
GLOBAL MINIMUM TAX AND THE FUTURE OF DIGITAL TAXATION LEGAL ARCHITECTURE, NATIONAL RESPONSES, AND EMERGING NORMATIVE TENSIONS

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ABSTRACT

The digitalisation of the global economy has fundamentally disrupted traditional principles of international taxation, particularly the concepts of physical presence and source-based profit allocation. Multinational enterprises increasingly generate substantial economic value in jurisdictions without maintaining taxable permanent establishments, leading to widespread base erosion and profit shifting. In response, the OECD Inclusive Framework introduced a Two-Pillar Solution, with Pillar Two establishing a Global Anti-Base Erosion (GloBE) regime imposing a minimum effective tax rate of 15 percent on large multinational groups.

Simultaneously, several states adopted unilateral digital taxation measures, including Digital Services Taxes, equalisation levies, and VAT on cross-border digital supplies. These parallel developments have created legal fragmentation, compliance burdens, and geopolitical friction. This paper critically examines the legal mechanics of Pillar Two, evaluates national digital tax responses through comparative case studies, and interrogates the doctrinal implications for sovereignty, extraterritorial taxation, and treaty law. It argues that while the Global Minimum Tax represents a landmark multilateral achievement, its effectiveness depends on administrative capacity, coherent implementation, and sustained international cooperation. The paper concludes that without complementary dispute resolution mechanisms and development-sensitive transition measures, the emerging global tax order risks reproducing structural inequities under the guise of harmonisation.

Introduction

International taxation has historically been structured around territorial concepts developed for an economy grounded in physical production and tangible assets. The rise of platform-based business models, data-driven monetisation strategies, and highly mobile intellectual property has rendered these concepts increasingly inadequate. Large multinational enterprises now routinely generate profits in jurisdictions where they maintain little or no physical presence, undermining the efficacy of source-based taxation.¹

This structural mismatch has produced two interrelated consequences. *First*, states have experienced significant erosion of corporate tax bases. *Second*, public perception of inequity has intensified as highly profitable digital corporations report minimal local tax liabilities.² These pressures catalysed a wave of unilateral digital tax measures beginning in the mid-2010s, including Digital Services Taxes in Europe and equalisation levies in India. However, unilateralism proved politically volatile and economically distortive. The United States characterised several DSTs as discriminatory against American firms and threatened retaliatory tariffs. Against this backdrop, multilateral consensus emerged under the OECD Inclusive Framework, culminating in the 2021 agreement on a Two-Pillar Solution.³

Pillar One seeks limited reallocation of taxing rights for the largest multinationals. Pillar Two, the focus of this paper, introduces a global minimum corporate tax through the Global Anti-Base Erosion rules. These rules are intended to neutralise low-tax jurisdictions by ensuring that profits are taxed at a minimum effective rate regardless of where they are booked.⁴ Yet, despite diplomatic consensus, implementation remains fragmented. Some countries have enacted Qualified Domestic Minimum Top-up Taxes, others rely on Income Inclusion Rules, while several continue to maintain domestic digital levies. This coexistence of multilateral and unilateral instruments raises complex legal questions regarding sovereignty, extraterritoriality,

¹ OECD/G20 Inclusive Framework, Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (OECD, 8 October 2021) <<https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf>> accessed 25 February 2026.

² OECD, FAQs on Model GloBE Rules (OECD) <<https://www.oecd.org/tax/beps/faqs-on-model-globe-rules.pdf>> accessed 25 February 2026.

³ OECD, Global Anti-Base Erosion Model Rules (Pillar Two) — Consolidated Commentary and Materials (OECD) <<https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html>> accessed 25 February 2026.

⁴ Council of the European Union, Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups (14 December 2022) <<https://eur-lex.europa.eu/eli/dir/2022/2523/oj/eng>> accessed 25 February 2026.

treaty coherence, and administrative feasibility.⁵ This paper situates Pillar Two within this broader normative landscape. It explores whether the Global Minimum Tax can genuinely replace national digital taxes, assess its distributive consequences, and evaluate its implications for the future architecture of international tax law.⁶

From BEPS to BEPS 2.0: Structural Evolution of Global Tax Governance

The original Base Erosion and Profit Shifting (BEPS) project, launched in 2013, addressed aggressive tax planning through fifteen action items targeting hybrid mismatches, treaty abuse, transfer pricing, and harmful tax practices. While BEPS improved transparency through country-by-country reporting and strengthened anti-avoidance norms, it failed to resolve the core problem posed by digitalisation: profits could be shifted without breaching formal transfer pricing rules.⁷

BEPS 2.0 represents a paradigmatic shift. Rather than merely tightening existing rules, it introduces substantive minimum taxation. Pillar Two abandons the traditional neutrality principle of tax competition by establishing a global floor. This reflects a broader transformation in international tax governance: from coordination to constraint. States no longer merely exchange information; they collectively restrict each other's fiscal autonomy.⁸ The political economy of this shift is notable. High-tax jurisdictions sought protection against profit shifting, while low-tax jurisdictions accepted minimum taxation in exchange for stability and continued investment flows. Developing countries, however, expressed concern that Pillar Two primarily reallocates revenue among wealthy states rather than enhancing source-country taxation.

The architecture of BEPS 2.0 must also be understood against the structural limitations embedded in the earlier BEPS framework. The original action plan operated within the confines of the arm's length principle and bilateral treaty networks, preserving the foundational allocation of taxing rights between residence and source jurisdictions. This doctrinal continuity

⁵ OECD, Consolidated Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two) (OECD).

⁶ Government of India, Equalisation Levy (Amendment) Rules, 2020 (Government of India) <<https://www.incometaxindia.gov.in/communication/notification/notification-70-2016.pdf>> accessed 25 February 2026.

⁷ India Briefing, 'India to Abolish 2% Equalisation Levy on Foreign Digital Companies from 1 August 2024' (India Briefing) <<https://www.india-briefing.com>> accessed 25 February 2026.

⁸ OECD/G20 Inclusive Framework, *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy* (8 October 2021).

constrained reform. Digital business models based on user participation, remote service delivery, and intangible asset concentration exposed the inadequacy of relying solely on transfer pricing adjustments and anti-avoidance doctrines. The capacity of multinational enterprises to locate intellectual property in low-tax jurisdictions while maintaining substantial market access elsewhere revealed that the problem was not merely abusive structuring but the architecture of international tax law itself.⁹ Pillar Two responds by shifting the focus from transactional scrutiny to outcome-based taxation, targeting effective tax rates rather than specific avoidance techniques. This transition signals an epistemic change in global tax governance, moving from reactive regulation of avoidance schemes to proactive establishment of minimum distributive standards.¹⁰

Legal Architecture of Pillar Two⁸

Pillar Two applies to multinational enterprise groups with consolidated revenues exceeding €750 million. Its core objective is to ensure that profits in every jurisdiction are taxed at an effective rate of at least 15 percent. The regime operates through three interlocking mechanisms.

1. Income Inclusion Rule (IIR)

The IIR allows the parent jurisdiction to impose a “top-up tax” where subsidiaries in low-tax jurisdictions are taxed below the minimum rate. The parent company must calculate jurisdictional effective tax rates and pay additional tax equal to the difference between actual taxation and the minimum threshold.¹¹

2. Undertaxed Payments Rule (UTPR)

The UTPR functions as a backstop. If the parent jurisdiction does not apply the IIR, other jurisdictions where the group operates may deny deductions or impose equivalent adjustments to collect the top-up amount.¹²

⁹ Michael Devereux and John Vella, ‘Implications of Digitalisation for International Corporate Tax Reform’ (2018) Oxford CBT Working Paper 18/07.

¹⁰ Alex Cobham and Petr Jansky, ‘Global Distribution of Revenue Loss from Tax Avoidance’ (2018) UNU-WIDER Working Paper.

¹¹ Republic of the Philippines, Republic Act No. 12023 (An Act on VAT for Digital Services) (2024) <<https://lawphil.net>> accessed 25 February 2026.

¹² OECD, Agreed Administrative Guidance for the Pillar Two GloBE Rules (OECD, February 2023).

3. Qualified Domestic Minimum Top-up Tax (QDMTT)

The QDMTT permits source jurisdictions to collect the top-up tax domestically, preserving revenue sovereignty and preventing foreign jurisdictions from taxing locally generated profits. Together, these mechanisms create a coordinated enforcement structure designed to eliminate Incentives for profit shifting to low-tax jurisdictions. However, the regime's complexity is formidable. Corporations must compute effective tax rates on a jurisdiction-by-jurisdiction basis using financial accounting standards adjusted for tax purposes. Safe harbours exist, but transitional compliance burdens remain substantial.¹³

4. Administrative Complexity and Compliance Burdens

Pillar Two presupposes advanced tax administration infrastructure. Authorities must process granular multinational data, reconcile accounting and tax concepts, and coordinate with foreign counterparts. Many developing countries lack the digital systems and trained personnel required for such administration. Without targeted capacity building, Pillar Two risks entrenching asymmetries between revenue authorities.¹⁴

Moreover, the interaction between IIR, UTPR, and QDMTT creates risks of double taxation and disputes over taxing priority. While the OECD has issued administrative guidance, binding dispute resolution mechanisms remain underdeveloped.¹⁵

The operationalisation of these mechanisms also raises substantive questions regarding legal certainty and taxpayer rights. Effective tax rate calculations rely heavily on financial accounting standards that vary across jurisdictions, requiring extensive adjustments to arrive at GloBE income and covered taxes.¹⁵ This introduces interpretive discretion at both corporate and administrative levels, increasing the likelihood of divergent outcomes across tax authorities. Multinational groups must maintain parallel reporting systems to satisfy domestic tax laws and Pillar Two requirements, generating duplication of compliance processes. Smaller revenue administrations face difficulties auditing such complex computations, particularly where intra-group transactions and deferred tax assets are

¹³ OECD, Minimum Tax Implementation Handbook (Pillar Two) (OECD, 2023).

¹⁴ OECD, Consolidated Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two) (OECD).

¹⁵ Council of the European Union, Directive (EU) 2022/2523 on Global Minimum Taxation (14 December 2022).

involved.¹⁶ The absence of a unified multilateral dispute resolution framework further compounds these challenges, leaving conflicts to be managed through fragmented bilateral channels. In practical terms, this shifts enforcement power toward jurisdictions with stronger institutional capacity, reinforcing existing inequalities within the international tax system and raising concerns regarding procedural fairness in the application of the global minimum tax regime.

National Digital Tax Measures in The Post-BEPS 2.0 Environment

The introduction of Pillar Two did not eliminate unilateral digital taxation measures. Several jurisdictions retained or redesigned domestic instruments targeting digital income streams. These national measures differ in legal design, tax base, incidence, and compatibility with international obligations. A comparative analysis illustrates the tension between multilateral coordination and fiscal sovereignty.¹⁷

Conceptual Foundations of Digital Services Taxes

Digital Services Taxes emerged from dissatisfaction with permanent establishment rules embedded in bilateral tax treaties and the OECD Model Convention. Traditional nexus standards rely upon physical presence. Digital enterprises generate substantial value through user participation, data extraction, and network effects without establishing a taxable physical footprint.¹⁵

DSTs typically impose a gross revenue tax on specific digital activities such as online advertising, digital intermediation platforms, and sale of user data. These taxes are generally levied at low rates ranging between 2 and 7 percent and apply only to firms exceeding global and domestic revenue thresholds.

The legal justification advanced by adopting states rests upon the “user value creation” theory. This theory contends that users contribute to value generation through engagement and data provision, creating a legitimate taxing claim for the market jurisdiction. Critics argue that DSTs distort neutrality because they apply to gross revenue rather than net income and

¹⁶ European Commission, *Proposal for a Council Directive on Digital Services Tax* COM (2018)148 final.

¹⁷ OECD/G20 Inclusive Framework, *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy* (OECD, 8 October 2021) <<https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf>> accessed 25 February 2026.

disproportionately affect high-volume, low-margin businesses. Concerns also arise under international trade law, particularly non-discrimination obligations.¹⁸

India: Equalisation Levy and Policy Realignment

India introduced its Equalisation Levy in 2016, initially targeting online advertising payments made to non-resident service providers. The rate was fixed at 6 percent. In 2020, the scope expanded to include a 2 percent levy on non-resident e-commerce operators supplying goods or services to Indian customers. The Equalisation Levy operates outside the Income Tax Act framework. It is structured as a separate fiscal instrument, thereby avoiding treaty limitations applicable to income taxes. This design insulated the levy from treaty-based non-discrimination claims while raising debates regarding substance over form. The levy represented a strong assertion of market jurisdiction taxation rights. It reflected India's long-standing advocacy for source-based taxation in digital contexts, including proposals for Significant Economic Presence rules.¹⁷

Recent policy signals indicate recalibration in response to geopolitical and trade considerations. Discussions around rationalising or withdrawing portions of the levy illustrate the dynamic interaction between domestic taxation and international negotiations.¹⁹

From this perspective, the Equalisation Levy highlights three issues:¹⁸

1. Recharacterisation risk, where foreign jurisdictions may treat the levy as an income tax in substance.
2. Trade law exposure, particularly under World Trade Organization principles.¹⁹
3. Interaction with Pillar Two top-up calculations where domestic levies affect effective tax rate computations.²⁰

¹⁸ Government of India, Equalisation Levy (Amendment) Rules, 2020 (Government of India) <<https://www.incometaxindia.gov.in/communication/notification/notification-70-2016.pdf>> accessed 25 February 2026.

¹⁹ OECD, Consolidated Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two) (OECD).

²⁰ OECD/G20 Inclusive Framework, Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (OECD, 8 October 2021) <<https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf>> accessed 25 February 2026.

The Indian experience demonstrates how unilateral measures can catalyse multilateral reform while simultaneously creating friction that encourages compromise.²¹

Philippines: VAT on Cross-Border Digital Services

Philippines adopted a consumption-based approach by extending value-added tax obligations to foreign digital service providers supplying services to domestic consumers. The measure imposes a 12 percent VAT on digital platforms such as streaming, online marketplaces, and cloud services consumed within the jurisdiction.²²

This approach aligns with destination-based consumption taxation principles. Unlike DSTs, VAT applies neutrally to domestic and foreign suppliers. It avoids characterisation as an income tax and generally complies with international trade norms due to equal application.

Administrative enforcement requires foreign suppliers to register with domestic authorities and remit tax. Challenges include identifying non-compliant entities and ensuring cross-border cooperation.²²

The Philippine model illustrates a pragmatic alternative to revenue-based DSTs. It strengthens indirect tax neutrality without provoking the same level of geopolitical controversy.

European Union Approaches

European Union member states adopted varying digital tax measures prior to the Pillar Two agreement. France, Italy, and Spain implemented DSTs targeting large technology companies. These measures intensified transatlantic tensions and prompted tariff threats from the United States.

The European Commission initially proposed a harmonised EU-wide digital tax. Political divisions among member states prevented adoption. Following the OECD agreement, several EU states committed to phasing out unilateral DSTs contingent upon Pillar One implementation. The EU experience underscores fragmentation risks where supranational coordination fails to keep pace with national political pressures.²³

²¹ OECD, *Minimum Tax Implementation Handbook (Pillar Two)* (OECD, 2023).

²² OECD, *Consolidated Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two)* (OECD).

²³ OECD, *Agreed Administrative Guidance for the Pillar Two GloBE Rules* (OECD, February 2023).

Interaction Between Pillar Two and Domestic Digital Taxes

The coexistence of Pillar Two and domestic digital taxes creates complex computational interactions. Pillar Two calculations require determining effective tax rates based on covered taxes. Whether DSTs or equalisation levies qualify as covered taxes affects top-up computations. If classified as covered taxes, they increase jurisdictional ETR. If excluded, multinational groups may face simultaneous DST liabilities and top-up taxes.²⁴ This dual exposure raises compliance costs and legal uncertainty. It may also influence corporate location decisions, potentially shifting intangible assets or supply chains to optimise aggregate tax burdens. States retaining DSTs risk undermining the coherence of the multilateral system. Conversely, premature withdrawal without full Pillar One implementation may forfeit revenue. A stable equilibrium depends on coordinated transitional frameworks.

Sovereignty and Extraterritorial Tax Jurisdiction²⁶

Digital taxation debates implicate fundamental principles of public international law. Tax sovereignty permits states to design fiscal systems within their territories. Jurisdiction to tax traditionally rests upon nexus principles including residence, source, and nationality. Digital services challenge source-based nexus. When revenue arises from user participation rather than physical infrastructure, defining territorial connection becomes conceptually complex.²⁵

Unilateral DSTs extend taxing rights based on digital presence. Critics argue this constitutes extraterritorial taxation. Proponents assert that market participation constitutes sufficient territorial nexus. Pillar Two reshapes sovereignty through coordinated constraint. States voluntarily limit their ability to compete through low corporate tax rates. This represents pooled sovereignty rather than unilateral expansion. The normative question concerns legitimacy. Multilateral consensus provides stronger legal legitimacy than unilateral action. Yet, consensus-driven frameworks may privilege economically dominant states.²⁶

Treaty Compatibility and International Economic Law

DSTs and equalisation levies raise compatibility questions under bilateral tax treaties and

²⁴ OECD, FAQs on Model GloBE Rules (OECD) <<https://www.oecd.org/tax/beps/faqs-on-model-globe-rules.pdf>> accessed 25 February 2026.

²⁵ Council of the European Union, Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups (14 December 2022) <<https://eur-lex.europa.eu/eli/dir/2022/2523/oj/eng>> accessed 25 February 2026.

²⁶ OECD, Minimum Tax Implementation Handbook (Pillar Two) (OECD, 2023).

World Trade Organization obligations. Many DSTs are structured as turnover taxes outside the definition of income taxes under treaties. This avoids direct treaty conflict. Challenges arise where foreign states argue de facto discrimination. Under WTO law, national treatment obligations require equal treatment of domestic and foreign suppliers. If a DST disproportionately affects foreign firms due to revenue thresholds, it may be contested.²⁷

Pillar Two raises treaty interpretation questions. The Income Inclusion Rule may conflict with treaty allocation of taxing rights if not coordinated through domestic legislation and treaty modifications.

Some scholars argue that top-up taxes operate as anti-avoidance measures rather than direct source taxation, reducing treaty conflict. Others contend that systemic reinterpretation of treaty norms is occurring through coordinated domestic implementation. The long-term coherence of international tax law depends on harmonised treaty amendments or a multilateral convention clarifying the status of Pillar Two mechanisms.²⁸

The reconceptualisation of taxing rights in the digital economy also exposes tensions between formal legal jurisdiction and economic reality. Classical international law ties fiscal authority to territorial control, yet digital markets operate through dispersed networks of users, data flows, and algorithmic value extraction that defy geographic anchoring. This disjunction has prompted a gradual shift from territorially grounded nexus standards toward functional and economic presence tests. Pillar Two institutionalises this shift by prioritising effective taxation outcomes over traditional allocation principles. While framed as a technical anti-base erosion mechanism, the regime effectively redistributes regulatory power toward capital-exporting states that host parent entities. Market jurisdictions gain limited benefit unless domestic top-up taxes are operationalised. This asymmetry underscores a deeper structural imbalance within global tax governance, where legal formalism masks unequal bargaining power. The emerging framework signals a move toward outcome-oriented fiscal coordination, yet it leaves unresolved the normative question of whose economic contributions warrant primary taxing rights in a digitalised global economy.

²⁷ OECD, Minimum Tax Implementation Handbook (Pillar Two) (OECD, 2023).

²⁸ OECD, Agreed Administrative Guidance for the Pillar Two GloBE Rules (OECD, February 2023).

Administrative Capacity and Developmental Asymmetry

Effective implementation requires digital infrastructure, trained personnel, and real-time data analysis. Advanced economies possess these capabilities. Many developing countries face resource constraints.³⁰

Without targeted assistance, the benefits of Pillar Two may accrue disproportionately to jurisdictions capable of administering Qualified Domestic Minimum Top-up Taxes. Countries lacking capacity may see top-up revenue collected by residence jurisdictions instead.

Capacity building initiatives must address:³¹

1. Digital filing systems.
2. Transfer pricing expertise.³²
3. Audit training for multinational enterprises.
4. Cross-border information exchange mechanisms²⁹

The legitimacy of the new regime depends on inclusive implementation rather than formal adoption alone.

Distributional Consequences of the Global Minimum Tax³⁴

The Global Minimum Tax regime alters the allocation of taxing rights across jurisdictions. While framed as a neutral anti-avoidance mechanism, its revenue effects vary substantially across states depending on administrative capacity, investment profiles, and existing tax structures.³⁰

High-income residence jurisdictions stand to capture significant portions of top-up tax revenue

²⁹ OECD/G20 Inclusive Framework, Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (OECD, 8 October 2021) <<https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf>> accessed 25 February 2026.

³⁰ OECD/G20 Inclusive Framework, Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (OECD, 8 October 2021) <<https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf>> accessed 25 February 2026.

through the Income Inclusion Rule. These jurisdictions host parent entities of large multinational groups and possess the institutional capacity to implement Pillar Two rapidly. Countries that enact Qualified Domestic Minimum Top-up Taxes retain the right to collect top-up amounts on income generated within their borders. Jurisdictions lacking such mechanisms risk forfeiting revenue to foreign tax authorities. Low-income and developing economies face structural disadvantages. Many rely on tax incentives to attract foreign direct investment. Pillar Two neutralises the effectiveness of such incentives because reduced corporate tax rates trigger foreign top-up taxes. Investment strategies based on fiscal concessions lose relevance, yet alternative development tools remain limited.³¹

Carve-outs for payroll and tangible assets mitigate this effect marginally. These exclusions permit a portion of income to escape top-up taxation based on substantive economic activity. Still, the carve-outs remain modest relative to overall profit shifting patterns involving intellectual property and financial structuring.³²

Empirical projections suggest that most additional revenue accrues to OECD countries rather than source jurisdictions in the Global South. This raises concerns regarding equity and developmental fairness. Market jurisdictions with large consumer bases but limited headquarters presence gain little from Pillar Two unless domestic top-up taxes are implemented effectively. The regime also reshapes tax competition. Countries no longer compete primarily through statutory corporate tax rates. Competition shifts toward regulatory flexibility, labour markets, infrastructure quality, and innovation ecosystems. This transition favours advanced economies with established institutional frameworks.³³

The capacity divide also carries institutional consequences for fiscal autonomy. Jurisdictions unable to operationalise Pillar Two effectively risk becoming passive participants in a system administered elsewhere, with revenue outcomes determined by foreign tax authorities applying Income Inclusion Rules. These dynamic transforms administrative capability into a determinant of taxing rights. Domestic policy space contracts as technical complexity substitutes for formal sovereignty. Development strategies based on preferential tax regimes

³¹ Government of India, Equalisation Levy (Amendment) Rules, 2020 (Government of India) <<https://www.incometaxindia.gov.in/communication/notification/notification-70-2016.pdf>> accessed 25 February 2026.

³² India Briefing, 'India to Abolish 2% Equalisation Levy on Foreign Digital Companies from 1 August 2024' (India Briefing) <<https://www.india-briefing.com>> accessed 25 February 2026

³³ OECD, Consolidated Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two) (OECD).

lose traction without corresponding expansion in human capital or regulatory infrastructure.³⁴ At the same time, the compliance burden imposed on multinational enterprises operating in lower-capacity jurisdictions may discourage investment where audit uncertainty and procedural delays persist. The emerging architecture thus links fiscal outcomes directly to bureaucratic maturity, embedding administrative inequality into the structure of global taxation. Absent sustained international support for institutional development, Pillar Two risks reinforcing existing hierarchies rather than correcting historical imbalances in revenue allocation.³⁵

Behavioural Responses of Multinational Enterprises

Multinational enterprises adapt rapidly to regulatory change. Pillar Two alters incentives but does not eliminate strategic tax planning. Corporate groups may respond through restructuring supply chains, relocating intellectual property, or revising financing arrangements.³⁶ Jurisdictional blending rules reduce the effectiveness of shifting profits within low-tax territories, though opportunities remain through timing differences and hybrid instruments. Compliance costs increase substantially. Firms must develop systems capable of jurisdictional effective tax rate computation, data reconciliation between accounting and tax records, and ongoing monitoring of legislative changes across multiple countries.³⁷

Investment decisions may increasingly prioritise operational efficiency over tax arbitrage. This benefits jurisdictions offering skilled labour and stable regulatory environments. Smaller economies that previously attracted investment through tax incentives may experience reduced inflows unless alternative competitive advantages are developed. The psychological dimension of corporate compliance also changes. The global minimum tax normalises the expectation of baseline taxation. Aggressive avoidance strategies carry higher reputational and regulatory risks.³⁸

Digital business models face particular adjustment pressures. Platform enterprises dependent

³⁴ Dani Rodrik, *The Globalization Paradox* (Oxford University Press 2011).

³⁵ Anne-Marie Slaughter, *A New World Order* (Princeton University Press 2004).

³⁶ Council of the European Union, Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups (14 December 2022) <<https://eur-lex.europa.eu/eli/dir/2022/2523/oj/eng>> accessed 25 February 2026.

³⁷ OECD, Global Anti-Base Erosion Model Rules (Pillar Two) — Consolidated Commentary and Materials (OECD) <<https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html>> accessed 25 February 2026.

³⁸ *Ibid.*

on intangible assets and user-generated value encounter heightened scrutiny under both Pillar Two and residual national digital taxes.³⁹

Normative Evaluation of Global Tax Governance

Pillar Two represents a departure from classical international tax coordination. States collectively impose constraints on fiscal sovereignty. This shift reflects growing acceptance that unfettered tax competition undermines public finance sustainability. The legitimacy of this transformation depends on procedural inclusiveness and substantive fairness. While more than 130 jurisdictions endorsed the framework, negotiating power remained asymmetrical. High-income economies shaped technical design, while developing states participated within predefined parameters.⁴⁰

The regime prioritises administrative feasibility for advanced tax authorities. Complexity thresholds reflect OECD member capabilities. Simplification measures exist, yet structural asymmetries persist.⁴¹ Democratic accountability presents another concern. Pillar Two operates primarily through executive agreements and domestic legislation rather than treaty ratification in many jurisdictions. Parliamentary scrutiny varies widely. The technocratic character of implementation distances policy from public deliberation. At the doctrinal level, Pillar Two blurs distinctions between residence and source taxation. Top-up taxes function as anti-avoidance measures while producing substantive reallocations of taxing rights. Traditional treaty principles evolve through coordinated domestic enactment rather than formal multilateral instruments.⁴²

Corporate behavioural adaptation also extends beyond formal tax planning into broader governance and reporting practices. Multinational enterprises increasingly integrate Pillar Two considerations into enterprise risk management frameworks, internal audit functions, and board-level compliance oversight.⁴³ Tax departments are required to collaborate more closely

³⁹ Council of the European Union, Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups (14 December 2022) <<https://eur-lex.europa.eu/eli/dir/2022/2523/oj/eng>> accessed 25 February 2026.

⁴⁰ OECD, Global Anti-Base Erosion Model Rules (Pillar Two) — Consolidated Commentary and Materials (OECD) <<https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html>> accessed 25 February 2026.

⁴¹ OECD, FAQs on Model GloBE Rules (OECD) <<https://www.oecd.org/tax/beps/faqs-on-model-globe-rules.pdf>> accessed 25 February 2026.

⁴² OECD, Agreed Administrative Guidance for the Pillar Two GloBE Rules (OECD, February 2023).

⁴³ PwC, *Global Minimum Tax (Pillar Two): Ready for Take-Off?* (PwC 2023).

with finance, legal, and information technology teams to manage data flows and regulatory exposure. This institutionalisation of global minimum tax compliance reshapes corporate culture by embedding tax transparency within operational decision-making. At the same time, disparities in implementation timelines across jurisdictions create transitional arbitrage opportunities, encouraging firms to sequence investments or restructure entities in anticipation of future top-up liabilities.⁴⁴ These dynamics reveal that while Pillar Two constrains certain avoidance strategies, it also generates new strategic behaviour oriented toward regulatory timing, administrative asymmetries, and jurisdictional sequencing.⁴⁵

This transformation suggests emergence of a new layer of international tax law based on soft-law convergence supported by hard domestic enforcement.

Policy Reform Proposals⁴¹

Several reforms could enhance effectiveness and equity, such as:

➤ Strengthening Source Jurisdiction Participation⁴²

Developing countries require practical pathways to capture top-up revenue. Technical assistance programs should prioritise implementation of Qualified Domestic Minimum Top-up Taxes. Simplified reporting frameworks tailored to low-capacity administrations would improve participation.

Multilateral funding mechanisms could support digital infrastructure development for tax authorities. Capacity building must extend beyond legislative drafting to operational enforcement.⁴⁶

➤ Clarifying Interaction with Digital Services Taxes

Clear guidance on classification of DSTs and equalisation levies as covered or non-covered taxes would reduce uncertainty. Transitional coexistence frameworks should

⁴⁴ Michael P Devereux and John Vella, 'Implications of Digitalisation for International Corporate Tax Reform' (2018) Oxford University Centre for Business Taxation WP 18/07.

⁴⁵ KPMG, *BEPS 2.0 – Global Minimum Tax: Practical Implications for Multinational Enterprises* (KPMG 2023).

⁴⁶ Government of India, Equalisation Levy (Amendment) Rules, 2020 (Government of India) <<https://www.incometaxindia.gov.in/communication/notification/notification-70-2016.pdf>> accessed 25 February 2026.

specify timelines for withdrawal or integration of national measures once Pillar One becomes operational.⁴⁷ Consumption-based digital VAT regimes offer a legally robust alternative for revenue mobilisation. Countries should prioritise such instruments over gross-revenue DSTs.

➤ **Enhancing Dispute Resolution⁴⁵**

The Pillar Two framework lacks binding multilateral dispute settlement. Conflicts over effective tax rate calculations, jurisdictional allocation, and covered tax classification will increase.

A specialised arbitration mechanism within the Inclusive Framework could address technical disputes. Predictable resolution processes reduce litigation and compliance costs.⁴⁸

➤ **Development-Sensitive Carve-Outs**

Payroll and tangible asset exclusions could be expanded temporarily for low-income jurisdictions. Targeted transition periods would mitigate adverse investment effects while domestic tax systems adapt.⁴⁹

➤ **Democratic Oversight**

National legislatures should engage more actively in Pillar Two implementation. Parliamentary committees could review administrative guidance and monitor revenue outcomes. Transparency strengthens legitimacy.⁵⁰

➤ **Future Trajectory of Digital Taxation**

Digitalisation continues to evolve. Artificial intelligence, decentralised platforms, and

⁴⁷ Government of India, Equalisation Levy (Amendment) Rules, 2020 (Government of India) <<https://www.incometaxindia.gov.in/communication/notification/notification-70-2016.pdf>> accessed 25 February 2026.

⁴⁸ Council of the European Union, Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups (14 December 2022) <<https://eur-lex.europa.eu/eli/dir/2022/2523/oj/eng>> accessed 25 February 2026.

⁴⁹ OECD, FAQs on Model GloBE Rules (OECD) <<https://www.oecd.org/tax/beps/faqs-on-model-globe-rules.pdf>> accessed 25 February 2026.

⁵⁰ OECD, Global Anti-Base Erosion Model Rules (Pillar Two) — Consolidated Commentary and Materials (OECD) <<https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html>> accessed 25 February 2026.

virtual assets challenge existing tax concepts. Pillar Two addresses corporate income shifting but does not resolve questions of value attribution in data-driven economies. Consumption taxes on digital services will expand.⁵¹ User-based nexus standards may re-emerge in modified forms. International cooperation will remain necessary yet politically fragile. The global minimum tax marks a transitional phase rather than an endpoint. It establishes baseline discipline while leaving unresolved debates over market jurisdiction rights and digital value creation. Long-term stability requires integration of income taxation, consumption taxation, and data governance within a coherent international framework.⁵²

CONCLUSION & SUGGESTIONS⁵⁰

The Global Minimum Tax constitutes one of the most significant transformations in international taxation since the emergence of bilateral treaty networks. It replaces permissive coordination with collective constraint. It reshapes corporate incentives and recalibrates fiscal competition. National digital taxes arose from structural inadequacies in existing rules. Pillar Two addresses profit shifting but does not fully substitute market-based taxation claims. Countries continue to balance multilateral commitments with domestic revenue imperatives. Implementation challenges remain substantial. Administrative asymmetries risk concentrating benefits among advanced economies. Developing jurisdictions require targeted support to participate meaningfully. The legitimacy of the emerging global tax order depends on inclusiveness, transparency, and equitable distribution of revenue gains. Without these elements, technical success may coexist with political fragility. Digital capitalism demands adaptive legal frameworks. Pillar Two represents an important step, yet sustainable global tax governance requires continuous institutional refinement grounded in both economic reality and normative fairness.⁵³

Beyond its immediate fiscal objectives, Pillar Two signals a deeper reconfiguration of international economic governance. The shift from voluntary coordination to enforceable minimum standards reflects growing recognition that tax competition, left unchecked,

⁵¹ OECD, FAQs on Model GloBE Rules (OECD) <<https://www.oecd.org/tax/beps/faqs-on-model-globe-rules.pdf>> accessed 25 February 2026.

⁵² Republic of the Philippines, Republic Act No. 12023 (An Act on VAT for Digital Services) (2024) <<https://lawphil.net>> accessed 25 February 2026.

⁵³ OECD, Global Anti-Base Erosion Model Rules (Pillar Two) — Consolidated Commentary and Materials (OECD) <<https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html>> accessed 25 February 2026.

undermines both domestic revenue mobilisation and public confidence in global markets. Yet the effectiveness of this transformation depends not merely on technical design but on political commitment to inclusive implementation. Without meaningful participation from developing economies in rule-shaping processes, the framework risks entrenching asymmetric power relations under the veneer of multilateralism. Administrative capacity, rather than economic contribution, increasingly determines access to taxing rights, raising concerns regarding distributive justice within the international tax regime.

At the same time, the persistence of national digital taxes and consumption-based measures demonstrates that Pillar Two alone cannot resolve foundational questions concerning value creation in digital markets. Market jurisdictions continue to seek recognition of user participation and data extraction as sources of taxable nexus. This unresolved tension between residence-based top-up taxation and market-based claims suggests that global tax reform remains incomplete. Future policy evolution must reconcile corporate income taxation with destination-based consumption taxes and emerging data governance norms. Such integration requires sustained institutional dialogue, treaty adaptation, and development-sensitive transition mechanisms.

Ultimately, the global minimum tax should be viewed as a transitional architecture rather than a final settlement. Its long-term legitimacy will depend on transparent governance, effective dispute resolution, and sustained capacity-building efforts that enable all jurisdictions to participate on equal footing. A durable international tax order must balance efficiency with equity, coordination with sovereignty, and technical precision with democratic accountability. Only through continuous normative engagement and structural reform can the international community ensure that digital capitalism contributes fairly to collective welfare rather than amplifying existing global inequalities.