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THE INTERACTION BETWEEN TAX POLICY INNOVATION AND CORPORATE TAX AVOIDANCE STRATEGIES IN THE DIGITAL ECONOMY

Loso Judijanto*[1]
IPOSS Jakarta, Indonesia
Email: losojudijantobumn@gmail.com

Devia Septyani
Politeknik Akamigas Palembang, Indonesia
Email: devia@pap.ac.id

Amirah Andika Rifdayanti
UIN Raden Fatah, Indonesia
Email: amirahandikarifdayanti_uin@radenfatah.ac.id

Abstract

The development of the digital economy has fundamentally changed the way companies create value, conduct business activities, and manage tax obligations across jurisdictions. This transformation has prompted governments in various countries to develop innovative tax policies aimed at maintaining the tax base, improving fiscal fairness, and curbing corporate tax avoidance practices. On the other hand, multinational corporations in the digital era also continue to adapt increasingly complex tax avoidance strategies by exploiting digital economic characteristics such as intangible assets, profit mobility, and platform-based business structures. This study aims to analyze the interaction between tax policy innovation and corporate tax avoidance strategies in the context of the digital economy through a literature review method. The review was conducted on scientific articles, international organization reports, and relevant global tax regulations, including digital tax policies, Base Erosion and Profit Shifting (BEPS), and the global minimum tax. The results of the study indicate that tax policy innovation is often reactive to evolving tax avoidance practices, while companies tend to respond to these policies with more sophisticated strategic adjustments. This dynamic interaction creates a cycle of mutually influencing policies and strategies, which demands an adaptive, collaborative, and global governance-based regulatory approach. This research is expected to provide a conceptual contribution to understanding the relationship between tax policy and

[1] Correspondence author

corporate behavior in the digital era and serve as a reference for formulating more effective and sustainable tax policies.
Keywords: Digital economy, tax policy innovation, corporate tax avoidance, tax strategy

INTRODUCTION

The global economic transformation fueled by the development of digital technology has fundamentally changed the way companies create value, operate across borders, and manage their tax obligations. The emergence of the digital economy is characterized by the dominance of platform-based companies, the use of intangible assets, the large-scale utilization of data, and the ability of companies to operate virtually without a significant physical presence in a jurisdiction. This situation challenges the conventional tax framework, which has been based on the concept of physical presence, clear sources of income, and national territorial boundaries. As a result, many countries face a gap between potential and actual tax revenues derived from digital economic activities, particularly from multinational companies with complex and highly flexible business structures.

In this context, tax policy innovation is a crucial response by governments to adapt their tax systems to the dynamics of the digital economy. Tax policy innovation includes regulatory updates, the implementation of digital taxes, strengthening anti-tax avoidance rules, the use of technology in tax administration, and involvement in international initiatives such as Base Erosion and Profit Shifting (BEPS) and the introduction of a global minimum tax. The primary objective of this innovation is to maintain fiscal fairness, ensure legal certainty, and secure the national tax base amidst increasing capital and profit mobility (Zhang & She, 2024a). However, the effectiveness of innovative tax policies cannot be separated from the strategic responses undertaken by companies, particularly in designing increasingly sophisticated tax avoidance strategies.

Corporate tax avoidance is a phenomenon that has long been a focus of attention in tax and accounting literature, but it has taken on new dimensions in the digital economy. Digital companies have greater opportunities to optimize their tax burdens by placing intellectual property rights in low-tax jurisdictions, using intangible asset-based transfer pricing schemes, and shifting profits through complex corporate structures. These strategies are often within legal limits, but they substantially erode state tax revenues and raise questions about business ethics and corporate social responsibility (Xie & Huang, 2023).

In this context, innovative tax policies serve not only as regulatory tools but also as institutional signals that influence corporate behavior and decision-making.

The interaction between tax policy innovation and corporate tax avoidance strategies is increasingly complex due to the dynamic reciprocal relationship. On the one hand, governments design new policies to close tax loopholes and improve compliance, while on the other, companies respond to these policies by adjusting their business structures and tax strategies. This process creates a continuous cycle of adaptation, where each policy change can trigger new innovations in tax avoidance strategies (Pandey et al., 2023a). Therefore, understanding this interaction is crucial for assessing the extent to which innovative tax policies are truly capable of achieving fiscal goals and economic justice in the digital age.

Beyond fiscal aspects, the interaction between tax policy and tax avoidance strategies also has broader implications for economic stability, business competition, and the legitimacy of the tax system. When large corporations are able to exploit regulatory weaknesses to reduce their tax burden, while domestic companies or small and medium-sized enterprises lack the same flexibility, competition distortions and tax burden inequality occur. This can undermine public trust in the tax system and reduce voluntary taxpayer compliance. Tax policy innovation that is not balanced with a deep understanding of corporate behavior has the potential to result in ineffective or even counterproductive regulations (Sun et al., 2025a).

Globally, this challenge is further complicated by divergent interests between countries, particularly between developed and developing countries. Countries with large market bases but limited regulatory capacity are often the most disadvantaged by the tax avoidance practices of multinational digital corporations. International cooperation initiatives attempt to address this issue through policy harmonization and information exchange, but their implementation faces various political, economic, and technical obstacles. In this context, comprehensive academic studies on the interaction between tax policy innovation and corporate tax avoidance strategies are crucial to provide a theoretical and empirical foundation for formulating more effective and sustainable policies (Guo et al., 2024).

Research on this topic is also relevant in the context of increasingly advanced tax technology developments. The digitalization of tax administration, the use of big data, artificial intelligence, and risk analytics provide new opportunities for tax authorities to detect and suppress tax avoidance practices. However, the same technology is also being utilized by companies to design more complex and difficult-to-track tax plans. This emphasizes that tax policy innovation cannot be understood separately from corporate strategy innovation but must be analyzed as an interactive, mutually influencing process (Ao et al., 2023).

Given these conditions, this research is crucial to examine in depth how tax policy innovation interacts with corporate tax avoidance strategies in the context of the digital economy. Through a literature review approach, this research seeks to synthesize theoretical and empirical findings from various previous studies to understand the patterns, mechanisms, and factors influencing this interaction. The results are expected to contribute academically to enriching the international tax literature, while also providing practical implications for policymakers in designing adaptive, fair, and effective tax systems in the era of the ever-evolving digital economy.

RESEARCH METHOD

This research uses a literature review with a qualitative approach to analyze the interaction between tax policy innovation and corporate tax avoidance strategies in the context of the digital economy. The literature review was conducted by searching and collecting relevant scientific sources, including articles from reputable international journals, reports from international institutions such as the OECD and the IMF, and tax policy documents discussing economic digitalization, tax reform, and corporate tax avoidance practices. The literature was selected based on topic relevance, relatively recent publication year, and source credibility, to ensure that the analysis reflects the latest dynamics in the global tax system and digital corporate strategies.

Data analysis was conducted through a thematic synthesis process, identifying patterns, key concepts, and causal relationships emerging in the literature related to tax policy innovation, such as the digital services tax, the global minimum tax, and base erosion and profit shifting, as well as the strategic responses of multinational corporations in managing their tax burdens. The analysis phases included categorizing previous research findings, comparing theoretical and empirical perspectives, and drawing conceptual implications regarding the effectiveness of tax policy in curbing tax avoidance practices in the digital economy era. Through this approach, the research is expected to provide a comprehensive understanding of how tax policy innovations influence corporate behavior and identify regulatory gaps and challenges that are still relevant for further study.

RESULT AND DISCUSSION

Tax Policy Innovation in Response to the Challenges of the Digital Economy

The development of the digital economy has fundamentally changed the way economic value is created, distributed, and consumed. This transformation is marked by the increasing role of digital platforms, technology-based cross-border trade, the use of big data, and new business models that no longer rely on physical presence. On the one hand, the digital economy opens up significant opportunities for economic growth, increases market efficiency, and expands access to goods and services. However, on the other hand, these changes pose serious challenges to conventional tax systems, which are generally designed around the concept of physical location, traditional business forms, and relatively easily traceable transaction flows. This situation has prompted governments in various countries to innovate tax policies to ensure fairness, legal certainty, and the sustainability of state revenues in the digital era (Pylypenko et al., 2022).

One of the main challenges in the digital economy is the weakening link between the location of economic activity and tax jurisdiction. Digital companies can generate substantial profits from a country without having a significant physical presence, making them difficult to reach by traditional tax rules such as the concept of permanent establishment (Huang, 2024). As a result, there is the potential for tax base erosion and profit shifting to jurisdictions with low tax rates. Tax policy innovation is a strategic response to close this gap by introducing new approaches more relevant to the characteristics of the digital economy. Governments are shifting their focus from physical presence to the concept of significant economic presence, user utilization, and the contribution of digital data and activities as the basis for taxation.

In this context, various countries have begun adopting digital tax policies specifically designed to address technology-based economic activities. The imposition of a digital services tax, for example, has emerged as a form of policy innovation aimed at capturing economic value that was previously difficult to tax. This tax is levied on revenue generated from the provision of cross-border digital services, such as online advertising, marketplace platforms, and streaming services. Although its implementation remains controversial due to the potential for double taxation and its impact on investment, this policy reflects countries' efforts to adapt their tax systems to the increasingly dominant realities of the digital economy (Nembe & Idemudia, 2024).

Furthermore, tax policy innovation is also reflected in the use of digital technology in tax administration. The digitization of the tax system, including the use of e-filing, e-invoicing, and cross-border data exchange, has become a crucial instrument for improving compliance and transparency. Through the use of big data and artificial intelligence, tax authorities can conduct more accurate risk analysis, detect tax evasion patterns, and increase the effectiveness of oversight of complex digital transactions. Thus, tax policy innovation is not only related to substantive regulatory changes, but also institutional and administrative transformations that support optimal policy implementation (Hodžić, 2022).

At the global level, the challenges of the digital economy are driving international cooperation in formulating more coordinated tax policies. Global initiatives such as international tax reforms initiated by multilateral organizations reflect the recognition that digital economy challenges cannot be addressed unilaterally. Harmonization of tax policies is crucial to reduce tax arbitrage, prevent a race to lower rates, and create a fairer international tax system. Within this framework, tax policy innovation is not solely oriented towards national interests but also considers the stability and fairness of the global economic system.

However, the implementation of tax policy innovation in the digital economy era is not without challenges. Regulatory uncertainty, differences in administrative capacity between countries, and resistance from digital business actors are obstacles that must be carefully managed. Overly aggressive tax policies risk stifling innovation and digital economic growth, while overly lax policies can increase potential revenue losses. Therefore, a balance is needed between fiscal objectives, the investment climate, and the principle of tax fairness. Tax policy innovations must be designed adaptively, based on empirical evidence, and involve constructive dialogue between the government, businesses, and the public.

In the long term, tax policy innovation in response to the challenges of the digital economy is an ongoing process. The dynamics of ever-evolving technology demand a flexible and responsive tax system. Countries that can effectively design and implement innovative tax policies will have an advantage in maintaining fiscal sovereignty while supporting inclusive and sustainable digital economic growth. Thus, tax policy innovation is not only a fiscal tool but also a strategic instrument in managing the digital economic transformation in a fair and balanced manner.

Forms and Patterns of Corporate Tax Avoidance Strategies in the Digital Economy

The development of the digital economy has brought fundamental changes to the way companies create value, conduct business activities, and generate profits. This transformation has directly impacted the tax system, which was initially designed for conventional economic activities based on a physical presence and clear jurisdictional boundaries. In this context, digital companies have much greater flexibility in structuring their operations and finances across borders, thus opening up space for the emergence of various forms and patterns of tax avoidance strategies. These strategies are generally carried out legally by exploiting regulatory loopholes, differences in tax systems between countries, and the limitations of tax authorities in overseeing the invisibility of digital transactions (Sun et al., 2025b).

One of the main forms of tax avoidance strategies in the digital economy is the separation of the location of economic value creation from the location of profit reporting (Bhunia et al., 2024). Digital companies often generate revenue from a country without a significant physical presence, thus failing to meet the criteria for a permanent establishment under traditional tax laws. This situation allows companies to shift profit recognition to jurisdictions with lower tax rates, even though the actual economic value is created from users, data, and market activity in countries with higher tax rates. This pattern is typical of digital platform-based companies, such as social media providers, e-commerce providers, and app-based services, which derive significant value from user engagement without having to build significant physical infrastructure in those countries.

Another prominent form is the use of intangible assets as a primary instrument of tax avoidance (Pandey et al., 2023b). In the digital economy, assets such as intellectual property rights, algorithms, software, trademarks, and user data have enormous economic value but are difficult to assess objectively. Multinational companies often locate ownership of these intangible assets in countries with more favorable tax regimes. Furthermore, operating entities in other countries are required to pay royalties or licensing fees to the entity owning these assets, thus reducing profits in the high-tax country. This pattern systematically shifts the tax base from the market country to the country where the intangible assets are administratively located, even though their real contribution to value creation occurs in various other jurisdictions.

Furthermore, tax avoidance strategies are also carried out through transfer pricing manipulation in intra-group transactions. The digital economy increases the complexity of transfer pricing because many transactions involve digital services, platform usage, data processing, and technological support that are difficult to compare with similar transactions in the open market. This opaque nature of arm's length pricing allows companies to set prices that benefit the group as a whole. By setting high service fees or internal payments to entities in low-tax countries, companies can suppress taxable profits in countries with higher tax rates. This pattern is often difficult to detect because digital transactions do not always leave a physical trace that is easily audited.

Tax avoidance strategies in the digital economy are also evident in the use of complex and multi-layered corporate structures. Multinational digital companies often establish networks of subsidiaries, shell companies, and special entities in various jurisdictions. These structures serve not only to enhance operational efficiency but also to optimize the global tax burden. By arranging the flow of revenue, expenses, and financing between entities, companies can control where profits are reported and when taxes are paid. This pattern creates an imbalance between real economic activity and the tax contributions paid in each country.

Utilizing double taxation avoidance agreements is also a key component of digital companies' tax avoidance strategies. By thoroughly understanding the network of tax treaties between countries, companies can structure transactions to minimize taxes through treaty shopping mechanisms. Revenue can be channeled through countries with the most favorable tax treaties, resulting in a significantly lower effective tax rate than the nominal rate applicable in the source country. In the digital economy, this process is made even easier because revenue flows are electronic and do not depend on the physical distribution of goods (Digital Transformation and Corporate Tax Avoidance: An Analysis Based on Multiple Perspectives and Mechanisms | PLOS One, n.d.).

On the other hand, tax avoidance strategies also involve exploiting differences in tax treatment for evolving digital business models. Many countries lack clear tax classifications for certain digital services, such as cloud computing, platform subscriptions, or user data monetization. Companies exploit this regulatory uncertainty to interpret tax obligations in a minimalist manner, deeming certain income taxable in a jurisdiction. This pattern shows that tax avoidance in the digital economy is not always carried out through aggressive schemes, but also through exploiting legal ambiguity and delays in adapting tax policies.

The Interaction between Tax Policy Innovation and Adaptation of Corporate Tax Avoidance Strategies

The interaction between tax policy innovation and adaptation of corporate tax avoidance strategies is an increasingly complex phenomenon in line with global economic dynamics and the transformation of corporate business models. Tax policy innovation generally arises as a government response to changes in the economic environment, technological advances, the globalization of capital flows, and the rise in tax avoidance practices that erode the national tax base. On the other hand, corporations, as rational entities oriented towards cost efficiency and profit maximization, will continually adapt their tax strategies to legally minimize their tax burden. This interaction forms a dynamic and reciprocal relationship, where tax policy not only influences corporate behavior but is also influenced by the corporation's adaptive response to such policies (Brühne et al., 2025).

Tax policy innovation is often realized through regulatory updates, tariff adjustments, tax base expansion, strengthening anti-tax avoidance rules, and the use of digital technology in tax administration. The government is working to close regulatory loopholes that companies have exploited to engage in tax avoidance, such as aggressive transfer pricing practices, treaty shopping, the use of special purpose entities in low-tax jurisdictions, and cross-border profit shifting. However, each policy innovation implemented does not necessarily end this practice, but rather encourages corporations to seek new, more sophisticated and structured approaches to managing their tax obligations (Elumilade et al., 2022).

Adapting corporate tax avoidance strategies to tax policy innovations generally occurs through a process of evaluating the risks and opportunities inherent in new regulations. Companies will assess the extent to which the policy increases compliance risks, potential sanctions, and its impact on cost structures and reputation (Wulandari et al., 2025). In this context, tax avoidance is no longer understood simply as an attempt to exploit legal loopholes, but has evolved into a strategy integrated with financial planning, organizational structure, and long-term investment decisions. Large corporations with sufficient resources tend to engage tax consultants, international legal experts, and utilize data analysis to design strategies that remain within the legal framework while optimally reducing tax burdens.

The interaction between tax policy innovations and tax avoidance strategies also reflects a strategic game between tax authorities and corporate taxpayers. When governments introduce stricter anti-tax avoidance rules, such as general anti-avoidance rules or controlled foreign corporation rules, companies will adjust their transaction structures and business entities to maintain fiscal efficiency. Conversely, when companies discover new tax avoidance patterns that are not yet covered by regulations, governments will respond with follow-up policies aimed at closing these loopholes. This cycle demonstrates that tax policy innovation and tax avoidance adaptation are not linear processes, but rather a continuous, mutually influencing interaction.

In practice, tax policy innovation also has broader implications for corporate behavior beyond fiscal aspects. Increased tax transparency, more detailed reporting requirements, and cross-border information exchange encourage companies to consider reputational and social responsibility aspects in their tax strategies. Adapting tax avoidance strategies is not only aimed at tax savings but also at maintaining corporate legitimacy in the eyes of the public, investors, and other stakeholders (Umeaduma, 2025). Thus, tax policy innovation indirectly encourages a shift from aggressive tax avoidance practices to more moderate and sustainable tax planning approaches.

However, it is undeniable that the capacity gap between tax authorities and multinational corporations remains a challenge in this interaction. Companies with cross-border operations have greater flexibility to shift economic activity and profits to jurisdictions offering more favorable tax treatment. Tax policy innovation at the national level often faces limitations in the reach of such practices, necessitating closer international coordination. In this context, the adaptation of corporate tax avoidance strategies is influenced not only by domestic policies but also by global tax policy developments that shape the overall regulatory landscape.

Conceptually, the interaction between tax policy innovation and the adaptation of corporate tax avoidance strategies demonstrates that the effectiveness of tax policy is determined not only by regulatory design but also by an understanding of corporate behavior and incentives. Overly complex or inconsistent policies have the potential to create new opportunities for tax avoidance, while policies designed with companies' adaptive responses in mind tend to be more effective in increasing compliance. Therefore, tax policy innovation should ideally be anticipatory, data-driven, and flexible, able to keep pace with the ever-evolving dynamics of tax avoidance strategies.

Ultimately, this interaction reflects the interdependent relationship between the state and corporations in the modern tax system. Tax policy innovation aims to maintain fairness and sustainability of state revenues, while adapting tax avoidance strategies represents a rational corporate response to regulatory changes. Balancing these two interests is key to creating an effective, fair, and adaptable tax system to global economic changes. By comprehensively understanding these interaction patterns, policymakers and academics can formulate more appropriate approaches to managing tax challenges in the modern economic era.

The Impact of Digital Tax Policy on the Effectiveness of Tax Avoidance Control

The impact of digital tax policy on the effectiveness of tax avoidance control has become an increasingly central issue in contemporary tax discourse, as the rapid development of the digital economy transforms the way companies create value, operate across jurisdictions, and report their tax obligations (Xie & Huang, n.d.). Economic digitalization has blurred the geographical boundaries that have historically been the basis of the international tax system, creating regulatory loopholes that multinational corporations can exploit to engage in legal yet aggressive tax avoidance. In this context, digital tax policy is a government response to restore the effectiveness of the tax system in securing the tax base, maintaining fiscal justice, and ensuring proportional contributions from digital economy actors.

One of the key impacts of digital tax policy on tax avoidance control lies in the expansion of the concepts of nexus and the source of taxable income (Zhang & She, 2024b). In conventional tax regimes, physical presence is a primary requirement for a country to tax corporate profits. However, digital business models allow companies to generate significant revenue from a jurisdiction without a substantial physical presence. Digital tax policies, such as taxing significant economic presence or digital permanent establishment, attempt to close this gap by redefining the economic relationship between companies and market countries. This approach improves the ability of tax authorities to identify and tax digital economic activities previously outside the reach of national tax laws, thereby narrowing the scope for tax avoidance based on cross-border business structures.

Furthermore, digital tax policies contribute to increased transparency and information availability, key elements in controlling tax avoidance. Instruments such as country-based reporting, automatic exchange of information, and mandatory digital transaction reporting strengthen the capacity of tax administrations to map the income and profit flows of digital companies. Greater transparency reduces information asymmetry between taxpayers and tax authorities, which has historically been a key factor in the success of tax avoidance strategies (Sun et al., 2025c). With more comprehensive and integrated data access, tax authorities can conduct more accurate risk analyses, detect profit shifting schemes, and improve the effectiveness of tax law enforcement.

However, the impact of digital tax policies on the effectiveness of tax avoidance control is not always linear and without challenges. In practice, the complexity of digital tax policies can actually encourage companies to develop more sophisticated tax avoidance strategies. Differing digital tax provisions across countries create regulatory fragmentation, which can be exploited through tax arbitrage and restructuring of global operations. Digital companies with substantial resources are able to adapt their business models, intellectual property structures, and allocation of economic functions to minimize their tax burden, even within new policy frameworks. This suggests that the effectiveness of tax avoidance control is determined not only by the existence of digital tax policies, but also by the level of international harmonization and coordination (Li & Yang, 2021).

From a global perspective, coordinated digital tax initiatives, such as international agreements on a global minimum tax and the redistribution of taxing rights, have a more significant impact on controlling tax avoidance than unilateral policies. Policy harmonization reduces the opportunity for companies to shift profits to jurisdictions with lower tax rates or less stringent regulations. With more uniform global standards, tax avoidance strategies based on differing tax regimes become less effective. However, the implementation of these global policies faces political and technical challenges, particularly related to national interests, administrative capacity, and the readiness of domestic tax systems.

Another impact of digital tax policies on the effectiveness of controlling tax avoidance can be seen in changes in taxpayer compliance behavior. The imposition of digital taxes and increased oversight tend to increase the perceived risk of aggressive tax avoidance practices. As the probability of detection and sanctions increases, companies tend to adjust their tax strategies toward greater compliance. In the long term, digital tax policies have the potential to encourage a shift from tax avoidance to more sustainable tax compliance, especially for companies that rely heavily on reputation and public trust. However, this effect is highly dependent on the consistency of law enforcement and the credibility of tax authorities (Tiantian et al., 2023).

On the other hand, digital tax policies also have implications for the effectiveness of tax administration itself. Implementing new policies requires significant investments in technological infrastructure, human resources, and data analytics systems. Countries with limited administrative capacity risk experiencing implementation gaps, resulting in suboptimal effectiveness in controlling tax avoidance. Under these conditions, digital tax policies can be merely symbolic without any substantive impact on tax avoidance practices. Therefore, strengthening institutional capacity is a crucial prerequisite for digital tax policies to be truly effective in achieving their goal of controlling tax avoidance.

OECD BEPS Action Plan and the Implementation of the Global Minimum Tax in the Context of the Digital Economy

The OECD Base Erosion and Profit Shifting (BEPS) Action Plan is a global response to the increasing practice of tax avoidance by multinational corporations exploiting regulatory loopholes across jurisdictions. In the context of the digital economy, tax challenges become increasingly complex because digital business models enable companies to generate significant economic value in a country without a substantial physical presence. This situation undermines the traditional nexus principle in international taxation and encourages tax base erosion and profit shifting to low-tax or tax-free jurisdictions. The OECD, along with the G20 countries, then formulated the BEPS Action Plan as a comprehensive framework aimed at creating an international tax system that is fairer, more transparent, and aligned with the realities of a digitalized global economy (OECD, 2013).

In the digital economy, BEPS practices are facilitated by leveraging intangible assets such as algorithms, user data, intellectual property rights, and digital platforms. Global digital companies can concentrate ownership of intangible assets in specific countries with low tax rates, while spreading value-creating activities across multiple markets. The BEPS Action Plan specifically addresses this challenge through several key actions, including redefining the concept of significant economic presence, strengthening economic value-based transfer pricing rules, and increasing transparency through information exchange and country-by-country reporting. Within this framework, the digital economy is no longer viewed as a separate sector, but rather as a cross-cutting phenomenon affecting the entire international tax system (Bendlinger, 2023).

Further development of the BEPS Action Plan is reflected in the global agreement on the Two-Pillar Solution adopted by the OECD Inclusive Framework. The first pillar focuses on reallocating taxation rights on residual profits of large multinational companies to market countries, regardless of physical presence. The second pillar introduces a Global Minimum Tax with a minimum effective rate of 15 percent. The implementation of the Global Minimum Tax is a significant milestone in efforts to curb harmful tax competition and reduce the incentives of multinational companies to shift profits to low-tax jurisdictions. In the context of the digital economy, this policy directly targets large digital companies that have been able to aggressively optimize their global tax structures.

The Global Minimum Tax is designed to ensure that multinational companies' profits are taxed at a specified minimum rate regardless of where they are reported. This mechanism operates through rules such as the Income Inclusion Rule and the Undertaxed Payments Rule, which allow the home country or other countries within the network of jurisdictions to levy additional taxes if the effective tax rate in a country falls below a minimum threshold. Thus, the benefits of shifting profits to low-tax-risk countries are significantly reduced. For the digital economy, this policy is a crucial instrument because digital companies often have significant flexibility in determining where to report profits, unlike traditional companies that rely more on physical assets (Ajayi, 2024).

The global implementation of the Global Minimum Tax demonstrates a paradigm shift from tax competition to international tax coordination. Many developed countries have begun adopting global minimum tax provisions into their domestic tax systems, while developing countries face a more complex situation. On the one hand, a global minimum tax has the potential to protect developing countries' tax bases from tax avoidance practices by multinational digital companies. On the other hand, tax administration capacity, regulatory readiness, and the potential impact on investment attractiveness present challenges that need to be carefully managed. In this context, the digital economy demands that developing countries not only become consumers of global policies, but also active actors in their formulation and implementation (Judijanto et al., 2025).

However, the implementation of the OECD BEPS Action Plan and the Global Minimum Tax has not been without criticism. Some believe that these policies still favor countries where multinational companies are headquartered over market countries, particularly developing countries with large digital consumer bases. Furthermore, the technical complexity of calculating global effective tax rates and inter-jurisdictional coordination creates a significant compliance burden for both companies and tax authorities. In the rapidly evolving digital economy, there are also concerns that international regulations tend to lag behind innovation in digital business models, allowing new opportunities for tax avoidance to emerge.

Overall, the OECD BEPS Action Plan and the implementation of the Global Minimum Tax represent important steps in adapting the international tax system to the realities of the digital economy. These policies reflect a collective global effort to balance government revenue needs, fiscal fairness, and business certainty. In the long term, the success of these policies depends heavily on political commitment, administrative capacity, and the ability of countries to adapt to the changing dynamics of the digital economy. Therefore, the BEPS Action Plan and the Global Minimum Tax serve not only as technical tax instruments but also as a foundation for more inclusive and sustainable global economic governance in the digital era.

CONCLUSION

This study concludes that tax policy innovation plays a crucial role in shaping and influencing corporate tax avoidance strategies in the digital economy era. The transformation of digital-based business models, characterized by the high mobility of intangible assets, cross-border data utilization, and minimal physical presence, has created regulatory gaps that encourage companies to develop increasingly complex and adaptive tax avoidance strategies. Tax policy innovations such as taxation of the digital economy, reformulation of the permanent establishment concept, implementation of a global minimum tax, and the use of digital technology in tax administration have proven effective in reducing the scope for tax avoidance, while simultaneously triggering new strategic responses from corporations to adjust their operational and financial structures.

Furthermore, the interaction between tax policy innovation and tax avoidance strategies is dynamic and mutually influential, with each policy update encouraging companies to seek more sophisticated tax planning schemes, while emerging tax avoidance practices serve as the basis for fiscal authorities to formulate further regulations. The literature review indicates that the effectiveness of tax policy innovation is highly dependent on the level of international coordination, regulatory consistency across jurisdictions, and institutional capacity for oversight and enforcement. Therefore, to reduce tax avoidance practices sustainably in the digital economy, an adaptive, collaborative, and technology-based policy approach is needed, while also paying attention to the balance between legal certainty, tax fairness, and the investment climate.

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