Tax Rent, Not Effort

Other tax and fiscal policy: section 2 in ten slides

Free movement caps the rate on income that can move, not on rent that cannot. Tax land above a household allowance, and tax large firms' rent where it cannot leave: at origin where it is tied to the place, at destination where it follows the customer.

Stephen J. Stretton · writing in a personal capacity

Free movement has pushed governments to give up on high taxes on mobile income

12 → 4

OECD countries with an individual net wealth tax, 1990 → 2017

36%

of multinational profits shifted to tax havens

1.5%

fall in reported profits per point by which a country's rate exceeds others'

Taxing a base that can leave invites it to leave. Rent that cannot leave can be taxed at high rates.

Source: OECD (2018); Tørsløv, Wier and Zucman (2023); Beer, de Mooij and Liu (2020).

Rent can be taxed at high rates if the tax reaches it where it cannot leave

Rent is income above what keeps an asset or a firm in use. Taxing it changes nothing anyone does.

Some rent is tied to a place: land, natural resources, a large local market. Tax it at origin.

Some rent can be booked anywhere: patents, brands, platforms. Tax it where the customer is.

Proof of concept: Norway taxes petroleum profit at a marginal 78% on a base that exempts the normal return.

Source: Mirrlees et al. (2011); Norwegian petroleum tax system (2025).

Tax land above a household allowance, so large holdings pay and ordinary homes do not

About 2.5% a year on site value above an allowance close to the site value of an ordinary home.

Land cannot move: the tax lowers land prices once and changes no use of land.

Evidence: Pennsylvania cities that taxed land more than buildings saw more building.

Safeguards: regular revaluation, a phased rate, deferral for owners rich in land but poor in cash.

Source: Paper 2.1; Oates and Schwab (1997).

Presume that large firms earn rent, and tax only the profit above a normal return

Layer One: deduct a normal return on equity; tax the rest at 50% for large groups.

The marginal investment pays nothing at any rate, so investment is not discouraged.

A high rate at origin alone drives profit abroad, so two further layers follow the customer.

Source: Paper 2.1, Proposition 2; Boadway and Bruce (1984).

Two destination layers follow the customer, capped so low-margin firms are spared

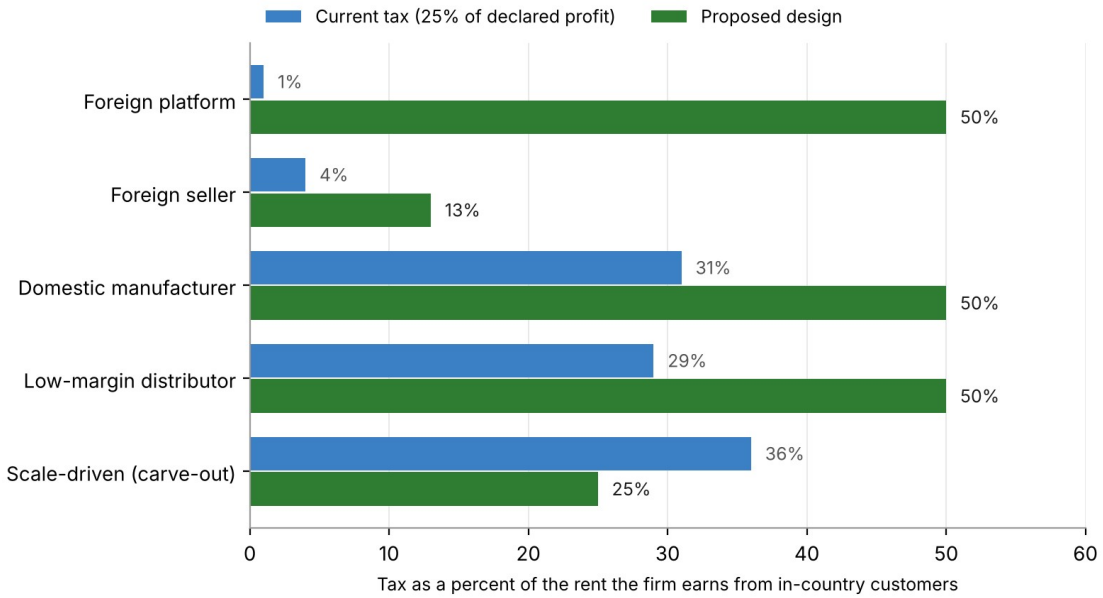
Layer Two, a few sectors: 22% of local sales less local costs; Layer One credited.

Layer Three, all large groups: 4% of local sales, less credits of 8% of local assets and 25% of local payroll.

The cap: the destination layers stop at half the group's global rent margin times its local sales.

Source: Paper 2.1, Section on the corporate layers.

The design taxes rent at about half and leaves the normal return untaxed



Foreign platform: about 1% today, 50% under the design.

Weak point: a foreign seller outside the designated sectors rises only from 4% to 13%.

Domestic manufacturer: nothing on its normal return.

Source: Paper 2.1, Table 1 and Figure 1 (stylized firms).

The revenue is real, and the destination layers make the high rate pay

Percent of GDP	Low	High
Land value tax above the household allowance	1.0	2.7
Layer One, after profit shifting	2.3	4.3
Layers One to Three, with shifted rent recaptured	4.5	6.3

Orders of magnitude from sourced inputs, not forecasts; land values fall when the tax is announced and the estimate allows for it. The April 2026 sketch's 5.5–11.5% was unsourced.

Source: Paper 2.1, Table 2 and Appendix; Eurostat; OECD Revenue Statistics.

European Union law allows most of the design; the payroll credit is the main legal risk

Turnover taxes upheld: Hungary's steeply progressive turnover taxes are compatible with freedom of establishment (2020); Poland's retail tax is not state aid (2021).

Land: the tax applies alike to resident and foreign owners.

Payroll credit: relief for local but not foreign labor needs careful drafting.

The long form: Plucked! (with Gordon Styles, 2020) makes the case for UK tax and benefits reform, online chapter by chapter.

Source: CJEU C-75/18 and C-323/18 (2020); C-562/19 P (2021); Stretton and Styles (2020).

What to do

What section 2 shows

Land: a tax above an allowance reaches large holdings and cannot be escaped.

Neutrality: a tax on profit above a normal return spares investment at any rate.

Mobility: a high rate at origin is safe only for rent tied to the place.

Destination and cap: rent follows the customer; the cap spares low-margin firms.

Actions

Finance ministries: replace property taxes with a land value tax above a household allowance, on updated values.

Corporate tax: an allowance for corporate equity for all firms; 50% on large groups' rent, phased in.

Then: the destination layers and the cap; EU members together, to leave less room for shifting.