



## Indonesia Tax Sovereignty and The OECD International Tax Framework

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### ARTICLE INFO

### ABSTRACT

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**Purpose** – This article looks at how developing countries deal with the OECD’s two-pillar international tax framework while protecting their own taxing abilities.

**Design/methodology/approach** – A qualitative, normative–juridical and comparative policy-analytical method guides the study. Domestic tax laws, international tax treaties and institutional arrangements are examined through doctrinal and comparative legal analysis to determine the country’s preparedness for implementing the new global tax architecture.

**Findings** – The findings show that readiness for the two-pillar framework is not black and white, or homogeneous, but rather incremental. The pace of legal transplants and administrative capacity development varies; sovereign concerns strongly influence the sequence of reform. Rather than being a form of opposition to global coordination, partial alignment seems to be a deliberate tactic for negotiating the institutional constraints and distributive risks that are part and parcel of the process of harmonising international taxes.

**Originality/value** – The paper contributes to the concept of adaptive fiscal sovereignty, showing that readiness for global tax reform is emergent rather than being solely an end-point in compliance. The text is among the first to take a thorough look at the connection between legal preparedness, administrative capacity and sovereign jurisdiction in the OECD’s two-pillar approach.

**Research Implications** – The results expand the existing literature on international tax governance by offering a new interpretation of readiness for implementation as a tactical policy option. Academic researchers and policymakers interested in fair processes for incorporating international tax norms within developing countries can find valuable insights here.

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#### Keyword:

International taxation; fiscal sovereignty; tax governance; OECD framework; tax readiness

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### 1. Introduction

The international tax system is undergoing the most tremendous changes in almost a century, due to digitalization at an accelerated pace, the rising importance of MNEs as well as the increasing disconnect between value creation and physical presence. Conventional international tax rules based on permanent establishment and territorial nexus are largely outdated for assigning taxing rights in a digital era where capital, intangible assets, and digital platforms are mobile across the world (Bilicka et al., 2023; Glass & Newig, 2019; Oats & Tuck, 2019; Vlcek, 2019). Such structural imbalances have made possible the increasing incidence of base erosion and profit shifting (BEPS), undermining particularly the ability of developing and source countries to generate revenues.

The OECD/G20 Inclusive Framework on BEPS 2.0 has proposed a two-pillar reform that has the potential to

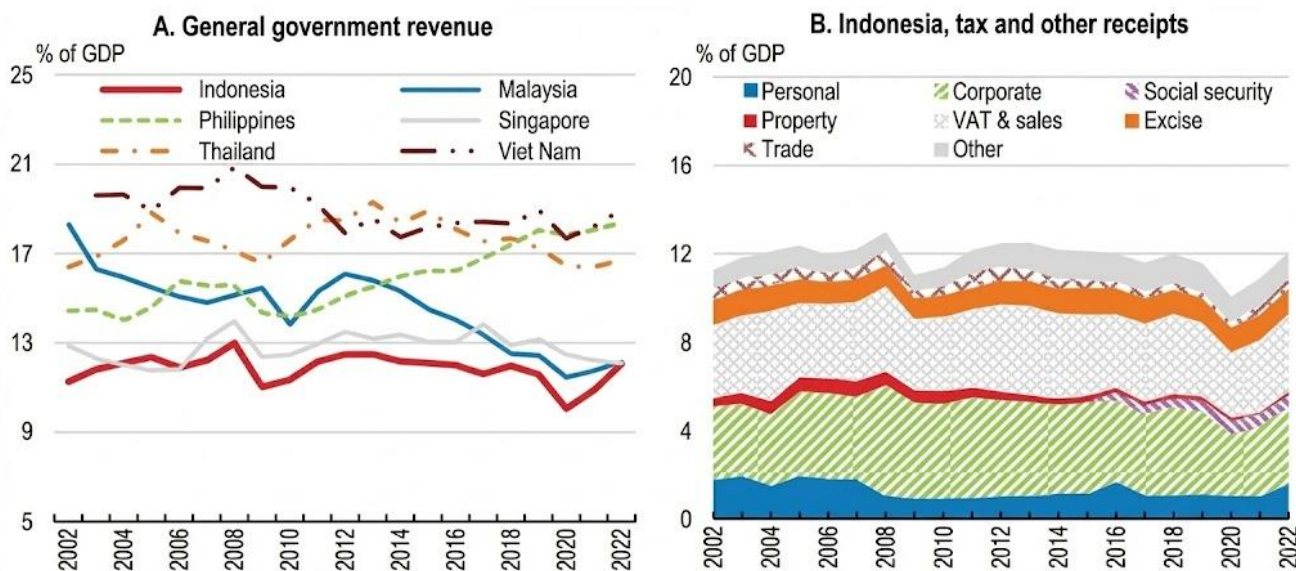
completely transform international tax governance (Oecd, 2024). Pillar One would see the residual profit of large multinational enterprises (MNEs) reallocated to market jurisdictions, thus undermining the dominance of residence-based taxation. Pillar Two would establish a minimum corporate income tax rate of 15 per cent to address harmful tax competition (Oecd, 2024). They are a clear step towards greater international tax coordination by global standards and pose serious questions about the ability of national policymakers, especially in emerging economies, to make decisions (Valente, 2026).

For Indonesia, a member of the G20 and one of the world’s largest developing economies, these reforms are both an opportunity and a structural challenge. The tax system of Indonesia is still heavily reliant on corporate income tax (CIT), value-added tax (VAT) and taxes related to natural resources. However, when measured



against international standards, the system performs poorly. Firstly, Indonesian tax to GDP ratio is one of the lowest in the ASEAN region and the Asia-Pacific region, as Figure 1 shows. This is the result of high informality, narrow tax bases and significant compliance gaps (IMF,

2023; Oecd, 2024). Indonesia is particularly vulnerable to global tax reforms because of the fragility of its construction. These reforms reallocate tax rights and implementation burdens with regard to domestic tax authorities.



Source: OECD (2023).

Figure 1. Indonesia's Tax-to-GDP Ratio in International Perspective

Recent reforms in Indonesia indicate the country's dedication to enhancing its financial management capabilities. The national tax system was comprehensively reformed in 2021 with the adoption of the Tax Regulation Harmonization Law (HPP Law). This led to an increase in value-added tax (VAT) and corporate income tax (CIT) rates, the introduction of new personal income tax brackets for upper-income households, and the widening of excise taxes. Additionally, the first phase of the implementation of carbon taxes was initiated (Alon & Hageman, 2017; IMF, 2023; Scarpa & Signori, 2020). These measures aim to increase revenue, improve equity, and encourage greater compliance by implementing digitalisation and integrating third-party data. The primary focus of these reforms was on domestic fiscal consolidation and pandemic recovery, rather than on addressing the legal and administrative requirements triggered by OECD Pillar One and Pillar Two.

Questions of law and institutions arise in relation to the relationship between BEPS 2.0 and Indonesia's current tax landscape. Pillar One will mean big changes to the rules about nexus, how profits are shared out, and

the rights based on treaties about tax (Bisiriyyu & Malik, 2026; Vanderbruggen, 2025). Pillar Two will mean extra complicated top-up tax systems like the Income Inclusion Rule (IIR) and the Undertaxed Payments Rule (UTPR) (Sebastian Dyrda, 2026). The Indonesian concepts of income and the tax code that apply to them are not fully adapted to the emerging standards of the current era. This is especially true in the context of the traditional legislation that Indonesia inherited from former Dutch colonial law, which has had most of its major legal provisions unchanged since then. The same is true of DTAs, which are based on conventional OECD and UN models (Azam, 2025). Preparedness on the administrative side is also inconsistent, particularly with regard to data sharing, transfer pricing enforcement, and cross-border coordination.

Despite Indonesia's active involvement in the Inclusive Framework, there is a lack of comprehensive studies that evaluate how developing countries implement BEPS 2.0 reforms at the national level. Research has already examined the two-pillar solution from the perspectives of normative design and global efficiency (Hanappi & González Cabral, 2022). However,

there is less research on how well these solutions can be implemented in emerging countries. This deficiency is particularly evident in Indonesia, where fiscal sovereignty and source-based taxation are pivotal in financing development.

The issue of this vacuum is the focus of this paper, which looks at Indonesia's legal, institutional and administrative readiness to adopt the OECD's Pillar One and Pillar Two regimes. It also considers the implications of such reforms for national fiscal sovereignty and jurisdiction. We look at Indonesia's fiscal justice system using a variety of analytical tools, including a review of its income tax laws, its network of treaties, and its enforcement mechanisms. We then place these under the microscope of emerging OECD norms, drawing parallels with international laws such as the UN Tax Convention. In light of this, the paper contributes to the growing body of research on adaptive fiscal sovereignty strategies employed by developing countries to align international tax convergence and domestic revenue autonomy ( et al., 2025; Van Rompuy, 2021).

The main contribution of this paper is threefold, as outlined below. Firstly, it is one of the first comprehensive reviews to examine Indonesia's readiness to implement BEPS 2.0 in terms of its legal and institutional foundations. Secondly, it highlights the distributional and sovereignty concerns associated with the two-pillar framework for source-based economies. Thirdly, it puts forward policy-relevant recommendations on how Indonesia should strategically engage with global tax governance in the future, while also protecting its national fiscal interests.

The rest of this paper is organised as follows. Section 2 discusses the theory of tax sovereignty and international tax coordination. Section 3 describes the methodological approach and legal sources. Section 4 discusses how ready Indonesia is to implement Pillar One and Pillar Two. Section 5 concludes with policy implications.

## 2. Critical review

### 2.1 Theoretical foundation

This study is framed in fundamental theories of international taxation and global fiscal policy. First, the theory of allocation factors explains ways in which the allocation of taxing rights is traditionally determined on the basis of source and residence increasingly at odds with digitalized business models generating value without physical presence (Bilicka et al., 2023; Hanappi

& González Cabral, 2022). Second, tax neutrality theory, based on both capital export and import neutrality, constitutes the underlying rationale of OECD Pillar Two's global minimum tax to mitigate distortions in international investment choices (IMF, 2023). Third, fiscal sovereignty theory defines taxation as a key element of state power and focuses on the right of a government to determine and enforce policies regarding tax collection (Dietsch & Rixen, 2024; Genschel, 2011; Rixen & Unger, 2022). The Two-Pillar Solution of the OECD reconfigures these principles with market based nexus rules and coordinated minimum taxation, and forces developing countries including Indonesia to harmonize globally while exercise fiscal autonomy at home. In combination, these theories offer a tool through which to view legal consistency, administrative competence and trade-offs in sovereignty under BEPS 2.0.

### 2.2 Legal alignment and hypothesis development

Changes to domestic law at the national level are also a part of Pillar One and Pillar Two of the OECD. These changes include the acceptance of digital nexus, modified profit allocation rules and a top-up tax regime, among others. However, in practice, this could contradict the empirical reality in many developing countries where income tax laws and treaty networks remain rooted in physical presence and traditional notions of permanent establishment (Hanappi & González Cabral, 2022). Indonesia's domestic tax laws and DTAAs are heavily based on the OECD Model Convention. They also comply with the BEPS 2.0 standards (A and GloBE rules) to a certain extent. This is because they are applied unilaterally via their own regulation (Arginelli & Reboli, 2023). It is feared that Indonesia's capacity to assert taxing rights in the digital economy could be reduced by this legal inertia, and that enforcement could be limited. We therefore formulate the following hypothesis for this study:

H1. The existing domestic tax legal framework in Indonesia is only partially consistent with the OECD's Pillar One and Pillar Two. This means it is not well prepared to implement BEPS 2.0 legally.

### 2.3 Administrative capacity and hypothesis development

In addition to legal changes, the effective implementation of OECD Pillar One and Pillar Two hinges crucially on administrative capabilities. Complex data and cross-border information exchange and dispute mechanisms are needed for Pillar One, whereas Pillar Two is based on the precise determination of the effective tax rate and the enforcement of top-up taxes (OECD, 2023). Research has shown that low-income countries face significant institutional constraints in



their taxation administration, including a lack of digital infrastructure, expertise in transfer pricing, and international coordination (Klemm et al., 2019; IMF, 2024). Although Indonesia's efforts to digitise tax measures are advancing, there is still a capacity shortfall compared to OECD standards. Indonesia might find it hard to put complex BEPS 2.0 rules into practice and make the most of the potential revenue gains because of these constraints. We therefore develop the following hypothesis.

H2: The readiness of Indonesia to implement OECD Pillar One and Pillar Two is significantly influenced by its technological capabilities and the mechanisms of international cooperation.

#### 2.4 Fiscal sovereignty and hypothesis development

The multilateralization of tax cooperation as part of BEPS 2.0 has reinvigorated academic discussions on fiscal sovereignty. Despite the added collective efficiency resulting from global minimum taxation, it may limit country policy space especially in the case of developing countries where tax incentives are provided for growth and investment (Devereux et al., 2022). More recently, literature introduces the notion of adaptive fiscal sovereignty, where states strategically adopt global norms while still maintaining actual control over domestic tax policy (Dietsch & Rixen 2024). For

Indonesia, sovereign features informs how fast and far it adopts OECD Pillars, which in turn determines the degree to which reforms are a step closer towards or away from sustainable tax governance. Fiscal sovereignty works, therefore, not as an obstacle but as a tempering factor in the implementation course. From this view, the research formulates a hypothesis as follows:

H3. Fiscal sovereignty conditions the relationship between OECD Pillar adoption and Indonesia's tax governance results, where stronger preservation of income power will foster more lasting reform.

#### 2.5 Conceptual framework

Based on the theoretical foundations and hypotheses, this study proposes a conceptual model that links legal and administrative preparedness to Indonesia's overall readiness for the implementation of OECD Pillar One and Pillar Two. The degree to which domestic tax laws and treaties are consistent with BEPS 2.0 top requirements is measured by legal readiness. The effectiveness of enforcement, institutional capacity, and digital infrastructure are evaluated as part of administrative readiness. In light of this, fiscal sovereignty could be seen as a moderating factor that impacts the incorporation of global tax standards without hindering national taxing authorities.

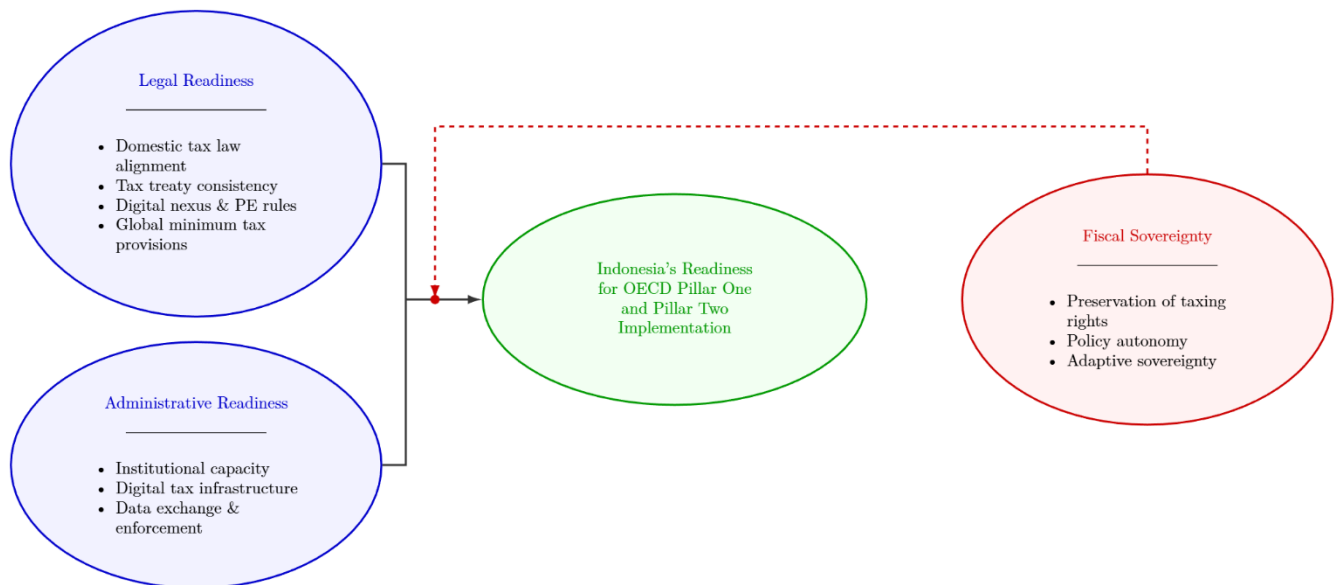


Figure 2: A Conceptual Framework

### 3. Methods innovation

#### 3.1 Research design



This article uses a qualitative normative juridical and comparative policy type research design to assess Indonesia's readiness in adopting OECD Pillar One and Pillar Two, focusing on their impacts on tax jurisdiction and fiscal sovereignty. The normative juridical approach fits international tax reforms, since BEPS 2.0 work mainly through legal instruments, soft law standards and treaty-based modes of coordination rather than observable behavior data. Such a design permits a coherent interpretation of statutory norms, the terms of treaties, and policy principles on taxing powers. In addition to this, the comparative policy analysis is applied in order to benchmark Indonesia's legal and institutional readiness with selected ASEAN countries that have similarities in terms of nature of development as well as structure of tax system. The joint design permits a unified analysis of doctrinal coherence, institutional capacity and policy adaptability in the context of global tax harmonization, paralleling recent methodological developments in high-quality international taxation research (Keen et al., 2023; Devereux et al., 2022).

### 3.2 Object and scope of analysis

The analysis focuses on Indonesia's international tax governance architecture in the context of OECD BEPS 2.0 developments. The analysis is divided into three levels. Firstly, there is the national tax law. Next, there are the international treaty obligations. Finally, there is the institutional enforcement capacity. This scope mirrors the multilevel governance of international tax finds (Rixen & Unger, 2022). It does so within the interplay of domestic sovereignty. It also takes into account treaty-based and multilateral constraints (Avi-Yonah, 2000, 2009; Brauner, 2020).

To provide context, the report compares Indonesia with Malaysia, Vietnam and the Philippines, which are clear benchmark countries. These economies are similar in terms of their economic development, dependency on source-based taxation, and participation in the OECD/G20 Inclusive Framework. By adding this information, we can now compare Indonesia's legal and institutional alignment with the relevant regional good practice, as demonstrated in Appendix Data B (Comparative Readiness for OECD Pillar Implementation in Selected ASEAN Economies). This comparative focus aligns with recent fiscal governance studies that have specifically focused on the ASEAN region (IMF, 2024; OECD, 2023).

### 3.3 Variable instruments

International tax studies are qualitative. This means factors are treated as analytic categories. They are not treated as statistical variables. The analysis is guided by two central constructs. The way in which Indonesia's domestic tax laws and treaty commitments map onto the Pillar One and Pillar Two proposals from the OECD is measured by something called Legal Readiness. Various indicators are used to develop this concept further, including permanent establishment thresholds, digital nexus revenues, profit reallocation (Amount A), global minimum tax rules and treaty adaptation in the Multilateral Instrument (MLI). The operationalisation of this variable is presented in Appendix Data A (Legal Quality Alignment Between Indonesia's Taxation Framework and OECD Pillar One and Two). The model is based on two theories: tax treaty theory and legal transplants theory. These explain how international norms are only partially adopted by national law (Ault & Arnold, 2019; Rixen & Dietsch, 2024).

Administrative Readiness details institutional capacity and ability to enforce, such as digitalisation of tax administration, availability of data, mechanisms for exchange of information and infrastructure for dispute resolution. This concept is based on state capacity theory that posits bureaucratic capability as a condition for effective policy implementation in developing countries (Besley & Persson, 2014; Klemm et al., 2019). These scale comparative scores are a part of Appendix Data B.

### 3.4 Data sources and collection

This research draws on secondhand data sources, which are selected based on their merits in terms of analysis and policy implications. The data comprise three categories. These include: (1) Domestic legal materials such as Indonesia's Income Tax Law (Law No. 7, 1983 as amended by Law No. 7/2021), Government Regulation No. 55/2022, and implementing regulations on permanent establishment and digital taxation that serve to assess legal readiness for implementation as per summary in Appendix Data A, and (2) international normative standards, notably: the OECD and UN MTCs Model Tax Conventions, BEPS IF reports, GloBE Model Rules, and the Multilateral Instrument (MLI) were reviewed to complement this exercise of evaluation (OECD, 2021a; United Nations, 2021). A comparison can be made across the ASEAN economies using policy and academic sources such as OECD, IMF and World Bank reports or recent Scopus Q1 journal articles. These are presented in Appendix Data B (IMF, 2024; Devereux et al., 2022).

### 3.5 Data analysis procedure

The analysis used is of the following types: qualitative, interpretative and comparative. It is



compatible with doctrinal research in international tax law. Two research methods then guide the conclusions: (1) The drawing of normative and political dimensions is based on the analysis of policy and legal documents, with these documents being positioned in accordance with the BEPS 2.0 nexus, profit allocation, minimum taxation, treaty adaptation of measures and enforcement mechanics. This process serves to measure and determine Indonesia's alignment with global standards (cf. Table A, Appendix Data). (2) The identification of areas of convergence as well as the direction of divergence between Indonesian laws and OECD/UN standards is achieved by means of doctrinal analysis. This comparative law approach emphasises functional equivalence rather than stipulated formality (Zweigert & Kötz, 1998). A third review looks at how prepared Indonesia is compared to Malaysia, Vietnam and the Philippines when it comes to administrative capacity, digital tax infrastructure and sovereignty risks. This is done using a method called constant comparative methodology. It looks at how Indonesia compares to these countries after recent studies on how BEPS is being implemented (Keen et al., 2023; IMF, 2024).

#### 4. Results and Discussion

##### 4.1 Overview of empirical findings

The findings suggest that Indonesia's preparedness to introduce OECD Pillar One and Pillar Two is incomplete and varies across the Legal, Administrative and Strategic areas. Indonesia has demonstrated a strong political dedication, evident through its involvement in the OECD/G20 Inclusive Framework. However, this commitment is not yet reflected in the complete alignment of its domestic legal framework and the comprehensive institutional readiness. Three common patterns emerge from the analysis. Firstly, Indonesia's domestic tax system is rooted in physical presence nexus and source-based taxation, meaning it only taxes what is present or is perceived to be present. This stands in contrast to Pillar One's market-based nexus approach. The implementation of Pillar Two is being hindered by two things: technology and capacity. Thirdly, Indonesia is adopting a strategic, sovereignty-preserving hedging approach, positioning itself between front-runners and

adopting a wait-and-see attitude within the ASEAN region. The fact that Indonesia is moving towards global tax integration is suggested by this result. However, the pace and extent of reform are still being defined by structural gaps.

##### 4.2 Legal alignment results: Indonesia and OECD/UN standards

The least developed of the mechanisms examined in Table 2 are those relating to non-discrimination, treaty coordination, digital nexus recognition and profit reallocation. The absence of a digital nexus in the statute and Amount A sections indicates a low level of legal preparedness for Pillar One. Pillar Two's initial policy debate has been drawn on more than the draft statute, meaning alignment to Pillar Two is incomplete. Ultimately, Indonesia's legal framework demonstrates conventional adherence to the principles of transition, acknowledging the norms established by the OECD while adhering to the established jurisdictional regulations.

##### 4.3 Administrative readiness and institutional capacity

Table 3 shows that administrative readiness in Indonesia is moderate yet uneven. And while digital tax systems and transfer pricing audits have been enhanced, pillar two skills, like calculating an effective tax rate and co-ordinated top-up tax enforcement, are in short supply. The MENJs are well functioning but not yet geared up to the more sophisticated BEPS 2.0 needs. These regularities imply that it is bureaucratic capacity (and not political will) which remains the core operational constraint.

##### 4.4 Comparative results Indonesia and ASEAN peers

Table 4 sees Indonesia wedged between the more ready Malaysia and embryonic stage Vietnam and the Philippines. Indonesia has fared better than most of the comparable countries but still lags behind Malaysia in enactment of legislation and administrative capacity. Indonesia's higher sovereignty orientation, compared to Malaysia's part integrationist approach suggests a strategic reluctance to agree to binding global tax rules.

**Table 2.** Legal Alignment of Indonesia's Tax Framework with OECD Pillar One and Pillar Two

Legal Dimension	OECD/UN Standard	Indonesia's Current Framework	Alignment Level
Digital Nexus	Market-based nexus / Significant Economic Presence	Physical PE; no digital nexus	Low
Amount A Allocation	Mandatory profit reallocation	No enabling provision	Low



Legal Dimension	OECD/UN Standard	Indonesia's Current Framework	Alignment Level
Global Minimum Tax Treaty	15% ETR with top-up tax	No domestic top-up tax	Partial
Adaptation	MLI-based coordination	MLI ratified; selective adoption	Moderate
Non-Discrimination	Equal treatment obligation	Largely compliant	High

**Table 3.** Administrative Readiness for OECD Pillar Implementation

Indicator	Indonesia	ASEAN Benchmark
Digital Tax Infrastructure	Developing	Uneven
Exchange of Information (AEIOI)	Partial	Moderate
Transfer Pricing Expertise	Moderate	Moderate-High
Pillar Two Computation Capacity	Limited	Limited
Dispute Resolution Mechanisms	Developing	Moderate

**Table 4.** Comparative Readiness of ASEAN Inclusive Framework Members

Country	Pillar One Readiness	Pillar Two Readiness	Administrative Capacity	Sovereignty Orientation
Indonesia	Partial	Early-stage	Moderate	High
Malaysia	Advanced	Advanced	High	Moderate
Vietnam	Low	Early-stage	Low	High
Philippines	Low	Low	Low	High

4.5 Synthesis of results

The findings indicate that Indonesia is methodically progressive in its readiness to adopt the OECD's Pillar One and Pillar Two, rather than being lacklustre. The apparent discrepancy between robust policy intentions and incomplete legal alignment is a deliberate response to institutional and distributional constraints. Recent work in the field of international taxation suggests that developing countries (DCs) often prefer a gradual approach to convergence in order to avoid the premature adoption of legal measures that could compromise administrative feasibility and revenue stability (Devereux et al., 2023; Schjelderup & Stähler, 2014). In this regard, Indonesia's persistence in implementing source-based taxation and presence-based nexus does not indicate a general "resistance" to reform. Instead, it is a rational response to the inherent asymmetric costs and benefits of the OECD's two-pillar architecture (Beer et al., 2023).

It is also highlighted by early carriage motion that administrative capacity and fiscal sovereignty act as constraints on reform trajectories, working together. Evidence from emerging countries shows that compliance with elaborate global tax standards, especially those relating to Pillar Two's effective tax rate computations, is only feasible for developing countries

that already have advanced data infrastructure and enforcement capacities, which others are in the process of setting up (IMF, 2024; Spengel et al., 2024). This variation indicates that Indonesia's reluctance is in line with the concept of adaptive fiscal sovereignty, where states engage in socialisation in specific areas but maintain autonomy in implementing policies to achieve developmental objectives within their own borders. (Dietsch & Rixen, 2024). The literature on BEPS 2.0 implementation is being enriched by this nuanced understanding of readiness. It sees implementation not as a dichotomous outcome, but as an ongoing process. This process is contingent upon institutional maturity and strategic choice. This is particularly relevant for developing countries grappling with global tax harmonisation.

4.6 Discussion

The results also reconfirm the theory of shared concerns in modern global tax governance. Rather than undermining sovereignty, OECD Pillar One and Pillar Two redefine its exercise, shifting the focus from unilateral action to negotiated coordination. The reluctance of Indonesia to engage is a good example of 'adaptive fiscal sovereignty', which is when states only choose to adopt global norms, keeping their own domestic policy space (Dietsch & Rixen, 2024). In terms of international tax neutrality, Indonesia's staged



alignment can be seen as a rational balance between conflicting considerations. Pillar Two is intended to ensure efficient capital allocation by curbing harmful tax competition, but if adopted prematurely, it could diminish the appeal of emerging markets to investors. Indonesia's reluctance to impose an immediate domestic top-up tax is characteristic of a developing country, as it is concerned about competitiveness and administrative feasibility. This is in line with recent empirical evidence on the reaction of developing countries to global minimum taxation (Devereux et al., 2023; IMF, 2024).

However, the absence of a definition of digital nexus highlights a more fundamental structural issue: Pillar One calls into question the very logic behind source-based taxation. Countries like Indonesia, where revenue mobilisation is largely based on source taxation, will see a recalibration of their allocation system as it transitions to an ore market-based model. Beers et al. (2023) and Schjelderup and Stähler (2024) Recent studies of Q1 suggest that Pillar One without explicit Design may lead to unbalanced incidence on consumer markets in OECD countries and additional compliance costs for non-OECD nations. Therefore, Indonesia's hesitancy is evidence of legitimate concerns about distribution, not a rejection of reform.

In contrast, Indonesia's position aligns with recent findings that early adopters often face higher short-term administrative costs without guaranteed revenue increases. While Malaysia's advanced readiness illustrates the state capacity advantage, recent work also indicates that revenue effects under Pillar Two are uncertain for well-prepared countries (Müller et al., 2024). Indonesia's approach of leapfrogging by following early adopters mitigates risk while accommodating long-term flexibility.

The results expand the theory of fiscal sovereignty by showing how sovereignty works as a moderator variable, influencing how things are implemented and the order in which they are implemented. This contribution fills a gap in the literature, which has often characterised sovereignty as an all-or-nothing concept: either sovereignty is eroded, or it is not. Rather, Indonesia's case lends credence to a continuum approach to the adaptation of sovereignty in multilateral tax regimes.

An important policy lesson for developing countries is provided by Indonesia's experience. It is not necessary for full participation in the global tax reform to be a cause of exacerbation as of recently, without any conditions whatsoever, including immediate compliance with all of the OECD's provisions. A gradual, sequenced approach favouring clarity of the law, capacity development and

negotiated engagement produces longer-term results. This finding adds to the emerging body of tax scholarship focusing on the Global South, which has argued for differentiated adaptation paths under BEPS 2.0 (Kaul, 2019; Shome, 2021).

## 5. Conclusion

The article looks at whether Indonesia is ready to adopt the OECD's Pillar One and Pillar Two proposals, and what this could mean for taxation in a developing country. The authors suggest that Indonesia is somewhat midway in its readiness for global tax reform, in that policy commitment to global tax reform has materialised to a greater extent than the level of domestic legal alignment and administrative capacity. The Indonesian tax system is mostly still based on source-based taxation, including physical presence nexus. This means that the country cannot immediately apply the OECD's market-based and minimum tax model directly. However, this gap is partly due to a policy sequencing calculus based on sovereignty considerations, administrative practicalities, and investment competition rather than institutional inertia. This demonstrates that, in the era of BEPS 2.0, fiscal sovereignty is not weakened, but rather transformed, functioning through negotiated coordination instead of unilateral command. Indonesia thus retains policy space by adopting a careful but engaged approach to becoming drawn into the emerging global tax order. This suggests that successful participation in international tax reform does not require immediate full alignment, but rather a responsive closing of the gap constructed by institutional maturity. At its stage of development, the broad picture that emerges from this study's representative case (Indonesia) provides a counterpoint to the growing body of global tax governance literature. It demonstrates what is possible when developing countries successfully navigate between harmonisation and autonomy. The study also introduces new insights on how readiness should be interpreted as an ongoing process rather than a definitive result.

## Theoretical implications

By framing sovereignty as adaptive and contingent, rather than absolute or declining, within multilateral tax regimes, this paper contributes to an understanding of fiscal sovereignty. It also generalizes the international tax neutrality theory to indicate how stepwise leapfrogging can reduce efficiency-equity trade-offs in developing countries.



### Practical implications

For tax administrations, the results underscore the importance of sequencing reforms and of elevating administrative capacity ahead of complete legal transposition of complex OECD rules, Pillar Two in particular.

### Policy implications

Policy-makers should focus on targeted legal changes on digital nexus and minimum tax, strengthen their data and audit infrastructure, and continue to engage actively in OECD negotiations to ensure the preservation of developing-country interests.

### Limitations

The analysis is qualitative legal and policy but does not provide estimates of revenues or behavioral responses, and thus its generalizability may be somewhat constrained in different fiscal environments.

### Future research directions

Further research may integrate quantitative simulations of revenue impacts, comparative analysis with other regions outside ASEAN, and firm-level examination on compliance behavior under Pillar Two

to enhance insights on the implementation of BEPS 2.0 in developing countries.

### Credit authorship contribution statement

Heriantonius Silalahi: Conceptualization, Methodology, Formal analysis, Writing – original draft, Writing – review & editing, Supervision.

### Declaration of Competing Interest

The authors state that there are no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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### Data availability

No new data were generated or analysed in this work. The analysis is limited to secondary data sources of publicly accessible legal documents, policy reports and academic publications. All references cited in the paper are included in the reference list.

## Appendix Table Data

**Appendix Data A** Legal Alignment of Indonesia’s Tax Framework with OECD Pillar One and Pillar Two

Dimension	OECD Pillar Requirement	Indonesia’s Legal Framework	Alignment Level
Digital Nexus	Market-based nexus	Physical PE only	Low
Profit Allocation (Amount A)	Residual profit reallocation	Not regulated	Low
Global Minimum Tax	Minimum effective tax	Partial policy discussion	Partial
Treaty Adaptation	MLI implementation	Ratified, selective adoption	Moderate
Non-Discrimination	Equal treatment	Largely compliant	High

**Appendix Data B** Comparative Readiness for OECD Pillar Implementation in Selected ASEAN Economies

Country	Pillar One Readiness	Pillar Two Readiness	Administrative Capacity	Sovereignty Orientation
Indonesia	Partial	Early-stage	Moderate	High
Malaysia	Advanced	Advanced	High	Moderate
Vietnam	Low	Early-stage	Low	High
Philippines	Low	Low	Low	High

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