

## TLDR

: “Normal” ERC-721 ENS names pay Harberger taxes. But if you convert your name to a Soulbound NFT (thus losing the ability to sell it on the secondary market), you pay a low fixed recurring fee.

Recently both [Vitalik](#) and [Nick Johnson](#) wrote about ENS fees and the challenges on finding an adequate fee model. If you haven't read both pieces yet, I highly recommend it.

It seems clear from reading both texts that ENS names fall in two categories:

- Identity-based names. Whether it's the name of a person, or a nickname, or a company/brand, these names are used to identify some entity.
- Traffic-based names. These are names that seem to be valuable digital real estate because they are generic search terms. A [list of the most expensive domain names](#) shows examples as [nfts.com](#), [hotels.com](#), [casino.com](#).

The names in the first category are more valuable to society if they remain with their namesake owners. Clearly it's better if [vitalik.eth](#) remains owned by people named Vitalik, and ideally with the most known Vitalik. The names in the second category don't need to be tied to any particular entity. No one expects [hotels.com](#) to belong to a particular company/person, they only expect to be able to book an hotel there.

I think that the main issue with ENS fees is that we are trying to apply one fee model to two fundamentally different products. For identity-based names it makes more sense to have negligible recurring fees. The name [redcross.eth](#) is probably worth a lot to scammers and requiring Red Cross to pay high fees only protect their users from being scammed seems like a socially sub-optimal result. On the other hand, speculators buy up hundreds of names at a time and then leave them unused until they can sell them at a much higher price. This rent extraction is an economic drag and ideally we would like to apply Harberger taxes on those names to maximize utility and have that value accrue to ENS DAO.

The main insight here is that identity-based names don't require transferability while traffic-based names do. The name [nick.eth](#) is worth the same to Nick Johnson whether he can transfer it or not, while [wallet.eth](#) is only worth something to a speculator if he can sell it on the secondary market.

So, here's my proposal. Names on the primary market are always sold through Vickrey auctions (as was already done for 3 and 4 characters names). Then, after you acquire a name you have two options:

1. Convert your name to a [Soulbound NFT](#). In that case, you'll pay a small annual fee, like the current 5\$. This fee is only to guarantee that lost or forgotten names will eventually return to the market.
2. Keep your NFT as an ERC-721. In that case you'll be subject to Harberger taxes.

Comments/suggestions are very much welcomed!