

It's time to talk about tax!

I've spent considerable time thinking about how to create sustainability within the Secret Network Foundation, and modeling different scenarios. Unlike many layer 1 public good entities, ours has never had a dedicated token allocation, which could very easily hamper the long-term growth of the chain. Most chains rely on their foundation or association for support on essential strategies. For the year that I've been with Secret Network, we've been resource-constrained, meaning that many avenues for growth tactics were closed to us. I do appreciate the way it has trimmed our operations costs, and we need to keep that efficiency going. On the flip side, it has also limited the programs we can run.

So I've come to a strong conviction of the best way forward for this ecosystem, and I'll share with you my reasons for believing this is the right path for Secret.

Summary:

1. Boldly mint where no mint has gone before: SNF's ongoing and future role is crucial to the ecosystem's success. Early on, I was surprised to find out there was no initial token allocation and had to think long and hard about how SNF could be effective in creating a vibrant ecosystem, especially given the tax had also been cut. For a year we've made it work by being creative and committed, and I give huge props to our team for adjusting to a new way of thinking. But there is so much more we could do, and it's time to leverage and amplify what we've learned.

So, to address this weakness in our ecosystem, we should mint a new batch of tokens specifically for the Secret Network Foundation, to be used for long-term strategic initiatives such as VC agreements, liquidity provision, dApp support, and other programs that will move the needle. Transparency and communication are a key part of doing this. Also, we are a bunch of data geeks who love to optimize and iterate on success. Results will be measured and reported - this makes it crystal clear what the funds achieve for the network and helps us steer clear of personal agendas or biases.

Ideally 16-18% of the total token supply is minted and allocated to SNF as a treasury fund for non-operational initiatives.

1. Sustainability Tax: For operations, as I said before, our burn rate should continue to be lean. We are currently spending below \$80k per month, but optimal budget will be \$100-160K per month. To sustain this, SNF's tax should be set at 12%, which is intended to fund people costs and normal operations at the current level with the current token price.

As the ecosystem grows, the tax may grow in value, but we don't want to increase operational spending too high. How do we address this pitfall? I like the idea of a cap on operations funds based on token price. In practice, the excess SCRT collected from tax will either go to a burn program or to targeted strategies. I'm working on a model to show how this works (will share soon), but simply put, once the token rises above \$1.00, the delta in value gets returned to the ecosystem instead of going into the SNF operations account.

1. Community Tax: As we have seen consistently, including quite recently, the community pool is often a target/catalyst for community disagreement and in-fighting, so increasing the pool tax is probably not a good idea right now. Over time, the community has grown more open to guidance and administrative support from SNF, even asking SNF to lead in strategic initiatives such as seeding liquidity. I think we should keep the community tax at 2%. Raising it above this level would also create too heavy a tax rate in combination with SNF's sustainability tax. At the same time, we want to protect the community's ability to innovate and propose projects and participate in growing the ecosystem, so keeping the current tax is important.

Community projects are ideally focused on testing innovative ideas, encouraging broad participation from others in the network, and not held to the same expectations of ROI or effective results. The best ideas come along when it's okay to fail, and we have an incredibly talented and creative community that needs that sandbox to build in without fear of consequences.

Summary:

These three elements - mint, SNF sustainability, and community funds – must be considered for their shared effect on the overall ecosystem. We have a tokenomics discussion in progress that considers additional factors such as inflation, gas, and validator economics, but a clear model for sustaining ecosystem growth gives a solid foundation for the tokenomics discussion.

I look forward to hearing your feedback.