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

Here are five key points from the video:

1. **Importance of Intangible Capital**: The rise of intangible capital, such as knowledge, patents, and royalties, has changed the dynamics of corporate taxation. Intangible capital is non-rival and difficult to allocate between domestic and foreign operations, which creates opportunities for companies to minimize their global tax liabilities through strategic cost allocation.

2. **Impact of Financial Globalization**: The globalization of financial markets has led to increased foreign ownership of domestic companies, creating a stronger political incentive for local governments to tax profits generated by these entities. This ownership shift influences the government's approach to taxation, as more profits belonging to foreigners increase the temptation to tax those profits.

3. **Contrasting Taxation Incentives**: The video outlines two opposing trends regarding taxation incentives: while increased intangible assets may reduce the government's incentive to tax (due to potential profit shifting), higher foreign ownership of domestic profits could strengthen that incentive. Understanding which of these effects dominates is essential for policymakers.

4. **Tax Competition vs. Cooperation**: The discussion explains the tension between tax competition (where countries independently set lower tax rates to attract investments) and the potential for cooperative taxation agreements. A “race to the bottom” could arise if countries continuously lower corporate tax rates to remain competitive, negatively impacting their tax bases and long-term investments.

5. **Long-Term Effects of Taxation Policies**: The video emphasizes the importance of considering the long-term implications of taxation. High corporate tax rates might discourage investment, ultimately harming wage growth and economic development. Companies often have a long-term investment horizon, and political instability or inconsistent taxation policies can deter them from making significant investments, leading to adverse economic consequences over time.