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Legal Mechanisms for Counteracting Tax Evasion at The International Level

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Abstract: The article presents a broad-based analysis of legal mechanisms for counteracting tax evasion at the international level. The study is based on an interdisciplinary approach that incorporates elements of international tax law, public law, economics, and institutional theory. It examines legal mechanisms for resolving tax disputes, ranging from arbitration under bilateral agreements and OECD multilateral instruments to the procedures of the World Trade Organization, highlighting their advantages and limitations. A separate section is devoted to the challenges of the digital economy: the limitation of tax sovereignty in developing countries due to trade agreements, the conflict between the EU and the US regarding data taxation, and the concept of digital constitutionalism as a prospective normative framework. Particular attention is paid to the role of micro-actors—tax consultants and professional intermediaries—who shape the functioning of transnational schemes and require inclusion in the system of international regulation. The dual effect of reforms is emphasized: on the one hand, strengthening institutional mechanisms to combat tax evasion, and on the other, generating new market risks and institutional collisions. The article substantiates the need to shift toward an actor-centered approach, in which the regulation of intermediaries and the development of normative principles for the digital era become prerequisites for the sustainability of the global tax regime. The material will be of interest to researchers in international law, economics, and finance, as well as to specialists engaged in the development and implementation of global tax regulation mechanisms.

Keywords: International tax law, tax sovereignty, tax evasion, global tax governance, digital economy, tax disputes, micro-actors.

Introduction

International tax law in the 21st century is undergoing fundamental changes driven by the growth of

globalization and the increasing mobility of capital, companies, and individuals. In an environment of interdependent jurisdictions, national tax systems are facing challenges of competition and tax base erosion, which leads to a loss of revenue and a decrease in the effectiveness of state institutions [3]. Simultaneously, the risks of regulatory arbitrage are intensifying, as taxpayers exploit differences in legal regimes to minimize their obligations.

Against this backdrop, multilateral initiatives aimed at harmonizing tax rules and forming a unified approach to cross-border taxation are of particular importance. The most significant steps have been reforms aimed at reallocating taxing rights and introducing a global minimum corporate tax rate. These initiatives reflect an effort to adapt legal mechanisms to the challenges of the digital economy and transnational business models, where traditional criteria of "residence" and "source" of income are proving insufficient [8]. An equally significant area is the practice of resolving tax disputes in the international arena. The use of legal instruments to settle conflicts over tax subsidies, national treatment, and border adjustments shows that taxation has become an integral part of trade and investment law. This strengthens the interconnection between tax policy and the general rules of the global economy.

An additional level of analysis is related to the activities of professional intermediaries—tax advisors and audit firms. Their role in organizing cross-border tax planning extends beyond national systems and forms new centers of influence that require separate regulation. The concentration of such specialists in leading financial centers underscores the need for a comprehensive approach that includes control over both jurisdictions and the key participants in these processes.

The objective of this study is to conduct a systematic analysis of the legal mechanisms for combating tax evasion at the international level, to identify their strengths and weaknesses, and to substantiate the practical significance of institutional reforms for the sustainable development of the global tax system.

Methods

The methodological foundation of this study is formed at the intersection of international tax law, public law, and international economic relations. The interdisciplinary nature of the topic necessitated the use of a theoretical analysis of modern scientific literature dedicated to the issues of tax sovereignty, cross-border digital flows, and the institutions of global tax governance.

In the study by Arlen G. [1], offshore tax evasion is examined through the prism of realism and state

responsibility, which predetermines the use of an ethical-legal approach in the analysis of international tax practices. Banga K. [2] showed that trade agreements limit the tax sovereignty of developing countries, which necessitated the application of a comparative-legal analysis. The work of Chaisse J. [3] systematized the mechanisms for resolving tax disputes within the framework of public international law, which allowed for the inclusion of arbitration procedures in the methodological basis of the research. Cui W. [4] demonstrated the influence of strategic incentives on the adoption of a global minimum tax, which required the use of economic-legal models.

A significant contribution to the methodology was made by the work of Dagan T. [5], which outlined the institutional challenges of global tax governance. Based on it, an institutional analysis was applied, aimed at identifying the balance of interests of various states. The study by Diniz Magalhães T. [6] analyzed the conflict between the US and the EU on issues of data taxation, which justified the need to involve elements of comparative constitutional analysis. Additionally, Golia A. [7] developed the concept of digital constitutionalism, which expanded the normative-axiological component of the methodological base. The economic dimension of the research was provided by the work of Gómez-Cram R. [8], which assessed the expected consequences of the global tax reform for financial markets, allowing for the correlation of legal changes with their economic effects. The study by Rubini L. [9] emphasized the role of the World Trade Organization in settling tax disputes, which contributed to the application of a judicial-legal analysis. The final element of the methodological block was the work of Stausholm S. [10], which identified the key role of tax advisors as intermediaries in international schemes.

The principle for selecting literature was the targeted inclusion of works published in reputable international peer-reviewed journals between 2021 and 2025. Studies were chosen that represent a wide spectrum of scientific approaches, from theoretical-legal and institutional to applied economic-legal and empirical. The research strategy of the study is based on a comprehensive analysis of sources, including comparative-legal, institutional, economic-legal, and sociological approaches.

Results

An analysis of the global dynamics of tax governance shows that the international community is striving for the gradual formation of a coordinated architecture aimed at limiting the ability of multinational companies to minimize their tax obligations. The study by Dagan T. [5] notes that the decentralized nature of the international tax regime intensifies competition

between jurisdictions and creates conditions for tax evasion. These trends have necessitated a transition from bilateral agreements to multilateral initiatives that include mechanisms for the coordinated reallocation of taxing rights and the establishment of minimum standards.

The development of OECD initiatives is an illustration of an institutionalized approach to limiting aggressive tax planning. The study by Cui W. [4] shows that the key incentive for states to join the global minimum tax initiatives was strategic benefits, including the preservation of investment attractiveness and the reduction of opportunities for tax base erosion. This approach allowed for the integration of legal mechanisms into the economic logic of regulation, strengthening the relationship between the norms of

international law and the practice of corporate taxation.

At the same time, empirical data confirm that the perception of global tax reforms by the markets is ambiguous. The study by Gómez-Cram R. [8] found that the publication of key stages of the negotiations on the implementation of Pillar 1 and Pillar 2 was accompanied by significant reactions from companies with a high share of foreign income. The dynamics of stock price changes, CDS spreads, and profitability indicators reflect a direct dependence between political decisions and investor behavior. This data allows global tax reforms to be viewed as a legal instrument and as a factor affecting the financial stability of multinational corporations. Table 1 presents a chronology of the key stages of the global tax reform and the recorded market consequences for companies.

Table 1. Timeline and market effects of global tax reform initiatives (Compiled by the author based on the source: [8])

Date/Event	Content of announcement	Measurement window	Effect on firms with high foreign exposure	Other outcomes
14.01.2021 – OECD consultations	Resumption of consensus on two pillars	80 min (–60/+20)	Negative reactions (foreign earnings ratio, foreign tax differential)	Basis for subsequent reactions
01.07.2021 – Agreement of 130 countries	Pillar 1: redistribution of superprofits; Pillar 2: minimum 15% tax	80 min and 1 day	Decline in stock prices of firms with high foreign earnings	Cumulative shareholder losses –112.6 bn USD
08.10.2021 – Agreement details	Pillar 1 threshold: €20 bn; Pillar 2 threshold: €750 m	80 min	RD effect: –16–25 bps for firms above thresholds	CDS spreads increased by 30 bps

An analysis of Table 1 demonstrates that legal initiatives aimed at unifying international taxation have a dual effect. On one hand, they strengthen the institutional mechanisms for combating evasion, reducing the opportunities for tax optimization through jurisdictional gaps. On the other hand, they create short-term market shocks that increase volatility and create new risks for companies with a global business structure. Consequently, it can be argued that global tax reforms require both a legal and an economic assessment of their effectiveness, as their impact extends beyond the traditional sphere of tax jurisdiction.

The system of international tax law is developing in the direction of finding universal solutions for resolving disputes that arise in the context of the growing

internationalization of economic activity. The study by Chaisse J. [3] shows that arbitration under bilateral tax treaties is a key tool for resolving conflicts between states, as it ensures the neutrality of the procedure and the binding nature of the decisions. At the same time, the limitations of this mechanism are related to its limited scope, which depends on the existence of relevant provisions in the treaties, and to the uneven coverage of states, which reduces its universality.

The development of multilateral instruments has become an important direction for the institutionalization of international tax cooperation. Within the framework of OECD initiatives (including the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, MLI), a unified set of standards is being formed

aimed at preventing abuse and the erosion of the tax base. The study by Dagan T. [5] notes that such unification increases the transparency of the tax environment, but its effectiveness largely depends on the political will and consent of the participating states. This aspect underscores that international norms become effective only upon their ratification and consistent implementation, which limits the universal nature of such solutions. The World Trade Organization plays a special role in the settlement of tax disputes. The study by Rubini L. [9] shows that the WTO dispute settlement system is formally oriented

towards regulating trade issues, but in the context of the growing interconnection between trade and tax norms, it is becoming a platform for the indirect resolution of tax conflicts. At the same time, such a mechanism is limited in its scope. Its focus is on eliminating trade distortions, not on solving complex issues of tax sovereignty. This creates the prerequisites for institutional conflicts between tax and trade regimes, which require further doctrinal development. Table 2 presents a comparison of the main international mechanisms for resolving tax disputes, including their legal basis, key advantages, and limitations.

Table 2. International mechanisms for resolving tax disputes (Compiled by the author based on sources: [3, 9])

Mechanism	Legal basis	Advantages	Limitations
Arbitration under bilateral tax treaties	Bilateral agreements	Neutral forum, binding decisions	Limited scope, uneven participation
OECD multilateral instruments (MLI)	OECD framework	Standardization, prevention of treaty abuse	Dependence on state ratification
WTO dispute settlement	WTO law	Structured procedures, trade–tax linkage	Focus on trade distortions, not systemic tax issues

The comparative analysis presented in Table 2 allows us to assert that none of the existing mechanisms is universally effective. Arbitration under bilateral agreements provides for the local resolution of conflicts but does not eliminate systemic problems. OECD instruments promote standardization but are limited by the framework of political consensus. WTO mechanisms demonstrate institutional stability, but their mandate is not adapted to fully address tax issues. Thus, a comprehensive architecture for international tax settlement must be based on a combination of existing legal procedures, and further development is possible only through the deepening of multilateral cooperation and the harmonization of the competencies of various international institutions.

Discussion

Modern processes of digitalization of the world economy are significantly changing the parameters of the tax sovereignty of states, especially developing countries. The study by Banga K. [2] shows that the trade agreements being concluded, which include provisions on digital flows and taxation, limit the ability of states to independently form their tax policy. This leads to a reduction in fiscal autonomy and calls into question the sustainability of national budgets. Thus, a

dependence on global norms is formed, which in many cases reflect the interests of the more economically developed participants in international negotiations.

An important example of institutional contradictions is the conflict between the EU and the US on data taxation issues. The study by Diniz Magalhães T. [6] emphasizes that the difference in the approaches of the two sides to the taxation of digital flows has led to legal fragmentation, expressed in the parallel existence of competing regimes. The EU is consistently building legal mechanisms aimed at the tax integration of the digital economy into the general system of corporate taxation, whereas the US is inclined to view such measures as discriminatory. This divergence testifies to a deep conflict between trade and tax norms, creating risks for the stability of the global regulatory system.

Alongside institutional challenges, new normative prospects are emerging. The study by Golia A. [7] proposes viewing data taxation through the prism of "digital constitutionalism," which presupposes the formation of new constitutional principles oriented towards data protection and ensuring the fair distribution of the tax burden. This approach goes beyond the traditional financial-legal logic and reflects the trend towards expanding the axiomatics of

international tax law. It demonstrates that digital transformation is stimulating both technical and fundamental changes in the legal architecture of global

governance. Table 3 systematizes the key legal challenges of digital asset taxation, identified based on an analysis of the indicated studies.

Table 3. Legal challenges of digital economy taxation (Compiled by the author based on sources: [2, 6, 7])

Challenge	Context	Legal implications
Limitation of tax sovereignty	Trade agreements in Africa	Reduced fiscal autonomy
U.S.–EU conflict on data taxation	Divergent approaches to taxing digital flows	Risk of legal fragmentation
Digital constitutionalism	Normative framework for data taxation	Emergence of new constitutional principles

The data presented in Table 3 allow us to conclude that the legal challenges of the digital economy are complex in nature. They simultaneously affect issues of tax sovereignty, international coordination, and the normative rethinking of the legal framework. The limitation of the fiscal autonomy of developing countries demonstrates the asymmetry of global regulation, while the conflict between the EU and the US reflects the competition of major actors for control over digital flows. The concept of digital constitutionalism, on the contrary, sets a vector for the possible transformation of the legal system towards universalization and the protection of public interests. Consequently, the legal mechanisms for combating tax evasion in the digital economy must take into account both institutional and normative factors, which requires an interdisciplinary approach and the coordination of the positions of various participants in global regulation.

Modern trends in international taxation demonstrate that the sustainability of the global system for combating tax evasion cannot be ensured solely through intergovernmental agreements. Micro-actors, whose activities go beyond the traditional understanding of tax institutions, play a significant role in the formation and functioning of offshore schemes. The study by Arlen G. [1] shows that offshore tax evasion should be viewed through the prism of realism and the ethical-legal responsibility of states. This approach allows the focus to be shifted from purely economic aspects to moral-legal dimensions, in which responsibility is distributed among states and among the professional intermediaries involved in the creation and maintenance of tax optimization schemes.

The key link in these schemes is tax advisors, whose

activities determine the possibility of the practical application of legal "loopholes." The study by Stausholm S. [10] convincingly shows that it is the advisors, not the jurisdictions, who are the central intermediaries in the global networks of tax planning. The geographical distribution of these specialists does not coincide with the classic notion of "tax havens"; on the contrary, they are concentrated in the major financial centers of OECD and EU countries [4]. This localization indicates that control over tax advisors can have a more significant impact on cross-border capital flows than the traditional mechanisms of blacklists.

It appears that the inclusion of micro-actors in the system of international regulation should become one of the key directions for future reforms. Already today, a trend towards the formation of comprehensive standards of professional ethics and supervision over the activities of advisors is emerging, which can serve as a basis for multilateral initiatives. Such an approach requires a combination of national control measures and supranational norms, as advisors operate in network structures that extend beyond the borders of individual jurisdictions. In this context, the ethical-legal approaches described by Banga, K. [2] acquire special significance, as they create a normative basis for the international codification of the rules of conduct for professional intermediaries.

Thus, the modern discussion about the legal mechanisms for combating tax evasion should shift its focus from jurisdictions to the actors who actually ensure the functioning of transnational schemes. Including tax advisors in the system of international regulation will increase the effectiveness of the fight against evasion and will allow for the harmonization of the institutional and ethical foundations of global tax governance. This confirms the need to move from a

territorial to an actor-oriented approach, where the regulation of the activities of micro-actors becomes a condition for the stability of the international tax regime.

Conclusion

The analysis conducted has demonstrated that international tax law, in the context of globalization, is developing in the direction of strengthening coordination and unification, yet it retains a number of fundamental contradictions. The key results of the study can be grouped into four blocks.

Global initiatives, such as the OECD's Pillar 1 and Pillar 2 projects, reflect the desire of the world community to minimize the opportunities for aggressive tax planning and tax evasion. These measures are based on the redistribution of taxing rights and the introduction of minimum standards for corporate taxation. However, empirical data show that their perception by the market remains ambiguous. Short-term market shocks and a decrease in the capitalization of multinational companies with high international exposure are recorded.

The legal mechanisms for settling tax disputes demonstrate institutional fragmentation. Arbitration under bilateral agreements ensures the neutrality of procedures but remains limited in scope. The OECD's multilateral instruments standardize practice, but their effectiveness depends on the political will of states. WTO mechanisms involve tax issues in the trade sphere, which enhances their institutional significance but leads to conflicts with national sovereignty. Consequently, a universal tool that provides a comprehensive settlement of tax conflicts does not yet exist.

The digitalization of the world economy has revealed new risks for tax sovereignty. The influence of trade agreements limits the fiscal autonomy of developing countries, and the conflict between the EU and the US in the field of data taxation reflects a trend towards the fragmentation of legal regulation. At the same time, the concept of digital constitutionalism is forming normative prospects for rethinking the principles of taxation in the context of global digital integration. These processes point to the need to find a balance between the protection of national interests and the universalization of the legal framework.

Summarizing the results, it can be asserted that the legal mechanisms for combating tax evasion at the international level are formed under the influence of three factors: the institutionalization of global initiatives, the normative challenges of the digital economy, and the activity of professional intermediaries. An effective regulatory system is possible only with the integration of these levels into a

unified architecture that ensures a balance of interests between developed and developing countries, harmonization between trade and tax regimes, and the establishment of standards of responsibility for the participants in transnational tax schemes.

Thus, the prospects for the development of the global tax regime are related to the improvement of intergovernmental agreements and the strengthening of the regulation of the activities of micro-actors, as well as to the development of new normative principles that meet the challenges of the digital economy. This confirms the need for an interdisciplinary approach that combines legal, economic, and ethical analytical tools.

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