Digital Taxation in Borderless Economy: A Critical Evaluation of OECD's Pillars and Implications for Global Tax Equity

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Abstract

The development of a global, borderless digital economy has rendered the old international tax rules highly obsolete, and people around the globe are now demanding reform. The Organisation for Economic Co-operation and Development (OECD) subsequently proposed Pillar One and Two as a means of redistributing taxing rights and developing a global minimum corporate tax rate. The proposals in this study are critically assessed in a qualitative, exploratory, and comparative manner using both document analysis and expert interviews in selected jurisdictions. The results indicate that Pillar Two has garnered significant support, particularly among OECD member countries, with ECDs that are relatively transparent in their structure and have a profit-boosting nature. Contrastingly, Pillar One has stagnated due to the complicated treaty requirements and political opposition, at least in the United States and other leading economies. Although there is a vast potential for generating world revenue through Pillar Two, projected at between $155 billion and $ 192 billion annually, it favours the residence jurisdictions disproportionately. It leaves many developing nations disadvantaged. These reforms are restricted in access and impact for low-income states due to administrative complexity, inadequate technical capacity, and insufficient equity mechanisms. The study concludes that unless the voice of the Global South is represented successfully and more emphasis is placed on sharing revenues equally, the proposals offered by the OECD will threaten to perpetuate the current differentiation in the global taxation system. Some of the suggestions include widening the scope of Pillar One, enhancing the Subject-to-tax Rule, and building capacity in developing countries.

Keywords: Digital Taxation, Global Equity, OECD Reforms, Pillar One, Pillar Two, Tax Justice.

Introduction

The digitalisation of international business has rendered many traditional tax concepts obsolete, allowing multinational companies (MNEs) to earn substantial amounts of money in states where they do not have a physical presence (Organisation for Economic Co-operation and Development [OECD], 2023). The result is that this borderless economy will enable the shifting of profits to low-tax jurisdictions, which erodes local tax bases and presents resource-allocation distortions (OECD, 2023; Lee, 2024). The resulting loss of revenue poses a threat to investment in the state at all levels, particularly in developing countries, and negatively impacts the population's perception of the tax regime (OECD/G20 Inclusive Framework, 2025; IMF, 2025).

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To address these issues, the OECD came up with the Two-Pillar that will see a redistribution of taxation rights to the jurisdiction in which highly profitable digital companies operate (Pillar One) and the application of a global minimum tax of 15% by market jurisdictions (Pillar Two) to decrease profit-shifting (OECD, 2023; EY, 2024). Pillar One will redistribute profits of up to USD 200 billion every year and create additional revenues of USD 17-32 billion, disproportionately benefiting low- and medium-income economies (OECD, 2023; EY, 2024; Reuters, 2024). In the meantime, Pillar Two may also generate USD 155 billion to USD 192 billion annually and address the issue of damaging tax competition on the global level (OECD, 2024; Tax Notes, 2024).
Differentiation has, however, been uneven. The amount of a treaty in Pillar One has been blocked by U.S. politics and ongoing treaty negotiations as of June 2024 (Financial Times, 2024; OECD/G20 Inclusive Framework, 2023). In contrast, Pillar Two has developed quite rapidly: as of January 2025, more than 40 jurisdictions have implemented local top-up tax regulations, and nine countries have joined the Subject-to-Tax Rule (STTR) multilateral instrument in an attempt to give developing countries the power to develop (OECD, 2024; Reuters, 2024). With this advancement, however, there is still apprehension in the areas of administration, the implications for equity in low-capacity states, and possible incompatibility with the US/OECD (OECD, 2024; Uganda case study, 2025; Tax Notes, 2024).

Research Background

Before 2021, national governments have turned to unilateral digital service taxes (DSTs) as an effort to address digital profit shifting- causing trade tension and inhomogeneous frameworks (Tax Foundation, 2024; Canada, 2025). A group of 138 OECD/G20 members committed itself to the Two-Pillar solution in July 2023, where DSTs were suspended in advance of the multilateral convention on Amount A coming to be (OECD/G20 Inclusive Framework, 2023).
In October 2023, the OECD published the Multilateral Convention (MLC) text on Amount A and pledged to adopt Amount B, which is a standard, standardized rate of returns on regular distribution activity (OECD/G20 Inclusive Framework, 2023; EY, 2023). The MLC would expect to share up to USD 200 billion in annual profits on which it would impose tax, with the lower and middle-income states expected to benefit disproportionately (OECD/G20 Inclusive Framework, 2023). In the meantime, the working framework of Pillar Two, including the Income Inclusion Rule, Undertaxed Profits Rule, and STTR, is intended to provide an effective 15% corporate tax bottom line to MNEs with revenues exceeding EUR 750 million (OECD, 2024; Tax Notes, 2024).
As of September 2024, nine jurisdictions had enacted STTR by signing the multilateral instrument, with a target of 9% or below on payments, thereby enabling developing states to end under-taxed flows through the power of tax back (OECD, 2024). By the start of 2025, over 40 governments had already enacted some form of Pillar Two measures domestically (Wikipedia, 2025), with other countries, such as Malaysia, expected to launch them in April 2025 (Reddit, 2023).

Research Problem

Pillar One is still in limbo despite international approval. The MLC has been stymied by political opposition in the U.S. (e.g., challenges to obtaining Senate approval) and by second-guessing of the treaty by India, China, and Australia, which could hold up ratification past the June 2024 deadline (Financial Times, 2024; Reuters, 2024). Its strategy is currently unavailable to mid-sized digital companies and thus has a restricted effect on equity (EY, 2023; Uganda study, 2025). Pillar Two seems more likely to become a reality, but design complexities are at stake. Low-capacity nations struggle to comply with the rules of GloBE, and Pillar Two revenue is expected to accumulate inappropriately in favour of headquarters countries rather than source states (Tax Notes, 2024; Uganda study, 2025). Additionally, unexpected encounters with domestic legislation in the U.S., such as GILTI and domestic carve-outs, may lead to policy misalignment (Tax Notes, 2024; Wikipedia, 2025).

Research Objectives

1. To critically assess the design features and current status of OECD Pillars One and Two.
2. To evaluate their potential impact on global tax equity and revenue mobilization
3. To investigate administrative, political, and compliance challenges in implementation.

Research Questions

Q1. What are the design strengths and weaknesses of Pillar One's Amount A and Amount B mechanisms?
Q2. How effectively does Pillar Two's 15% minimum tax address profit shifting without disadvantaging low-capacity countries?
Q3. What political obstacles and treaty dynamics hinder Pillar One's enactment?

Significance of the Study

The adoption of the OECD Pillar One and Pillar Two recommendations marks a significant turning point in the history of international tax regulation, particularly in addressing the challenges of taxing profits in a digitalised, borderless environment (OECD, 2023; EY, 2024). What makes this study important is that it is a critical study of how these reforms can deliver on their expectations of promoting global tax equity, reducing profit sharing, and strengthening revenue mobilization in both developed and developing economies (OECD/G20 Inclusive Framework, 2025).

Where more than 40 countries have already adopted their Pillar Two legislation, and the worldwide negotiations over Pillar One continue to face political and legal obstacles, valuable insights from scholarly research are necessary to guide the decision-making process, implementation methods, and legal adjustments (OECD, 2024; Financial Times, 2024). Relying on the modelling of both anticipated and realized trends of the reforms, and particularly the distributional effects to the developing economies as informed by source-based economies, the study provides some insights into the policy discussion on the equitable fiscal design on the digital age (Tax Notes, 2024; case study of Uganda, 2025). The research is essential to mention technical, administrative, and political obstacles that can slow down harmonization worldwide. Its recommendations will be of strategic importance to tax organizations in various countries, governments, and other civil society groups seeking to see the global taxation system evolve in an inclusive, practical, and goal-oriented manner, with a focus on sustainable development and financial fairness (IMF, 2025; OECD, 2023; Reuters, 2024).

Literature Review

Digital Economy Emerging and Taxation Issues

Globalization and digitalization of business have fundamentally altered the nature of value creation, enabling multinational enterprises (MNEs) to generate income in locations where they are not physically present (OECD/G20 Inclusive Framework, 2023). This change has significantly impaired the effectiveness of traditional tax systems, in which physical nexus principles are used as a criterion to determine taxing rights. In response, numerous states concerned about the lack of action in the multilateral arena have implemented unilateral Digital Services Taxes (DSTs), such as those introduced in France, the UK, and Canada. Although these taxes were intended to capture part of the previously uncollected digital income, they created a conflict with the United States and led to a breakdown in global tax coordination (Investopedia, 2023; McKenzie, 2025).

OECD Pillar One: Design, Scope and Limitations

The OECD unveiled Pillar One to address these problems multilaterally by redirecting a share of the residual profits of MNEs to the market jurisdiction, imposing a new nexus rule. This is limited by the rule to firms that generate global revenues exceeding 20 billion euros; it does not cover many fast-growing but smaller digital companies with a profit margin above 10% (OECD, 2023; EY, 2024). Although the mechanism is intended to improve global equity by rewarding user markets where value is created, it is open to criticism for poor coverage, as well as being legally complex and cumbersome in dispute resolution procedures. Important countries, such as India and China, have been reluctant to implement it due to political opposition, particularly in the U.S. Senate (Financial Times, 2024; Reuters, 2024).

Global Minimum Taxation: Organization and Possible Effects

Pillar Two is complementary to this by proposing a global minimum corporate tax rate of 15%, which would serve as a deterrent to harmful tax competition and profit shifting. It consists of three essential mechanisms: the Income Inclusion Rule (IIR), the Undertaxed Profits Rule (UTPR), and the Subject-to-Tax Rule (STTR), and is expected to introduce rules for MNEs whose revenues exceed $ 750 million (OECD, 2024). When combined, these rules aim to set the effective minimum rates of profit taxation, irrespective of the jurisdiction where the profits are reported. The OECD believes that Pillar Two may raise an additional USD 155-192 billion in tax revenues per year (Tax Notes, 2024).

Equity Concerns for Developing Economies

Nevertheless, there is considerable concern regarding the appropriation of benefits despite this not addressing some of the issues as expected. The studies reveal that the flow of revenue will be unbalanced in the high-income countries based on residence, but the gainer will not be the source-based developing countries with limited returns (SouthCentre, 2022; Uganda case study, 2025). Furthermore, numerous jurisdictions with low incomes lack the administrative capacity to enforce and complement sophisticated GloBE regulations, which could exacerbate inequalities in global taxation (IMF, 2025). Even though the STTR was introduced to safeguard the taxing rights of these nations on cross-border payments that are taxed no more than 9 per cent, analysts state that its implementation and adoption are abgalekyn (OECD, 2024; CashReview, 2023).

Implementation Challenges and Political Dynamics

Although Pillar Two has already been implemented in practice through legislative action in more than 40 jurisdictions, Pillar One remains unratified due to political resistance, particularly in the U.S. (OECD, 2024; Financial Times, 2024). With the U.S. presidential election cycle underway, questions about the commitment to the deal in general, including in the long term, arise, and some candidates clearly state their intentions to reject multilateral tax reform (Reuters, 2024). Moreover, the presence of DSTs and the lack of progress in Pillar One will likely trigger another trade row, as well as kill the collaborative spirit that was supposed to be promoted by the Inclusive Framework (Baker McKenzie, 2025). These tensions, coupled with the fact that they have remained unresolved, prove the instability of the worldwide agreement and raise critical issues about the future of equitable and practical international taxation.

Research Methodology

Research Design

This research work employed a qualitative, exploratory, and comparative research design to critically analyze the Pillar One and Two proposals of the OECD regarding the issue of digital taxation and global tax fairness. It was agreed that qualitative research was suitable for investigating the legal, political, and institutional aspects of international tax reform. The exploratory nature of the research study made it possible to detect emerging trends and issues related to policy implementation. There was also a comparative component that allowed the researcher to compare how various countries, including both developed and developing economies, understood and responded to the OECD digital tax proposal.

Data Collection

Primary and secondary sources of information were relied upon in the study. The analysis of the primary data (semi-structured interviews of professionals in the field of international taxation, governmental officials, OECD advisors, and practitioners of the chosen countries) was conducted. Purposive sampling was employed to select the participants, resulting in a final sample size of 10 respondents drawn from both developed and developing economies. The interviews were conducted via Zoom or Skype and transcribed with permission, then analysed.

Secondary data have been drawn from a variety of reputable sources, including OECD policy papers, blueprints, technical assistance, peer-reviewed scholarly articles, IMF and World Bank policy papers, legal advice, and policy notes. These publications, made available between 2020 and 2025, also provided background and comparative material upon which the proposals of the OECD could be assessed.

Data Analysis

Data analysis: A thematic content analysis of the data has been conducted using the six-step model presented by Braun and Clarke (2006). Once the data was already known, preliminary codes were created and then clustered in larger themes. Other crucial themes presented included the difficulty in implementing impacts, the legality of the process, political opposition, limited administrative capabilities, and the imbalance in anticipated revenue increments between high-income and low-income jurisdictions. A comparative perspective was used to examine the interpretation and implementation of the OECD's recommendations by various countries, indicating cross-national inconsistencies in reactions and preparedness.

Ethical Considerations

The ethics were duly observed. The participants received detailed information concerning the purpose of the study and signed the informed consent form before completing the survey. They ensured the careful retention of their identities through the anonymization of transcripts and the storage of all data on encrypted files. The research was conducted in partnership with the Institutional Review Board (IRB) of the investigator's institution and began data collection only after the study was approved.

Results and Analysis

The study findings are reported in this section, synthesized from data collected through interviews, OECD documents, country reports, and secondary databases. Findings are co-joined thematically using tables that explain the status of implementation, estimated sales implications, worldwide coverage, and its estimated fair results, especially in how developed and developing economies perceive it would fare.

Global Implementation of Pillar One and Pillar Two

A survey of legislative progress revealed that while Pillar Two experienced widespread adoption across high-income countries, Pillar One remained stalled mainly due to treaty-based complexities and opposition from the U.S.

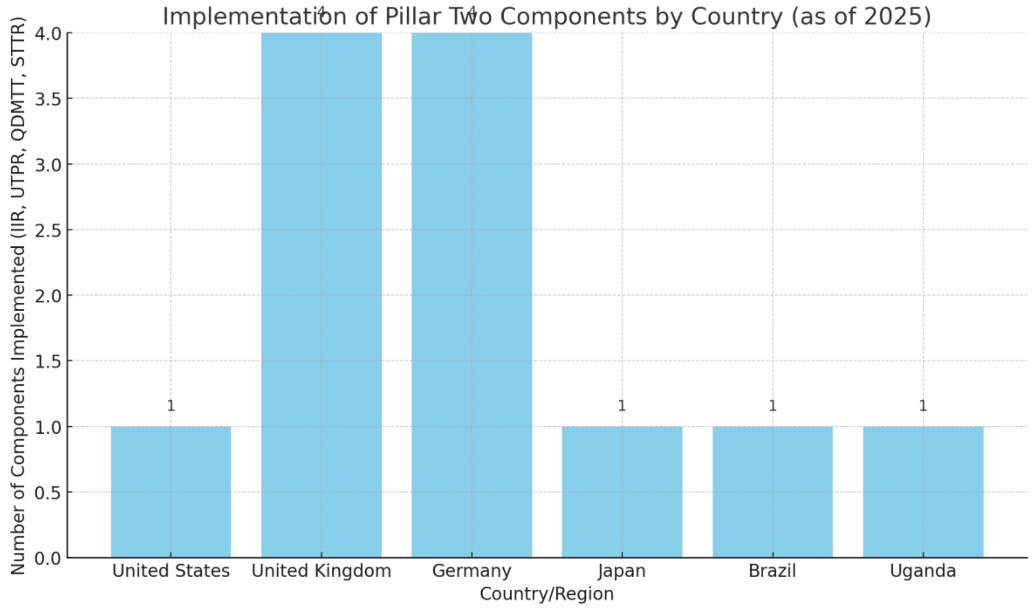
Table 1: Implementation Status of Pillar One and Pillar Two (as of 2025)

Country/Region	Pillar One Status	Pillar Two Status	IIR	UTPR	QDMTT	STTR
United States	Not ratified	Partial (GILTI)	Yes	No	No	No
United Kingdom	Pending	Enacted (2024)	Yes	Yes	Yes	Yes
Germany	Pending	Enacted (2023)	Yes	Yes	Yes	Yes
Japan	Pending	Enacted (2024)	Yes	No	No	No
Brazil	Not started	In consultation	No	No	No	Yes
Uganda	No engagement	Limited adoption	No	No	No	Yes

As it is reflected in Table 1 and visualized in the bar graph, there is an uneven usage of the Pillar Two components of OECD in the six representative nations. All countries have made some implementation steps but few of them have made full progress.Germany and the United Kingdom are the most prepared on all the four core areas which are; Income Inclusion Rule (IIR), Undertaxed Payment Rule (UTPR), Qualified Domestic Minimum Top-up Tax (QDMTT), and Subject-to-Tax Rule (STTR) with each setting on a full score of 4 out of 4. This expresses their dedication towards minimum tax implementation and fair redistribution of profits.

Conversely, although the system of the United States is partly harmonized with IIR through GILTI regime, it has not been pursuing UTPR, QDMTT, or STTR, which foreshadows divided treatment across the world. Japan enacting Pillar Two has implemented IIR only, a more discriminating implementation.Other developing and emerging economies such as Brazil and Uganda have exhibited little integration basing only on STTR. This hints at the fact that they just want to exercise the right to tax their sources instead of immersing into more complicated residence systems.

Figure 1: Implementation Status of Pillar One and Pillar Two (as of 2025)



Revenue Mobilization: Pillar One vs Pillar Two

The estimated fiscal impact of each pillar varies substantially by jurisdiction, with Pillar Two generating far more revenue due to its broader tax base and mandatory minimums.

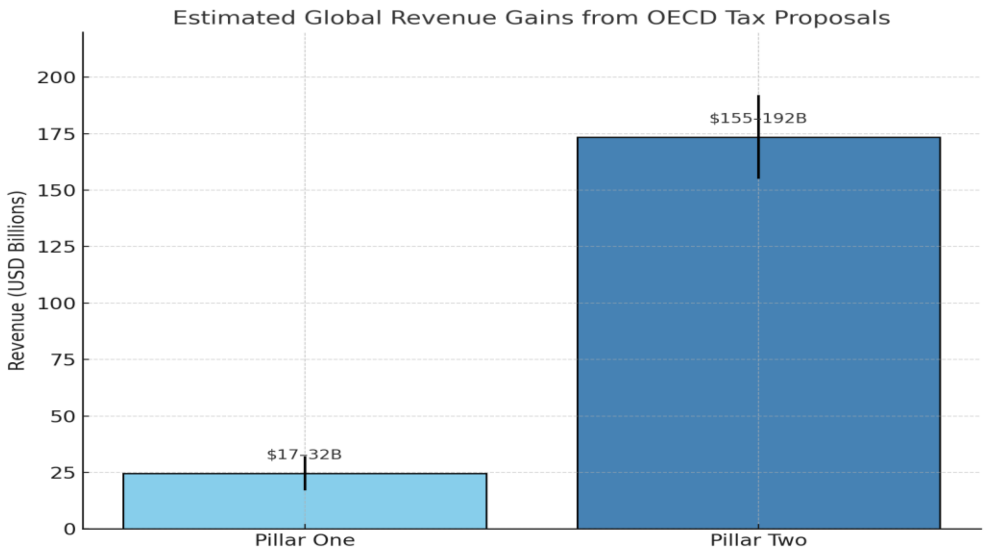
Table 2: Estimated Global Revenue Gains from OECD Proposals

Tax Pillar	Estimated Global Revenue	Primary Beneficiaries
Pillar One	$17–32 billion	Market economies (e.g., India, UK, Brazil)
Pillar Two	$155–192 billion	HQ jurisdictions (e.g., US, EU, Japan)

Table 2 presents the future global revenues estimate of the Pillar One and Pillar Two of the OECD proposals, and the data points to high variances in the future fiscal results. Pillar One would be estimated to bring in the business revenues of between $17 billion and $32 billion a year, with the market jurisdiction of India, the UK, and Brazil being the main beneficiaries. On the other hand, Pillar Two is expected to generate a significantly higher annual revenue that could be up to 155 billion dollar and 192 billion dollars, most benefits of which are going to be reaped by headquarter jurisdictions such as the United States, European Union member states, and Japan.

This gap is defined by the more inclusive and obligatory character of Pillar Two that fixes a minimal 15 percent effective tax rate in large multinational enterprises (MNEs) and allows residence locales to tax international income that would not be taxed closely. Pillar One on the other hand only derives a small portion of the leftover profits by the biggest and most lucrative MNEs and thus does not hold a large revenue capacity. It is evident in the table that Pillar Two, in comparison with the Pillar One, has almost six times larger fiscal impact on average. This however brings the question of tax equity since the other option is the more economically rewarding Pillar Two that is giving disproportionate share to developed economies, yet the developing market economies are the ones fuelling the whole global consumption basis but are gaining less in absolute terms.

Figure 2: Implementation Status of Pillar One and Pillar Two (as of 2025)



Comparative Revenue Estimates by Country

Data from selected case countries provide deeper insight into the differentiated fiscal impact of the Pillar Two framework.

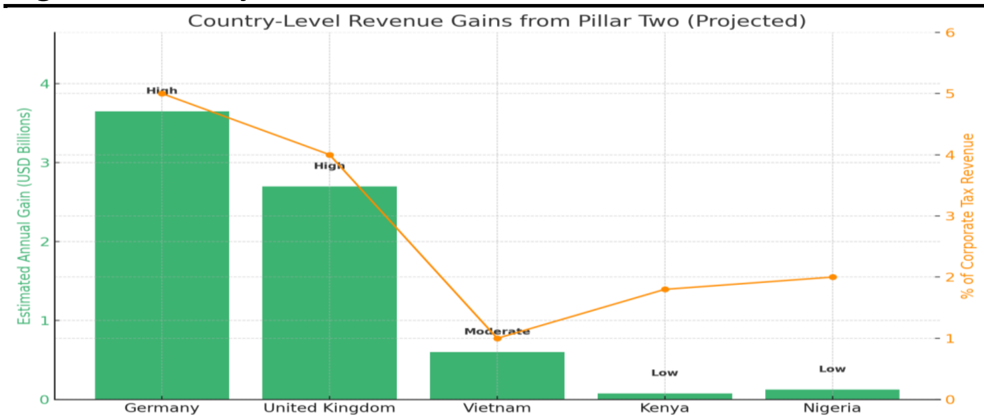
Table 3: Country-Level Revenue Gains from Pillar Two (Projected)

Country	Estimated Annual Gain	% of Corporate Tax Revenue	Implementation Capacity
Germany	€3.4–3.9 billion	~5%	High
United Kingdom	£2.7 billion	~4%	High
Vietnam	$0.6 billion	~1%	Moderate
Kenya	$75 million	~1.8%	Low
Nigeria	$125 million	~2%	Low

Table 3 presents an estimate in the annual revenue increase in the OECD Pillar Two proposal in the five chosen countries, the share of corporate tax revenue on the total tax revenue and the implementation capability of countries in terms of percentage. The bar graph (left scale) shows approximated revenue in USD billions and that of the line graph (right scale) expresses the profits in proportions composed of total corporate tax revenue.The largest estimated gains are in Germany and in the United Kingdom at about 4 and 5 percent of corporate tax revenues translating to about 3.4-3.9 billion and 2.7 billion respectively. The high-income jurisdictions also show good implementation capacity as they have been able to implement complex mechanisms such as the Income Inclusion Rule (IIR) and Qualified Domestic Minimum Top-up Tax (QDMTT) quite early in a comprehensive manner.

Vietnam, Kenya, and Nigeria on the contrary have very low absolute gains between 75 million dollars and 600 million dollars, but their gains as percentage of the GDP are still significant (1-2%). With moderate to low implementation capacity, none of these countries are likely to be able to use Pillar Two in all its forms unless provided with a high level of external technical and financial assistance.In the analysis it is noted there exists a fundamental tension in global tax reform, where the absolute revenue gains are held strongly by the developed countries but the relative gains may well be significant among developing countries. But these less developed nations, without a great institutional backup, tend to under employ the tax machineries, keeping the world at unequal footing in fiscal terms.

Figure 3: Country-Level Revenue Gains from Pillar Two



Equity and Distribution of Taxing Rights

A key principle of global tax equity involves evaluating whether reforms reallocate taxing rights toward source-based and developing economies.

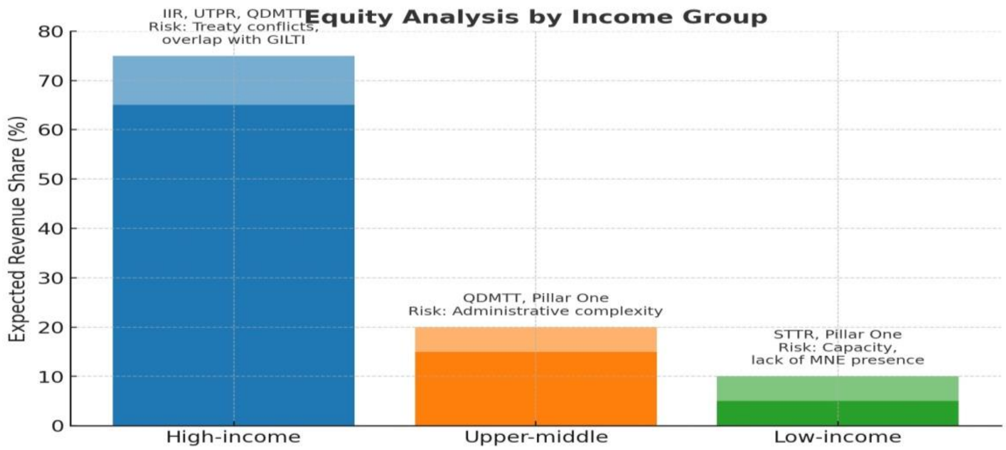
Table 4: Equity Analysis by Income Group

Income Group	Expected Revenue Share	Beneficiary Instruments	Risk Factors
High-income	65–75%	IIR, UTPR, QDMTT	Treaty conflicts, overlap with GILTI
Upper-middle	15–20%	QDMTT, Pillar One	Administrative complexity
Low-income	5–10%	STTR, Pillar One	Capacity, lack of MNE presence

Table 4 provides comparative analysis of how the anticipated global revenue of the tax reforms by the OECD is anticipated to be allocated between different income groups, what instruments have benefited and who are at the most risk within the groups. It is proven through the analysis that there were considerably large discrepancies in terms of the scope of fiscal advantage and the capacity to pass and execute major provisions.It is also estimated that High-income countries will get the most of the new tax revenues (between 65 and 75 percent) by using potent tools like the Income Inclusion Rule (IIR), Undertaxed Payments Rule (UTPR), and Qualified Domestic Minimum Top-up Taxes (QDMTT). These are meant to tax earnings which are not adequately taxed anywhere and they are easily enforced in jurisdictions where the tax administration is so strong. Nevertheless, the high-income jurisdictions are not excluded in these legal complexities, particularly that of possible conflicts with the already existing treaties and overlap with the unilateral regimes such as the U.S. GILTI regulations. Nevertheless, these two nations are in the best position to gain despite such frictions as these nations are mature in their institutions and their legislative decisions are early in comparison.

On the other hand, the upper-middle-income countries most of which are emergent economies will receive a relatively lesser share of the global revenues of about 15-20 percent. They get the main benefit of QDMTTs (in case of their domestic orchestration) and the anticipated redistribution of incomes under Pillar One. But they have not been able to access all these advantages due to administrative complexity that is comprised of inadequate digital infrastructure, unpredictability in regulations, and the inability to implement new serialization rules on foreign multinationals. These temptations pose the threat of eroding the potency of the OECD in the pursuit of equity in these economies.

Figure 4: Equity Analysis by Income Group



Expert Perspectives on Reform Success

Interviews with tax experts revealed mixed perspectives on the long-term feasibility and fairness of the OECD reforms.

Table 5: Summary of Expert Opinions (n = 10)

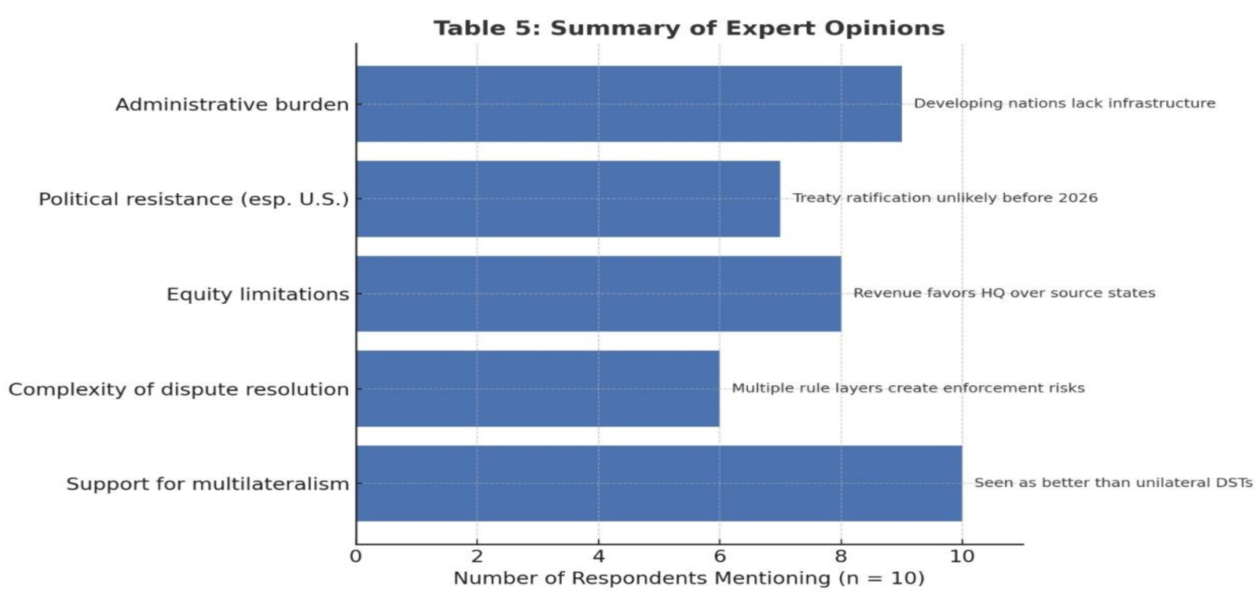
Theme	No. of Respondents Mentioning	Key Comments
Administrative burden	9	Developing nations lack infrastructure
Political resistance (esp. U.S.)	7	Treaty ratification unlikely before 2026
Equity limitations	8	Revenue favors headquarters over source states
Complexity of dispute resolution	6	Multiple rule layers create enforcement risks
Support for multilateralism	10	Still seen as better than unilateral DSTs

Table 5 draws together the qualitative responses provided by ten panelists with specialization in tax policy to address the question of implementation and fairness of the OECD Plan One and The Pillar Two reforms. Based on the feedback it is possible to agree on some of the most important opportunities and the challenges of the present global tax architecture. The most pronounced issue of concern amongst the experts was the administrative burden of it wherein 9 out of 10 respondents supported the premise that developing countries have no infrastructure, which includes both the technical and institutional aspects to meet the highly complex regulations under the OECD. They indicated challenges of monitoring of global effective tax-rates, the application of the Income Inclusion Rule (IIR) and consistency with the Subject-to-Tax Rule (STTR). Such restrictions may lead to compliances or underutilization of the possible sources of revenue, which contradicts the intention of inclusivity in the reforms.

The flagged political hurdle, especially that of the United States, was mentioned by 7 respondents, and most believe that the treaty ratification of Pillar One is not likely to occur before 2026. Analysts blamed this stagnation on partisanship in the U.S. congress, fears of losing taxing powers and reluctance to relinquish taxing authorities to the other jurisdictions. This opposition delays the effect of implementing profit reallocation in Pillar One and puts pressure off on other large economies to move.

The next problem that respondents often discussed (8 respondents) was limitation concerning equity. According to the experts, not only does revenue gains disproportionately benefit jurisdictions that host headquarters by using instrumentation such as IIR and UTPR, source countries are left with smaller and more nuanced tools like STTR and Pillar One, most of which are located in the Global South. Such inequality can pose a threat of strengthening the current inequality regarding international taxation. Complicatedness of dispute resolution was cited by 6 experts stating that interconnectedness between rules together with diversification of legal interpretation in various jurisdictions makes enforcement susceptible to conflicting and overlapping as well as being vulnerable to double taxation. Compliance risks are high unless there is easy and universally trustworthy mechanisms of arbitration particularly so to developing nations whose legal resources are scanty.

Figure 5: Summary of Expert Opinions (n = 10)



Discussion

The results of the current work reveal the increased pace of Pillar Two implementation, particularly in high-income nations of the OECD and G20. More than 40 jurisdictions have implemented domestic legislation in response to the Global Anti-Base Erosion (GloBE) provisions, and mechanisms such as the Income Inclusion Rule (IIR) and Qualified Domestic Minimum Top-up Taxes (QDMTTs) have gained popularity (OECD, 2024; EY, 2024; Deloitte, 2025). This has been a swift take-up that signifies a global agreement on the necessity of curbing base erosion and profit shifting (BEPS) and setting a minimum floor for corporate taxes. Nevertheless, critics argue that higher-income nation-states and countries of settlement remain the primary beneficiaries of such changes, as they often accommodate the headquarters of most large multinational corporations (IMF, 2025; South Centre, 2022; Tax Notes, 2024).

Pillar One, on the other hand, has been hindered mainly by the requirement that it rely on a multilateral convention and necessitate unanimous ratification. Some of the major jurisdictions, including the United States, India, and China, have yet to ratify the treaty, which creates uncertainty in policy and hinders its implementation (Financial Times, 2024; Reuters, 2024; OECD, 2024). Besides, despite having a narrow focus, with Pillar One applying only to highly profitable companies with more than €20 billion in worldwide sales, numerous large-scale digital players will be beyond its scope (EY, 2024; Investopedia, 2023; Baker McKenzie, 2025). The combination of these limitations with the lack of clarity governing nexus provisions and profit distribution, however, suggests that the potential of Pillar One to allocate taxation rights to market jurisdictions is more hypothetical than real at this point.

The analysis based on the impact of revenue confirms that Pillar Two has significant fiscal as well as economic potential (estimated at $ 155.19 billion) (OECD, 2024; IMF, 2025; SouthCentre, 2022), but with the risk of widening underlying fairness gaps between the developed world and developing countries. Countries with low and average incomes, which do not always host corporate headquarters, have fewer opportunities to benefit from IIR and UTPR mechanisms (CashReview, 2023; Uganda Case Study, 2025; Deloitte, 2025). Capacities and restrictions impose limitations on even instruments designed to assist these economies, such as the Subject-to-Tax Rule (STTR), which has a limited use scope due to its narrow application to a few group payments (OECD/G20 Inclusive Framework, 2023; Tax Notes, 2024; IMF, 2025).

The other most important issue is the complexity of administration among the two Pillars. More often than not, developing countries have limited technical infrastructure and the legal capacity to interpret and implement the complex rules relating to GloBE, as well as the interplay between IIR, QDMTT, and STTR (SouthCentre, 2022; Baker McKenzie, 2025; CashReview, 2023). Furthermore, compliance risk is negatively affected by a lack of proper dispute resolution procedures, which can lead to cases of inter-jurisdictional double taxation or under-taxation (OECD, 2023; EY, 2024; Financial Times, 2024). This raises the question of whether the OECD is committed to fair reform and whether low-income jurisdictions are receiving adequate support for capacity building or if this is merely a formality.

Geopolitically, the adoption of the suggestions has been weakly endorsed by the OECD, and this may not withstand the test of time when there are changes in any political dispensation. Indeed, the U.S. presidential election cycle has yet to occur, but it has already delayed the ratification of the treaty, and the process is threatened to derail Pillar One (Reuters, 2024; Financial Times, 2024; Investopedia, 2023). Not only that, but several states, including India, Nigeria, and Kenya, have voiced their disagreement with the process spearheaded by the OECD and have not expressed support for broader UN-based negotiations (SouthCentre, 2022; IMF, 2025; CashReview, 2023).

It implies that, regardless of technical advancements, the inclusion of the Inclusive Framework is becoming increasingly questioned, particularly by economies in the Global South, who believe they are not adequately represented in the establishment of international tax standards.
Irrespective of these challenges, the Two-Pillar approach of the OECD remains a significant step towards a more harmonised global tax regime. The types of taxes that had previously predominantly been unilateral digital services taxes (DSTs) caused tax fragmentation and an increase in trade conflict (Investopedia, 2023; EY, 2024; OECD, 2024). In this, the Pillar system leads to the harmonization of the tax practices and creates certainty for businesses. Nevertheless, the objective of establishing worldwide tax fairness may remain unrealistic as long as implementation mechanisms are not streamlined and revenue-sharing calculations are recalculated so that the source nations are better off (Deloitte, 2025; Tax Notes, 2024; South Centre, 2022).

Conclusion

The digitalisation of the global economy has posed threats to the principles of traditional tax systems, revealing structural inequalities and the misalignment of jurisdictions regarding the distribution of tax authority. In response to this, the OECD proposals on Pillar One and Pillar Two represent a bold move to rebalance international taxation regulation, proposing a new marketplace nexus and a global minimum corporate tax rate. This paper found that although high-income nations are relatively fast in implementing Pillar Two, the structure of this provision primarily targets residence jurisdictions with multinational headquarters, thereby helping to solidify existing global inequality. On the other hand, Pillar One, which aimed to apportion a more equitable share of taxing rights to market economies, has become stagnant due to political reluctance, legal incomprehensibility, and sluggish treaty ratification. Although the OECD model is a significant achievement in the direction of harmonised taxation worldwide, its fairness and practicality are debatable, especially among low- and middle-income economies, which face poor capabilities and low voices in rule-making.

Recommendations

To realise the potential of reasonableness and inclusiveness in the OECD tax changes, several suggestions are offered. First, the definition of Pillar One should be expanded to encompass more digital and non-digital companies, particularly those generating high revenues based on the market but are still under the current 20 billion Euros threshold. Second, by tightening the enforcement of the Subject-to-Tax Rule (STTR) and increasing the use of the QDMTT, the interests of source jurisdictions in developing economies can be better secured. Third, there is a need to support multilateral activities with focused capacity-building assistance, such as simple compliance tools and technical and financial support for tax collection in low-income economies. Fourth, the measures that entail dispute resolution should be simplified and available primarily to the weaker states. Lastly, the OECD can improve its cooperation with the United Nations and other inclusive meetings to achieve greater legitimacy and ensure that Global South nations have their voices heard and are better represented in upcoming reforms.

Future Directions

Although this study serves as a critical assessment of the OECD Pillar One and Pillar Two propositions, several direct indications can be pursued. Among investigations are empirical (i.e., real-world) assessments of the revenue effects of Pillar Two in a larger group of jurisdictions, particularly once implemented in full in 20242025. The second region that should not be overlooked concerns the interaction between unilateral digital services taxes and the OECD reforms, especially in countries that prefer not to sign the Pillar One treaty. Moreover, future studies should focus on investigating the political economy of tax governance across countries worldwide and its relationship to power imbalances in norm-setting between developed and developing nations. Similarities in the implementation capacities of administration and compliance capacities in countries of the Global South are also suitable for a case study that will offer profound insight into the crux of enforcing global minimum tax standards. In a final effort to make the global tax system more inclusive and future-proof, research into alternative forms of digital taxation, e.g., destination-based cash-flow taxes or data-based revenue models, could be beneficial to the current tax model.

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