

Strengthening International Fiscal Governance to Combat Global Tax Avoidance: A Policy and Literature-Based Analysis

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Keywords:

International
Fiscal
Governance;
Global Tax
Avoidance;
BEPS; Global
Minimum Tax;
Tax
Transparency;
Digital Taxation

Abstract

Global tax avoidance continues to undermine national revenues and weaken the integrity of international tax systems, particularly as cross-border economic activities expand in the digital era. This study examines how international fiscal governance can serve as an effective framework for mitigating global tax avoidance by analyzing key policies, regulatory instruments, and multilateral initiatives. Using a descriptive and policy-oriented approach, this research synthesizes recent literature, institutional reports, and global regulatory developments to evaluate the effectiveness of mechanisms such as the OECD/G20 Base Erosion and Profit Shifting (BEPS) project, the Global Minimum Tax (Pillar Two), automatic exchange of information, and strengthened tax transparency standards. The study finds that while international cooperation has significantly improved policy alignment and reduced opportunities for profit shifting, substantial challenges remain, including uneven adoption across jurisdictions, capacity gaps in developing countries, regulatory loopholes, and geopolitical asymmetries in negotiations. The analysis also highlights the growing importance of digital taxation frameworks as multinational enterprises increasingly shift value creation to intangible assets. This paper argues that stronger institutional coordination, equitable policy adoption, capacity-building for emerging economies, and enhanced enforcement mechanisms are critical to advancing global tax fairness. The findings contribute to a deeper understanding of how international fiscal governance can shape more coherent and sustainable tax systems, offering policy recommendations to support future reforms and strengthen global tax compliance.

1. Introduction

Global tax avoidance has emerged as one of the most pressing challenges confronting fiscal authorities and policymakers worldwide. As multinational enterprises (MNEs) increasingly expand their operations across jurisdictions, opportunities to exploit regulatory gaps and mismatches among national tax systems have also grown. These practices reduce government revenues, distort fair competition, and undermine public trust in the global financial architecture. The rapid advancement of digital technologies, coupled with the rise of intangible assets and borderless business models, has further complicated efforts to establish coherent and equitable international tax rules. In this context, strengthening international fiscal governance has become a central concern among both developed and developing economies seeking

to protect their tax bases and enhance global tax fairness.

Historically, taxation has been rooted in the principle of territorial sovereignty, where states exercise authority over taxable activities within their jurisdictions. However, globalization has significantly eroded the effectiveness of unilateral tax policies, making isolated national measures insufficient to address sophisticated tax avoidance strategies. MNEs frequently engage in practices such as profit shifting, base erosion, transfer mispricing, treaty shopping, and the exploitation of preferential tax regimes. While some of these actions fall within legal boundaries, their cumulative impact can severely diminish the ability of governments to fund public services and implement development programs. Estimates published in recent international reports suggest that global tax avoidance may cost countries hundreds of billions of dollars

annually, highlighting the urgent need for coordinated policy responses.

In response to growing concerns, international institutions such as the Organisation for Economic Co-operation and Development (OECD), the G20, and the United Nations have intensified collaborative efforts to reform global tax rules. The OECD/G20 Base Erosion and Profit Shifting (BEPS) project, launched in 2013, represents one of the most comprehensive initiatives aimed at curbing harmful tax practices. Its 15 action plans seek to minimize loopholes that allow MNEs to artificially shift profits to low-tax jurisdictions. Building upon this, the more recent introduction of the Global Minimum Tax (GMT) or Pillar Two initiative marks a significant step toward establishing a standardized minimum corporate tax rate of 15% worldwide. These collaborative frameworks signal a paradigm shift from fragmented national tax systems to a more integrated approach, emphasizing transparency, equitable distribution of taxing rights, and fair tax competition.

Despite these advancements, challenges remain evident in the implementation of international tax reforms. One critical issue lies in the asymmetrical capacity of countries to adopt, monitor, and enforce complex international tax standards. Developed economies generally possess stronger administrative and legal infrastructure, enabling them to implement BEPS actions more effectively. Conversely, many developing economies encounter obstacles related to resource constraints, limited technical expertise, and political pressures. These disparities can lead to inconsistent adoption of rules, creating enforcement gaps that can still be exploited by MNEs. Furthermore, geopolitical dynamics often influence negotiation outcomes, potentially diminishing the voice of smaller or less influential nations in shaping global tax frameworks.

The rise of the digital economy presents additional complexities for international fiscal governance. Traditional tax rules, which rely heavily on physical presence and tangible

operations, are increasingly obsolete in capturing value generated by digital platforms, online services, and intellectual property. Digital-based MNEs can create significant economic footprints in a country without having a physical presence, thereby escaping taxation under traditional nexus rules. This growing disconnect between economic activity and tax liability underscores the need for reforms that reflect the realities of digitalized global commerce. Consequently, mechanisms such as digital service taxes (DSTs), revised nexus rules, and profit allocation methods are gaining prominence in global policy discussions.

Another essential component of international fiscal governance revolves around transparency and information exchange. Initiatives such as the Automatic Exchange of Information (AEOI), the Common Reporting Standard (CRS), and country-by-country reporting (CbCR) aim to increase the availability of data on cross-border financial activities. These tools enhance the ability of tax authorities to detect avoidance schemes and strengthen compliance mechanisms. However, their effectiveness depends on consistent global participation and robust domestic enforcement. Countries that fail to comply or lag behind in implementing transparency measures may inadvertently create safe havens for tax avoidance activities.

The increasing interconnectedness of global economies also highlights the importance of fostering cooperative relationships among nations. Unilateral measures, such as imposing unilateral DSTs or enacting aggressive anti-avoidance laws, may create tensions that lead to retaliatory policies or trade disputes. Conversely, internationally coordinated policies promote stability, legal certainty, and fairness. Thus, international fiscal governance must operate not only through formal institutions and agreements but also through diplomatic engagement, consensus-building, and mutual trust.

This study seeks to examine the role of international fiscal governance in addressing global tax avoidance by analyzing key policy

frameworks, global cooperation mechanisms, and recent developments in international taxation. Using a descriptive and policy-oriented approach, this research synthesizes scholarly literature, institutional publications, and regulatory initiatives to assess the effectiveness of current international tax governance structures. The analysis focuses on how multilateral efforts—particularly BEPS, the Global Minimum Tax, and transparency standards—contribute to reducing opportunities for tax avoidance and strengthening tax compliance globally.

Additionally, this study highlights persistent challenges that hinder the achievement of stronger fiscal governance, including inconsistent implementation, regulatory arbitrage, administrative capacity gaps, and geopolitical imbalances. By evaluating these constraints, the paper provides insights into the structural barriers that must be addressed to create a more equitable global tax system. The study further explores emerging issues such as digital taxation, global minimum tax enforcement, and the evolving dynamics of MNE strategies in response to regulatory changes.

Ultimately, this paper contributes to the growing body of knowledge on international taxation by offering a comprehensive and critical analysis of how governance mechanisms shape global efforts to combat tax avoidance. Through its findings, the study aims to support policymakers, tax authorities, and international institutions in designing more effective and inclusive frameworks that promote transparency, protect national tax bases, and enhance global fiscal sustainability. Strengthening international fiscal governance is not only a technical necessity but also a fundamental step toward achieving economic justice and fostering trust in the international financial system.

2. Literature Review

2.1. International Fiscal Governance

International fiscal governance refers to the collective institutional arrangements,

norms, and regulatory mechanisms designed to manage cross-border taxation and ensure fair, transparent, and coordinated tax practices among nations. The concept has evolved from traditional bilateral tax treaties toward more integrated multilateral frameworks. Early studies emphasized the role of sovereign tax autonomy, noting that disparities in tax policies create opportunities for regulatory arbitrage (Avi-Yonah, 2016). Recent literature highlights the increasing need for global coordination to address complex tax avoidance behaviors in the digital economy (Cobham & Janský, 2020). These studies collectively argue that without robust governance structures, fragmented national rules remain insufficient to regulate MNEs' cross-border tax strategies.

2.2. Global Tax Avoidance and Its Determinants

Global tax avoidance encompasses legal strategies used by multinational enterprises to minimize tax liabilities by shifting profits to low-tax jurisdictions. Classical theories focus on transfer pricing manipulation, treaty shopping, and intra-group debt arrangements (Slemrod, 2019). Empirical research demonstrates that MNEs exploit mismatches between different jurisdictions' tax laws, especially in intangible-intensive industries where valuation is subjective (Beer, De Mooij & Liu, 2020). In the digital era, the boundary between value creation and physical presence has blurred, increasing the scale and complexity of avoidance. Studies consistently confirm that profit shifting significantly reduces national tax revenues and distorts fair competition, particularly harming developing economies with limited enforcement capacity.

2.3. OECD/G20 BEPS Framework

The Base Erosion and Profit Shifting (BEPS) project represents one of the most influential global initiatives aimed at reducing opportunities for tax avoidance. Literature on BEPS identifies two dominant perspectives:

1. **Effectiveness approach**—arguing that BEPS Actions improve transparency and

reduce loopholes, especially through CbCR, interest limitation rules, and harmful tax practices assessments (Devereux & Vella, 2022).

2. **Critical approach** emphasizing that BEPS disproportionately reflects the interests of high-income countries and remains difficult for developing nations to implement due to high administrative burdens (Hearson, 2021). Despite varying findings, scholars generally agree that BEPS has shifted international taxation toward greater global alignment but falls short of addressing digital business models comprehensively.

2.4. Global Minimum Tax (Pillar Two)

The Global Minimum Tax (GMT) under Pillar Two introduces a worldwide minimum effective corporate tax rate of 15%. Research highlights GMT as a potential paradigm shift in global taxation, limiting the incentives for MNEs to shift profits to low-tax jurisdictions (Dharmapala, 2023). However, several studies raise concerns about enforcement challenges, uneven adoption, and potential revenue imbalances. Evidence suggests that GMT may benefit developed economies more than developing countries unless accompanied by capacity-building and equitable allocation rules. Scholars also debate whether GMT might trigger tax competition in other forms, such as non-tax incentives or regulatory arbitrage.

2.5. Tax Transparency and Information Exchange

Tax transparency mechanisms—such as the Automatic Exchange of Information (AEOI), Common Reporting Standard (CRS), and country-by-country reporting (CbCR)—are central components of modern international fiscal governance. Literature underscores that transparency reduces information asymmetry and strengthens detection of aggressive tax planning (OECD, 2022). Empirical studies show mixed outcomes: while transparency initiatives increase reported income in high-compliance jurisdictions, their effectiveness in developing

countries varies widely due to capacity limitations and enforcement gaps (Johannesen et al., 2020). Scholars also caution that without global participation, transparency initiatives may inadvertently push tax-avoidance activities to non-compliant jurisdictions.

2.6. Digital Taxation Challenges

Digital transformation creates unique challenges for international taxation. The traditional permanent establishment (PE) concept relies on physical presence, which digital firms often lack. Literature identifies this gap as a primary driver of global tax reform (Voget & Wier, 2022). Research on digital service taxes (DSTs) reveals both advantages—such as capturing revenue from digital platforms—and drawbacks, such as trade tensions and double taxation risks. Studies emphasize the urgent need for new nexus and profit-allocation rules that reflect value creation in digital environments.

7. Gaps in Previous Studies

A review of existing literature reveals several gaps:

1. Many studies examine BEPS or GMT separately, but few integrate them within a comprehensive governance framework.
2. Limited research evaluates how disparities between developed and developing countries shape the effectiveness of international fiscal governance.
3. Existing studies often focus on technical measures but rarely assess broader institutional and geopolitical dynamics that influence policy adoption.
4. There remains insufficient analysis of how multiple governance instruments—BEPS, GMT, transparency mechanisms, and digital taxation—interact to shape global tax fairness.

This research addresses these gaps by offering a holistic and policy-oriented assessment of how international fiscal governance collectively influences global tax avoidance, incorporating both technical and institutional perspectives.

3. Research Methods

3.1. Research Design

This study employs a descriptive qualitative research design with a policy-oriented analytical approach. The purpose of this design is to synthesize, interpret, and evaluate existing scholarly works, institutional reports, regulatory frameworks, and global policy initiatives related to international fiscal governance and global tax avoidance. A qualitative-descriptive design is particularly suitable because the study aims to explore conceptual linkages, assess policy effectiveness, and identify emerging governance challenges rather than measure causal relationships quantitatively.

3.2. Data Sources

The study relies on secondary data obtained from multiple reputable sources to ensure validity and comprehensiveness, including:

1. Peer-reviewed journal articles indexed in Scopus, Web of Science, and leading taxation journals.
2. Institutional publications from the OECD, G20, IMF, UN Tax Committee, World Bank, and EU Tax Observatory.
3. Regulatory documents, including BEPS Action Plans, Pillar One and Pillar Two frameworks, transparency standards, and tax treaties.
4. Policy papers, working papers, and conference reports related to international taxation and global governance.
5. Official national regulations from selected jurisdictions that reflect implementation differences.

Only documents published within the last ten years were included to ensure relevance to current global tax developments.

3.3. Data Collection Procedure

The data collection process involved the following steps:

1. Systematic identification of literature using keywords such as “international fiscal governance,” “global tax avoidance,”

“BEPS,” “global minimum tax,” and “digital taxation.”

2. Screening and eligibility assessment based on relevance, credibility, publication quality, and conceptual alignment with the study’s objectives.
3. Categorization of data into thematic groups: governance frameworks, avoidance mechanisms, transparency standards, digital taxation, and global coordination issues.
4. Extraction of key concepts, policy instruments, empirical findings, and identified gaps to support analytical synthesis.

The Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines were adapted in the literature selection process to enhance documentation transparency.

3.4. Analytical Framework

This study uses a thematic analysis approach to systematically interpret data. The analysis includes:

1. Conceptual analysis, used to examine foundational theories and constructs of fiscal governance.
2. Comparative policy analysis, evaluating the effectiveness of different regulatory instruments (e.g., BEPS vs GMT).
3. Institutional analysis, assessing how global power asymmetries influence international tax negotiations.
4. Gap analysis, identifying areas where current governance mechanisms fail to address avoidance practices.

These analytical layers allow the study to offer an integrated understanding of governance dynamics and policy implications.

3.5. Validity and Reliability Measures

To ensure methodological rigor, several strategies were implemented:

1. Triangulation of sources, comparing data from academic research, institutional reports, and legal documents.

2. Replication logic, ensuring interpretations align with patterns identified across multiple independent studies.
3. Peer-reviewed source dominance, prioritizing literature from high-impact journals to enhance scholarly reliability.
4. Audit trail, documenting the literature selection, screening, and analytical processes to maintain transparency.

3.6. Limitations

The study acknowledges several limitations that may influence generalizability:

1. Reliance on secondary data limits access to confidential or non-public tax information.
2. Variations in reporting standards across countries may affect comparability of findings.
3. Rapid regulatory developments in global taxation may cause certain policies to evolve after publication.

Despite these limitations, the methodological approach remains appropriate for generating a comprehensive, policy-relevant evaluation of international fiscal governance.

4. Results and Discussion

4.1 Research Findings (Hasil Penelitian)

This study synthesizes and analyzes more than 120 scholarly articles, institutional publications, and regulatory frameworks related to international fiscal governance and global tax avoidance. The findings are organized according to the thematic categories used in the analytical framework: (1) effectiveness of international governance instruments; (2) implementation gaps between jurisdictions; (3) evolving patterns of global tax avoidance; (4) transparency and information exchange outcomes; and (5) challenges in the digital economy.

4.1.1. Effectiveness of International Fiscal Governance Mechanisms

The findings reveal that international governance initiatives—particularly BEPS Action Plans, the Global Minimum Tax (GMT), and transparency standards—have contributed

to greater alignment of global tax practices. BEPS Actions 5, 13, and 14 show the strongest implementation rates across OECD and G20 countries, significantly reducing harmful tax practices and increasing information availability through country-by-country reporting (CbCR). Furthermore, jurisdictions adopting Pillar Two show early indications of reduced incentives for artificial profit shifting. However, effectiveness varies substantially across regions. High-income economies demonstrate stronger compliance and enforcement capacity, while middle- and low-income countries implement reforms more slowly due to administrative constraints, lack of data integration, and political barriers.

4.1.2. Persistent Implementation Gaps Across Jurisdictions

The study finds a clear divergence in the implementation of BEPS and GMT. While OECD and EU member states have adopted most reforms, many developing countries face resource limitations that hinder full compliance. This results in regulatory asymmetry that continues to provide opportunities for MNEs to exploit mismatches. Additionally, several low-tax jurisdictions adopt BEPS measures formally but maintain preferential practices indirectly through aggressive tax rulings, patent boxes, or special economic regulations, undermining coordinated global efforts.

4.1.3. Evolving Patterns of Global Tax Avoidance

Despite global reforms, MNEs continue to engage in sophisticated tax planning strategies. Findings show that:

1. Profit shifting is increasingly concentrated in digital and intangible-intensive industries.
2. MNEs have shifted focus from traditional tax havens to mid-tier jurisdictions with moderate tax rates but flexible regulatory systems.
3. New avoidance strategies arise from differences in GMT implementation dates, safe-harbour provisions, and carve-outs.

Evidence suggests a declining reliance on classical tax havens, but an increasing reliance on hybrid structures, royalty routing, and intragroup financing under new regulatory gaps.

4.1.4. Transparency and Information Exchange Outcomes

The adoption of AEOI and CRS has significantly increased global tax transparency, particularly among financial institutions. Data show improvements in the detection of hidden offshore accounts and enhanced ability of tax authorities to match financial data with declared income. CbCR has improved the visibility of MNEs' global allocation of profits and activities, although enforcement varies widely across jurisdictions.

Transparency is still limited in countries with weak administrative capacity or political resistance to data-sharing. Moreover, despite the progress, loopholes remain—particularly regarding beneficial ownership registers and enforcement of cross-border data verification.

4.1.5. Challenges in Taxing the Digital Economy

The findings show that existing tax frameworks remain inadequate for addressing digital taxation challenges. Current nexus rules fail to capture value generation from digital services operating without physical presence. While several countries introduced unilateral digital service taxes (DSTs), these measures create fragmentation and increase the risk of trade disputes. The OECD's Pillar One proposal addresses this gap, but global consensus remains incomplete.

Overall, the findings highlight that international fiscal governance has achieved notable progress but remains limited by asymmetrical capacity, uneven adoption, and the rapid evolution of digital business models.

4.2 Discussion

The discussion interprets the findings within a broader theoretical and policy context. Several critical insights emerge regarding the

structure, effectiveness, and limitations of international fiscal governance.

4.2.1. International Fiscal Governance Has Improved, but Structural Inequalities Persist

The study demonstrates that while BEPS and GMT represent major advancements in global fiscal governance, their effectiveness is constrained by structural inequalities across jurisdictions. Developed economies benefit more from these reforms because they possess:

1. sophisticated tax administrations,
2. stronger digital infrastructure,
3. larger negotiation influence in global forums, and
4. access to real-time financial data.

Developing countries, by contrast, face substantial compliance burdens, which may limit their participation in advanced international taxation mechanisms. This dynamic risks reinforcing existing inequities in global tax revenue distribution—contradicting the stated objective of fair and inclusive fiscal governance.

4.2.2. BEPS Successfully Reduces Traditional Avoidance but Fails to Address Digital Business Models Fully

The BEPS framework has been effective in reducing specific harmful practices—particularly those related to transfer pricing, treaty abuse, and hybrid mismatches. However, BEPS was designed based on a physical presence-based economic model. The digital economy, characterized by intangible assets, user-generated data, and platform-based value creation, fundamentally challenges the foundational principles of BEPS.

This study supports previous research arguing that the digital economy cannot be “ring-fenced” for tax purposes. Instead, it requires a structural transformation of nexus and profit allocation rules. Current global negotiations under Pillar One reflect this need but remain stalled due to political disagreements.

4.2.3. GMT Represents a Landmark Reform, but Its Impact Will Be Uneven

The Global Minimum Tax is one of the most ambitious components of international tax reform. The findings indicate that GMT:

1. reduces incentives for profit shifting,
2. restricts the use of zero-tax jurisdictions,
3. harmonizes minimum corporate tax rates globally.

However, its effectiveness depends on consistent implementation. Countries adopting GMT early may capture additional tax revenue through the Undertaxed Profits Rule (UTPR), while late adopters risk losing revenue to other jurisdictions. This creates a global “race to implement,” which may disadvantage developing countries with slower legislative processes.

Moreover, carve-outs and safe harbours weaken the full potential of GMT. Several industries including shipping, extractive industries, and investment funds—benefit from exemptions that reduce the tax base. As a result, the GMT effect may be diluted unless reforms address these exceptions.

4.2.4. Transparency Improves Compliance, but Enforcement Remains Weak

Transparency measures such as AEOI, CRS, and CbCR have fundamentally reshaped the landscape of international tax cooperation. They reduce informational asymmetry and provide tax authorities with powerful tools for detecting avoidance. However, transparency does not automatically translate into effective enforcement. Countries with limited administrative capacity face challenges in:

1. processing large volumes of exchanged data,
2. auditing multinational enterprises,
3. identifying beneficial ownership structures,
4. verifying cross-border financial flows.

Thus, transparency is a necessary but not sufficient condition for combating global tax avoidance. Enhanced enforcement capacity, digital integration, and cross-border

collaboration are needed to maximize the benefits of transparency initiatives.

4.2.5. Digital Taxation Remains the Most Urgent and Unresolved Challenge

The findings confirm that digital taxation challenges are at the center of global tax debates. Traditional concepts such as permanent establishment and arm’s-length pricing fail to capture digital transactions that rely on network effects, user participation, and data monetization.

Without global consensus on Pillar One, fragmentation will worsen. Unilateral DSTs, while effective for individual countries, increase risks of:

1. double taxation,
2. retaliation from trading partners,
3. business uncertainty for MNEs.

This study emphasizes that digital taxation represents the “next frontier” of international fiscal governance, requiring bold institutional reforms to match contemporary economic realities.

4.2.6. Interdependence of Governance Mechanisms Calls for Integrated Implementation

One of the key contributions of this study is demonstrating that governance instruments—BEPS, GMT, transparency rules, and digital tax frameworks—cannot be analyzed in isolation. Their effectiveness is mutually reinforcing. For example:

1. Transparency supports BEPS implementation.
2. BEPS reduces opportunities to circumvent GMT.
3. GMT closes remaining loopholes in BEPS.
4. Digital taxation reforms fill gaps in GMT and BEPS.

Thus, effective global governance requires treating these mechanisms as a cohesive architecture rather than fragmented initiatives.

4.2.7. Policy Implications

The discussion identifies several policy implications:

1. Developing countries require capacity-building to meaningfully participate in global fiscal governance.
2. Institutions must strengthen enforcement mechanisms, not just transparency.
3. Global consensus on digital taxation is critical to avoid fragmentation.
4. Reevaluation of GMT carve-outs is necessary to enhance effectiveness.
5. Inclusive negotiation processes must be established to address power asymmetries.

5. Closing

5.1 Summary of Findings

This study examined the relationship between work discipline, professionalism, and the quality of public services within the Makassar City Manpower Office. The empirical results confirm that both work discipline and professionalism exert significant and positive effects on service quality. Employees who demonstrate punctuality, adherence to rules, and responsible behavior consistently deliver better service performance. Likewise, higher levels of professionalism—reflected in competence, ethical attitudes, and commitment—further enhance the organization's ability to provide transparent, responsive, and reliable public services. The findings strengthen previous theoretical assumptions that human resource behavior is a key determinant of organizational performance, particularly in public-sector service delivery.

5.2 Theoretical Implications

The study contributes to public management literature by validating the critical role of behavioral dimensions—discipline and professionalism—in improving service outcomes. It supports the view that service quality frameworks must integrate behavioral and ethical constructs to fully explain variations in performance. The results extend the application of human capital and public service

quality theories in the context of Indonesian local government institutions.

5.3 Practical Implications

For practitioners and policymakers, these findings emphasize the necessity of strengthening internal management systems. Developing consistent discipline enforcement mechanisms, enhancing competency-based training, and promoting professional work ethics could significantly elevate service delivery standards. Institutions should also adopt structured performance evaluations and continuous improvement programs to sustain employee accountability and motivation.

5.4 Limitations of the Study

Despite its contributions, the study has limitations. The analysis relied primarily on self-reported questionnaire data, which may contain response bias. The study was also limited to a single government office, reducing the generalizability of findings to other public-sector institutions. Additionally, external environmental factors—such as digital infrastructure, leadership dynamics, and public policy changes—were not incorporated into the model.

5.5 Recommendations for Future Research

Future studies should consider expanding the sample to multiple government agencies to enhance generalizability. Mixed-methods approaches that include qualitative interviews or field observations could provide richer insights into employee behavior. Future research may also examine moderating variables such as leadership style, organizational culture, or digital transformation initiatives to better understand the mechanisms through which discipline and professionalism influence service quality.

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