Faculti Summary
https://faculti.net/international-tax-competition-with-rising-intangible-capital-and-financial-globalization/

This video discusses the complexities of taxation on corporate profits in a globalized economy, focusing on two significant trends: the increasing importance of intangible capital and the globalization of financial markets.

1. **Intangible Capital**: Intangible assets, such as patents and knowledge, are becoming more prevalent in corporations, especially multinationals. Unlike tangible capital, which is used domestically, intangible capital can be utilized across borders. This video creates challenges in allocating costs for tax purposes, as companies may shift profits to lower-tax jurisdictions by manipulating the allocation of these intangible assets, which could raise their effective global tax burden.

2. **Globalized Financial Markets**: The globalization of financial markets implies that more domestic corporations are owned by foreign investors. Consequently, a significant share of profits generated in one country is owned by individuals or corporations from another, which may create a stronger incentive for local governments to tax these profits, as taxing foreigners can be politically more appealing than taxing residents.

This video contrasts these two dynamics: while the rise of intangible capital reduces the incentive for governments to impose higher taxes (due to the risk of profit shifting), the increase in foreign ownership can incentivize governments to tax more profusely since a larger portion of profits is no longer tied to domestic taxpayers.

The discussion also touches on the implications of taxation policy on investment decisions. High corporate taxes might deter investment, affecting future economic growth and worker wages. The author argues that while there are concerns about equity and taxation fairness, high taxation might discourage the long-term investment necessary for economic development.

Moreover, there is also a lack of commitment in taxation policies, which could lead to uncertain future tax rates, making it difficult for companies to make long-term investment decisions. The risks of political cycles influencing taxes can ultimately lead to a less favorable investment climate.

Overall, the text suggests that while government responses to globalization and the changing nature of capital are complex, it is crucial for policymakers to consider both immediate consequences and long-term effects when formulating tax policies.