

Revenue over time and adaptive behaviour

Turn a static tax calculation into a transparent multi-period analysis. The chapter's behavioural and political mechanisms become hypotheses to test, including migration, restructuring, leverage, valuation disputes, and the use of uncertain receipts to finance lasting commitments.

2 lessons · approximately 5 hours, plus multi-day practice

How to use this workbook

Read the assigned manuscript first. This workbook contains accompanying teaching and invented cases, not a revision of the source. Attempt exercises before consulting the rubrics and explanations. Written work is self-assessed or discussed with a tutor; no secure examination, academic credit or certificate is implied. Use a clearly labelled fictional case when live practice or personal disclosure would be unsuitable. Links use the course's intended publication address; for offline review, open the supplied source PDF at the full-book page numbers shown.

- Identify the book's one-year fallacy.
- Classify behavioural responses without double-counting.
- Evaluate the evidence needed for migration claims.
- Calculate gross and net multi-year scenarios.
- Assess leverage and political feedback.

[Open the module and source reading links](#)

Lesson sequence

1. From a static estimate to adaptive taxpayers
2. Dynamic budgets, leverage, and political feedback

From a static estimate to adaptive taxpayers

Allow approximately 75 minutes, plus any continuing activity.

Learning objectives

- Distinguish an accounting snapshot from a forecast of recurring receipts.
- Identify reporting, real-activity, and location responses.
- Trace structural avoidance and administrative arbitrage without presuming fraud.

Assigned source readings

Chapter 14: The “One-Year” Fallacy; I. What the one-year estimate actually is; II. The behavioural response principle: people do not sit still while being taxed; III. Avoidance: the predictable growth industry; A. Structural engineering; B. Complexity as camouflage; C. Administrative arbitrage; IV. Migration: the understated exit option

Full-book PDF pages 190–194. Section links open the chapter at the relevant page.

Chapter 14 Notes:; The "Hazlitt" Examples (Primary)

Full-book PDF pages 198–200. Section links open the chapter at the relevant page.

Develop the argument

A first-year number has a specification

The book defines the “one-year fallacy” as treating a point-in-time revenue calculation as a stable stream that repeats despite adaptation. Its initial target is an inference, not multiplication itself. Rate times base is useful accounting if the rate, date, base, and assumptions are explicit. Trouble begins when a static result is presented as a durable forecast without showing how those inputs evolve. Section I lists omissions to check: reporting, ownership structure, location, prices, work, investment, compliance, and political response. A careful analyst should not assume that every published estimate omits these factors. Inspect the estimate before criticising it. Likewise, one-time revenue can legitimately fund a one-time purpose; using it for a permanent commitment requires a different justification and a financing plan for later years.

Behavioural response is a set of mechanisms, not one number

Section II lists avoidance, migration, restructuring, leverage, valuation disputes, timing changes, and expenditure on compliance. These channels can overlap, so do not add them mechanically. Moving a company’s reported intellectual-property income might change the tax base without moving its physical production. Delaying a sale shifts receipts between years rather than necessarily eliminating them. Reducing investment changes a real activity and may affect later production. The chapter’s assertion that taxing a behaviour always produces less is stronger than the analysis needs. Responses depend on the available alternatives, elasticities, enforcement, and design. Some bases are hard to move; public spending could also affect future activity. The transferable discipline is to specify a plausible margin of response, its timing, and evidence for its size, rather than invoking incentives as an all-purpose verdict.

Three avoidance channels create different information demands

The book divides avoidance into structural engineering, complexity as camouflage, and administrative arbitrage. Structural engineering changes ownership, recognition, domicile, or entity form to obtain different treatment. Complexity can increase the cost of measuring and auditing a claim. Administrative arbitrage responds to finite enforcement resources by concentrating activity where scrutiny is weaker. These are analytical categories, not instructions for evading tax. A design review uses them to ask where clear definitions, reporting, and review might work, and where they might simply move the problem. Legal avoidance and illegal evasion must remain distinct. The existence of professional planning expenditure also does not establish that all such expenditure is socially wasted: some creates compliance and certainty. Evaluate its incremental cost relative to a specified alternative, including the resources required by the government.

Migration is about margins and concentration

Section IV broadens exit beyond a person leaving the country. New investment, headquarters, intellectual property, and future ventures may locate elsewhere even when an existing business remains. Concentration means a few large taxpayers could matter considerably, but possibility is not a measured elasticity. The chapter's French and New Jersey examples are presented as evidence of damaging exit. Its notes attribute specific numbers to Pichet and Young and colleagues; those summaries have not been independently verified here, and the New Jersey narrative requires particularly careful checking against the original study. A good learner asks who moved, over what period, compared with what counterfactual, and whether other taxes or public benefits were included. That preserves the migration mechanism without turning a vivid historical claim into a universal prediction.

A static grant promise

Invented for this course.

In an invented province, a 2% levy on a 10-billion measured base is advertised as 200 million annually for permanent training grants.

1. Compute 200 million as a static gross figure and label its assumptions.
2. Separate a reporting shift from actual relocation, and identify whether either is already incorporated in the estimate.
3. Examine concentration: receipts from the largest ten payers may be more exposed than the count of taxpayers suggests.
4. Ask whether grant spending improves future activity and what evidence would justify a net adjustment.

The arithmetic is correct under its assumptions. Repetition and net social value remain separate empirical questions.

Practice and evidence

1. Inspect a revenue claim

Use the invented 2% rate and 10-billion base. Build an assumption register for a five-year promise.

Deliverable: A seven-entry register with each assumption, response channel, timing, and data need.

1. Start with the chapter's listed omissions.
2. Distinguish reporting changes from real activity and migration.
3. Identify any effects that could overlap or offset one another.

Specification • 2 points

States the date, base, rate, gross status, and spending horizon.

Mechanisms • 2 points

Gives specific behavioural channels rather than an unsupported percentage discount.

Evidence • 2 points

Names information needed to estimate timing and magnitude and flags overlap.

2. Evaluate a migration citation

Review the chapter's French and New Jersey narratives as source claims. Design the checks needed before reusing their numbers.

Deliverable: A 350-word verification plan and a cautious interim sentence for each example.

1. Identify the attributed source, period, outcome, and asserted cause.
2. Ask whether net and gross flows differ and what comparison identifies a tax effect.
3. State what can be taught before the original findings are verified.

Source fidelity • 2 points

Accurately attributes the examples without asserting verification.

Causal assessment • 2 points

Distinguishes departures from tax-caused departures and lost income from net fiscal effects.

Cautious reuse • 2 points

Retains the mechanism while marking the numerical claims unresolved.

Reflection

Which assumption in a revenue forecast would you examine first, and what would make it consequential rather than merely uncertain?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. A forecast explicitly models taxpayer responses over ten years. Is it necessarily the one-year fallacy?

- A. Yes, any tax forecast is a fallacy.
- B. No; inspect its assumptions and evidence rather than labelling it from its topic.
- C. Yes, because models use arithmetic.
- D. No forecast ever has uncertainty.

2. A taxable sale moves from December to January with no change in the underlying asset. Which response is most directly observed?

- A. Permanent destruction of production.
- B. Personal migration.
- C. Timing displacement between fiscal periods.
- D. Proof that the whole tax is uncollectable.

3. Why might a small count of migrating taxpayers matter?

- A. A concentrated base can place a large share of receipts with a few people.
- B. Every migrant always takes all domestic employment away.
- C. Only headcounts determine revenue.
- D. Migration needs no counterfactual analysis.

Answer explanations

1. B — No; inspect its assumptions and evidence rather than labelling it from its topic.

The error is treating a static snapshot as a durable stream, not forecasting tax revenue itself. A dynamic model can still be wrong, but requires a specific critique.

2. C — Timing displacement between fiscal periods.

The observation concerns timing. Additional evidence is needed to infer lasting revenue loss or real output effects.

3. A — A concentrated base can place a large share of receipts with a few people.

Concentration connects taxpayer counts to revenue exposure. It does not prove the migration was tax-caused or that every related activity departs.

Dynamic budgets, leverage, and political feedback

Allow approximately 75 minutes, plus any continuing activity.

Learning objectives

- Build a multi-period gross and net revenue scenario.
- Explain how leverage and valuation interact with recurring obligations.
- Assess political feedback and historical illustrations without treating decline as inevitable.

Assigned source readings

V. Restructuring: the base becomes something else; VI. Leverage: the silent transformation of a tax into fragility; VII. Valuation games: when the tax base becomes a legal argument; VIII. The “annuity” illusion: why revenue estimates do not repeat; IX. The political feedback loop: policy does not remain static; X. The moral temptation: one-year estimates as permission to stop thinking; XI. A plain-language summary: why “just one year” is never “just one year”; The Lesson Line; Chapter 14 Notes;; The “Hazlitt” Examples (Primary)

Full-book PDF pages 194–200. Section links open the chapter at the relevant page.

Develop the argument

The base can change its form as well as its size

Sections V through VII follow adaptation inside the tax definition. Income can change form, transactions can be bundled or retimed, and asset ownership can become harder to value. A narrower measured base does not necessarily mean an equal reduction in national wealth. First determine whether activity vanished, moved, became exempt, or was reported differently. Recurring liabilities on illiquid holdings may also encourage borrowing rather than sale. The chapter describes the resulting exposure to interest costs, collateral calls, and downturns as a transformation into fragility. This is a conditional mechanism: liquidity reserves, instalments, deferrals, thresholds, and the borrower’s existing position matter. An exercise should show a cash-flow gap and a financing response before claiming tax-induced leverage, rather than assuming every holder must borrow or liquidate.

Build a sequence instead of extending a snapshot

The “annuity” illusion arises when first-year receipts are copied into later budgets without accounting for adjustment. Create a year-by-year model with a clearly defined opening base, market changes, entry and exit, reporting effects, rate, collection rate, and administrative costs. Keep the categories mutually intelligible so one effect is not deducted twice. In an invented scenario, a two-percent rate on bases of 10, 9.5, and 9 billion produces gross receipts of 200, 190, and 180 million. If administration costs 10, 12, and 14 million, net receipts are 190, 178, and 166 million. These numbers illustrate bookkeeping, not expected tax outcomes. Add a stable-base or growing-base case. A forecast is strengthened by showing what would produce a different path, not by selecting only assumptions that make the chapter’s warning come true.

Policy itself responds to outcomes

Section IX treats the legal regime as another changing part of the system. Lobbying, court decisions, exemptions, enforcement priorities, public reactions, and market expectations can alter both receipts and costs. The chapter sketches a downward spiral in which disappointing yields produce higher rates and more enforcement, prompting further avoidance. That is a scenario requiring links, not a mathematical necessity. Officials might instead simplify the base, improve collection, reduce the rate, replace the instrument, or alter expenditure. A useful feedback diagram includes these competing responses and identifies decision points. It also separates a revenue forecast from a welfare assessment: a policy could raise less than advertised yet still have benefits, or raise the expected amount at unacceptable cost. Define success before using a revenue shortfall as a complete judgment.

Read the moral rhetoric and examples with discipline

The closing sections challenge claims that a small or temporary tax has no growth, liquidity, incidence, or compliance effects. Translate each reassurance into a question that can be investigated. The chapter's French-exodus, yacht-tax, and static-scoring examples all follow claim, hidden assumption, mechanism, and lesson. Use that structure while treating the cited quantities as unverified source assertions. Yacht sales and employment can change for reasons besides a particular tax, so a proper evaluation needs a counterfactual and clear fiscal accounting. The source also moves between a genuinely one-time tax and the rhetorical use of one year's proceeds to describe a recurring policy. These are different designs, although both can provoke anticipatory behaviour. End with a conditional recommendation and a monitoring plan, not the claim that every tax must lose revenue over time.

The endowment cash-flow gap

Invented for this course.

In a fictional regional fund, a recurring asset levy creates a 300,000 cash requirement while available unrestricted cash is 100,000. Trustees consider borrowing the remaining 200,000.

1. Identify the 200,000 gap without assuming the entire portfolio must be sold.
2. Compare borrowing, asset sale, and an available instalment option using the same horizon.
3. Stress-test lower collateral values and higher financing cost without asserting those shocks will occur.
4. Distinguish current receipts for government from future risks borne by the fund and its beneficiaries.

Recurring liabilities can change balance-sheet risk, but the actual response depends on financing options and the institution's position.

Practice and evidence

1. Produce a three-year scenario budget

Use the stated 10, 9.5, and 9-billion bases, 2% rate, and 10, 12, 14-million administrative costs. Add a constant-base comparison.

Deliverable: A calculation sheet and a 250-word interpretation.

1. Calculate gross and net receipts in each case.
2. Compare totals with three copies of first-year gross revenue.
3. Explain which assumptions describe behaviour and which are merely illustrative.

Arithmetic · 2 points

Finds declining-case gross 570m and net 534m, while identifying the static 600m gross benchmark.

Comparable accounting · 2 points

Uses the same cost assumptions for the constant-base comparison and labels gross versus net.

Interpretation · 2 points

Does not present the hypothetical decline as evidence about an actual jurisdiction.

2. Map a feedback loop with an exit

Analyse a legislature that responds to lower receipts by raising the rate. Include a plausible alternative response.

Deliverable: A six-link causal map, alternative branch, and monitoring proposal.

1. Show how the initial shortfall arose.
2. Trace behaviour, enforcement, political reaction, and the next budget.
3. Choose two indicators and a decision threshold for redesign.

Causality · 2 points

Explains each link and its assumptions instead of drawing an unexplained spiral.

Alternatives · 2 points

Includes a credible policy change that could interrupt or reverse the loop.

Monitoring · 2 points

Separates reporting, receipts, real activity, and administrative burden.

Reflection

What spending commitment would be prudent if the revenue forecast has wide uncertainty, and which value judgment informs your answer?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. Gross receipts are 190m and administration costs 12m. What is the net collection figure before other effects?

- A. 202m
- B. 178m
- C. 190m
- D. 12m

2. A recurring asset liability causes a cash shortage. Which fact is needed before predicting forced sales?

- A. The taxpayer's political views.
- B. Whether the asset has a memorable name.
- C. Available cash, borrowing terms, instalments, and legal deferral options.
- D. The slogan used to announce the tax.

3. A legislature simplifies a tax after receipts disappoint. How should the chapter's spiral prediction be assessed?

- A. Ignore the simplification because spirals are inevitable.
- B. Treat simplification as proof the tax will succeed.
- C. Stop measuring receipts.
- D. Model the changed rules and test whether the avoidance and cost responses change.

Answer explanations

1. B — 178m

Net collection is 190 minus 12, or 178m. This does not yet measure welfare, since public benefits and wider effects remain outside the calculation.

2. C — Available cash, borrowing terms, instalments, and legal deferral options.

Liquidity and financing options determine the adjustment margin. A recurring liability alone does not establish a particular sale schedule.

3. D — Model the changed rules and test whether the avoidance and cost responses change.

Political feedback can change direction. The appropriate response is to update the mechanism and evidence, not declare inevitable failure or automatic success.

Module assessment

A five-year programme funded by a snapshot

A fictional government promises 250 million annually from a tax whose sole published calculation is 2% of a 12.5-billion current base. Prepare a five-year review with a stable case and an adaptation case, explicit administrative costs, and a response to a revenue shortfall.

Required evidence

- Two transparent five-year scenario budgets.
- A response-channel and evidence register.
- A 500-word recommendation including the proposed programme's benefits and a redesign trigger.

Assessment criteria

Model integrity · 5 points

Makes assumptions explicit, separates gross and net, and avoids duplicate behavioural deductions.

Dynamic reasoning · 5 points

Includes timing, base-form changes, liquidity, and a political response.

Evidence quality · 5 points

Distinguishes source claims and invented assumptions from verified observations.

Judgment · 5 points

Considers the benefit side, uncertainty, and an alternative that could change the conclusion.

Model response: consult after your attempt

A sound answer begins with the valid 250m static calculation and refuses to call it a proven annuity. It specifies which behavioural responses enter each scenario, when adaptation occurs, and how administration is financed. It does not mechanically subtract migration, restructuring, and valuation discounts if those describe the same assets. The recommendation compares durable spending with uncertain receipts, states what evidence could support a growing or stable base, and explains an operational redesign threshold.

Source cautions and interpretation

- Complete source range 01821-01981 and footnotes 53-56 were read; no figures or tables are present. Notes and primary examples are part of the assigned reading.
- French migration, New Jersey income-loss, and yacht-tax quantities are the author's attributed claims, not independently verified findings. The New Jersey characterization should be checked carefully before reuse.

- The source generalizes from behavioural incentives to declining bases; direction, magnitude, adaptation speed, growth, and public-spending effects depend on design and evidence.
- A one-time levy and a one-year estimate of a recurring levy are different policies. The chapter's rhetoric sometimes treats them together.
- All numerical scenarios in the lessons are invented teaching examples, not forecasts or tax advice.
- Exact mapped footnote locations read: 53 at lost-lesson-b01842; 54 at lost-lesson-b01845; 55 at lost-lesson-b01871; 56 at lost-lesson-b01879.

Source coverage

I. What the one-year estimate actually is

Lesson 1 specifies static-estimate assumptions and distinguishes behavioural, structural, complexity, enforcement, and migration channels; the assumption register and citation audit test those claims.

[Read source section: full-book PDF page 190](#)

II. The behavioural response principle: people do not sit still while being taxed

Lesson 1 specifies static-estimate assumptions and distinguishes behavioural, structural, complexity, enforcement, and migration channels; the assumption register and citation audit test those claims.

[Read source section: full-book PDF page 191](#)

III. Avoidance: the predictable growth industry

Lesson 1 specifies static-estimate assumptions and distinguishes behavioural, structural, complexity, enforcement, and migration channels; the assumption register and citation audit test those claims.

[Read source section: full-book PDF page 192](#)

A. Structural engineering

Lesson 1 specifies static-estimate assumptions and distinguishes behavioural, structural, complexity, enforcement, and migration channels; the assumption register and citation audit test those claims.

[Read source section: full-book PDF page 192](#)

B. Complexity as camouflage

Lesson 1 specifies static-estimate assumptions and distinguishes behavioural, structural, complexity, enforcement, and migration channels; the assumption register and citation audit test those claims.

[Read source section: full-book PDF page 192](#)

C. Administrative arbitrage

Lesson 1 specifies static-estimate assumptions and distinguishes behavioural, structural, complexity, enforcement, and migration channels; the assumption register and citation audit test those claims.

[Read source section: full-book PDF page 192](#)

IV. Migration: the understated exit option

Lesson 1 specifies static-estimate assumptions and distinguishes behavioural, structural, complexity, enforcement, and migration channels; the assumption register and citation audit test those claims.

[Read source section: full-book PDF page 193](#)

V. Restructuring: the base becomes something else

Lesson 2 models restructuring, liquidity and leverage, contested valuations, nonrepeating receipts, political feedback, moral rhetoric, and the concluding translations through scenarios and a branching causal map.

[Read source section: full-book PDF page 194](#)

VI. Leverage: the silent transformation of a tax into fragility

Lesson 2 models restructuring, liquidity and leverage, contested valuations, nonrepeating receipts, political feedback, moral rhetoric, and the concluding translations through scenarios and a branching causal map.

[Read source section: full-book PDF page 194](#)

VII. Valuation games: when the tax base becomes a legal argument

Lesson 2 models restructuring, liquidity and leverage, contested valuations, nonrepeating receipts, political feedback, moral rhetoric, and the concluding translations through scenarios and a branching causal map.

[Read source section: full-book PDF page 194](#)

VIII. The “annuity” illusion: why revenue estimates do not repeat

Lesson 2 models restructuring, liquidity and leverage, contested valuations, nonrepeating receipts, political feedback, moral rhetoric, and the concluding translations through scenarios and a branching causal map.

[Read source section: full-book PDF page 195](#)

IX. The political feedback loop: policy does not remain static

Lesson 2 models restructuring, liquidity and leverage, contested valuations, nonrepeating receipts, political feedback, moral rhetoric, and the concluding translations through scenarios and a branching causal map.

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X. The moral temptation: one-year estimates as permission to stop thinking

Lesson 2 models restructuring, liquidity and leverage, contested valuations, nonrepeating receipts, political feedback, moral rhetoric, and the concluding translations through scenarios and a branching causal map.

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XI. A plain-language summary: why “just one year” is never “just one year”

Lesson 2 models restructuring, liquidity and leverage, contested valuations, nonrepeating receipts, political feedback, moral rhetoric, and the concluding translations through scenarios and a branching causal map.

[Read source section: full-book PDF page 197](#)

The Lesson Line

Lesson 2 models restructuring, liquidity and leverage, contested valuations, nonrepeating receipts, political feedback, moral rhetoric, and the concluding translations through scenarios and a branching causal map.

[Read source section: full-book PDF page 197](#)

Chapter 14 Notes:

Both lessons review the notes and French, luxury-tax, and static-scoring primary examples as attributed evidence claims; Lesson 2 explicitly teaches counterfactual and gross/net checks.

[Read source section: full-book PDF page 198](#)

The "Hazlitt" Examples (Primary)

Both lessons review the notes and French, luxury-tax, and static-scoring primary examples as attributed evidence claims; Lesson 2 explicitly teaches counterfactual and gross/net checks.

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