

Advances in Taxation Research

<https://advancesinresearch.id/index.php/ATR>

This Work is Licensed under a Creative Commons Attribution 4.0 International License



Digital Taxes on Global Tech Companies and Interstate Tensions in the Digital Economy



Andi Nurwanah ✉

✉ Universitas Muslim Indonesia, South Sulawesi, 90231, Indonesia

Received: 2025, 01, 16 Accepted: 2025, 01, 30
Available online: 2025, 01, 31

Corresponding author. Andi Nurwanah
✉ andinurwanah@umi.ac.id

KEYWORDS	ABSTRACT
<p>Keywords:</p> <p>Digital Services Taxes, Multinational Tech Companies, Global Tax Governance, Stakeholder Theory, OECD Two-Pillar Plan.</p> <p>Conflict of Interest Statement:</p> <p>The author(s) declares that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.</p> <p>Copyright © 2025 ATR. All rights reserved.</p>	<p>Purpose: This study examines the impact of Digital Services Taxes (DSTs) on multinational tech companies and explores the geopolitical tensions arising from fragmented digital tax policies. It aims to assess how DSTs influence corporate strategies and contribute to regulatory and economic challenges in the global digital economy.</p> <p>Research Design and Methodology: A qualitative systematic literature review (SLR) was employed to analyze secondary data from peer-reviewed articles, policy documents, and international frameworks. The study integrates corporate strategy, international relations, and tax governance perspectives to understand DSTs' complexities comprehensively.</p> <p>Findings and Discussion: The findings reveal that DSTs significantly affect investment allocation, operational efficiency, and pricing strategies of multinational tech firms. Increased compliance costs and risks of double taxation challenge profitability and global competitiveness. Geopolitical tensions between countries implementing DSTs and those opposing them highlight the need for collaborative international tax reforms. The OECD's Two-Pillar Plan emerges as a critical framework to address regulatory fragmentation and foster fiscal equity. The discussion underscores the role of stakeholder theory in bridging conflicting interests among governments, corporations, and societies to create sustainable solutions for digital taxation.</p> <p>Implications: This study highlights the importance of multilateral approaches to digital taxation and collaboration between policymakers and tech companies. Practical implications include developing transparent and inclusive tax frameworks that support innovation and global economic stability. For managers, adopting proactive compliance strategies and engaging in policy reforms are essential to navigate the challenges DSTs pose.</p>

Introduction

The digital economy has profoundly transformed the global economic structure, fostering unprecedented growth and innovation fueled by technological advancements. Multinational technology companies, such as Google, Amazon, and Facebook, have emerged as dominant forces in the international market, leveraging digital platforms to expand their reach and influence (Moore & Tambini, 2018). Unlike traditional businesses that rely on physical assets and location-based operations, these companies derive significant revenue from intangible assets, such as data, algorithms, and intellectual property, which transcend geographic boundaries. This new economic

paradigm has revolutionized how value is created and distributed and revealed critical gaps in the traditional tax frameworks designed for physical, tangible economies. Existing tax systems struggle to account for the complexities of digital platforms, where economic activity is often decoupled from a company's physical presence (Clemons & Madhani, 2010). As a result, multinational corporations have capitalized on these loopholes, engaging in practices such as profit shifting and tax avoidance to minimize their fiscal liabilities. These practices have raised significant concerns about the fairness and adequacy of current tax structures, particularly as governments worldwide grapple with declining tax revenues from highly profitable corporations operating within their jurisdictions. The asymmetry between income generation and tax obligations has ignited debates about the sustainability of existing tax systems and their ability to address the challenges posed by a rapidly evolving digital economy (Latif, 2023). These issues underscore the need for a comprehensive reevaluation of global tax policies to ensure they remain equitable, effective, and adaptable in the context of the digital era.

The complexity of adapting traditional tax systems to the realities of a digitized economy lies in the fundamental nature of digital services, which generate value through intangible assets and data flows that often cross multiple borders (Mahlet, 2024). These services challenge existing international tax rules, which rely heavily on physical presence as the basis for determining tax obligations. In response, governments worldwide have introduced unilateral measures, such as Digital Services Taxes (DSTs), to capture revenue from multinational technology companies that operate across their borders without establishing a physical presence (Kelbesa, 2020). While DSTs are designed to address the growing disconnect between value creation and taxation, their implementation has proven contentious. Critics argue that these measures risk distorting markets and undermining international trade agreements, particularly as they conflict with existing tax treaties and laws. The introduction of DSTs has ignited tensions between nations, especially countries hosting these multinational companies—such as the United States—and governments seeking to safeguard their tax revenues, such as those in the European Union (Appel, 2011). The geopolitical implications of digital taxes are evident in ongoing disputes, including threats of retaliatory tariffs and trade wars. These conflicts underscore the lack of consensus on addressing the unique challenges of taxing digital services in a globally integrated economy. Digital taxation represents a technical and economic challenge and a source of growing political friction. This research delves into these critical issues, focusing on how the adoption of digital taxes affects multinational corporations and exacerbates interstate tensions in the digital economy.

Recent studies have shed light on the complexities and implications of digital taxation, emphasizing its critical role in addressing the challenges of the digital economy. Traditional tax frameworks have struggled to account for the global nature of digital services, leading to widespread profit-shifting practices and tax avoidance by multinational corporations (Igbinenikaro & Adewusi, 2024). Various countries have implemented Digital Services Taxes (DSTs) as interim measures to capture revenue despite concerns over their limited impact and potential market distortions (Stollsteiner, 2024; Tang, 2024). To establish a more equitable and sustainable system, international efforts like the OECD's Two-Pillar Plan aim to promote global cooperation and address these challenges (Nembe & Idemudia, 2024). Key considerations for effective digital tax policies include fairness, value creation, and relational equity, although implementation remains hindered by data privacy, compliance costs, and potential trade conflicts (Nembe & Idemudia, 2024). Collaborative international efforts and innovative regulatory frameworks are essential to achieving a balanced approach that fosters revenue generation, economic growth, and fairness (Lawton et al., 2023). Moreover, understanding structural power pillars—such as production, security, knowledge, and finance—offers strategic insights for navigating the geopolitical intricacies of digital taxation (Lawton et al., 2023). The unilateral adoption of DSTs in Europe highlights further complications, as these measures often conflict with existing tax treaties and EU law (Geringer, 2021). Additionally, tensions between nations, notably between the United States and France, underline the geopolitical stakes of digital tax policies (Harpaz, 2021). Persistent issues, including profit attribution and regulatory inconsistencies, continue challenging policymakers and businesses (Usman & Saha, 2022).

While recent studies have advanced the understanding of digital taxation, several significant research gaps persist, particularly in empirical and theoretical perspectives. Much of the existing

literature concentrates on legal and economic dimensions, including the design and implementation of Digital Services Taxes (DSTs), as well as their market impact (Igbinenikaro & Adewusi, 2024; Nembe & Idemudia, 2024). While these studies provide valuable insights into tax policy frameworks, they often overlook digital taxation's socio-economic and geopolitical dynamics. Specifically, limited research has examined how these tax measures influence interstate relations, notably regarding trade disputes and diplomatic tensions, or how they shape corporate strategies and competitiveness in the evolving digital economy. Although global initiatives like the OECD's Two-Pillar Plan have been widely analyzed, there remains insufficient empirical evidence regarding their practical effectiveness, particularly the challenges in achieving consensus among nations with competing fiscal interests. Moreover, the literature has not fully addressed how digital taxation impacts multinational corporations' decision-making processes, including operational strategies, resource allocation, and market competitiveness in diverse regulatory environments. This lack of comprehensive exploration into the intersection of regulatory measures, corporate responses, and international tensions highlights a critical gap in understanding the broader implications of digital taxation. This study seeks to fill these gaps by conducting a systematic review, offering fresh insights into the interplay between digital tax policies, global governance, and corporate strategies within the digital economy.

This study offers a novel contribution to the ongoing discourse on digital taxation by addressing its multifaceted impact on multinational tech companies and the geopolitical tensions arising within the digital economy. Unlike prior research emphasizing the legal and economic dimensions of Digital Services Taxes (DSTs), this study adopts a holistic approach, integrating perspectives from economics, international relations, and corporate strategy. By employing a systematic literature review (SLR) methodology, the research explores how unilateral and multilateral tax policies shape the competitive dynamics of global tech corporations, influence interstate relations, and inform the evolution of international tax governance frameworks. This study's novelty lies in its focus on the interconnected nature of digital taxation's implications, examining corporate strategies, operational challenges, and broader geopolitical ramifications of these policies. Building on the identified research gaps, this study seeks to answer the central question: How do digital taxes impact multinational tech companies and contribute to interstate tensions in the digital economy? Addressing this question entails analyzing the direct effects of digital taxes on corporate decision-making, the underlying causes of international disputes over unilateral tax measures, and the potential for cooperative frameworks to balance fiscal equity with economic innovation. Through this exploration, the study aims to provide actionable insights for policymakers, corporate leaders, and scholars, offering recommendations to navigate the complexities of digital taxation in a manner that fosters global economic stability and equitable governance.

Literature Review

Stakeholder Theory in Digital Taxation

Stakeholder Theory, introduced by Freeman (2010), provides an essential analytical framework for understanding the dynamics of digital taxation. The theory emphasizes that companies are accountable to shareholders and all stakeholders, including governments, consumers, investors, and local communities. This theory highlights the necessity of balancing diverse interests to establish a fair and sustainable tax system in digital taxation. Governments play a crucial role as society representatives, ensuring that global tech companies somewhat contribute to national tax bases. According to Tang (2024), Digital Services Taxes (DSTs) have been adopted by several countries as a response to profit-shifting and tax avoidance strategies employed by companies such as Google, Amazon, and Facebook. DSTs capture revenue generated from digital activities without requiring a physical presence (Lowry, 2019). Despite their intent, DSTs face significant challenges, including international conflicts and high compliance costs. Lang (2019) argues that these measures often lead to market distortions and strain trade relations between nations. Governments must also navigate these geopolitical implications while striving to safeguard fiscal sovereignty, illustrating the dilemmas inherent in balancing national and global economic stability. Furthermore, as Nembe and Idemudia (2024) note, the principles of fairness and relational equity embedded in Stakeholder Theory provide a pathway for more inclusive and sustainable digital tax frameworks (Sama et al., 2022). This

perspective underscores the importance of integrating stakeholder interests to address modern digital economies' complexities effectively.

Global technology companies view digital taxes as significant barriers to operational efficiency and profitability, arguing that these measures unfairly target their business models. According to Devereux et al. (2020), the rise of digital taxation has compelled companies like Google and Amazon to reassess their global operations, as traditional profit attribution methods fail to align with the realities of the digital economy. These taxes often increase compliance costs, prompting firms to adjust their pricing strategies and shift investments to mitigate financial pressures (Dyrend et al., 2016). Moreover, public scrutiny surrounding tax practices has heightened reputational risks, further influencing corporate behavior (Rogge et al., 2017). While much research has focused on the roles of governments and corporations, Alstadsæter et al. (2019) note a critical gap in addressing how non-traditional stakeholders, such as consumers and local communities, are affected by digital tax policies. Expanding Stakeholder Theory to include these groups can help create a more equitable and inclusive approach to digital taxation. Collaborative frameworks, such as those proposed by the OECD, aim to balance principles of fairness and sustainability, fostering cooperative dialogue between governments and corporations (Brezzi et al., 2021). For instance, relational equity and value creation frameworks can help resolve tensions through mutual understanding and shared goals. Ultimately, Stakeholder Theory provides a robust lens for examining the complex interplay of interests in digital tax systems, offering pathways for more sustainable and fair taxation practices.

Digital Taxes

Digital taxes have emerged as a response to the inability of traditional tax frameworks to address the complexities of the digital economy. Unlike physical businesses, digital companies generate substantial revenue in countries lacking a physical presence, creating challenges in determining tax obligations (Bunn et al., 2020). This structural gap has prompted the introduction of Digital Services Taxes (DSTs), which aim to capture revenue from specific streams, such as online advertising and user-generated content. As noted by Cockfield (2020), DSTs are seen as a stopgap measure to ensure fair contributions by tech giants like Google and Amazon to the economies where they operate. However, DSTs face criticism for their potential to distort markets and create compliance burdens. Gelepithis & Hearson (2022) highlighted that these taxes often impose significant administrative costs on multinational tech firms, forcing them to adjust pricing strategies and reallocate investments. The unilateral implementation of DSTs, particularly in Europe, has led to geopolitical tensions. For instance, Brauner & Pistone (2017) observed that the United States has perceived DSTs as discriminatory, leading to threats of retaliatory tariffs. Despite these challenges, DSTs underscore the urgent need for global collaboration. The OECD's Two-Pillar Plan has been proposed as a comprehensive framework to address these issues through value creation and relational equity principles. By integrating these perspectives, digital taxes could transition from fragmented unilateral measures to a cohesive global solution.

Digital Services Taxes (DSTs) have sparked significant debate due to their potential to distort markets and hinder economic competitiveness, particularly in developing countries. Kelbesa (2020) explains that DSTs were introduced as a response to the challenges posed by the digitalization of the economy. However, they have been criticized for disproportionately affecting technology firms. These taxes often impose high compliance costs and the risk of double taxation, creating operational hurdles for multinational tech companies. Tallman et al. (2018) emphasize that such burdens can lead to reduced profitability, forcing firms to rethink their global strategies. From a policy perspective, the OECD's Two-Pillar framework seeks to address these issues comprehensively. One aims to allocate taxing rights based on the location of value creation, ensuring that countries where digital companies generate revenue without physical presence can claim a fair share of taxes (Olbert & Spengel, 2017). Pillar Two introduces a global minimum tax rate to prevent profit shifting and tax avoidance. Pistone et al. (2024) highlight that while these principles—value creation, relational equity, and sustainability—offer a promising foundation, achieving global consensus remains a significant challenge. These challenges underscore the urgency for international collaboration and innovative tax reforms. Without such efforts, disparities in the worldwide taxation system could persist, undermining

the goal of equitable and sustainable economic governance. The OECD's framework provides a roadmap, but its success depends on bridging conflicting national interests effectively.

The Role of Global Tech Companies

Global tech companies such as Google, Amazon, and Facebook have emerged as central players in the digital economy, leveraging their scalable, intangible assets to dominate global markets. Cockfield (2020) discusses how these companies utilize big data and tax secrecy to optimize tax strategies, creating significant challenges for traditional tax frameworks. Their ability to allocate profits to low-tax jurisdictions, a practice extensively analyzed by Devereux et al. (2020), exemplifies how they minimize tax obligations while benefiting from markets with minimal physical presence. This strategic behavior underscores the misalignment between modern digital business models and outdated tax systems. Many countries have implemented Digital Services Taxes (DSTs) to address these disparities, targeting revenue streams such as online advertising and user-generated content. Kartal (2025) points out that while DSTs aim to ensure fair fiscal contributions, they impose high compliance costs and risk double taxation, particularly for multinational enterprises. Brown (2025) further argues that the fragmented application of DSTs across jurisdictions forces companies to navigate diverse regulatory environments, challenging their operational efficiency and long-term competitiveness. These criticisms have led global tech firms to advocate for more consistent international tax reforms. Rootsma (2021) proposes a global taxation model that aligns with the OECD's Two-Pillar Plan, aiming to redistribute taxing rights based on value creation. Such efforts demonstrate the dual role of tech companies as both beneficiaries of digitalization and active participants in shaping global tax policies.

Implementing Digital Services Taxes (DSTs) has been a contentious issue, aiming to address the digital economy's challenges while raising significant concerns. Lowry (2019) highlights that DSTs were introduced to capture revenues generated by tech giants like Google and Amazon in jurisdictions where they lack a physical presence but create substantial economic value. However, Igbinenikaro & Adewusi (2024) argue that these taxes often impose high compliance costs and administrative burdens, particularly for multinational companies operating across diverse regulatory frameworks. These complexities have led to accusations of double taxation and claims of discrimination against technology-driven business models. The fragmented application of DSTs across countries exacerbates these challenges. Nembe & Idemudia (2024) note that such unilateral measures disrupt global tax consistency, forcing companies to navigate disparate rules and jeopardizing long-term investments. Hearson & Tucker (2023) further emphasize that the lack of international consensus on taxation undermines the fiscal sovereignty of nations while promoting tax competition. In response, multinational tech companies have increasingly advocated for comprehensive tax reforms, such as the OECD's Two-Pillar Plan, which proposes a global minimum tax and a reallocation of taxing rights based on value creation. By supporting these initiatives, companies aim to reduce regulatory uncertainty and contribute to a more equitable tax system. The dual role of tech firms, as both beneficiaries of digitalization and partners in shaping global tax policies, underscores the need for collaborative reform to ensure sustainable economic ecosystems.

Interstate Tensions in the Digital Economy

The role of global superpowers, particularly the United States, is pivotal in shaping the dynamics of digital taxation. As the home of major tech companies, the U.S. has often opposed Digital Services Taxes (DSTs), arguing that these measures unfairly target American firms. According to Nembe & Idemudia (2024), this resistance highlights the power imbalance between developed and developing nations in influencing global tax policies. Christensen (2024) emphasizes that such unilateral measures exacerbate diplomatic tensions, with the U.S. threatening retaliatory tariffs against countries like France that implement DSTs. The OECD's Two-Pillar Plan has been proposed to address these conflicts by establishing a cohesive framework for digital taxation. Pillar One reallocates taxing rights based on value creation, while Pillar Two introduces a global minimum tax rate to curb tax avoidance (Chand et al., 2021). Ness (2024) noted that this approach aims to harmonize global tax practices while promoting fairness and sustainability. However, developing nations face unique challenges. They often lack the influence to assert their interests in these negotiations, further widening the gap in diplomatic

relations. Ofosu - Ampong (2024) argues that the success of international collaboration depends on addressing these disparities to ensure that digital tax policies are effective and equitable. Such reforms are crucial for fostering innovation and maintaining global economic stability.

The role of superpowers, particularly the United States, is pivotal in shaping global digital tax policy dynamics. As the home to major technology companies, the U.S. has often opposed Digital Services Taxes (DSTs) implemented by other nations, arguing that these taxes unfairly target American firms. Brautigam et al. (2008) emphasize that this resistance highlights the imbalances between developed and developing countries in their ability to influence international tax frameworks. Developing nations, often lacking comparable economic or political power, struggle to assert their interests effectively, exacerbating diplomatic inequalities (Payne, 2017). The OECD's Two-Pillar Plan has emerged as a proposed solution to address these tensions, with Pillar One reallocating taxing rights to jurisdictions where value is created and Pillar Two introducing a global minimum tax to curb tax avoidance. This framework underscores principles of fairness and sustainability, aiming to create a more harmonious digital tax system. However, challenges remain, particularly for developing nations that must balance protecting their tax bases with maintaining their attractiveness to foreign investment (Moran, 1998). These dynamics highlight the necessity of international collaboration to prevent regulatory fragmentation, reduce diplomatic tensions, and ensure that digital tax policies not only address fiscal challenges but also foster innovation and global economic stability. A multilateral approach is essential for achieving these goals.

Research Design and Methodology

Study Design

This study employs a qualitative systematic literature review (SLR) methodology to provide a comprehensive understanding of interstate tensions in the digital economy and the role of global tech companies in shaping digital tax policies. The SLR approach is chosen for its ability to synthesize findings from multiple studies, offering a holistic analysis of existing literature while identifying research gaps. Following a structured framework, this design ensures the inclusion of relevant, high-quality studies that address the research questions.

Sample Population or Subject of Research

The sample population comprises peer-reviewed journal articles, books, and authoritative reports published between 2015 and 2025, focusing on digital taxation, interstate tensions, and the involvement of global tech companies. Sources from reputable publishers such as Elsevier, Emerald, Wiley, and Springer are selected to ensure academic rigor and credibility. The studies explored key themes like Digital Services Taxes (DSTs), OECD tax frameworks, and international diplomatic challenges.

Data Collection Techniques and Instrument Development

Data collection involves a systematic search using specific keywords, such as "digital taxation," "interstate tensions," "OECD Two-Pillar Plan," and "Digital Services Taxes," across academic databases like Scopus, Web of Science, and PubMed. Inclusion criteria include studies published in English, addressing the digital economy, and examining tax policies or international relations. Articles that fail to meet quality or relevance thresholds are excluded. A data extraction sheet is developed to systematically record essential information such as study objectives, methodologies, findings, and limitations.

Data Analysis Techniques

Data analysis uses thematic analysis, categorizing findings into predefined themes such as policy implications, stakeholder dynamics, and geopolitical challenges. These themes are then synthesized to draw insights and highlight gaps in the literature. The analysis is iterative, allowing continuous refinement to ensure robustness and alignment with the study objectives.

Findings and Discussion

Findings

The Impact of Digital Taxes on Multinational Tech Companies' Strategies

Digital Services Taxes (DSTs) have significantly impacted on the strategic decision-making of multinational technology companies, requiring them to reevaluate their global operations and financial approaches. These taxes target revenue streams integral to their business models, such as digital advertising, user-generated content, and e-commerce transactions. Companies like Google, Amazon, and Facebook, which rely heavily on these revenue streams, are compelled to adapt their strategies to navigate the fiscal challenges introduced by DSTs (Cockfield, 2020b). By imposing additional tax obligations on profits generated in jurisdictions where these companies operate but lack a physical presence, DSTs disrupt traditional operational efficiencies. Consequently, multinational firms must allocate considerable resources to ensure compliance with these complex tax regulations. Compliance with DSTs often involves addressing a fragmented landscape of tax rules across multiple countries, each with unique requirements. This inflates administrative costs and creates significant business operational uncertainties (Gelepithis & Hearson, 2022).

The lack of harmonization between these unilateral tax measures increases the risk of double taxation, which can severely undermine profitability and discourage further investment in affected markets (Stollsteiner, 2024). In response to these challenges, multinational corporations actively advocate for global tax reforms to reduce regulatory fragmentation. This advocacy aligns with initiatives like the OECD's Two-Pillar Plan, which proposes a standardized approach to taxing multinational corporations while addressing issues such as profit shifting and base erosion (Brezzi et al., 2021). DSTs influence companies' pricing strategies, allocate resources, and prioritize investments. Firms are exploring ways to mitigate fiscal exposure, including adjusting pricing models to account for higher tax burdens and strategically redirecting investments to regions with more favorable regulatory environments. These adaptations demonstrate the profound influence of DSTs on corporate strategies, underscoring the importance of creating a coherent global tax framework. Such a framework must balance revenue generation for governments and the need to sustain innovation, investment, and competitiveness in the rapidly evolving digital economy. Without such measures, the long-term stability and growth of the digital economy may face significant threats.

Interstate Tensions Stemming from Digital Tax Policies

The unilateral adoption of Digital Services Taxes (DSTs) by several nations, particularly in Europe, has intensified geopolitical tensions, exposing deep-seated divisions between countries that advocate for such measures and those that oppose them. France and other European Union (EU) member states have implemented DSTs to ensure that multinational tech firms contribute their fair share of taxes in jurisdictions where they derive significant revenue, even without a physical presence (Harpaz, 2021). These nations argue that traditional tax systems are outdated and incapable of effectively capturing value generated in the digital economy. As a result, DSTs have been introduced as an interim solution to prevent multinational corporations from shifting profits to low-tax jurisdictions. However, the United States, home to most global tech giants, views DSTs as discriminatory and disproportionately targeting American firms. In response, the U.S. has threatened retaliatory tariffs, heightening trade tensions and contributing to an increasingly fragmented global tax landscape (Christensen, 2024). This conflict emulates the broader struggle to modernize international tax policies, as national interests clash over how digital revenue should be taxed. Moreover, these tensions extend beyond economic concerns, influencing diplomatic relations and strategic alliances as countries navigate the competing demands of their domestic economies and global partnerships. The unilateral nature of DSTs further complicates the situation, as it encourages protectionist policies that may discourage cross-border trade and investment.

Beyond the dispute between the U.S. and Europe, developing nations face significant challenges in shaping the global tax agenda. Many developing economies rely heavily on foreign direct investment and fear that aggressive taxation of multinational tech firms could deter future capital inflows (Appel, 2011). At the same time, these countries seek to protect their tax bases and ensure that they receive fair revenue from digital transactions occurring within their borders. However, their limited bargaining power in global tax negotiations often results in policies that favor wealthier nations, exacerbating

existing economic inequalities (Brown, 2025). The absence of a unified global framework has led to fragmented tax policies that create regulatory uncertainty, increasing business compliance costs and diminishing the efficiency of international tax collection. Without coordinated multilateral cooperation, unilateral DSTs will continue to fuel economic instability, undermining efforts to create a fair and sustainable digital tax system. To prevent escalating trade wars and economic fragmentation, policymakers must pursue collaborative solutions that address the concerns of all stakeholders, balancing the fiscal needs of nations with the long-term stability of the global economy.

Multilateral Approaches as a Solution

Multilateral approaches, particularly the OECD's Two-Pillar Plan, represent a significant step toward resolving the challenges and tensions associated with digital taxation. Pillar One of the plan focuses on reallocating taxing rights to market jurisdictions where value is created. This ensures that countries hosting large consumer bases receive a fair share of tax revenues from digital transactions (Brezzi et al., 2021). This addresses a critical inequity in the traditional tax framework, where profits generated by multinational tech companies often remain untaxed in the jurisdictions where economic activity and value creation occur. Pillar One also seeks to modernize global tax rules, making them more responsive to the unique characteristics of digital business models, such as their reliance on intangible assets and cross-border operations. Pillar Two complements this by introducing a global minimum tax rate aimed at reducing profit shifting and base erosion that undermines the fiscal capabilities of nations (Chand et al., 2021). These pillars aim to harmonize tax policies across jurisdictions, fostering a more equitable and predictable environment for governments and businesses.

However, implementing the OECD's Two-Pillar Plan is fraught with challenges, particularly in achieving consensus among countries with divergent economic priorities and political interests (Brown, 2025). Developed countries may prioritize safeguarding their tech industries while developing nations seek to maximize tax revenues from multinational corporations operating within their borders. This misalignment often results in prolonged negotiations, delaying the adoption of a unified tax framework. The technical complexities of aligning national tax systems with the OECD's principles also demand substantial coordination and resources. The implementation process requires the development of robust administrative mechanisms to address issues such as profit attribution, valuation of intangible assets, and compliance monitoring. Despite these obstacles, the Two-Pillar Plan underscores the importance of fairness and sustainability in global tax governance. Fostering international cooperation and reducing regulatory fragmentation provides a foundation for addressing immediate fiscal challenges while promoting long-term economic stability. Ultimately, the success of these multilateral efforts depends on the willingness of nations to collaborate, share budgetary responsibilities, and align their policies with the broader goals of equitable and sustainable economic development.

Discussion

The findings of this study reveal that implementing Digital Services Taxes (DSTs) has significantly impacted the strategic approaches of multinational tech companies, particularly in areas such as investment allocation, operational models, and pricing strategies. DSTs compel companies like Google, Amazon, and Facebook to reconfigure their global operations to adapt to the fiscal pressures imposed by diverse regulatory environments. One of the most critical consequences of DSTs is the substantial increase in compliance costs due to the complexity of navigating varied tax regimes across jurisdictions. These compliance burdens and the risks of double taxation pose significant challenges to maintaining profitability and competitive advantage in a rapidly evolving global market. Moreover, DSTs disrupt the efficiency of traditional operational frameworks, forcing multinational corporations to reassess their strategies to mitigate fiscal impacts. Many tech firms strategically redirect investments to tax-friendly jurisdictions to counteract these challenges, thereby minimizing their overall tax liabilities. These adaptive strategies underscore the foundational concept that inconsistent and fragmented tax policies hinder operational efficiency and complicate the integration of multinational enterprises within the global economy. DSTs, while intended to address revenue

disparities, inadvertently create fiscal uncertainties that necessitate strategic realignment by affected companies, highlighting the urgent need for more harmonized international tax policies.

This research also highlights that interstate tensions arising from DSTs reflect a significant power imbalance between developed countries, such as the United States, and DST-adopting nations in the European Union, such as France. The United States, home to many of the world's leading tech corporations, perceives DSTs as discriminatory measures disproportionately targeting American companies. As a result, the U.S. has responded with threats of retaliatory tariffs, exacerbating geopolitical frictions and fueling broader diplomatic disputes. These tensions extend beyond economic concerns, underscoring the geopolitical ramifications of unilateral tax policies. They also highlight the fragmented nature of global tax governance, where disparate national interests often override collaborative solutions. The geopolitical implications of these disputes are profound, as they can potentially lead to digital trade wars, further destabilizing international relations. Developing nations face unique challenges in this context. These countries must balance their fiscal needs—ensuring fair tax contributions from multinational companies—with the necessity of remaining attractive to foreign investment. The intersection of these dynamics demonstrates how the absence of a unified global tax framework amplifies economic and diplomatic uncertainties, threatening the stability of international economic relations. By addressing these disparities, policymakers can pave the way for a more equitable and cooperative global financial system.

The findings align closely with the multilateral approach the OECD advocates through its Two-Pillar Plan, which aims to establish a more equitable and inclusive global tax system. Pillar One seeks to redistribute taxing rights to market jurisdictions based on where value is created, ensuring that nations hosting significant economic activity receive a fair share of tax revenues. Meanwhile, Pillar Two proposes a global minimum tax rate to combat profit shifting and base erosion, addressing long-standing concerns about tax avoidance by multinational corporations. These initiatives represent strategic efforts to reduce regulatory fragmentation and build international trust in tax governance. However, achieving global consensus on these measures remains a substantial challenge. Diverse economic priorities, conflicting political agendas, and technical complexities in harmonizing national tax systems continue to hinder progress. Despite these challenges, the findings underscore the critical importance of a multilateral approach in fostering long-term stability and sustainability in global tax governance. The OECD's framework provides a pathway for nations to address fiscal disparities while collaboratively promoting innovation and economic growth. This study affirms that while implementation hurdles persist, adopting multilateral strategies is indispensable for creating a more balanced and resilient international tax regime.

Stakeholder Theory, introduced by R. Edward Freeman, offers a valuable framework for understanding the dynamics of digital taxation and its broader implications for global economic governance. This theory posits that businesses are not solely accountable to their shareholders but must also consider the interests of various stakeholders, including governments, consumers, local communities, and even their employees (Freeman, 2010). In the context of Digital Services Taxes (DSTs), this perspective underscores the necessity of balancing the competing priorities of these groups. Governments representing societal interests advocate for fair tax contributions from multinational tech companies, seeking to address revenue disparities and ensure fiscal equity. On the other hand, these corporations aim to protect their profitability and operational efficiency in an increasingly fragmented global tax landscape. Stakeholder Theory further emphasizes the importance of collaborative approaches in addressing complex policy challenges such as digital taxation. It highlights how multinational tech companies, often perceived as adversaries in tax disputes, could instead become active partners in shaping global tax reforms. By participating in the development of equitable and inclusive tax frameworks, these companies can contribute to resolving conflicts while safeguarding their long-term sustainability. This collaboration aligns with the core tenets of Stakeholder Theory, which stresses the integration of diverse interests to foster economic resilience and sustainability.

Compared to prior research, the findings of this study align closely with the conclusions drawn by Brezzi et al. (2021), who emphasized the importance of multilateral approaches in addressing the fragmentation of digital taxation policies. Their research underscores the necessity of international

collaboration to create cohesive and inclusive frameworks, ensuring that taxation systems evolve to meet the complexities of the digital economy. Similarly, Stollsteiner (2024) supports the view that Digital Services Taxes (DSTs) are a temporary but necessary measure to address immediate revenue disparities while awaiting global consensus. This perspective validates the role of DSTs as an interim solution to the challenges posed by the absence of harmonized tax regulations for digital activities. However, this study diverges from the conclusions of Appel (2011), which focused primarily on the positive impacts of unilateral fiscal policies for developing nations. While Appel highlighted how such policies could empower developing countries to safeguard their tax bases and generate critical revenue, the current research offers a more nuanced view by emphasizing the economic and geopolitical uncertainties often accompanying unilateral approaches. These uncertainties, including potential retaliatory trade measures and disruptions in international relations, present significant risks that can undermine the long-term benefits of unilateral policies. The findings of this study extend previous research by integrating a geopolitical dimension and examining the strategic responses of multinational corporations to DSTs. This study provides a more comprehensive understanding of digital taxation's complexities by highlighting the interplay between policy fragmentation, corporate strategy, and international tensions. It builds on existing knowledge while offering critical insights into the broader implications for global economic governance and the stability of international economic relations.

The practical implications of these findings underscore the critical need for policymakers to embrace multilateral approaches when designing digital tax frameworks. A multilateral strategy can address the inherent fragmentation of unilateral measures, providing a cohesive and inclusive framework that balances fiscal objectives with the requirements of innovation and economic stability. Policymakers are encouraged to engage multinational tech companies as active partners in the reform process. Such collaboration can ensure that digital taxation policies effectively capture revenue and support long-term economic growth. By fostering transparency and inclusivity, these partnerships can help bridge the gap between government objectives and corporate priorities, creating an environment conducive to mutual benefit. International cooperation is vital in reducing interstate tensions and rebuilding trust within the global economic governance framework. Collaborative efforts, such as the OECD's Two-Pillar Plan, demonstrate the potential to align diverse national interests, mitigate geopolitical frictions, and establish a more equitable distribution of taxing rights. These initiatives emphasize the importance of addressing fiscal imbalances without undermining cross-border commerce and innovation. The findings call for multinational tech companies to adopt more transparent business practices and demonstrate a more substantial commitment to fair budgetary contributions. By proactively engaging in global tax reform discussions and aligning their operations with emerging regulatory standards, these companies can reinforce their role as responsible stakeholders in the digital economy. These measures support policymakers in achieving fiscal equity and contribute to creating a sustainable and inclusive digital ecosystem that benefits all participants in the global economic landscape.

Conclusion

This study investigated the impact of Digital Services Taxes (DSTs) on the strategic decision-making of multinational tech companies and the interstate tensions arising from the fragmented implementation of digital tax policies. The research explored how DSTs influence investment allocation, operational strategies, and pricing adjustments among global tech firms. It also examined the geopolitical conflicts they ignite between countries advocating for unilateral tax measures and those opposing them. The findings highlighted the necessity of multilateral approaches to digital taxation, mainly through frameworks such as the OECD's Two-Pillar Plan, to reduce regulatory fragmentation and promote global economic stability. This study contributes to the discourse by integrating corporate strategy, international relations, and global tax governance perspectives, providing a holistic understanding of digital taxation's complexities.

Studying holds significant value in advancing knowledge and informing practice. It offers a novel perspective by linking digital taxation to corporate strategic adaptation and international economic governance. For practitioners and policymakers, the research emphasizes the importance of fostering

collaboration between governments and multinational corporations in designing equitable and sustainable tax frameworks. Practical and managerial implications include advocating for transparent business practices among tech companies, emphasizing the role of international cooperation in reducing geopolitical tensions, and fostering trust in global tax governance. The originality of this study lies in its interdisciplinary approach, which bridges economic, political, and managerial dimensions, offering actionable insights for a sustainable digital economy.

Despite its contributions, the study has limitations that offer avenues for future research. The reliance on qualitative data from secondary sources may limit the generalizability of findings, highlighting the need for empirical research involving primary data collection. Additionally, the study primarily focuses on developed economies, leaving room for future investigations into the impact of DSTs on developing nations and emerging markets. Further research could also explore the long-term implications of digital taxation on innovation and economic integration, providing a more comprehensive understanding of its effects. Researchers are encouraged to build on this foundation to address these gaps and contribute to the evolving global digital tax governance discourse.

References

- Alstadsæter, A., Johannesen, N., & Zucman, G. (2019). Tax Evasion and Inequality. *American Economic Review*, 109(6), 2073-2103. <https://doi.org/10.1257/aer.20172043>
- Appel, H. (2011). *Tax politics in Eastern Europe: Globalization, regional integration, and the democratic compromise*. University of Michigan Press.
- Brauner, Y., & Pistone, P. (2017). Adapting current international taxation to new business models: two proposals for the European Union. *Bulletin for International Taxation*. -Amsterdam, 71(12), 681-687. <https://doi.org/10.59403/18y0t4v>
- Brautigam, D., Fjeldstad, O.-H., & Moore, M. (2008). *Taxation and state-building in developing countries: Capacity and consent*. Cambridge University Press.
- Brezzi, M., González, S., Nguyen, D., & Prats, M. (2021). An updated OECD framework on drivers of trust in public institutions to meet current and future challenges. *OECD Working Papers on Public Governance*, 48, 0_1-60. <https://doi.org/10.1787/b6c5478c-en>
- Brown, K. B. (2025). *A Survey and Critique of International Tax Governance Reform BT - Redefining Global Governance: A Tax, Trade and Investment Perspective in the EU and beyond* (I. J. Mosquera Valderrama, F. Heitmüller, J. Chaisse, & A. Christians (eds.); pp. 7-19). Springer Nature Switzerland. https://doi.org/10.1007/978-3-031-69793-7_2
- Bunn, D., Asen, E., & Enache, C. (2020). Digital taxation around the world. *Tax Foundation*, 20(1), 1-45. <https://files.taxfoundation.org/20200527192056/Digital-Taxation-Around-the-World.pdf>.
- Chand, V., Turina, A., & Romanovska, K. (2021). Tax treaty obstacles in implementing the pillar two global minimum tax rules and a possible solution for eliminating the various challenges. Available at SSRN 3967198. <https://doi.org/10.2139/ssrn.3967198>
- Christensen, R. C. (2024). Harnessing network power: Weaponised interdependence in global tax policy. *Global Policy*. <https://doi.org/10.1111/1758-5899.13456>
- Clemons, E. K., & Madhani, N. (2010). Regulation of Digital Businesses with Natural Monopolies or Third-Party Payment Business Models: Antitrust Lessons from the Analysis of Google. *Journal of Management Information Systems*, 27(3), 43-80. <https://doi.org/10.2753/MIS0742-1222270303>
- Cockfield, A. J. (2020a). *Cross-Border Big Data Flows and Taxpayer Privacy BT - Ethics and Taxation* (R. F. van Brederode (ed.); pp. 379-396). Springer Singapore. https://doi.org/10.1007/978-981-15-0089-3_15
- Cockfield, A. J. (2020b). Tax Wars: How to End the Conflict Over Taxing Global Digital Commerce. *Berkeley Business Law Journal*, 17(2). <https://doi.org/10.15779/Z38H70815H>

- Devereux, M. P., Auerbach, A. J., Keen, M., Oosterhuis, P., Vella, J., & Schön, W. (2020). *Taxing profit in a global economy*. Oxford University Press.
- Dyrengr, S. D., Hoopes, J. L., & Wilde, J. H. (2016). Public pressure and corporate tax behavior. *Journal of Accounting Research*, 54(1), 147-186. <https://doi.org/10.1111/1475-679X.12101>
- Freeman, R. E. (2010). *Strategic management: A stakeholder approach*. Cambridge university press.
- Gelepithis, M., & Hearson, M. (2022). The politics of taxing multinational firms in a digital age. *Journal of European Public Policy*, 29(5), 708-727. <https://doi.org/10.1080/13501763.2021.1992488>
- Geringer, S. (2021). National digital taxes-Lessons from Europe. *South African Journal of Accounting Research*, 35(1), 1-19. <https://doi.org/10.1080/10291954.2020.1727083>
- Harpaz, A. (2021). *Taxation of the Digital Economy: Adapting a Twentieth-Century Tax System to a Twenty-First-Century Economy*. https://digitalcommons.law.uga.edu/fac_artchop/1625
- Hearson, M., & Tucker, T. N. (2023). “An Unacceptable Surrender of Fiscal Sovereignty”: The Neoliberal Turn to International Tax Arbitration. *Perspectives on Politics*, 21(1), 225-240. <https://doi.org/10.1017/S1537592721000967>
- Igbinenikaro, E., & Adewusi, O. A. (2024). Tax havens reexamined: the impact of global digital tax reforms on international taxation. *World Journal of Advanced Science and Technology*, 5(02), 1-12. <https://doi.org/10.53346/wjast.2024.5.2.0031>
- Kartal, S. (2025). *Is the DST a coherent response to taxing digital services under international obligations and norms? Comparative analysis of DSTs enacted in the United Kingdom and Türkiye*. <http://hdl.handle.net/10871/139644>
- Kelbesa, M. (2020). *Digital service taxes and their application*. <https://doi.org/10.19088/K4D.2021.135>
- Lang, A. (2019). Heterodox markets and ‘market distortions’ in the global trading system. *Journal of International Economic Law*, 22(4), 677-719. <https://doi.org/10.1093/jiel/jgz042>
- Latif, L. (2023). Breaking the Cycle of Domination in Global Tax Governance: Africans Defying Asymmetries and Seizing Opportunities. Available at SSRN 4916304. <https://doi.org/10.2139/ssrn.4916304>
- Lawton, T. C., Tonn Goulart Moura, S., Tobin, D., & Silva-Rêgo, B. (2023). *Geopolitics of the digital economy: implications for states and firms*. <https://doi.org/10.46697/001c.67966>
- Lowry, S. (2019). Digital services taxes (DSTs): Policy and economic analysis. *Congressional Research Service Report*, 45532. https://www.wita.org/wp-content/uploads/2020/06/20190225_R45532_fab3b713f012038983da04c124f162170410f3e2.pdf
- Mahlet, K. (2024). *Navigating Transfer Pricing Challenges in the Digital Economy: Assessing the Role of Value Chain Analysis and Intangible Asset Valuation*. <https://www.diva-portal.org/smash/get/diva2:1863652/FULLTEXT01.pdf>.
- Moore, M., & Tambini, D. (2018). *Digital dominance: the power of Google, Amazon, Facebook, and Apple*. Oxford University Press.
- Moran, T. H. (1998). *Foreign direct investment and development: The new policy agenda for developing countries and economies in transition*. Peterson Institute.
- Nembe, J. K., & Idemudia, C. (2024). Designing effective policies to address the challenges of global digital tax reforms. *World Journal of Advanced Research and Reviews*, 22(3), 1171-1183. <https://doi.org/10.30574/wjarr.2024.22.3.1837>

- Ness, S. (2024). VAT/GST harmonisation challenges for digital assets such as bitcoin and NFTs in the EU following Case C-264/14 (Skatteverket v David Hedqist). *International Cybersecurity Law Review*, 5(3), 459-490. <https://doi.org/10.1365/s43439-024-00124-2>
- Ofosu-Ampong, K. (2024). New policies, new behaviors: How digital taxation shapes mobile money use in Ghana. *Engineering Reports*, e12860. <https://doi.org/10.1002/eng2.12860>
- Olbert, M., & Spengel, C. (2017). International Taxation in the Digital Economy: Challenge Accepted? *World Tax Journal.-Amsterdam*, 9(1), 3-46. <https://ssrn.com/abstract=4224662>
- Payne, A. (2017). *The global politics of unequal development*. Bloomsbury Publishing.
- Pistone, P., van der Vlugt, S., & Serafimova, M. (2024). Public International Law and Tax Law: A Fair and Equitable Nexus in International Taxation. *World Tax Journal*, 16(04), 10-59403. <https://doi.org/10.59403/16bcqe8>
- Rogge, N., Agasisti, T., & De Witte, K. (2017). Big data and the measurement of public organizations' performance and efficiency: The state-of-the-art. *Public Policy and Administration*, 32(4), 263-281. <https://doi.org/10.1177/0952076716687355>
- Rootsma, E. (2021). *Adapting Taxation of Business Profits to the Digital Economy: Assessment of the Pillar One and Pillar Two Proposal by the OECD/G20 Inclusive Framework on BEPS*.
- Sama, L. M., Stefanidis, A., & Casselman, R. M. (2022). Rethinking corporate governance in the digital economy: The role of stewardship. *Business Horizons*, 65(5), 535-546. <https://doi.org/https://doi.org/10.1016/j.bushor.2021.08.001>
- Stollsteiner, G. (2024). Fair Taxation in the Digital Age: Can the OECD Two-Pillar Solution Replace Digital Services Taxes? *Financial Law Review*, 33(1), 1-15. <https://doi.org/10.4467/22996834flr.24.001.19813>
- Tallman, S., Luo, Y., & Buckley, P. J. (2018). Business models in global competition. *Global Strategy Journal*, 8(4), 517-535. <https://doi.org/10.1002/gsj.1165>
- Tang, S. (2024). Analysis of International Disputes over Digital Services Tax and Exploration of China's Approach. *Transactions on Economics, Business and Management Research*, 4, 127-137. <https://doi.org/10.62051/saq4pd63>
- Usman, I. M., & Saha, T. R. (2022). An overview of tax challenges of digital economy. *Advancement in Management and Technology (AMT)*, 3(2), 56-63. <https://doi.org/10.46977/apjmt.2022v03i02.005>