

*MBS 98-24*

Taxation of Rent-Seeking Activities

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We consider taxes on firms which engage in rent-seeking contests. The taxes can be on realized profits or on rent-seeking expenditures. The prize can be awarded to either the highest bidder, or to a firm with probability proportional to its share of total spending on lobbying. We find the conditions under which taxes do not reduce rent-seeking effort, generate tax revenue with no tax burden, and cause no reduction in the profits of firms.