

Framework Analysis of OECD's Base Erosion and Profit Shifting

Rithanyavarshikaa M¹, Raksha Devaiah K², Vaibhavalakshmi R³, Dr. Tejaswini S⁴

^{1,2,3}MBA 2025 – 27, Faculty of Management Studies, JAIN (Deemed-to-be University)

⁴Assistant Professor, Faculty of Management Studies, JAIN (Deemed-to-be University)

Abstract

Base Erosion and Profit Shifting (BEPS) is one of the most imminent issues in international taxation that allows multinational companies to take advantage of loopholes and disparities in tax regulations in an attempt to transfer profits to nil or low-tax jurisdiction. The BEPS initiative by the Organisation for Economic Co-operation and Development (OECD) will be analyzed through a framework approach that explores at the conceptual base, main action plans and implementation in the economies. Through a qualitative analysis of OECD policies, the analysis evaluates the structural sufficiency of the BEPS framework in profit shifting behaviours. The results indicate the weaknesses of the multilateral strategy as well as certain gaps of implementation and inclusion in developing countries. Necessary policy implications of reforming the system to make it more effective in the global context is further concluded. This study forms contributes to an increasing expertise of research in the ethical taxation, fiscal sovereignty and sustainable international tax governance.

Keywords- BEPS, OECD, policy, taxation, multinational enterprises (MNE)

1. Introduction

1.1 Background

The international tax structure according to which the multinational enterprises (MNEs) are taxed in a cross-border context has been developed mostly during the first half of the twentieth century when trade was physically predominant. The countries can lower their taxes using a number of avoidance schemes that diverge corporate profits out of higher tax-rate to lower tax-rate jurisdictions. These were implemented through schemes which reduce taxes on interest, dividends and royalties. The rise of digital economy and rapid globalisation of the late twentieth and early twenty-first centuries revealed fundamental structural tax weaknesses in these outdated structures.

In 2013, OECD and G20 countries collaborated on an equal basis, as one entity came up with a 15 point Action Plan on the issue of Base Erosion and Profit Shifting (BEPS). This was a landmark in the world of international taxation, a movement to multilateral policy response by coordinated domestic rule-making. The OECD/G20 BEPS Project emerged as the biggest reform project ever undertaken in the area of international taxation in decades to make sure that profits are taxed where genuine economic activity and value creation take place.

1.2 Meaning of BEPS

Base erosion and profit shifting (BEPS) refers to tax-avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. For governments, the tax base refers to a company's income or

profit upon which tax is levied as a percentage. When that income is transferred to a low-tax or no-tax jurisdiction, the domestic tax base is effectively nullified, resulting in reduced public revenues. BEPS practices undermine the fairness and integrity of tax systems because businesses that operate across borders can use them to gain a competitive advantage over enterprises operating at a domestic level. In a broader context, when large corporations are seen to be avoiding income tax, it undermines voluntary compliance by all taxpayers. Critically, although some BEPS schemes are illegal, most are not they operate within the letter of existing tax laws while violating their spirit, making regulatory response particularly complex.

1.3 Types and Techniques of BEPS

According to academic and policy literature, there are three main classes of BEPS tools utilised by MNEs:

IP-Based BEPS: IP-based BEPS applications allow profits to be removed through the processes of cross-border charge-out of internal virtual IP resources (intergroup IP charging). Technology and life science firms usually transfer patents and trademarks to low tax jurisdictions then levy royalty payments to operating entities in high taxation states and countries, which causes low taxable income in the country of economic activity.

Debt-Based BEPS: Debt-based BEPS facilitates earnings to be carried out through the extraction of profits using the cross-border charge-out of unnaturally premium interest, referred to as earnings stripping. Intra-group debts are especially easy to operate because they do not make use of any third party and can be established with a minimal operational restructuring, but with a high level of flexibility in tax manipulations.

Transfer Pricing (TP)-based BEPS: The major BEPS conduits are usually believed to be strategic transfer pricing, such as pricing relatively lowly goods/services transferred between high-tax to low-tax affiliates, and strategic utilization of inter-affiliate debt. In order to fight any company that uses transfer pricing as a means of tax avoidance, the OECD proposed a Base Erosion and Profit Shifting Action 13 (BEPS Action 13), which has increased tax transparency and information flow to the tax authorities.

These three tools are widely employed jointly, and BEPS tools would not exist without the network of bilateral tax treaties that the corporate tax haven would possess, which relocate the profits to the haven.

1.4 Current Scenario

1.4.1 Loss of Revenue and World Impact.

BEPS has disastrous fiscal implications. BEPS costs nations USD 100240 billion in revenue lost every year, in the form of 410% of the revenue lost by corporations worldwide through income tax. Albeit, as much as all countries are affected by BEPS, the practice negatively impacts developing economies which largely depend on corporate income tax especially by multinational enterprises.

1.4.2 BEPS 2.0 Framework: Pillar one and Pillar Two.

Following the inadequacies of the initial 15-Action BEPS Package the OECD introduced a BEPS 2.0 in 2021. The two components of the current project are Pillar One which addresses new nexus and profit allocation regime where market countries should have a higher portion of taxing rights over global business income, and Pillar Two which covers a new global minimum tax which was approved in December 2021 by 141 jurisdictions.

The Pillar Two Model Rules offer to have 15 per cent of a global tax on multinational enterprise (MNE) groups that have global turnover of at least 750 million or above. By the beginning of 2025, Pillar Two rules have already come into force in more than 50 jurisdictions across the globe and other jurisdictions are signalling that they intend to implement the rules soon. In October 2024, the OECD forecasted that by 2025 about 90% of multinationals within the scope of Pillar Two rules will have their minimum corporate tax rate of 15%.

1.4.3 Ongoing Challenges

Even with a lot of improvement, there are gaps in implementation. Pillar One that deals with the distribution of the taxing rights to the digitally delivered services - is yet to be resolved. The June 30, 2024 deadline to proceed with Pillar One implementation has since passed, and nations continue to work on a way forward. A lack of United States in the implementation of Pillar Two has also thorned the world consensus.

The international tax system is still experiencing structural limitations even after ten years of OECD-initiated reforms. The 15 Action Plans, despite being consensus-based, appear to have limited scope of implementation as they are mostly non-binding. To achieve coherence and transparency and to avoid malpractices around the international taxation system SSRN, the OECD-G20 BEPS initiative offers action plans but domestic compliance is still at variance to make it effective. Moreover, the traditional models, which are founded on the physical location, cannot cope with the issues of modern trade especially in the digital economy. It is then of critical importance to effectively assess whether the structural adequacy of the OECD BEPS framework is capable to address profit shifting in a globalised and digitised economy.

This research has two main aims. The first is to study the OECD's BEPS project through a conceptual framework analysis by looking at the design architecture of its 15 Action Plans and BEPS 2.0 Pillars to assess the degree to which it discourages Base Erosion and Profit Shifting (BEPS) behaviour by multinational entities. The second aim of this study is to identify inherent structural inconsistencies, implementation barriers, and equity issues in the BEPS model relating to both the meaningful participation of developing nations and to the relevant taxation of the digital economy, as well as to provide policy-oriented recommendations that would enhance the effectiveness of the BEPS framework globally. This research will make substantive contributions at several levels: it will contribute to the debate on reforming international tax governance from a policy perspective as BEPS 2.0 has entered a pivotal phase of its implementation; it will enhance the existing literature by adding to the growing body of framework level scholarship that goes beyond merely examining empirical evidence of profit shifting behaviour and by critically examining the systemic design of the multilateral tax reform framework developed under BEPS; for developing economies such as India that are heavily engaged in global value chains, it will provide particularly useful insights on how the strengths and weaknesses of BEPS framework interact with domestic fiscal sovereignty and the interplay of bilateral tax treaties.

2. Literature Review

Hugger et al. (2024) provide a retrospective evaluation of the effectiveness of the BEPS initiative in the first ten years of its enforcement based on the data of the country-by-country reporting database of the OECD/G20 Inclusive Framework. They find that shift-in-behaviour of profits are reduced in a way that can be measured in jurisdictions where BEPS minimum standards have been adopted, both in terms of hybrid-mismatch as well as in terms of treaty abuse. Nevertheless, Hugger et al. (2024) also report active gaps, such as the uneven application to non-OECD

jurisdictions and the applications of preferential regimes that do not subject to the current harmful tax practice rules and highlight the necessity to maintain the multilateral commitment to the BEPS agenda [1].

OECD (2024) issues the consolidated commentary to the rules of the GloBE Model, which is the authoritative interpretative insight of the application of the Pillar Two framework to complex multinational structures. Some of the issues that are covered by the commentary are the treatment of deferred tax liabilities, how the GloBE rules interact with controlled foreign corporation regimes and whether the domestic minimum tax qualifies. OECD (2024) is also essential to both tax administrators and practitioners aiming to adopt the global minimum tax, and is the reflection of the ongoing institutional development of the BEPS reform agenda beyond the original package of 2015 [2].

A legislative and policy review of the BEPS initiative by Congressional Research Service (2024) offers the view of the United States Congress on the compatibility of OECD proposals with the US domestic tax law, especially following the Tax Cuts and Jobs Act of 2017. The report points to areas of convergence, which includes provisions on Global Intangible Low-Taxed Income, and areas of potential discord, which include how the US MNEs themselves will be treated by the Pillar Two top-up taxes of foreign jurisdictions. The congressional research service (2024) is also a good resource of information where we can learn how the largest capital-exporting economy in the world is coping with the multilateral BEPS framework [3].

Beebejaun et al. (2023) examine the BEPS phenomenon in the context of a small island developing economy, and refer to Mauritius as an example. They find that Mauritius which traditionally has served as a conduit jurisdiction in foreign direct investment flows to Africa and South Asia has gone through considerable treaty reform and domestic legislative reform with OECD/G20 pressure. As Beebejaun et al. (2023) observe, even though Mauritius has made significant steps towards BEPS compliance, there is a conflict between meeting global taxation requirements and positioning the nation as a financial services hub, which demonstrates the conflict between the global system of taxation and domestic economic policy [4].

Pillar Two of the Two-Pillar Solution proposed by OECD (2021) presents the Global Anti-Base Erosion (GloBE) Model Rules which sets a global minimum effective rate of 15 per cent on large MNEs. The document provides the technical architecture of the Income Inclusion Rule and the Undertaxed Profits Rule which together provide that the profits taxed at a rate lower than the minimum rate in one jurisdiction is liable to a top-up levy in another. OECD (2021) is a qualitative change in the BEPS reform process, whereby the focus is on a rules-based approach to addressing particular avoidance behaviours to a rate-based floor that directly limits tax competition between jurisdictions [5].

Saez et al. (2019) test the distributional impact of profit shifting by stating that the losses associated with BEPS practice in the form of lower taxes are disproportionately absorbed by lower- and middle-income households in terms of lowering the amount of the public services. Their analysis of incidence adds an equity perspective to the BEPS discussion that is not sufficiently represented in more technical legal and accounting discourse, and supports the ethical case of serious international tax reform [6].

Cobham et al. (2018) give a background quantitative evaluation of the extent of profit shifting among the multinational enterprises (MNEs). Based on the data provided by the country-by-country reporting, the authors project that the losses by corporates that could be attributed to profit shifting all over the world are at an estimated USD 500 billion a year. Their approach provides a repeatable model to be followed in further empirical work and should highlight the urgency of BEPS reform agenda. Cobham and Janský (2018) find that individual jurisdictions can hardly do much in the absence of overarching multilateral action [7].

Faccio et al. (2018) consider the connection between aggressive tax planning and corporate governance structure. Based on both OECD economies panel data on 2005-2015, they establish that companies with dispersed ownership and inadequate board supervision are far more prone to adopting BEPS related practices. They propose that the reforms

of governance ought to be supplementary to the tax policy measures, which is an aspect that is predominantly illuminated in the Action Plans of the OECD [8].

Hearson (2018) critically assesses the lack of involvement of the developing countries in the design process of the BEPS project, claiming that the Action Plans are skewed in terms of the interest of the member states of the OECD and large economies exporting capital. Using the example of negotiation transcripts and policy submissions, Hearson (2018) can show that the developing nations had been offered consultation and not a proper co-authorship, which is a structural imbalance that negatively affects the legitimacy and efficiency of the framework on the global level [9].

Noked (2018) discusses the digital economy taxation and the BEPS structure interaction in the context of Action Plan 1. He claims that the current nexus and profit attribution principles are essentially out of place with an online business model that is characterised by user-generated value, monetisation of data, and the lack of the physical presence imperative. Noked (2018) is an advocate of the new taxable presence concept and global minimum tax, which is expected to evolve later in the formalisation of the Pillar One and Pillar Two proposals [10].

Picciotto (2017) provides a political economy approach to the BEPS process by analyzing the role of the conflicting interests of capital-exporting and capital-importing states in the ultimate design of the Action Plans. According to him, the resultant framework constitutes a negotiated compromise that does not entirely change the key characteristics of the current system, but makes minor improvements in transparency and anti-avoidance. Picciotto (2017) concludes that transformative change presupposes involvement into the broader politics of international economic governance [11]

A survey of empirical results in the area of profit shifting is presented by Riedel (2018), who summarises results of more than 40 econometric studies. She finds the trend of profit migration between high-tax and low-tax jurisdiction, and semi-elasticities of reported profits to changes in the tax rate differentials between high-tax and low-tax jurisdictions between -1.5 and -0.8. Riedel (2018) warns, though, that the lack of uniformity in methods used by studies makes their direct comparison challenging and necessitates more standardisation of data and estimation techniques [12].

Tørsløv et al. (2018) estimate the national accounts data to show that some 40 percent of multiprofits in multinational corporations are transferred to tax havens every year, which is a large underestimation on the financial account of high tax nations. Their macroeconomic strategy adds to the firm-level data of Riedel (2018) and Cobham and Janský (2018) and the results of their research are frequently referenced in the debate on the global minimum tax during Pillar Two [13].

The article by Beer, de Mooij et al. (2018) provides an extensive overview of the channels of operation of international corporate tax avoidance based on a meta-analysis of firm-level studies and macro-level studies. Their IMF Working Paper lists transfer pricing manipulation, strategic debt allocation, and the location of intellectual property as the three common manipulation mechanisms of profits shifting. According to Beer et al. (2018), the decrease in a jurisdiction by one percentage point would lead to an estimation of one [14].

Ting (2017) provides an in-depth case study of the intragroup debt arrangements with the Chevron litigation in Australia as the prism. The paper analyses the exploitation by MNEs of the related-party financing method to claim interest deductions on their incomes in high-tax jurisdiction and accumulate similar incomes in their low-tax affiliates. Ting (2017) compares the best practice approach of BEPS Action Plan 4 the fixed ratio rule to the facts of the Chevron case and concludes that the rule would constrain the most extreme types of base erosion via the interest deductions but the rate at which the fixed ratio is established and the strength of domestic implementation is crucial [15].

3. Research Methodology

This paper assumes the qualitative research design, based on a secondary data collection, because of the characteristics of the study subject, which is a framework analysis of the BEPS initiative by the OECD. Given that the area under analysis is the assessment of the structural sufficiency, execution issues and equity aspects of a multilateral taxation system, a primary or a quantitative method of data collection would be inadequate. The methodology is based rather on the analysis of documents, comparative analysis of frameworks, and critical synthesis of the literature.

Research Design: a descriptive-analytical research design is adopted, where the OECD BEPS framework that has been based on the original 15 Action Plans and the further BEPS 2.0 Two-Pillar Solution is systematically analyzed in terms of theory-based standards of effective international tax governance: coherence, equity, enforceability, and inclusivity.

References to Secondary Data: The study will be based on OECD policy reports, and institutional reports. The three anchor studies include: Kofler (2025), which evaluates the interaction of Pillar Two GloBE rules and the concept of abuse in international taxation in a legal-doctrinal perspective; Noonan and Plekhanova (2022), which offers a compliance oriented evaluation of the Two-Pillar Solution based on international economic law and international relations theory; and Kurian (2022), which reviews the BEPS framework with the perspective of developing countries, which suggests concerns of power asymmetry and structural exclusion.

Analytical Framework: A three-dimensional analysis of evaluation is utilized throughout the analysis:

- i. Design Adequacy: Is the framework architecture to cope with the BEPS problem?
- ii. Compliance and Enforceability: Do the mechanisms exist to provide uniform cross-border implementation?
- iii. Equity and Inclusivity: Is the framework working in favor of developing and low-income countries?

Limitations: This paper is a secondary research study and therefore has limitations due to the availability and up to date published data. The results represent the condition of BEPS adoption until early 2025 and might not consider any future geopolitical changes, including the exit of the United States of America of the Global Tax Deal in January 2025.

4. Analysis and Results

4.1 Development of BEPS Framework: The 15 actions to two pillars.

The OECD / G20 BEPS initiative was initiated in 2013 and has already completed its initial phase in 2015 with 15 Action Plans. These were dealing with particular avoidance vectors including hybrid mismatch arrangements (Action 2) and interest deductions (Action 4) to transfer pricing documentation (Action 13) and treaty abuse (Action 6). Nevertheless, the framework was still not fully developed in its approach to the digital economy, which led to BEPS 2.0 in 2021.

Table 1: BEPS 1.0 — Key Action Plans and Their Focus Areas

Action No.	Focus Area	Nature
Action 1	Tax challenges of digitalisation	Partially addressed
Action 2	Hybrid mismatch arrangements	Minimum standard
Action 4	Interest deductions / earnings stripping	Best practice
Action 5	Harmful tax practices	Minimum standard
Action 6	Treaty abuse / anti-avoidance	Minimum standard

Action 7	PE status manipulation	Best practice
Action 13	Country-by-Country Reporting (CbCR)	Minimum standard
Action 15	Multilateral Instrument (MLI)	Binding instrument

Source: OECD (2015); Kurian (2022)

The fifteen actions were identified as minimum standards only on four instances, leaving the rest of the actions as voluntary or best-practice guidelines. The developing nations lack the skills or the leverage to transact with tax evasion by the multinational corporations and the process of decision making in the OECD is also being compromised by the developed world.

4.2 The Two-Pillar Solution: Architecture and Design.

The Two-Pillar Solution (TPS) is a complicated set that presupposes new binding and non-binding international tools, changes in hundreds of existing treaties on taxes, and the adoption of new tax legislation on a national level.

Table 2: Comparison of Pillar One and Pillar Two

Feature	Pillar One	Pillar Two
Primary Objective	Reallocation of taxing rights to market jurisdictions	Global minimum effective tax rate of 15%
Scope (Revenue Threshold)	MNEs with global turnover > €20 billion	MNEs with global turnover > €750 million
Key Mechanism	Amount A (25% of residual profit reallocation)	GloBE Rules: IIR + UTPR + QDMTT
Binding Nature	Partially binding (still under negotiation)	Broadly adopted, 50+ jurisdictions (2024)
Implementation Status	Stalled (no multilateral convention signed as of 2024)	Active; EU Directive enacted December 2022
Developing Country Benefit	Potential gain via market jurisdiction allocation	Constrained by tax incentive conflicts

Source: Kurian (2022); Noonan & Plekhanova (2022); OECD (2021)

4.3 Compliance Issues: Framework Assessment.

The Two-Pillar solution will be made up of both legally binding and non-binding international rules, articulated at varying levels of specificity and the components of different dispute settlement and compliance arrangements. The regime is thus complicated and it is in part partly developed. The package implementation and adherence will contribute to its success in no minor way.

Table 3: Compliance Dimensions of the Two-Pillar Solution

Compliance Dimension	Pillar One	Pillar Two
Dispute Resolution	Binding multilateral mechanism proposed	GloBE disputes lack dedicated multilateral mechanism
Treaty Compatibility	Requires modification of bilateral treaties	UTPR may conflict with existing tax treaties
Domestic Legislation	Convention still pending	50+ jurisdictions enacted by 2024
Administrative Burden	Very high; complex Amount A calculations	High; GloBE ETR computation per jurisdiction
US Participation	Critical — stalled without US buy-in	Withdrawn from Global Tax Deal (January 2025)

Source: Noonan & Plekhanova (2022); Kofler (2025)

According to Kofler (2025), there are two interlocking rules in the GloBE rules, the Income Inclusion Rule (IIR), and a tax on base-eroding payments, but how they interact with the already existing anti-abuse principles of EU law and bilateral tax treaties is a new set of doctrinal questions.

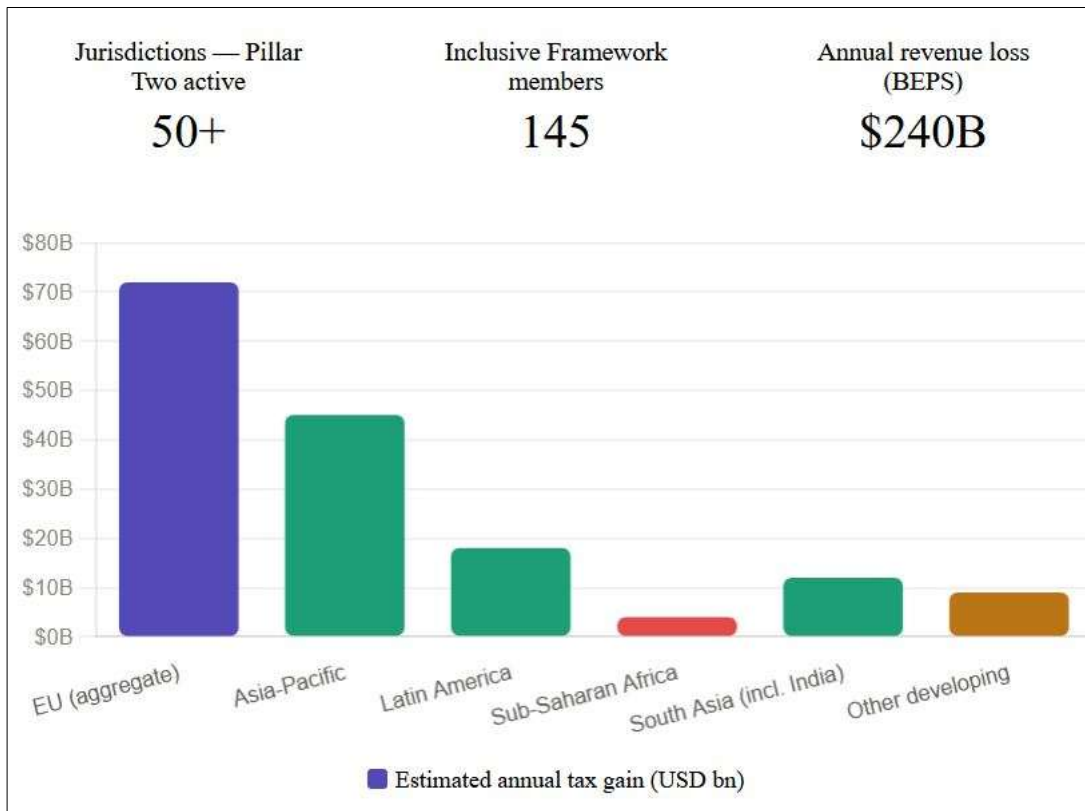


Figure 2: Estimated Annual Revenue Gains from Pillar Two by Region

Note: Sub-Saharan Africa in red reflects constrained or potentially negative net gains due to tax incentive conflicts. Sources: OECD 2023; Kurian 2022; Fiscal Studies, Wiley 2023.

5. Discussion of Findings

The BEPS framework, including BEPS 1.0 (2015) and BEPS 2.0 (2021), is the most ambitious attempt to structure a multilateral tax governance framework ever, but is structurally incomplete in many aspects.

On design adequacy: The initial 15 Action Plans focused on the important BEPS mechanisms, including hybrid mismatches, treaty shopping, and manipulation of transfer pricing, but had only four of them, and these few were only aspirational. BEPS 2.0 is, in part, a more prescriptive correction of this: the GloBE rules in Pillar Two have found considerable legislation success in 50 or more jurisdictions. Nevertheless, Kofler (2025) warns that the interaction of the GloBE rules and the EU anti-abuse jurisprudence is not settled yet, and their mechanistic nature can redefine the concept of the abusive tax structuring in the international law unwillingly.

In Compliance and Enforceability: According to Noonan and Plekhanova (2022), the key to success of the framework should be political will, institutional capacity, and dispute resolution, which cannot be ensured by the BEPS documentation in isolation. The fact that Pillar Two does not have a dedicated multilateral dispute resolution entity is a structural gap, and this is likely to compromise the consistency of long-term enforcement over borders as compared to existing mutual agreement procedures.

On Developing Country Equity: This is by far the most disputed dimension. Kurian (2022) notes that the process conducted by the OECD does not allow developing nations to use tax incentives to invite foreign investment, and the existing fiscal benefits of developed economies are not removed. The Framework Inclusion, although technically open to all 145 member states, is run via consensus processes, which are dominated by OECD countries. The Pillar Two threshold (750M) although aimed at the largest MNEs, leaves out of the scope medium-sized multinationals that, despite being of importance to smaller economies, are not the largest. The developing countries are therefore caught in a structural dilemma where their incentive-based FDI policy becomes ineffectual below 15 minimum tax floor, but rather they do not have the administrative capability to implement and take advantage of GloBE regulations on a fair and equal footing.

US Withdrawal (2025): The official disengagement of the United States of America with the Global Tax Deal in early 2025 caused a massive disruption in geopolitics. It revealed the structural instability of a structure whose enforceability lies in the voluntary involvement of the largest economy in the world and left a rift in multilateral consensus that cannot easily be filled by refining the rules of the technical aspects.

Together, the results have affirmed that despite the fact that BEPS framework has enhanced global tax collaboration to a larger extent, it faces structural weaknesses in compliance framework, equity framework, and geopolitical toughness that need substantive changes.

6. Conclusion

As demonstrated in this paper, the BEPS initiative of the OECD has evolved over the years beginning with the 15 Action Plans of 2015 to the Two-Pillar Solution of 2021. The results substantiate significant advancements especially the rules about GloBE in the Pillar Two, which is currently in force in more than 50 jurisdictions. However, there are still critical gaps on all three dimensions of evaluation. With regards to compliance, the framework does not have a specific multilateral dispute resolution mechanism, which Noonan and Plekhanova (2022) illustrate. On equity, Kurian (2022) is right in noting that, on equity, the developing nations are structurally sidelined as they are limited to utilize tax incentives without equivalent benefits. Regarding the legal coherence, Kofler (2025) points out that there are

unaddressed conflicts between GloBE regulations and the traditional anti-abuse principles. The collapse of multilateral consensus was also revealed when the US withdrew in 2025. Devoid of binding dispute resolution, equitable threshold re-calibration and exit of Pillar One negotiations, the BEPS framework runs the risk of being a system of unfinished pledges.

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