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Tax Rent, Not Effort

Other tax and fiscal policy: an overview of section 2

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ABSTRACT

Governments that let capital and people move freely find it hard to tax mobile income at high rates, so they give up on high rates altogether. This section argues that the constraint binds only on the wrong base. Economic rent, income above what keeps an asset or a firm in use, can be taxed heavily without driving anything away if the tax reaches it where it cannot leave: at origin where the rent is tied to the place, and at destination where it follows the customer. The section's paper, Rent Tax, combines a land value tax above a household allowance with a tax at 50 percent on large firms' profit above a normal return, two destination layers that follow the customer, and a cap that stops any firm paying more than half the rent it earns from local customers. Its revenue estimates, built from sourced inputs, are 1.0–2.7 percent of GDP from land and 2.3–6.3 percent from the corporate layers. A second paper, Let Land Pay for the City, applies the land tax to fast-growing cities in developing countries: a recurrent land value tax plus capture of the uplift that infrastructure creates can fund much of their transit and services, and because the tax rewards compact building it is also a green tax. The book *Plucked!* gives the longer argument for UK tax and benefits.

Overview of section 2, version 0.2, October 2026. Stephen J. Stretton, writing in a personal capacity. The views expressed are the author's own and do not represent those of any institution with which he is or has been affiliated. Paper 2.1 comes as a short policy brief and a full working paper; paper 2.2 is a working paper.

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Free movement limits the rates a country can charge on mobile income

Free movement of capital and people has pushed governments to give up on high taxes on mobile income. The number of OECD countries levying an individual net wealth tax fell from twelve in 1990 to four in 2017 (OECD 2018), and about 36 percent of multinational profits are shifted to tax havens (Tørsløv et al. 2023). A country that taxes mobile capital income at a high rate at origin watches the declared base leave: the evidence implies that reported profits fall by about 1.5 percent for each percentage point by which a country's rate exceeds others' (Beer et al. 2020).

That response gives up more than it needs to. The rate a country can sustain depends on the base. Taxing a base that can leave invites it to leave. Taxing rent, income that would be earned anyway, changes nothing anyone does, so the rate can be high, provided the tax reaches the rent where it cannot move (Mirrlees et al. 2011). Norway already taxes petroleum profit at a marginal 78 percent on a base that exempts the normal return (Norwegian Ministry of Energy and Norwegian Offshore Directorate 2025).

The section sits beside the carbon-pricing papers of section 1 rather than inside them. Carbon pricing taxes a harm; the instruments here tax rent. Both follow one rule: put the tax where it changes behavior you want changed, or where it changes no behavior at all.

Tax land above an allowance, and tax large firms' rent where it cannot leave (paper 2.1)

Land cannot move, so tax it above a household allowance (paper 2.1). A tax of about 2.5 percent a year on site value above an allowance close to the site value of an ordinary home falls on large holdings, not on ordinary homeowners. Because land supply is fixed, the tax lowers land prices once and changes no use of land; Pennsylvania cities that taxed land more than buildings saw more building (Oates and Schwab 1997).

Presume that large firms earn rent, and tax only the profit above a normal return. The first corporate layer deducts a normal return on equity and taxes the rest at 50 percent for large groups, so the marginal investment pays nothing at any rate and investment is not discouraged (Stretton 2026c).

Follow the customer where profit can be booked anywhere. For a short list of sectors whose rent is easily shifted, such as digital platforms, a second layer taxes local sales less local costs at 22 percent, with the first layer credited. For all large groups, a third layer charges 4 percent of local sales less credits of 8 percent of local assets and 25 percent of local payroll, so a firm that invests and employs locally pays little. A cap stops the destination layers at half the group's global rent margin times its local sales, which protects low-margin firms (Stretton 2026b).

The design taxes rent at about half and leaves the normal return untaxed. In the paper's stylized firms, a foreign digital platform that pays about 1 percent of its local rent in tax today would pay 50 percent; a domestic manufacturer pays nothing on its normal return. Its weak point is a foreign seller outside the designated sectors, whose rate rises only from 4 to 13 percent, which the paper states as an open problem (Stretton 2026c).

The revenue is real, and the destination layers are what make the high rate pay. Built from sourced inputs, the land tax raises 1.0–2.7 percent of GDP after allowing for the fall in land prices it causes, and the corporate layers 2.3–6.3 percent; these are orders of magnitude, not forecasts. The April 2026 draft's figure of 5.5–11.5 percent was unsourced and is superseded (Stretton 2026c).

European Union law allows most of the design. The Court of Justice upheld Hungary's steeply progressive turnover taxes against a freedom-of-establishment challenge (Court of Justice of the European Union 2020) and found that Poland's progressive retail tax was not state aid (Court of Justice of the European Union 2021). Land taxes apply alike to resident and foreign owners. The main legal risk is a credit that rewards local but not foreign labor; the paper's drafting answers it.

Let land pay for the city: land value funds green urban infrastructure (paper 2.2)

Infrastructure raises the value of the land it serves, so land should pay for it (paper 2.2). Developing countries collect property taxes worth 0.1 to 0.4 percent of GDP, against about 1 percent from recurrent property taxes alone in the OECD, while the cities of Africa and Asia prepare to add about 2.5 billion people by 2050 (Stretton 2026a). A recurrent tax on land value, together with one-off capture of the uplift when roads and transit are built, can fund a large share of their trunk infrastructure.

Hong Kong and Singapore show the model at scale. Hong Kong grants its rail company station development rights at their value before the railway, and property provided about 59 percent of the company's underlying profit in 2024. Singapore assembled about 90 percent

of its land in public hands and taxes 70 percent of the rise in land value that planning permission creates (Stretton 2026a).

A property tax that falls mainly on land is a green tax. It rewards compact building, makes idle land at the urban fringe costly to hold and lets transit pay its way. The compact, walkable city it supports prevents deaths from road crashes, air pollution and inactivity, burdens that fall mostly on low- and middle-income countries. The paper sets out five planning choices that put the model within reach of poor cities and a best-practice outline for a property tax and land value capture code (Stretton 2026a).

The longer argument: *Plucked!*

***Plucked!* makes the long-form case for reforming UK taxes and benefits** (Stretton and Styles 2020). Written with Gordon Styles in 2020, its fourteen chapters cover tax principles and practice, welfare and work, inequality, corporations, land and property, money and debt, and environment and resources; its chapters on land and corporations are the long form of the argument that Rent Tax states compactly. The book is kept in this section's folder and can be read online, chapter by chapter, under Books and Other Papers.

Stranded by Contract, on India's legacy coal power contracts, is in Other Writing (paper 8.1). It starts from the observation that a coal plant can be stranded in economic terms while its contract keeps the money flowing; the folder holds country material but no paper yet.

The papers in this section

No.	Paper	Status
2.1	Taxing Rent, Not Effort: A Simple Design for Land and Corporate Taxation Consistent with Free Movement of Capital and People	Working paper v0.2, brief v1.0 and 10-slide deck (31 October 2026); peer-reviewed, every citation checked
2.2	Let Land Pay for the City: Property Taxes, Public Land and Land Value Capture to Fund Green Urban Infrastructure in Developing Countries	Working paper v0.1 (31 October 2026); figures checked; no brief or deck yet

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Stretton, Stephen J. 2026a. "Let Land Pay for the City: Property Taxes, Public Land and Land Value Capture to Fund Green Urban Infrastructure in Developing Countries." Unpublished manuscript.

Stretton, Stephen J. 2026b. *Taxing Rent, Not Effort: A Simple Design for Land and Corporate Taxation Consistent with Free Movement of Capital and People*. 2.1. Climate Fiscal Policy Briefs.

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