panic Window - a point at which falling labor participation, fiscal pressure, and embedded machine systems leave far less room for gradual design.

CORE POSITION

**REPLACE THE LABOR, REPLACE THE REVENUE.
THE TAX BASE MUST FOLLOW THE WORK.**

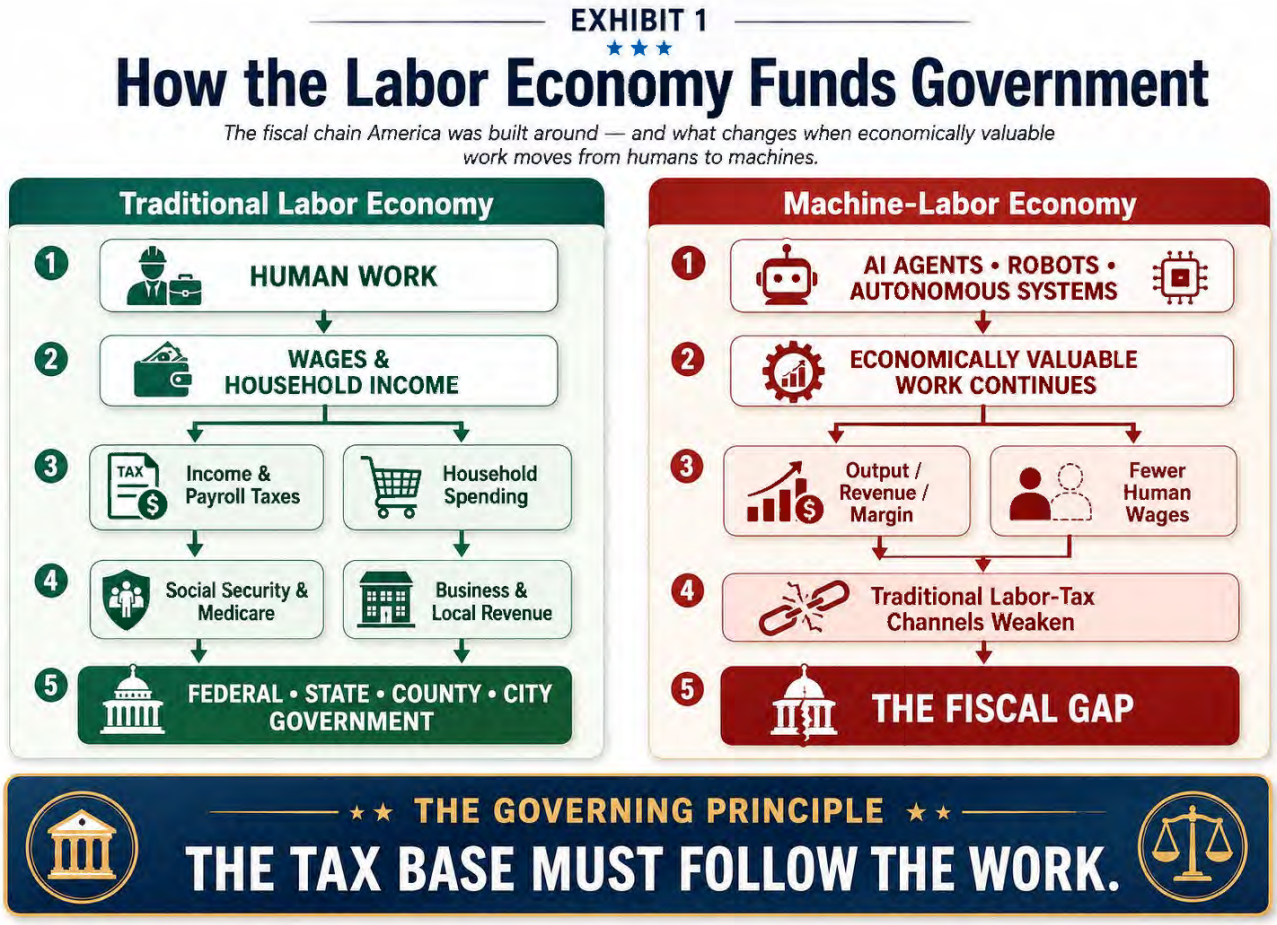
1. The Structural Fiscal Problem

Government does not receive revenue from "the economy" in the abstract. Revenue arrives through identifiable channels: individual income, payroll contributions, business profits, consumption, property, transactions, fees, and transfers. Human labor has historically connected many of these channels. The relationship is direct for payroll taxes and wage withholding, and indirect for consumption, housing demand, local business activity, and community stability.

The transition that matters is not a world with zero jobs. The relevant risk is materially lower human-labor intensity: a company can produce the same or greater output with fewer human labor hours, fewer employees, fewer contractors, or slower payroll growth because software agents or machines perform a larger share of economically valuable work.

The problem begins when three things happen together: machines do work that people used to do; companies keep the resulting revenue, savings, margin, or added capacity; and government still depends heavily on taxes and revenue tied to human work.

EXHIBIT 1. How the Labor Economy Funds Government



The fiscal transmission problem is not that production disappears. It is that production can continue while traditional labor-linked revenue channels weaken.

2. What Federal Receipts Show

The FY2025 federal receipt mix illustrates why the labor channel deserves stress testing. Treasury reported approximately $5.235 trillion of total receipts. Individual income taxes contributed approximately $2.656 trillion, and social insurance and retirement receipts approximately $1.748 trillion.[1]

Category	FY2025 amount	Share of receipts	Treatment in this paper
Total federal receipts	$5.235T	100.0%	Official Treasury figure
Individual income taxes	$2.656T	50.7%	Income-linked exposure category; includes non-wage income
Social insurance & retirement receipts	$1.748T	33.4%	Payroll/labor-participation exposure category
Combined reference base	$4.404T	84.1%	High-level exposure indicator, not a pure wage-tax base

This does not mean 84.1% of federal revenue would disappear as automation grows. It means a large share of federal receipts comes from categories closely tied to individual income, payroll participation, and household activity. Government needs to know how much those revenue sources could weaken as machines replace more human work.

EXHIBIT 2. Federal Revenue Exposure - FY2025

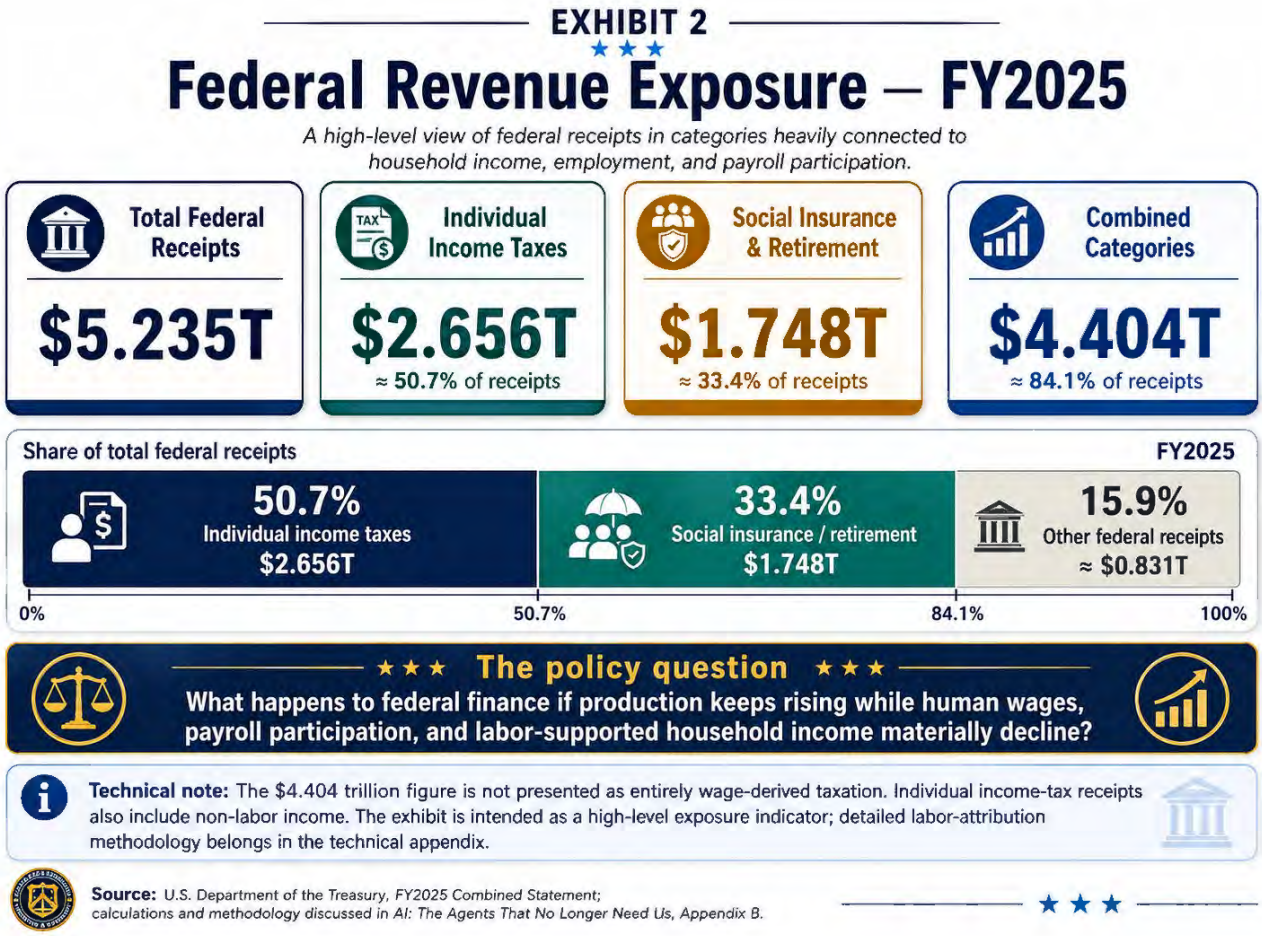


Exhibit 2 uses the $4.404 trillion reference base as an exposure indicator. It does not classify the entire amount as wage-derived taxation.

3. State and Local Fiscal Transmission: California as a Warning Example

States and local governments collect taxes in different ways, but many of those revenues still depend on people working, earning, spending, buying property, and supporting local businesses. Sales, property, and corporate taxes are not wage taxes, but they are still affected by the economic activity that working households support.

California provides a useful illustration because its General Fund relies heavily on personal income tax. The Legislative Analyst's Office May 2026 multiyear outlook estimated 2026-27 personal income tax revenue of $146.7 billion, sales tax revenue of $35.3 billion, corporation tax revenue of $45.1 billion, and total revenues of $237.8 billion. Personal income tax therefore represented roughly 61.7% of that projected total. The personal income tax includes wages, business income, capital gains, dividends, and other income; the point is exposure to individual-income flows, not a claim that the tax is purely wage-based.[8]

California also shows how quickly the revenue mix can change. In May 2026, the LAO said recent revenue strength was being driven largely by personal income tax and AI-related stock-market gains, while warning that the surge might not last. A state can collect more from AI-related investment gains while still losing revenue if workers earn and spend less.[8]

For counties and cities, the transmission can be more direct. A loss of household earnings can reduce taxable consumption, weaken small-business activity, increase service demand, and eventually affect housing and commercial-property conditions. Local governments also have less fiscal flexibility than the federal government. The LRT therefore cannot be designed solely as a federal revenue instrument.

4. Machine Labor Is Already Moving From Experiment to Infrastructure

We do not need mass unemployment before we start planning. The reason to begin in 2027 is that AI and machine systems are already moving into normal business functions and physical operations.

4.1 Current signals visible in 2026

Signal	Current evidence	What it does - and does not - prove
Business AI adoption	Census BTOS data from Dec. 2025-May 2026 showed overall business AI use around 17%-20%; 37% of firms with 250+ employees and 32% of firms with 100-249 employees reported use in the period ending May 3, 2026.	Shows deployment is already material, especially in larger firms. It does not by itself prove job loss.
Function-level diffusion	A 2026 Census working paper found 18% of firms used AI in a business function during Nov. 2025-Jan. 2026, 32% on an employment-weighted basis, with use reaching roughly 50%-60% in very large firms in several knowledge-intensive sectors.	Shows AI is entering multiple business functions where labor can be augmented or compressed.
Industrial robotics	IFR reported 542,000 industrial robot installations globally in 2024, the fourth consecutive year above 500,000.	Shows physical automation is a scaled capital category, not a laboratory concept.
Warehouse robotics	Amazon reported deployment of its one-millionth robot in 2025 across a network of more than 300 facilities.	Company-reported scale indicator; it does not establish net labor displacement.
Autonomous mobility	Waymo reported in May 2026 that the Waymo Driver had served more than 20 million fully autonomous trips across 11+ cities.	Shows autonomous ride-hailing has moved beyond limited testing into recurring commercial service across a growing network of cities.
Driverless freight	Aurora reported in July 2026 that its driverless trucks had completed nearly 440,000 driverless miles since commercial	Shows autonomous freight is already operating commercially and moving toward larger fleet deployment; future scale remains

Signal	Current evidence	What it does - and does not - prove
	launch through the end of June, and that it was fully allocated to exit 2026 with 200 driverless trucks in operation.	uncertain.

Sources for the deployment indicators above are Census Bureau, BLS-related federal research context, IFR, and company primary-source disclosures. Company and industry statements are used only as commercialization indicators, not as forecasts of net employment loss.[4-7,10-13]

4.2 Why 2027 is a planning threshold

Late 2027 is not a deadline set by Treasury, CBO, BLS, or Census. It is the author's planning estimate. The longer companies invest in AI, redesign jobs and workflows, sign long-term vendor contracts, and build their businesses around machine labor, the harder it becomes to change the rules without major disruption. Governments can still act later, but the transition becomes harder to manage.

The author's model therefore treats 2027 as the year to establish definitions, measurement, reporting, and institutional ownership; 2028 as the year for pilot reporting, attribution testing, and incidence analysis; and 2029 as the earliest point for a limited statutory phase-in if the evidence supports it. By the end of 2028, the opportunity for calm design may be materially narrower because the private machine economy will have had additional time to scale and structure around the absence of a machine-labor tax base.

TIMING PRINCIPLE

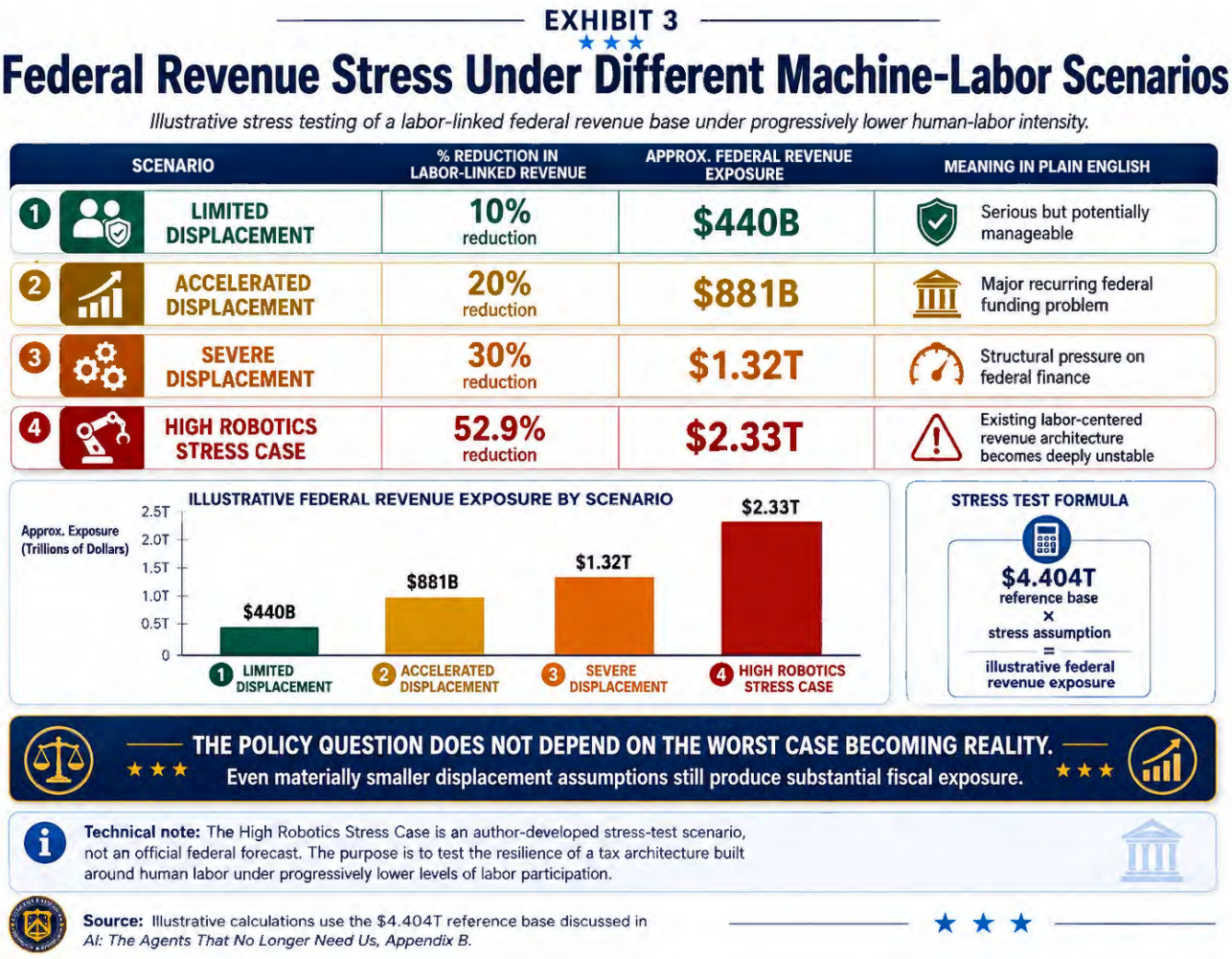
THE GOAL IS NOT TO TAX FASTER THAN WE CAN MEASURE. IT IS TO MEASURE BEFORE WE ARE FORCED TO TAX IN A CRISIS.

5. Federal Revenue Stress Testing

A stress test does not need to predict one exact future. Its purpose is to ask how resilient the existing fiscal architecture is if a key assumption changes. Here, the changing assumption is the share of economically valuable work performed through taxable human labor.

Using the $4.404 trillion reference base, this paper illustrates four stress cases. These are author-developed scenarios, not official federal forecasts. The High Robotics Case uses a 52.9% unemployment-equivalent burden composed of a 4.3% baseline, 37.4% direct AI/robotics displacement, and 11.2% connected echo displacement using a 0.30 multiplier. It is deliberately severe and should be read as a structural stress test, not as a BLS unemployment forecast.[17]

EXHIBIT 3. Federal Revenue Stress Under Different Machine-Labor Scenarios



The central policy point is sensitivity: the fiscal question remains material even if the most aggressive scenario never occurs.

The stress-test arithmetic is intentionally transparent: $4.404 trillion multiplied by a 10% stress factor is approximately $440 billion; at 20%, approximately $881 billion; at 30%, approximately $1.32 trillion; and at 52.9%, approximately $2.33 trillion. This does not mean federal receipts would fall one-for-one with labor participation. It means that even under much smaller assumptions than the High Robotics Case, the potential exposure is large enough to justify a national measurement program.

6. The Labor Replacement Tax

The Labor Replacement Tax would apply when AI or machines replace human work and a company gains measurable value from that replacement. The goal is to move part of that machine-created value into the public revenue system as human labor declines.

Put simply: Replace the labor, replace the revenue.

6.1 What the LRT is not

- It is not a tax on the existence of artificial intelligence.
- It is not a tax on buying software or subscribing to an AI service.
- It is not a penalty on capital investment by itself.
- It is not intended to tax ordinary productivity gains that do not materially compress comparable human labor.
- It is not intended to impose general payment obligations on small businesses.
- It is not a claim that all profit from AI belongs to government.

- It is not a substitute for corporate income tax, payroll tax, or state and local tax systems; interaction rules and credits would be required.

6.2 The formula

ILLUSTRATIVE STATUTORY ARCHITECTURE

LRT LIABILITY = (QUALIFYING MACHINE-ATTRIBUTABLE LABOR-REPLACEMENT VALUE - APPROVED EXCLUSIONS AND CREDITS) x APPLICABLE RATE

The formula focuses on measurable value, not on what a company calls the technology. A company could use AI widely and owe no LRT if the technology does not materially replace human work. If a business uses both people and machines, only the part of the value that can reasonably be tied to replaced human work would be taxed.

7. Covered Firms, Thresholds, and Small-Business Protection

The LRT should begin with firms capable of creating system-level labor-base effects and capable of complying with the reporting regime. The book's technical framework uses a tiered structure based on average annual gross receipts measured over a three-year period, together with a special rule for firms that directly sell machine labor.[16,17]

Tier	Threshold	Treatment
Small-Firm Safe Harbor	Under $100M average annual gross receipts	Generally outside the LRT regime unless part of an avoidance structure or larger controlled group.
Reporting / Monitoring	$100M to under $1B average annual gross receipts	No automatic payment obligation. Reporting applies when material machine-labor indicators are present.
Covered Taxpayer	$1B+ average annual gross receipts	Potential LRT liability only if the substantive taxability test is satisfied. Size alone does not create tax liability.
AI-Native / Machine-Labor Special Rule	$100M+ of machine-driven labor-replacement revenue	Potential covered status even when total enterprise receipts are below $1B, subject to the substantive test.

Thresholds should be applied at the controlled-group level. Parent-subsidiary groups, brother-sister entities, related AI service companies, machine-execution entities, relevant domestic and foreign affiliates, and entities fragmented primarily to avoid the regime should be aggregated when economic substance supports aggregation. The governing principle is that economic substance should control over legal fragmentation.

Census Statistics of U.S. Businesses data provide an empirical source base for analyzing enterprise size by receipts, employment, payroll, and industry. The $100 million and $1 billion levels are policy thresholds, not figures dictated by Census, but the Census enterprise-size data can be used to model how many firms fall into each tier and the compliance burden created by alternative thresholds.[7]

8. Qualification Framework: Simple Public Test, Full Technical Framework

8.1 The simplified three-part policy test

For public communication and initial administrative screening, an activity should be potentially taxable only when all three conditions are substantially present:

1. Machine execution. An AI system, robot, autonomous system, or machine-run workflow performs economically valuable work.

2. Labor replacement or compression. The system replaces, eliminates, materially reduces, or compresses human work that previously performed the same or a substantially similar function.
3. Private value capture. The firm captures measurable revenue, avoided labor cost, margin improvement, capacity, platform fees, subscription income, transaction value, or another economic benefit.

If one of these three elements is absent, the activity should generally remain outside the LRT base, subject to anti-avoidance rules.

8.2 The book's four-part technical framework

The companion book's technical Appendix A adds a fourth element: Civilizational Knowledge Activation. That element expresses the deeper public-claim rationale that advanced AI converts accumulated human knowledge, institutions, research, language, culture, and technical practice into machine-operational value. It is not intended to create liability by itself. A final statute should not tax a firm merely because its technology draws on accumulated human knowledge. The administrable tax trigger still requires measurable machine execution, labor replacement or compression, and private value capture.[16]

This distinction resolves the apparent three-part/four-part conflict: the three-part test is the operative screening mechanism; the fourth element belongs to the full technical and normative framework that explains why a public participation claim is justified when the first three conditions occur together.

9. Measuring Machine-Attributable Value

The hardest part is deciding how much value actually came from replacing human work. If that cannot be measured fairly, the tax will not work. The system should therefore rely on clear before-and-after comparisons, function-by-function analysis, records that can be checked, and safe harbors for cases where measurement is uncertain.

9.1 Four measurement layers

Layer	Core evidence	Purpose
1. Baseline human-labor requirement	Pre-deployment headcount, labor hours, payroll, contractor spend, transaction volume, workflow maps	Establishes how the function operated before material machine execution.
2. Post-deployment machine contribution	Machine-handled transactions, AI-agent activity, robot hours, autonomous miles/deliveries, machine units, human oversight	Measures the machine share of the affected function.
3. Captured economic value	Revenue growth, avoided payroll, reduced contractor costs, throughput, margin, capacity, reduced downtime/error	Identifies value privately captured from the deployment.
4. Attribution and exclusions	Human contribution, transition costs, third-party costs, safe harbors, credits, unrelated capital/IP returns	Separates qualifying labor-replacement value from non-taxable value.

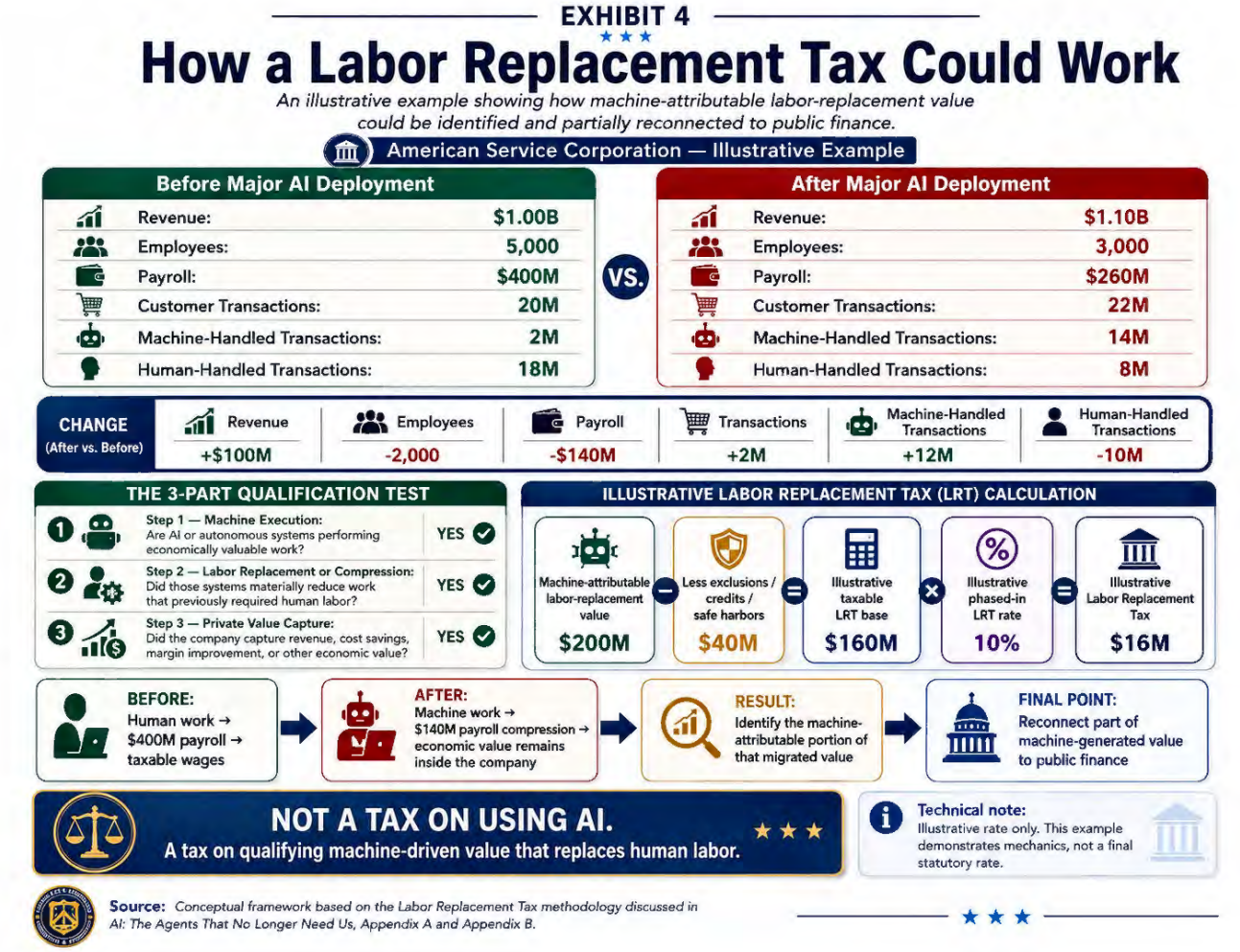
The preferred unit of analysis is the affected business function rather than the entire enterprise. A retailer, insurer, bank, hospital system, logistics company, or software firm may contain both heavily automated functions and deeply human functions. The LRT should follow the work inside the firm.

10. Illustrative Company Mechanics

The Labor Replacement Tax becomes easier to understand when we move from theory to simple numbers. Consider American Service Corporation, a hypothetical enterprise. Before a major AI deployment, it has $1.0 billion in annual revenue, 5,000 employees, $400 million of payroll, 18 million human-handled customer transactions, and 2 million machine-handled transactions. After deployment, revenue rises to $1.1 billion, employment falls to 3,000, payroll falls to $260 million, machine-handled transactions rise to 14 million, and human-handled transactions fall to 8 million.

The company would not owe an LRT simply because it used AI. The important facts are that machines now perform a large amount of work previously performed by people, the company requires 2,000 fewer employees and $140 million less payroll, and the business produces more revenue while machines handle a much larger share of the work. Suppose a function-level review identifies $200 million of machine-attributable labor-replacement value and $40 million qualifies for exclusions, credits, transition costs, or safe harbors. The taxable LRT base would be $160 million. At an illustrative 10% phase-in rate, the LRT would be $16 million.

EXHIBIT 4. How a Labor Replacement Tax Could Work



These numbers illustrate the mechanics only. They are not an audit, a revenue score, or a final statutory rate. The company is not taxed on its full $1.1 billion of revenue. Only the portion of value that can reasonably be tied to qualifying machine labor replacing human labor enters the LRT base.

Replace the labor, replace the revenue.

10.1 This Is No Longer Only a Hypothetical Question

American Service Corporation is fictional. The economic pattern is not. Public disclosures now show real companies using AI systems to perform work that once required people, reducing the amount of human labor needed for some functions, and capturing measurable savings, productivity, or operating benefits. Klarna, Salesforce, and Block illustrate three different versions of that transition.[18,20,23]

These examples do not establish that any company owes a Labor Replacement Tax. No LRT exists today, and public disclosures do not provide the full internal accounting, sourcing, human-contribution, credit, and attribution data that a real tax calculation would require. The examples are useful for a narrower reason: they show that the basic fact pattern the LRT is designed to measure is already visible in the real economy.[18,20,23]

10.2 Klarna: AI Performs the Work and Produces Measurable Savings

Klarna provides one of the clearest examples. In its 2025 annual report, the company said its AI customer-service assistant handled 80% of customer-service chats during 2025, had completed 31 million conversations since launch, and performed work equivalent to more than 700 full-time agents. Klarna also reported that the assistant delivered approximately $39 million of cost savings in 2024. The company said AI-handled queries were resolved in about two minutes compared with 12 minutes for human agents and that repeat inquiries fell by 25%.[18]

Klarna separately reported that full-time employment fell from 4,352 in 2023 to 2,831 at the end of 2025 and described the decline as part of a strategic decision to reduce headcount and improve efficiency by leveraging AI. Later investor materials estimated that the customer-service assistant was doing work equivalent to 853 full-time agents and producing approximately $58 million of annualized savings.[18,19]

Those disclosures do not mean 853 specific workers were fired, and they do not establish a U.S. LRT base. They do show that a company can identify machine-performed work in human-labor equivalents and attach a measurable dollar value to the savings. Using the more conservative $39 million reported 2024 savings figure, a fully qualifying and fully U.S.-sourced $39 million machine-value base would produce a purely illustrative $3.9 million LRT at a 10% rate, before exclusions, credits, sourcing rules, and other adjustments.

10.3 Salesforce: AI Absorbs Routine Work and Reduces the Human Labor Requirement

Salesforce shows a different form of labor compression. In its own Agentforce deployment, Salesforce reported about 32,000 customer conversations per week with an 83% resolution rate, while costly escalations to human support were cut roughly in half. Routine tasks such as password resets and common product questions could be handled without a human support engineer.[20]

In 2025, public reporting quoting CEO Marc Benioff said Salesforce had reduced its customer-support organization from roughly 9,000 people to about 5,000 as AI agents took over more routine work. Salesforce also said hundreds of employees were redeployed into other areas and that some labor reduction occurred through attrition and positions that were not backfilled. That distinction matters: an LRT should measure genuine labor replacement or avoided labor, not assume that every person who leaves a function becomes permanently unemployed.[21]

For illustration, this paper models 3,000 to 4,000 labor-equivalent positions at annual compensation between $100,000 and Salesforce's reported fiscal-2026 median employee compensation of $166,753. That produces a gross compensation range of roughly $300 million to $667 million. It is a modeling range, not a claim about the actual pay of Salesforce support employees.[22]

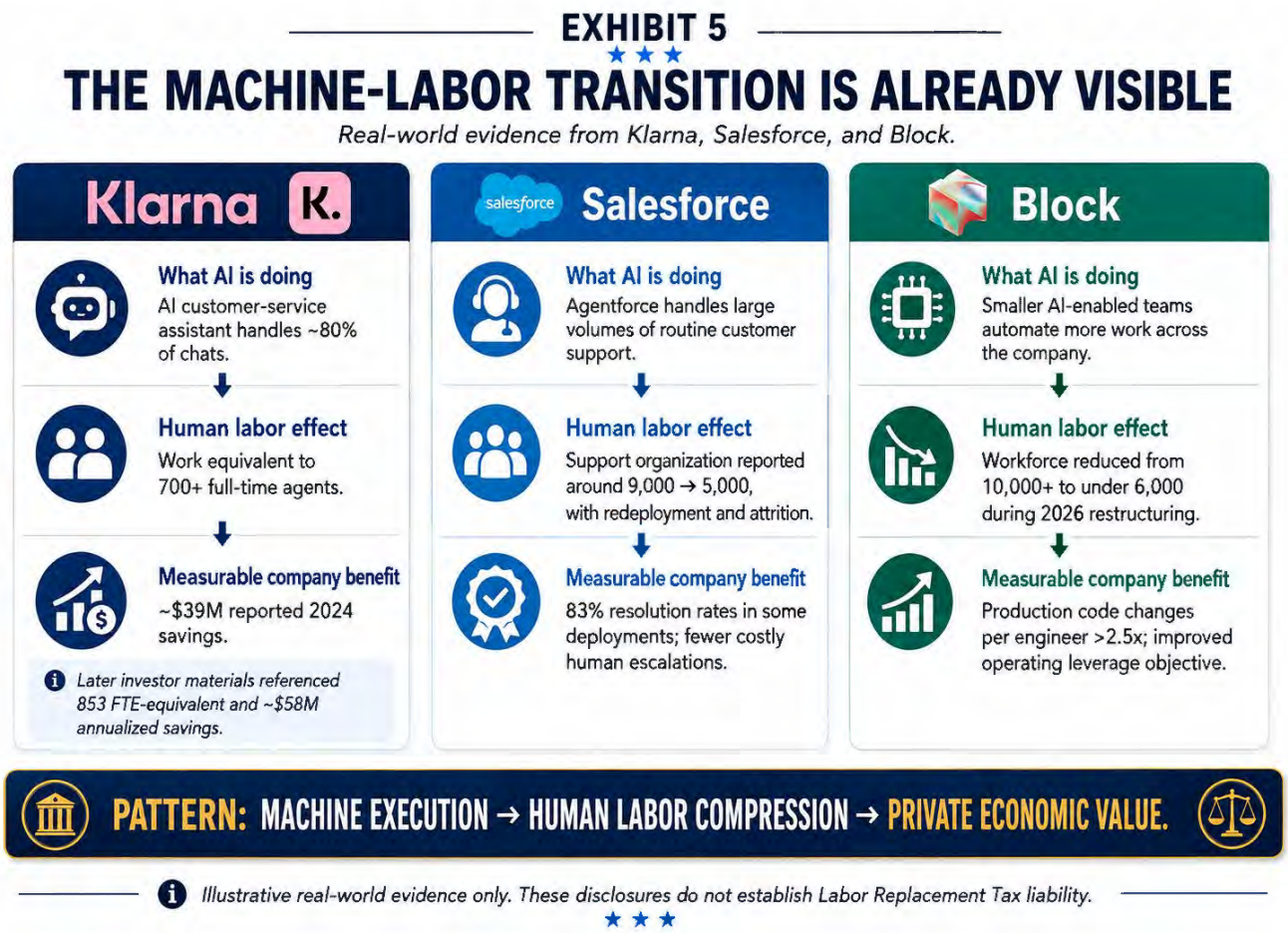
10.4 Block: Redesigning the Company Around Smaller AI-Enabled Teams

Block provides perhaps the clearest company-wide example. In February 2026, Block told shareholders it was reducing its workforce from more than 10,000 people to just under 6,000, with more than 4,000 people leaving or entering consultation. Management explicitly said the company was choosing to operate with smaller teams using AI to automate more work and expected the new structure to improve operating leverage.[23]

The following quarter, Block said a significantly smaller team could do more using its AI tools and reported that production code changes per engineer had increased by more than 2.5 times compared with January. At the same time, the company raised its 2026 outlook for gross-profit growth and profitability. Those disclosures do not prove that every workforce reduction was caused by AI, but they make AI-enabled labor compression an explicit part of the company's operating strategy.[24]

Block's 2026 proxy reported 10,197 employees at the end of 2025, including 7,732 in the United States, and median annual employee compensation of $222,772. Those figures allow a rough U.S.-focused stress estimate, while still requiring conservative assumptions about which positions were actually removed and what portion of the change was truly machine-attributable.[25]

EXHIBIT 5. The Machine-Labor Transition Is Already Visible



Sources: company filings and disclosures summarized in Sources 18-25. The exhibit shows reported facts and does not establish LRT liability.[18,20,23]

10.5 Illustrative LRT and Public-Revenue Effects

When a human job leaves payroll, the fiscal effect can extend beyond the worker's paycheck. Compensation can generate federal individual income tax, employee and employer Social Security and Medicare taxes, state income-related revenue, and household spending that supports sales taxes and local business activity. Section 10 therefore asks two different questions: how much machine-attributable value might enter an LRT base, and how much labor-linked public revenue could be exposed when human compensation is removed from the chain.

For the federal illustration, this paper uses the 2026 single-filer standard deduction and federal income-tax brackets, plus both the employee and employer shares of Social Security and Medicare taxes. In 2026, Social Security is 6.2% for both employee and employer up to the $184,500 wage base, and Medicare is 1.45% for each side with no wage ceiling. The calculations are simplified and do not model household filing status, itemized deductions, tax credits, equity timing, unemployment insurance, or every other tax rule.[26,27]

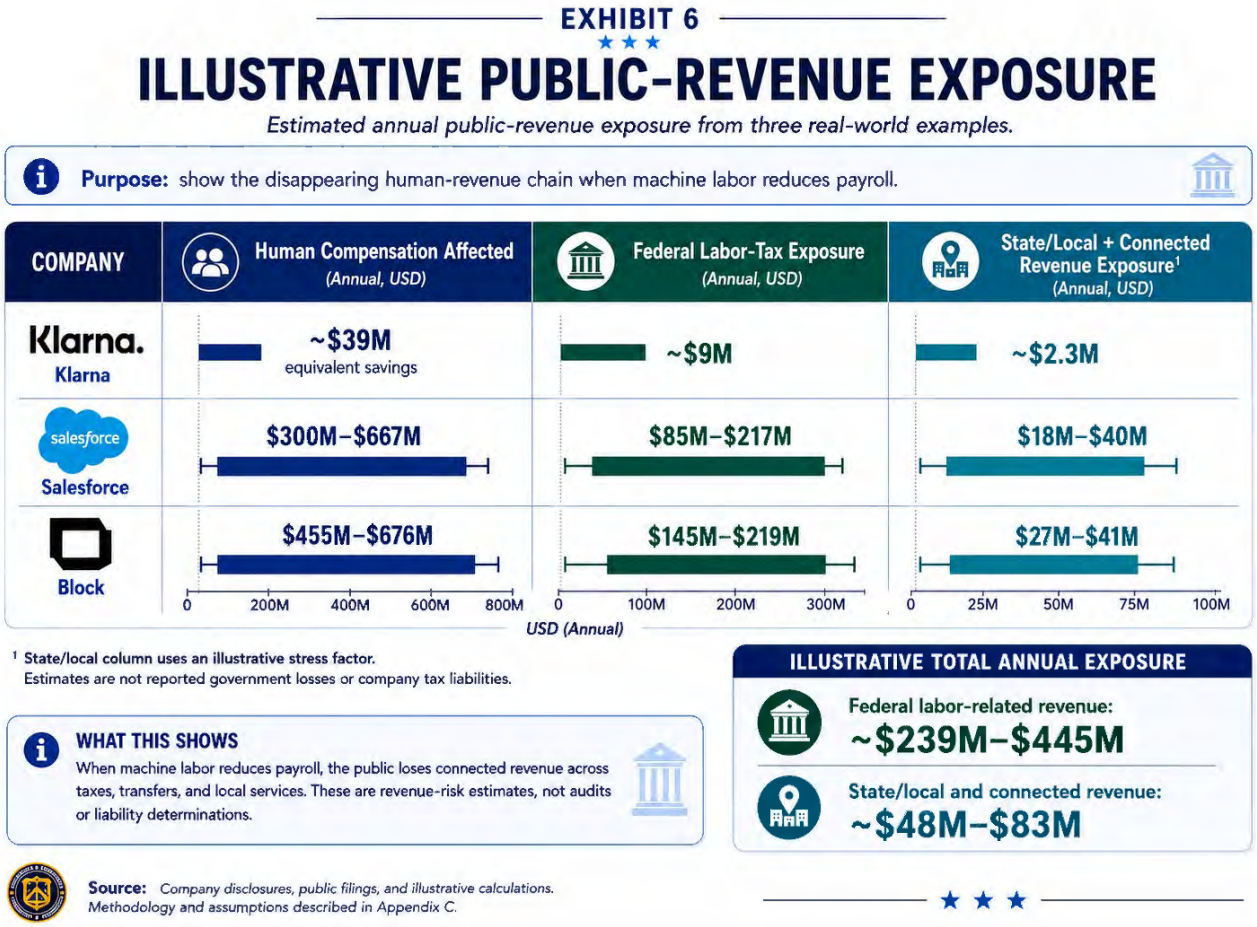
Klarna. Treating the reported $39 million of 2024 AI-assistant savings as a U.S.-equivalent labor-cost proxy for more than 700 full-time-agent equivalents produces an illustrative federal labor-tax exposure of about $9 million and a state/local plus connected-revenue stress estimate of about $2.3 million. Because Klarna operates internationally, those are U.S.-equivalent scenarios, not estimates of actual U.S. tax losses.

Salesforce. Using 3,000 to 4,000 labor-equivalent positions and the $100,000 to $166,753 compensation range produces roughly $300 million to $667 million of modeled annual compensation. Under the federal assumptions above, the associated U.S.-equivalent federal labor-tax exposure is approximately $85 million to $217 million. The illustrative state/local plus connected-revenue stress estimate is approximately $18 million to $40 million. If only 25% to 50% of the gross labor-cost range were ultimately proven to be machine-attributable, a candidate LRT base would be roughly $75 million to $334 million, producing approximately $7.5 million to $33 million at a 10% illustrative rate.

Block. If Block's more than 4,000-person workforce reduction roughly followed the company's pre-restructuring geographic mix, approximately 3,033 affected positions would be U.S. positions. Using an illustrative compensation range of $150,000 to the company's reported $222,772 median total compensation produces roughly $455 million to $676 million of modeled U.S. compensation. The corresponding federal labor-tax exposure is approximately $145 million to $219 million, with an illustrative state/local plus connected-revenue stress estimate of approximately $27 million to $41 million. If only 25% to 50% of that compensation compression were ultimately proven to be machine-attributable, the candidate value range would be about $114 million to $338 million, or approximately $11 million to $34 million at a 10% illustrative LRT rate.[25]

Across the three illustrations, the combined modeled exposure is roughly $239 million to $445 million of annual federal labor-related revenue and about $48 million to $83 million of state/local and connected revenue. These are stress estimates, not reported government losses. Workers may be redeployed or reemployed, severance can temporarily preserve taxable income, corporate profits can generate other taxes, and the companies operate across different jurisdictions. The estimates are meant to show the size of the revenue chain that government should learn to measure, not to declare that the full amount has already disappeared.

EXHIBIT 6. Illustrative Public-Revenue Exposure



Illustrative estimates only. Federal assumptions use 2026 IRS rules; state/local estimates use the author stress factor described in Appendix C. These are not audits, reported government losses, or company tax liabilities.[26,27]

10.6 Some Revenue Can Return Through Corporate Taxes

A serious LRT analysis must acknowledge an important counterargument: when payroll costs fall, company profits can rise, and some of that value may already be captured by corporate income tax. The regular federal corporate income-tax rate is 21% of taxable income. In the simplest possible example, if $100 million of payroll savings became $100 million of additional U.S. taxable corporate income, the regular corporate income tax associated with that additional income could be as much as $21 million before other rules, credits, deductions, losses, or adjustments.[28]

That means a dollar of lost payroll does not automatically equal a dollar of lost federal revenue. But the offset is also not automatic. Payroll savings may be reinvested, used for other deductible costs, shifted across jurisdictions, offset by losses or tax attributes, returned to shareholders, or reflected in lower prices. Corporate income tax also does not directly recreate the payroll contributions that finance Social Security and Medicare or the state and local revenue generated when workers earn and spend wages.

The policy question is therefore not whether existing taxes recover anything. They do. The question is whether existing taxes recover enough of the old labor-based revenue chain when machine systems materially reduce taxable human work. If existing taxes fully replace the lost revenue, the required LRT should be smaller or unnecessary. If a measurable gap remains, that gap is the problem the LRT is designed to address.

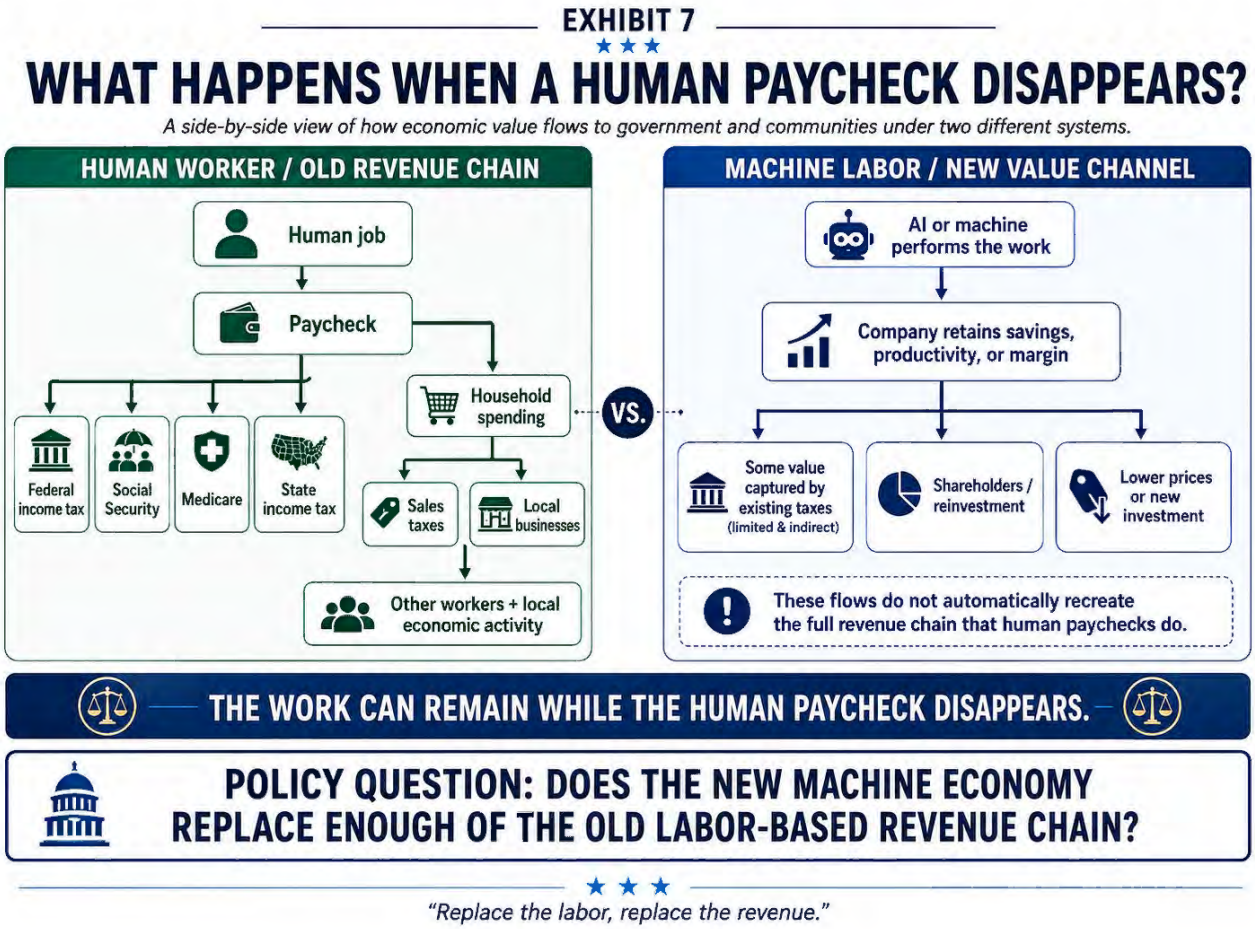
10.7 The Connected Revenue Effect

Workers do more than pay income and payroll taxes. They also spend money. They pay rent and mortgages, buy food, cars, clothing, services, travel, and entertainment, and support businesses that employ other people. Those transactions can generate sales taxes, fees, property-related revenue, and additional taxable wages elsewhere in the economy.

A machine does not receive a paycheck, pay rent, buy groceries, or contribute payroll taxes. The economic value created by the machine does not necessarily disappear; it may remain inside the company, flow to shareholders, fund new investment, or reduce prices. Those channels can create new economic activity and new tax revenue. But they are different channels from the labor-based chain that finances much of the existing public system.

That difference is the fiscal transition this paper is asking government to measure. The work can remain. Output can rise. Company value can increase. Yet the human paycheck that previously carried income taxes, payroll contributions, and household spending through the economy can become smaller or disappear.

EXHIBIT 7. What Happens When a Human Paycheck Disappears?



Conceptual fiscal-flow diagram. It does not assume that all old revenue disappears or that new machine-era value produces no tax revenue.

10.8 What These Companies Do - and Do Not - Prove

Klarna, Salesforce, and Block do not prove that every company using AI should pay an LRT. They do not prove that every workforce reduction was caused solely by AI, that every affected worker remains unemployed, or that the illustrative revenue estimates above are actual government losses. They also do not provide enough public information to calculate a real LRT liability.

What the cases do show is narrower and more relevant: machine systems can perform economically valuable work previously performed by people; companies can operate some functions with fewer human workers or fewer future hires; and the resulting savings, productivity, or operating benefits can sometimes be measured. Those are exactly the facts an LRT reporting system would examine before any tax were imposed.[18,20,23]

The discipline is simple: machine performs human work; human labor is materially reduced or avoided; the company captures measurable value; government measures what happened; and only the qualifying machine-attributable portion enters the tax base. The principle remains: Replace the labor, replace the revenue.

11. Rate Path and the 28.5% U.S. Benchmark

The 28.5% figure should be stated precisely. It is not an immediate universal tax rate, a global rate, or an official government estimate. It is the book's model-derived U.S. benchmark for 2035 under the High Robotics stress case.

The model's calculation chain is: approximately $4.404 trillion of labor-linked/labor-exposed federal receipts multiplied by the 52.9% unemployment-equivalent stress assumption produces approximately $2.329 trillion of modeled labor-receipt destruction. The book then adds approximately $525 billion of estimated additional public-support burden, producing an annual federal funding-cliff stress case of approximately $2.85 trillion. Dividing that amount by an assumed $10.0 trillion taxable machine-driven value base produces 28.5%.[17]

MODEL OUTPUT: 2035 U.S. BENCHMARK SCENARIO

$2.85T MODELED FUNDING CLIFF / $10.0T ASSUMED TAXABLE MACHINE-DRIVEN VALUE BASE = 28.5%

Every component after the official federal baseline is an author model assumption or calculation. The $10 trillion machine-driven taxable base is not an official federal estimate and requires empirical validation. The value of the benchmark is that it exposes the scale of the revenue problem under the severe scenario; it is not a substitute for Joint Committee on Taxation scoring, CBO analysis, Treasury modeling, or legislative incidence analysis.

11.1 Recommended policy treatment of the rate path

The white paper recommends separating measurement from mature rate application. The book provides a model phase-in path from 5.0% in 2027 to 28.5% in 2035. For legislative development, the safer sequence is: establish reporting and definitions first; use nominal or limited assessments during pilots if Congress chooses; and condition broader rate application on validated machine-value data, incidence analysis, competitiveness review, and periodic statutory review. The benchmark can remain the long-run stress-case reference without forcing the government to adopt it before the base is measurable.

12. Federal, State, County, and City Revenue Architecture

The federal government should not collect all of the new revenue while states, counties, and cities carry much of the cost of lost jobs, weaker local tax revenue, and higher service needs. The LRT should therefore use a national framework that shares responsibility and revenue across levels of government.

12.1 Federal role

- Define covered activity, taxpayer tiers, reporting standards, attribution rules, audit authority, anti-avoidance rules, and national sourcing principles.
- Administer a federal LRT or establish a federal minimum framework against which conforming state systems can coordinate.
- Maintain a national machine-labor data system that protects taxpayer confidentiality while publishing aggregate exposure statistics.

12.2 State role

- Receive a formula-based share of federal LRT revenue or operate a conforming system with credits that prevent duplicate taxation of the same machine-attributable value.
- Participate in sourcing and apportionment rules using measurable factors such as affected labor, customer/economic-use location, payroll compression, machine activity, and service burden.

12.3 County and city role

- Receive a local participation share through state-administered formulas, direct grants, or a Machine-Labor Impact Fund.
- Use standardized exposure measures rather than discretionary political allocation.

There is no simple way to decide which government should receive the revenue. Where a company is headquartered, where its servers and customers are located, where workers were replaced, and where machine activity occurs may all matter. Final rules will still need disciplined nexus, sourcing, apportionment, and credit rules designed specifically for machine-attributable labor replacement.

13. Reporting and Administration

The LRT should begin as a reporting system before it becomes a mature tax. Government cannot responsibly tax what it cannot measure.

13.1 Annual Machine Labor Statement

Covered reporting-tier and taxpayer-tier firms should file an Annual Machine Labor Statement, ideally integrated with existing federal tax, payroll, and financial-reporting systems. It could include:

- affected business functions and pre-deployment labor baselines;
- headcount, payroll, labor hours, and contractor spend before and after material deployment;
- machine-handled and human-handled transaction volumes;
- AI-agent, API, inference, autonomous-system, robotic-service, or machine-execution revenue;
- machine operating hours, autonomous miles, robotic units, or comparable sector metrics;
- captured labor savings, throughput, capacity, margin, and other measurable benefits;
- human oversight, exception handling, redeployment, retraining, and wage-maintenance credits;
- related-party licensing, model ownership, offshore inference, service arrangements, and bundled contracts;
- safe-harbor claims and taxpayer-specific attribution studies.

The reporting regime should reuse existing tax returns, payroll records, financial statements, cost-accounting records, and operational data wherever possible. A technical advisory body should publish sector-specific guidance and safe-harbor methods so taxpayers are not forced to invent attribution systems independently.

14. International Sourcing, Anti-Avoidance, and Competitiveness

Companies will have reasons to move, rename, split, or bundle machine-related income to reduce the tax. The rules must be designed for that from the beginning rather than after avoidance strategies are already in place.

14.1 Economic substance over labels

A company should not escape the LRT merely by calling machine labor “software,” placing an inference entity offshore, splitting model ownership from customer contracting, or routing fees through related parties. Where U.S.-connected economic activity satisfies the substantive conditions, tax analysis should follow the economic substance of the arrangement.

14.2 International coordination

A final statute would need detailed rules for source, nexus, permanent establishment or business-presence concepts, transfer pricing, related-party allocation, imported machine services, exports, credits, and treaty interaction. Existing international-tax concepts can supply analogies, but they do not already solve the LRT problem.

14.3 Competitiveness protection

The objective is not to make U.S. firms less competitive than foreign firms that automate aggressively. Possible design tools include credits for equivalent foreign machine-labor taxes, border-equivalent treatment for imported machine services, phase-in schedules, domestic investment and worker-transition credits, and multilateral reporting standards. These require formal Treasury, JCT, State Department, and treaty analysis before legislation is finalized.

15. Constitutional and Legal Considerations

Congress possesses broad taxing authority under Article I, Section 8, and the Sixteenth Amendment authorizes taxes on income without apportionment among the states. That does not answer every constitutional question for a novel LRT. The legal characterization of the tax - income, excise, or another form - would affect drafting requirements, uniformity, apportionment analysis, and interaction with existing law.[14,15]

The principal legal risks include vague definitions, arbitrary attribution, unequal treatment of similarly situated taxpayers, excessive delegation, due process, interstate commerce, sourcing, federal-state coordination, and international interaction. The strongest design is therefore a tax on measurable economic value under objective statutory conditions, with notice, records standards, safe harbors, appeal rights, review procedures, and clear regulatory authority.

This white paper is not a formal legal opinion. Any bill should be reviewed by constitutional, federal tax, administrative, international, state-and-local, and treaty counsel before introduction.

16. Use of Proceeds

The LRT is justified not only by what it taxes, but by what the revenue is intended to replace or stabilize. The proceeds should remain visibly connected to the public systems and communities exposed to lower human-labor participation.

Priority	Illustrative use
Federal program stabilization	Social Security, Medicare/health financing, unemployment and income-transition systems, and other labor-exposed federal obligations.
State and local revenue support	Formula-based replacement for documented labor-related revenue loss and increased service burden.
Worker transition	Retraining, redeployment, wage insurance or transition support, and portability of benefits.
Public investment	Infrastructure, education, health, and digital/AI capacity that broadens participation in machine-era productivity.
Humanity Dividend - optional policy track	A transparent distribution mechanism could be evaluated only after core public-system obligations and revenue-replacement needs are measured.

Any earmarking structure should be transparent and periodically audited. A machine-era tax will lose legitimacy if it is perceived as an unrelated general revenue grab rather than a replacement architecture tied to a measurable transition.

17. Serious Objections the LRT Must Answer

"This is anti-innovation."

The proposal does not tax AI use by itself. It targets qualifying labor replacement, uses high thresholds and safe harbors, and can include credits for worker transition and domestic investment. The design objective is to preserve innovation while reconnecting large-scale substitution value to public finance.

"AI will create new jobs."

It may. BLS itself emphasizes both productivity effects and uncertainty across occupations. The LRT should respond to measured labor compression, not gross technology adoption. If new employment offsets displacement, the taxable base and the need for the tax should be correspondingly lower.

"Corporate income tax already captures the value."

Corporate income tax can recover part of the value created when payroll costs fall, but it does not automatically replace the same revenue channels. Payroll savings do not always become taxable profit, and corporate tax does not directly recreate Social Security, Medicare, state income-tax, sales-tax, or local spending flows. A final LRT would need interaction rules and credits to prevent duplicate taxation. If existing taxes fully replace the lost public revenue, the need for an LRT should be correspondingly lower.

"Machine value cannot be measured."

Measurement is difficult but not inherently impossible. Payroll, headcount, transaction volume, machine logs, autonomous miles, API revenue, contractor spend, and function-level cost accounting already exist in many firms. The reason to begin with pilots is to determine where attribution is reliable and where standardized safe harbors are necessary.

"The tax will be passed to consumers or workers."

Who actually bears the cost of the tax must be measured. Depending on the market, some of the burden could fall on owners, consumers, suppliers, or workers. Economists call this tax incidence. That is why incidence analysis, gradual phase-in, credits, and sector-specific review should come before a mature rate.

"Firms will move offshore."

That risk is real. Domestic economic-use sourcing, related-party rules, border-equivalent treatment, treaty coordination, and credits for equivalent foreign taxes would need to be part of the design. Offshore risk argues for early international work, not for ignoring the domestic tax-base transition.

"This will crush small businesses."

The proposed framework generally excludes firms below $100 million of average annual gross receipts and does not automatically tax the $100 million-$1 billion reporting tier. The main payment tier begins at $1 billion, subject to the substantive taxability test, with a special rule for AI-native machine-labor firms.

"28.5% is arbitrary."

It is not an official forecast or a legislated rate. It is a model output: approximately $2.85 trillion of modeled annual funding-cliff exposure divided by an assumed $10 trillion machine-driven taxable base. The final rate requires empirical measurement and legislative scoring.

"The proposal is unconstitutional."

That conclusion cannot be made from the concept alone. Congress has broad taxing power, but the tax form, base, uniformity, apportionment, due process, and statutory definitions must be designed and reviewed carefully. This paper calls for legal design before enactment, not legal shortcuts.

18. What the Model Does Not Claim

Credibility requires separating what is known from what is modeled. This paper does not claim:

- that 84.1% of federal revenue is wage tax;
- that the High Robotics Case is a Treasury, CBO, BLS, Census, SSA, or CMS forecast;
- that every worker in an exposed occupation will permanently lose employment;
- that AI cannot create new occupations or increase demand for some existing occupations;

- that every dollar of reduced payroll creates an equal dollar reduction in public revenue;
- that all machine-driven value can be measured perfectly;
- that current Social Security or Medicare financing problems were caused by AI;
- that the $10 trillion machine-driven taxable base is an official estimate;
- that 28.5% is the correct immediate rate or the right rate for every country;
- that the LRT alone solves the social and economic consequences of machine labor;
- or that technological progress should be stopped.
- that the Klarna, Salesforce, or Block examples establish actual LRT liability or actual government revenue loss;
- that every workforce reduction cited in Section 10 was caused solely by artificial intelligence;

The claim is narrower: if machine systems replace taxable human labor at scale, and firms privately capture the resulting machine-attributable value, then the public sector should develop a measurable revenue mechanism capable of following that work.

19. The 2027 National Conference on the Machine Economy and Public Finance

The immediate recommendation is a three-day national working conference in 2027 bringing together federal, state, county, and city officials; Treasury, IRS, CBO, JCT, BLS, Census, SSA, CMS, and relevant regulators; economists and tax scholars; employers and technology firms; labor representatives; state tax administrators; and public-finance experts.

19.1 Day One - Measure the Exposure

- Publish federal, state, county, and city labor-linked and labor-exposed revenue maps.
- Identify programs most dependent on payroll and household participation.
- Agree on evidence categories and minimum data standards.
- Separate augmentation, productivity, labor compression, and direct labor substitution.

19.2 Day Two - Design the New Tax Base

- Define machine labor, affected functions, baseline labor, machine-attributable value, and private value capture.
- Test the $100M / $1B threshold architecture and AI-native special rule against real firm-size data.
- Design reporting, safe harbors, worker-transition credits, measurement methods, and sample calculations.
- Commission JCT/CBO/Treasury incidence and revenue modeling of multiple rate and base structures.

19.3 Day Three - Build the Governance Framework

- Develop model federal legislative language and federal-state coordination options.
- Design state/local allocation formulas and double-taxation credits.
- Establish audit, appeal, privacy, anti-avoidance, offshore sourcing, and review standards.
- Approve pilot sectors and a timetable for 2028 reporting and 2029 legislative decisions.

CONFERENCE PRINCIPLE

BEGIN WITH ARITHMETIC BEFORE IDEOLOGY.

20. Implementation Roadmap

Period	Primary objective	Recommended action
2026 - preparation	Evidence lock and institutional sponsorship	Finalize source register; identify congressional/state sponsors; establish technical working group; circulate white paper.
2027	Measure and define	National conference; statutory definitions; mandatory or voluntary large-firm reporting pilots; exposure maps; legal and incidence studies.

Period	Primary objective	Recommended action
2028	Validate the base	Sector pilots; audit tests; safe-harbor rules; controlled-group rules; sourcing/apportionment tests; publish results.
2029	Initial statutory phase-in if validated	Limited rate on validated machine-attributable bases for large covered firms; credits and review mechanisms active.
2030-2032	Expand and refine	Broaden sectors as measurement becomes reliable; coordinate state/local participation and international treatment.
2033-2035	Mature framework review	Compare actual labor-base erosion, machine-value growth, revenue performance, incidence, and competitiveness against the book's benchmark scenarios.

The roadmap is deliberately conditional. The purpose of beginning now is to avoid a binary choice later between fiscal inaction and emergency taxation. Early measurement makes lower rates, better exemptions, stronger due process, and more credible international coordination possible.

21. Conclusion: Design the Abundance Before the Crisis

Artificial intelligence and robotics can produce extraordinary gains. They can improve medicine, reduce dangerous work, make transportation safer, expand access to expertise, lower the cost of services, and allow businesses to produce more with fewer physical and cognitive constraints. That is not the future this paper is trying to stop.

The risk is that the production system evolves faster than the fiscal system. A country can become more productive while the connection between production and taxable human labor weakens. If that happens at scale, the old revenue architecture can become less reliable at the same time households and public programs face greater transition demands.

The responsible response is neither panic nor denial. It is design: measure the exposure, define the machine economy, protect augmentation and small business, identify genuine labor replacement, build reporting and attribution rules, test incidence, coordinate governments, and phase any tax gradually.

The Labor Replacement Tax is offered as a framework to begin that work. It should be challenged, modeled, narrowed where necessary, improved where possible, and rejected where the evidence does not support a particular mechanism. But the underlying fiscal question should not be postponed until the answer is demanded by crisis.

CLOSING PRINCIPLE

REPLACE THE LABOR, REPLACE THE REVENUE.
THE TAX BASE MUST FOLLOW THE WORK.

Appendix A - Technical Framework

This appendix condenses the technical architecture developed more fully in AI: The Agents That No Longer Need Us. It is intended to support legislative drafting, pilot reporting, and technical review; it is not final statutory language.

A.1 Tax Base

Taxable machine-driven value should be determined at the affected-function level and should include direct machine-driven revenue and indirect machine-attributable value where labor replacement can be reasonably documented. The base should exclude human-attributable value, unrelated capital returns, ordinary non-replacement software productivity, protected uses, and approved transition costs.

A.2 Covered Taxpayer Structure

Category	Rule
Small-firm safe harbor	Under $100M average annual gross receipts over three years: generally exempt.
Reporting tier	$100M to under $1B: report material machine-labor indicators; not automatic payment tier.
Covered taxpayer	$1B+ average annual gross receipts: potential liability only if substantive test is met.
AI-native special rule	$100M+ machine-driven labor-replacement revenue: potential covered status below $1B total receipts.
Controlled groups	Aggregate economically integrated related entities to prevent threshold fragmentation.

A.3 Protected and Safe-Harbor Uses

- de minimis deployments and early-stage pilots;
- accessibility and assistive systems that increase human participation;
- noncommercial research and public-interest uses where private machine value is not captured;
- worker augmentation without material labor compression;
- documented worker redeployment, retraining, wage-maintenance, and transition activity where authorized as credits;
- value that cannot be reasonably attributed to machine labor replacement.

A.4 Reporting Evidence

Evidence may include payroll records, time studies, workflow maps, machine logs, transaction data, autonomous miles, robot operating hours, API/inference billing, financial statements, cost-accounting records, employment changes, contractor records, deployment plans, related-party agreements, and approved industry benchmarks. No single indicator should automatically establish liability.

A.5 Review and Adjustment

A mature LRT statute should include scheduled review points that examine actual labor displacement, actual labor-linked receipt erosion, machine-driven taxable-base growth, collected revenue, compliance burden, avoidance, competitiveness, program-financing pressure, and state/local fiscal conditions. The benchmark should be evidence-responsive, not mechanically locked if observed conditions differ materially from the stress model.

Appendix B - Source and Methodology Register

The white paper uses five analytical evidence classes. This separation is a core credibility rule and should be preserved in all public versions. The source register then identifies the type of source used for each reported fact.

Evidence class	Meaning	Examples in this paper
Official Data	Reported directly by a government statistical, fiscal, or legal authority.	Treasury receipts; CBO baseline; Census business AI use; BLS projections; SSA financing; California LAO revenue estimates.
Author Calculation	Arithmetic derived from identified source data.	$4.404T combined reference base; 84.1% share; California PIT share; scenario multiplication.
Author Stress-Test Model	Forward-looking assumption or scenario constructed by Marvin B. Wilcher.	52.9% High Robotics Case; $525B support burden; $10T machine-driven value base; 28.5% benchmark.
Policy Proposal	Normative design recommendation, not a forecast.	LRT thresholds, taxability framework, conference, reporting rules, phase-in architecture, revenue allocation.
Illustrative Case Estimate	Scenario calculation that combines reported company facts with explicit author assumptions.	Section 10 federal labor-tax exposure; state/local stress factor; candidate LRT base ranges.

#	Source type	Source	Location
1	Official Data	U.S. Department of the Treasury, Bureau of the Fiscal Service, Combined Statement of Receipts, Outlays, and Balances of the United States Government, Fiscal Year 2025.	https://fiscal.treasury.gov/reports-statements/combined-statement/
2	Official Baseline	Congressional Budget Office, The Budget and Economic Outlook: 2026 to 2036 (February 2026).	https://www.cbo.gov/publication/62105
3	Official Program Finance	Social Security and Medicare Boards of Trustees, 2026 Trustees Report Summary and OASDI report.	https://www.ssa.gov/oact/trsum/
4	Official Survey	U.S. Census Bureau, “Large Firms With at Least 20 Employees Biggest AI Users” (May 26, 2026), Business Trends and Outlook Survey.	https://www.census.gov/library/stories/2026/05/ai-use-businesses.html
5	Official Research	U.S. Census Bureau, CES Working Paper 26-25, The Microstructure of AI Diffusion: Evidence from Firms, Business Functions, and Worker Tasks (April 2026).	https://www.census.gov/library/working-papers/2026/adrm/CES-WP-26-25.html
6	Official Labor Analysis	U.S. Bureau of Labor Statistics, “Incorporating AI impacts in BLS employment projections: occupational case studies” / related Economics Daily summary (2025).	https://www.bls.gov/opub/mlr/2025/article/incorporating-ai-impacts-in-bls-employment-projections.htm
7	Official Business Data	U.S. Census Bureau, Statistics of U.S. Businesses, 2022 Annual Data by Enterprise Receipts Size.	https://www.census.gov/data/tables/2022/econ/susb/2022-susb-annual.html
8	Official State Fiscal Analysis	California Legislative Analyst’s Office, The 2026-27 Budget: Initial Comments on the Governor’s May Revision, Appendix 3 revenue outlook (May 18, 2026).	https://lao.ca.gov/Publications/Report/5187/3
9	Official State Budget	State of California, 2026-27 Enacted Budget (June 29, 2026).	https://ebudget.ca.gov/budget/e/2026-27/BudgetDetail

#	Source type	Source	Location
10	Company Primary Source	Amazon, "Amazon launches a new AI foundation model to power its robotic fleet and deploys its 1 millionth robot" (June 30, 2025).	https://www.aboutamazon.com/news/operations/amazon-million-robots-ai-foundation-model
11	Company Primary Source	Waymo, "Same Driver, new vehicle: Welcoming our first rider trips in the Ojai" (May 2026).	https://waymo.com/blog/2026/05/welcoming-riders-in-the-ojai/
12	SEC / Company Primary Source	Aurora Innovation, Second Quarter 2026 Shareholder Letter filed as Exhibit 99.1 to Form 8-K (July 29, 2026).	https://ir.aurora.tech/sec-filings/all-sec-filings/content/0001828108-26-000075/aurora26q2shareholderlet.htm
13	Industry Primary Source	International Federation of Robotics, World Robotics 2025 - Industrial Robots.	https://ifr.org/worldrobotics/report-2025
14	Primary Legal Source	Congress.gov Constitution Annotated, Article I, Section 8, Clause 1 - Taxing Power.	https://constitution.congress.gov/browse/article-1/section-8/
15	Primary Legal Source	Congress.gov Constitution Annotated, Sixteenth Amendment - Income Tax.	https://constitution.congress.gov/browse/amendment-16/
16	Author Technical Source	Marvin B. Wilcher, AI: The Agents That No Longer Need Us, Appendix A - Labor Replacement Tax Technical Framework.	Author manuscript, 2026. ISBN 9798255102167.
17	Author Methodology Source	Marvin B. Wilcher, AI: The Agents That No Longer Need Us, Appendix B - Sources and Model Calculations.	Author manuscript, 2026. ISBN 9798255102167.
18	SEC / Company Primary Source	Klarna Group plc, Annual Report 2025 / SEC filing (2026).	https://www.sec.gov/Archives/edgar/data/2003292/000200329226000007/klar-20251231.htm
19	SEC / Company Primary Source	Klarna Group plc, Investor Presentation filed as Exhibit 99.2 (2025), including AI customer-service FTE-equivalent and annualized savings estimates.	https://www.sec.gov/Archives/edgar/data/2003292/000162828025052805/exhibit992klarnapresenta.htm
20	Company Primary Source	Salesforce, "The World's Largest Agentic AI Deployment? Salesforce Is Running It on Itself" / Agentforce Customer Zero (January 16, 2025).	https://www.salesforce.com/news/stories/agentforce-customer-zero/
21	Reported Direct CEO Statement	Fortune, "Salesforce CEO Marc Benioff says AI cut 4,000 customer service jobs" (September 2, 2025), reporting Benioff's public comments and Salesforce redeployment context.	https://fortune.com/2025/09/02/salesforce-ceo-billionaire-marc-benioff-ai-agents-jobs-layoffs-customer-service-sales/
22	SEC / Company Primary Source	Salesforce, Inc., 2026 Proxy Statement, fiscal-2026 median employee compensation.	https://www.sec.gov/Archives/edgar/data/1108524/000110852426000085/crm-20260416.htm
23	SEC / Company Primary Source	Block, Inc., Fourth Quarter 2025 Shareholder Letter filed as Exhibit 99.1 to Form 8-K (February 26, 2026).	https://www.sec.gov/Archives/edgar/data/1512673/000119312526076557/d108590dex991.htm
24	SEC / Company Primary Source	Block, Inc., First Quarter 2026 Shareholder Letter filed as Exhibit 99.1 to Form 8-K (May 7, 2026).	https://www.sec.gov/Archives/edgar/data/1512673/000119312526212032/d132441dex991.htm

#	Source type	Source	Location
25	SEC / Company Primary Source	Block, Inc., 2026 Proxy Statement, employee geography and median employee compensation.	https://www.sec.gov/Archives/edgar/data/1512673/000162828026027203/sq-20260423.htm
26	Official Tax Guidance	Internal Revenue Service, "IRS releases tax inflation adjustments for tax year 2026" (October 9, 2025).	https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill
27	Official Tax Guidance	Internal Revenue Service, Publication 15 (2026), Employer's Tax Guide.	https://www.irs.gov/publications/p15
28	Official Tax Guidance	Internal Revenue Service, Instructions for Form 1120, U.S. Corporation Income Tax Return (2025 revision, posted 2026).	https://www.irs.gov/instructions/i1120

Methodological Notes

- Official-source figures are stated as official data and not converted into forecasts without explicit labeling.
- Individual income tax is not treated as entirely wage-derived; the paper uses labor-linked and labor-exposed terminology.
- The $4.404T reference base is an exposure indicator, not a predicted loss amount.
- The 10%, 20%, 30%, and 52.9% cases are sensitivity/stress assumptions. The 52.9% High Robotics Case is the author's severe scenario.
- Company and industry deployment figures are used only to demonstrate commercialization and scale, not to infer net employment loss.
- The 28.5% benchmark is a model output based on the author's $2.85T funding-cliff stress case and $10T assumed machine-driven taxable base.
- Final legislation would require JCT/CBO/Treasury revenue scoring, tax-incidence analysis, legal review, administrative testing, and international coordination.

- Section 10 company facts are reported from cited public sources; the labor-tax, state/local, and candidate LRT amounts are author illustrative estimates, not reported company liabilities or government revenue losses.
- The Section 10 estimates deliberately separate reported facts from assumptions. Appendix C states the assumptions and should be read with Exhibits 5-7.

Appendix C - Illustrative Real-World Case Methodology

This appendix explains the assumptions behind the real-world company illustrations in Section 10. It is designed to make the estimates reproducible and challengeable. Nothing in this appendix is an audit, an assessment of actual tax liability, or a claim that every cited workforce change was caused solely by AI.

C.1 Reported Facts vs. Author Estimates

Reported facts come from company disclosures, SEC filings, official tax guidance, or clearly identified public reporting. Author estimates begin only after those reported facts. When a figure depends on an assumption - such as the share of affected jobs located in the United States, a compensation proxy, a machine-attribution percentage, or a state/local stress factor - the assumption is stated explicitly.

C.2 Federal Labor-Tax Exposure Method

The federal labor-tax illustration combines estimated individual federal income tax with both the employee and employer shares of Social Security and Medicare taxes. The model uses the 2026 single-filer standard deduction of $16,100 and the 2026 single-filer tax brackets. It uses a 6.2% Social Security rate for both employee and employer up to the $184,500 wage base, a 1.45% Medicare rate for both employee and employer with no wage ceiling, and the 0.9% Additional Medicare Tax on employee wages above $200,000 where applicable. The model excludes filing-

status differences, itemized deductions, credits, tax-exempt benefits, equity-tax timing, unemployment taxes, and other taxpayer-specific rules.[26,27]

C.3 State and Local Connected-Revenue Stress Factor

Because the exact residence, work location, spending pattern, and reemployment status of affected workers are not public, the main text uses a deliberately simple 6% author stress factor applied to modeled compensation. The factor is a rough proxy for direct state/local income-related revenue plus connected sales-tax and local-business effects. It is not an official rate, should not be applied to an actual taxpayer, and is used only to show order of magnitude. A legislative model would require jurisdiction-specific tax rates, household-spending behavior, reemployment assumptions, and dynamic scoring.

C.4 Company Illustration Assumptions

Company	Reported starting point	Modeling assumption	Modeled compensation / labor cost	Federal labor-tax exposure	Illustrative LRT at 10%
Klarna	700+ FTE-equivalent work; ~$39M 2024 AI-assistant savings	Treat $39M as U.S.-equivalent labor-cost proxy for exposure illustration	~$39M	~$9M	~$3.9M if the full $39M were qualifying and U.S.-sourced
Salesforce	Support organization reported around 9,000 to 5,000; median employee compensation $166,753	3,000-4,000 labor-equivalent positions; $100K-$166,753 compensation; 25%-50% machine attribution for candidate LRT base	~$300M-$667M	~$85M-$217M	~$7.5M-$33M
Block	Workforce >10,000 to <6,000; 7,732 of 10,197 employees in U.S.; median compensation $222,772	~3,033 U.S. affected positions if reduction follows geography; $150K-$222,772 comp; 25%-50% machine attribution	~$455M-$676M	~$145M-$219M	~$11M-$34M

The three examples should not be added together to imply an actual national LRT liability. Klarna and Salesforce operate globally, the U.S. location of the affected labor is not fully disclosed, and the machine-attribution ranges for Salesforce and Block are author scenarios. The figures are useful because they show what a reporting and measurement system could test once better data exist.

C.5 Corporate-Tax Offset Illustration

The regular federal corporate income-tax rate is 21% of taxable income. A simplified $100 million payroll saving that became $100 million of additional U.S. taxable corporate income could therefore be associated with up to $21 million of regular corporate income tax before other rules and adjustments. The example is intentionally mechanical. It does not assume that payroll savings always become taxable profit, and it is not a substitute for JCT or Treasury scoring.[28]

C.6 Interpretation Rule

The real-world cases are evidence of a mechanism, not proof of a tax bill. The relevant policy sequence is: identify machine execution; measure actual labor replacement or avoided labor; identify measurable private value; subtract human contribution, transition costs, credits, and exclusions; determine sourcing; account for taxes already capturing the same value; and only then determine whether any LRT liability remains.