Taxing Rent, Not Effort

Land and corporate taxation consistent with free movement of capital and people

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

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

12 → 4

OECD countries with a net wealth tax, 1990 → 2017

36%

of multinational profits shifted to tax havens

7% → 22%

share of US wealth held by the top 0.1 percent, 1978 → 2012

Before 1990, capital that could not leave could be taxed. Once it could leave, it did.

Source: OECD (2018); Tørsløv, Wier and Zucman (2023); Saez and Zucman (2016); Council Directive 88/361/EEC.

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, so the rate can be high.

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

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 percent, on a base that exempts the normal return.

Source: Mirrlees et al. (2011), ch. 18; Norwegian petroleum tax system (2025).

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

About 2.5 percent a year on site value above an allowance close to the site value of an ordinary home. Business land taxed in full.

Land cannot move, and its supply is fixed: the tax lowers land prices once and changes no use of land.

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

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

Source: Mirrlees et al. (2011), ch. 16; Oates and Schwab (1997); Banzhaf and Lavery (2010); OECD (2022).

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

A firm that is large and stays large earns rent, unless its industry can support only a few firms (civil aircraft, leading-edge chips).

US markups rose from 21% to 61% above cost since 1980; the measurement is disputed, and efficient firms' surplus is rent too.

Layer One: deduct a normal return on equity, tax the rest at 50 percent for groups above €750 million.

The marginal investment pays nothing at any rate, so investment and innovation are not discouraged.

Source: De Loecker, Eeckhout and Unger (2020); Basu (2019); Boadway and Bruce (1984); Bond and Devereux (2003).

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

Reported profit rises 1.5% for each point a country's rate is below others'. Doubling the rate on rent could cut the declared base by over a third.

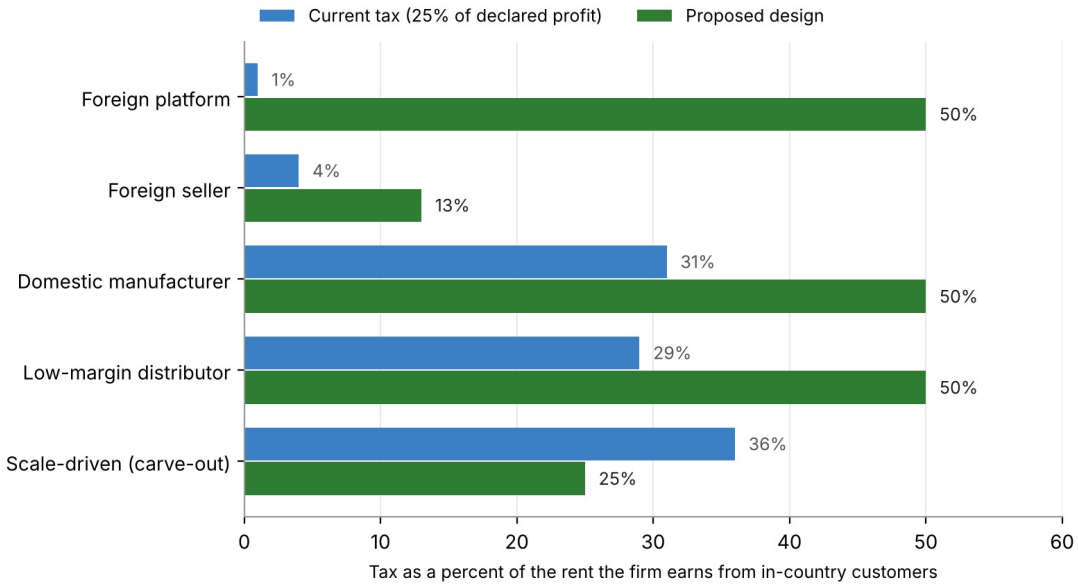
Layer Two, a few sectors: 22 percent of local sales less local costs; royalties to related firms abroad not deductible.

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

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

Source: Beer, de Mooij and Liu (2020); Devereux et al. (2021); OECD (2021).

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



Foreign platform: 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; the cap protects the low-margin distributor.

Tax as a percent of the rent each stylized firm earns from local customers.

Source: Author's calculation; working paper 2.1, Table 1 and Figure 1.

The revenue is real, but the destination layers are what make the high rate pay

Percent of GDP	Low	High
Land value tax above the household allowance	1.0	2.7
Layer One alone, after profit shifting	2.3	4.3
Layers One to Three, if shifted rent is recaptured	4.5	6.3
Today: corporate income tax, OECD average 2023	3.75	3.75
Today: recurrent property taxes, OECD average 2023	0.95	0.95

Order of magnitude. Land values fall about 38 percent when the tax is announced; the estimate allows for it.

Source: Eurostat land balance sheets 2023; OECD Revenue Statistics; working paper 2.1, Table 2 and Appendix D.

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: cannot move, and the tax applies alike to resident and foreign owners.

Payroll credit: relief for local but not foreign labor is the main trade objection to destination taxes; a sales charge plus a separate payroll subsidy avoids it.

Layer Two: no export rebate, a short list of sectors, and services where possible, to limit the trade-law risk of a border adjustment.

Source: CJEU C-75/18 and C-323/18 (2020); C-562/19 P (2021); Auerbach, Devereux, Keen and Vella (2017).

What to do

What the analysis 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 origin rate 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 percent on large groups' rent, phased in.

Destination layers: a short list of sectors, the presence-credited sales charge, and the cap.

EU members: act together to leave less room for shifting.