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Sovereignty Theory and its Role in Curbing Tax Planning Practices

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Abstract: This study investigates the pivotal role of sovereignty theory in combating aggressive tax planning within the complex global landscape shaped by globalization and the digital economy. Employing a descriptive-analytical approach, data were collected via a questionnaire administered to 92 tax professionals and academics. Statistical analysis, utilizing Pearson correlation and linear regression, revealed a strong positive correlation ($r = 0.744$, $p < 0.001$) and a significant impact of sovereignty theory on curbing tax planning practices. Key findings indicate that weak political will represents the primary impediment to the effective implementation of tax sovereignty in developing nations. Conversely, robust international cooperation, particularly in information exchange, is demonstrably effective in combating tax havens and Base Erosion and Profit Shifting (BEPS) without compromising national sovereignty. The research emphasizes the importance of simplifying tax legislation, developing adaptable frameworks for the digital economy, and harmonizing national laws with international standards to enhance tax effectiveness and safeguard national revenues. This study contributes to the literature by empirically validating the enduring relevance of tax sovereignty in an interconnected world and proposing actionable policy recommendations.

Key words: Sovereignty Theory, Tax Sovereignty, Aggressive Tax Planning, Digital Economy Taxation, International Tax Cooperation, BEPS, Tax Legislation.

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Introduction

In the context of increasing globalization and economic integration, tax planning has become a key strategy used by multinational companies to reduce their tax liabilities. While such practices may be legally permissible, they often raise ethical and economic concerns, especially when they undermine the tax base of sovereign states. According to Avi-Yonah (2007), the tension between aggressive tax planning and the ability of states to enforce tax laws is a growing global issue. This has prompted renewed interest in the concept of state sovereignty and its role in safeguarding

national fiscal interests. Sovereignty, particularly in its fiscal dimension, provides the legal and political foundation upon which states exercise their exclusive authority to impose and collect taxes. However, the growing influence of international tax rules and accounting standards, particularly those set by organizations such as the OECD (2021), has challenged traditional notions of sovereignty. Gomez (2020) highlights that the expansion of transnational tax norms often limits the discretion of individual countries, especially developing ones, in designing tax policies suited to their local contexts. Given these dynamics, the current study seeks to explore the role of sovereignty theory in limiting harmful tax planning practices. It focuses on how the principle of sovereignty can be leveraged to strengthen national control over tax policy and enforcement. The research is guided by two main hypotheses that examine the relationship between tax sovereignty and the effectiveness of tax planning controls, particularly in contexts where legal frameworks are underdeveloped or inconsistently applied. To achieve this goal, the study employs a quantitative approach using a structured questionnaire distributed among financial experts, academics, and tax professionals. The collected data are analyzed through correlation and regression models to evaluate the extent to which sovereignty-related variables impact the effectiveness of tax planning strategies. The structure of this paper is as follows: Section One presents the theoretical framework, including definitions and foundations of sovereignty and tax planning. Section Two outlines the research methodology. Section Three discusses the empirical findings. Section Four offers' recommendations and concluding remarks..

1. Methodology

1.1 Research Problem:

States face significant challenges in maintaining their tax sovereignty in light of the proliferation of aggressive tax planning practices by individuals and multinational enterprises. Such practices erode tax revenues and threaten tax equity. These challenges become more complex with the advancement of globalisation and the digital economy, which limit states' ability to enforce their tax laws effectively. The primary research question is, how does sovereignty theory support and empower state efforts to curb tax planning practices, particularly aggressive tax planning?

1.2 Research Hypothesis:

Based on the theoretical framework and the study's objectives, the following hypotheses were formulated:

- **H1:** There is a statistically significant relationship between the exercise of tax sovereignty and the reduction of aggressive tax planning practices.
- **H2:** Sovereignty theory provides a viable foundation for designing tax policies that effectively limit harmful tax avoidance strategies, especially in developing countries.

Research Objectives:

This study aims to examine the role of sovereignty theory in limiting aggressive tax planning practices. Specifically, the research seeks to:

1. Analyze the conceptual and legal foundations of tax sovereignty in the context of global tax governance.
2. Assess the effectiveness of sovereignty-based approaches in curbing tax planning practices in jurisdictions with weak fiscal systems.
3. Investigate the relationship between the strength of national sovereignty and the extent of harmful tax planning, particularly in developing economies.
4. Provide policy-relevant insights for enhancing tax sovereignty as a tool to reduce base erosion and profit shifting.

1.4 Significance of the Study:

1. Enrich the literature on the relationship between sovereignty theory and taxation in the context of modern economic changes.
2. Provide policy recommendations to enhance tax effectiveness and safeguard national revenues.
3. Strengthen tax equity as a basis for achieving social solidarity and fostering trust in tax systems.

1.5 Population and Sample:

The research sample was randomly selected from the population comprising employees of the General Tax Authority, staff of the Financial Oversight Bureau, and experts and academics specialising in tax affairs.

2. Literature Review

2.1 Sovereignty Theory and Tax Sovereignty:

Sovereignty theory is considered the foundation of the state, representing the absolute authority and autonomy of the state both within and beyond its borders. In an increasingly interconnected global economy, sovereignty plays a crucial role in regulating economic activities, particularly in tax accounting, since the state, under its sovereignty, retains the exclusive right to levy taxes and collect revenues necessary to finance its expenditures and provide public services to its citizens. However, these rights face growing challenges due to tax planning practices adopted by individuals and corporations, which may include both legal and illegal forms of tax avoidance or evasion. State sovereignty is fundamental in curbing such practices by exercising the supreme authority of the state—whether within its territorial boundaries or extraterritorially—to regulate tax matters and confront aggressive tax behaviours while taking into account the problems arising from globalisation and the digital economy. Sovereignty is defined as the supreme, final, and exclusive authority of the state within its defined territorial limits. This sovereignty manifests in two main dimensions (Sadiq, 2023: 85)

1. **Internal Sovereignty:** This refers to the state's absolute and exclusive right to govern its people and territory, to enact and enforce laws without internal challenges or external interference, including the authority to impose obligations on its citizens.
2. **External Sovereignty:** This denotes the state's complete independence in its international relations, meaning its freedom to manage foreign policy, conclude treaties, and interact with other states on an equal footing, free from external interference or control.

“Acts of sovereignty” (“acts of state”) are administrative actions that, by their nature, are considered outside judicial review due to their link with the higher interests of the state or relations among branches of government. Such acts constitute a serious exception to the principle of legality, granting the executive branch absolute immunity from judicial scrutiny, meaning they cannot be challenged through annulment or compensation. There exists a fundamental contradiction between “acts of sovereignty” and the rule of law: the general rule in administrative decisions is that they are subject to judicial review, based on the principle of legality and the rule of law, which is the primary guarantee of individuals’ rights and freedoms.Nevertheless, “sovereignty” is defined as an absolute exception from review and considered an explicit deviation from the principle of legality and a powerful instrument in the hands of the executive branch. This contradiction suggests that sovereignty—which is intended to uphold the rule of law and safeguard citizens’ rights—can also manifest in actions that deviate from the standard legal framework and judicial accountability in the context of taxation. While the decision to impose a tax (as a high-level political choice reflecting state sovereignty) may be viewed as an act of

sovereignty in the broad sense, the application and administration of tax laws are generally subject to legal scrutiny and judicial oversight. This indicates that although the state's authority to levy taxes is supreme, its exercise must largely conform to the principles of legality and fairness to prevent arbitrary measures.

2.1.1 A Critical Comparison of Sovereignty Theory with Alternative Theories for Regulating International Tax Activity

Although sovereignty theory is the legal basis for justifying a state's right to impose taxes within its territorial borders, the challenges of globalization and the digital economy have revealed its limitations in addressing cross-border phenomena such as aggressive tax planning (Ring, 2008). Therefore, alternative or complementary theories have emerged that seek to overcome the traditional limitations of sovereignty theory, most notably: International Tax Coordination Theory and Global Tax Justice Theory. International tax coordination theory is based on the principle of multilateral cooperation to reduce inconsistencies between national tax systems and avoid tax evasion and artificial profit shifting (Avi-Yonah, 2007). This theory presents a practical approach that aligns with the realities of global value chains and the digital economy, advocating for the integration of concepts such as "permanent domicile" and "economic value added," and promoting initiatives like the OECD's BEPS project. However, this theory may be criticized for undermining the autonomy of developing countries, as standards are imposed by entities dominated by developed countries, leading to an imbalance of influence and representation (Genschel & Rixen, 2015, p. 176). The theory of global tax justice, on the other hand, focuses on achieving a fair distribution of the tax burden globally, based on considerations of morality and transnational social justice. This theory critiques both traditional sovereignty and international coordination, arguing that both have failed to address the exploitation of regulatory gaps by multinational corporations (Pogge & Mehta, 2016, p. 185). While this theory offers an important humanitarian dimension, its practical application remains limited due to the absence of a unified global tax system or an international enforcement body with comparable binding authority. The strengths of sovereignty theory lie in its legal clarity and ease of application within national systems, as well as its role as a pillar of the political identity and economic independence of states. However, its main shortcoming lies in its inability to address cross-border tax challenges alone, highlighting the need for hybrid models that reconcile sovereignty and international cooperation. Therefore, balancing these theories is crucial in designing an effective, fair, and globally applicable tax system that respects state sovereignty without compromising fairness or economic efficiency.

2.2 Challenges to Tax Sovereignty in the Era of Globalization and the Digital Economy:

The state's right to levy taxes is a fundamental manifestation of its sovereignty, regarded as an intrinsic attribute of every independent government. By its supreme authority over its territory and citizens, the state can impose taxes to raise the revenues necessary to finance public expenditures and achieve its economic and social objectives. This sovereign right is grounded in several theoretical justifications. According to social contract theory, individuals implicitly agree to pay taxes in exchange for the protection and services provided by the state (Ramadan, 2023, p. 49). Similarly, benefit theory holds that taxes are paid as the price for the benefits individuals receive from the existence of the state and its institutions, which ensure security and peace. The ability-to-pay principle posits that the tax burden should be distributed in proportion to individuals' capacity to contribute to public expenditures. Finally, the financial solidarity theory asserts that paying taxes constitutes a form of social solidarity, whereby individuals share the public burdens to achieve the common good of society. At the constitutional level, law and legislation form the basis for creating, amending, and repealing taxes. The democratic principle of "no taxation without representation" links the state's right to tax with the consent of the people through their representatives. In constitutional systems, general taxes are often distinguished from other fiscal charges: general taxes are subject to stricter rules and procedures due to their significance and

impact on citizens and the economy (Sharafi, 2010, p. 152). This legal framework reflects the exercise of sovereign authority in a manner that upholds legitimacy and accountability, ensuring that tax imposition aligns with constitutional principles and procedural safeguards *Given these legal foundations, the following section outlines the principles underpinning tax sovereignty.*

2.3 The Foundations and Principles of Tax Sovereignty:

Tax sovereignty is defined as the inherent, exclusive, and supreme right of the state to establish, impose, and collect taxes within its geographic boundaries and on individuals and entities subject to its jurisdiction. This principle is not merely a legal formality but constitutes a fundamental pillar of any effective tax system. It reflects the state's economic, social, and political character, as well as its level of development. Tax sovereignty manifests in several key dimensions (Apeldoorn, 2018, p. 488):

1. **Legislative Authority:**

The state possesses the sole and uncontested power to enact tax laws, define tax bases, set tax rates, determine taxable events, and prescribe collection methods unilaterally. This legislative process does not require the taxpayer's consent; the decision to impose, modify, or abolish taxes is a high-level political choice (Al-Jujawi & Al-Anbaki, 2014, p. 18). Through this authority, the state exercises its sovereign prerogative to shape fiscal policy in accordance with its objectives.

2. **Obligatory Character (Coercion)**:

By nature, taxes are compulsory levies enforceable by law—failure to pay grants the state the right to resort to enforcement mechanisms to collect outstanding amounts. Unlike market transactions, taxes are paid without a direct, specific, or immediate quid pro quo for the individual taxpayer; instead, the benefit accrues to the taxpayer as a member of society through the general public goods and services provided (Nawa, 2017, p. 335). This coercive element underscores the distinctive nature of taxation as an exercise of sovereign power.

3. **Principle of Territoriality:**

The state's right to tax applies to income, assets, or transactions that arise or occur within its geographic territory, regardless of the taxpayer's residence or nationality (Ramadan, 2023, p. 43). Under this principle, any economic activity situated within the state's borders falls within its fiscal jurisdiction, reinforcing the territorial dimension of sovereignty.

4. **Principle of Personal Nexus (Residence/Nationality)**:

The state may also tax residents or citizens on their worldwide income, irrespective of where that income is generated. When combined with the territoriality principle, this can give rise to international double taxation (Al-Kharsan, 2020, p. 57). This personal nexus reflects the state's assertion of fiscal authority over its nationals or residents, extending beyond mere territorial confines. There is a pronounced overlap between the political system, economic development, and tax sovereignty. The design of a tax system is based on the principle of tax sovereignty and reflects the state's economic, social, and political structures, as well as its stage of development. Taxes can only be imposed or repealed by law—that is, by a high-level political decision—so a tax regime in an authoritarian state will inherently differ from that in a democratic system (Ring, 2008, p. 24). The state's political orientations often shape its tax system to achieve its policy goals. Moreover, the state's fiscal capacity is linked to the breadth of its economic activities, the level of national income, and the average per capita income. This interaction illustrates that tax sovereignty is not an abstract legal concept but a dynamic reflection of a nation's governance structure, economic maturity, and societal values. Practical exercise of tax sovereignty depends on political will, legislative clarity, and administrative capacity. Hence, challenges to tax sovereignty—especially those posed by aggressive tax planning—are not purely legal or

economic issues but are deeply rooted in the political and developmental context of the state. A weak political system, an underdeveloped economy, or a lack of public trust can undermine effective tax sovereignty, rendering the state more vulnerable to erosion of its tax base (Gomez, 2020, p. 56).

2-4. Impact of Sovereignty Theory on Tax Systems and Tax Accounting Standards:

Tax sovereignty is the foundational principle upon which all national tax systems are built and operate. This sovereignty grants the state absolute authority to design, implement, and enforce its tax framework unilaterally, including the types of taxes, their rates, and the methods of collection. Such inherent power shapes the entirety of a nation's tax system, reflecting its unique economic, social, and political characteristics. Consequently, tax accounting standards are not developed in a vacuum; they are deeply and directly influenced by the specific national tax laws, which themselves are a direct expression of state sovereignty. These standards are primarily crafted to ensure compliance with sovereign tax requirements by directing how financial data must be recorded, processed, and reported for tax purposes. The state's exclusive right to determine the tax base, applicable rates, and collection methodologies without taxpayer consent means that tax accounting must precisely align with these sovereign dictates, even when they diverge from public financial accounting principles (Ismatullayeva, 2021, p. 8). Sovereignty theory exerts both a positive and normative influence on accounting. In its positive dimension, the literature emphasises that the tax system rests on tax sovereignty, which underpins the compulsory nature of taxes and the state's unilateral authority to impose them. Tax accounting is then portrayed as the practical discipline that ensures adherence to these sovereign tax laws. In this way, sovereignty establishes the legal framework, and tax accounting follows it directly. However, a different dimension emerges when considering international accounting standards. International Financial Reporting Standards (IFRS/IAS) have gained global acceptance and are increasingly applied in financial reporting. Although these standards aim for worldwide unification, they are not tax laws by nature. This gives rise to tension: while national tax accounting is primarily driven by sovereign tax laws (with a positive impact), the growing adoption of international accounting standards introduces normative pressure to achieve consistency in financial reporting (Ebrahim, 2015, pp. 55–56). States must therefore decide how to reconcile their sovereign right to set specific tax rules with the global push toward harmonised financial reporting. This tension often leads to discrepancies between financial accounting (governed by IFRS/IAS) and tax accounting (governed by national tax laws). Such discrepancies—including differences in the timing of revenue and expense recognition or asset valuation—become critical areas that aggressive tax planners may exploit. In exercising their sovereignty, states must manage these divergences to protect their tax base, either by aligning tax laws more closely with international accounting standards or by clearly defining the necessary adjustments for tax purposes (Olsen, 2019, p. 128).

2-5. Concept and Objectives of Tax Planning:

Tax planning is a lawful and legitimate practice whereby an individual or entity conducts a systematic analysis of their financial position to make informed financial and business decisions. Its primary aim is to optimise and reduce tax liabilities within the strict confines of existing tax legislation. This involves the strategic utilisation of all exemptions, deductions, credits, and tax benefits explicitly permitted under tax laws. Tax planning is an essential component of sound financial management, and its objectives include the following (Ftouhi, 2020, p. 340; Schwab, 2022, p. 431):

1. **Reducing Costs and Enhancing Profitability:**

The primary objective is to reduce the overall tax burden, thereby increasing net income and enhancing the entity's or individual's profitability. By identifying legally available mechanisms to minimise taxes, taxpayers can allocate more resources to core operations or investment activities.

2. **Improving Cash Flow:**

Through strategic timing of tax payments and optimising tax obligations, tax planning contributes to more effective cash flow and liquidity management. This may involve deferring liabilities when permissible or recognising allowable deductions in a manner that smooths cash requirements.

3. **Enhancing Financial Sustainability and Competitiveness:**

Effective tax planning supports long-term financial health, enabling enterprises to allocate resources more efficiently, maintain a competitive position, and support strategic growth initiatives. A sustainable tax strategy can free up capital for reinvestment, research and development, or market expansion.

4. **Ensuring Legal Compliance:**

Legitimate tax planning operates strictly within the boundaries of the law, ensuring that all actions comply with tax regulations and avoid penalties. This involves staying abreast of current legislation, rulings, and regulatory guidance to ensure that planning techniques are defensible under audit or review.

5. **Strategic Business and Investment Planning:**

Tax considerations are integrated into broader financial and business strategies, guiding decisions on investments, operations, and organisational structure. By evaluating the tax implications of various scenarios, decision-makers can choose options that align with both commercial objectives and tax efficiency.

6. **Leveraging Government Incentives:**

Tax planning involves identifying and leveraging tax incentives, subsidies, or support programs offered by governments to encourage specific economic activities or investments. This may include investment credits, accelerated depreciation schemes, research and development incentives, or special zones with preferential tax treatment.

Tax planning arises in response to the complexity of tax laws and, in turn, drives further complexity. It is explicitly described as the practice of "optimally exploiting exemptions, deductions, and benefits available under the law." The existence of a complex tax code with diverse provisions—often designed to achieve particular policy goals (e.g., stimulating investment)—creates the environment in which tax planning operates. The literature notes that "the complexity of tax regimes" poses a challenge that typically requires expert assistance (Saleh, 2019, pp. 45–46). Tax planning becomes aggressive when it exploits unintended loopholes or ambiguities in the tax code. Such aggressive strategies frequently prompt legislators to enact new rules or amendments to close these gaps. This legislative interaction, accompanied by "monitoring legislative changes", adds further layers of complexity to tax law. Complex laws enable sophisticated planning, which in turn drives additional legislative complexity aimed at countering aggressive strategies (Khasanova, 2023, p. 295). This dynamic demonstrates that tax planning is not merely a passive response to existing tax legislation but an active force influencing the evolution of tax rules. While states, exercising their sovereignty, design tax laws to achieve specific political, economic, and social objectives, the inherent complexity and taxpayers' strategic responses can lead to unintended outcomes—namely, aggressive tax planning that undermines intended revenue targets and equity objectives. This underscores the ongoing challenge for tax authorities to design tax systems that effectively meet policy goals while resisting aggressive planning techniques. In exercising their sovereign authority, states must balance the objectives underlying tax legislation against the need to anticipate and mitigate exploitative planning, thereby preserving the integrity of their tax base and upholding fairness (Darmawan, 2021, p. 199)

2-6. Role of Sovereignty Theory in Curtailing Tax Planning Practices:

States, in exercising their tax sovereignty, develop specific laws and regulatory frameworks aimed at combating aggressive tax planning and other abusive tax practices. The primary objective of these measures is to protect the national tax base from erosion and ensure that economic activities are taxed appropriately. Such frameworks typically encompass two main categories of anti-avoidance rules: General Anti-Avoidance Rules (GAARs) and Specific Anti-Avoidance Rules (SAARs). The fundamental principle underpinning these anti-avoidance measures is to ensure taxation based on the economic substance of transactions, rather than merely their legal form, especially when transactions appear to be driven primarily by obtaining a tax advantage without a genuine commercial purpose (Sharafi, 2010, p. 156). Anti-avoidance legislation exhibits an interactive, often reactive nature. On one hand, documentation notes that "the phenomenon of tax evasion has become a major challenge for all countries of the world due to the diversity and multiplicity of techniques used to commit it" and that tax avoidance exploits "loopholes or ambiguities" in existing laws. On the other hand, states introduce GAAR and SAAR provisions to address specific avoidance schemes. This sequence—identifying avoidance tactics followed by legislative response—indicates that anti-avoidance legislation is frequently developed in reaction to existing or emerging tax planning strategies that erode the tax base. The continuous need for companies to "monitor legislative changes" reinforces this ongoing interactive cycle between tax planners and tax authorities. This reactive legislative role often places tax authorities in a catch-up position, underscoring the need for more flexible, dynamic, and potentially proactive legislative processes that can anticipate and address potential avoidance schemes before they proliferate. Moreover, these dynamic developments highlight the importance of international cooperation in addressing cross-border planning before it becomes widespread, as unilateral, reactive measures may be insufficient in a globalized economy (Acito, 2022, p. 23). By coordinating standards, sharing information, and aligning anti-avoidance approaches, states can strengthen their sovereign capacity to protect their tax bases against sophisticated, transnational planning strategies.

2-7. Challenges in Applying Sovereignty Theory to Curb Tax Planning under Globalisation and the Digital Economy:

States face significant challenges in exercising their sovereignty to limit tax planning amid globalisation and the digital economy. Globalisation and tax competition have increased cross-border flows of capital and corporations, leading sovereign states to compete to attract investment, which has resulted in a "race to the bottom" in corporate tax rates, negatively impacting national revenues (Mgammal, 2020, p. 350). States struggle to balance the need to attract foreign investment with preserving their domestic tax base. The digital economy presents new challenges to tax sovereignty, as traditional tax concepts, such as "permanent establishment," are complex to apply to digital companies operating across borders without a conventional physical presence. It becomes challenging to determine the source of income and the appropriate taxing jurisdiction in the digital realm, leading to aggressive tax planning strategies by multinational digital enterprises. Multinational corporations complicate the global tax landscape, possessing substantial ability to influence economic policies and circumvent national regulations. They employ profit-shifting and base erosion strategies to reduce their global tax liabilities, undermining states' capacity to effectively assert their tax sovereignty (Chyz, 2021, p. 45).

2-8. Role of International Cooperation and Sovereignty Theory in Combating Aggressive Tax Practices:

There is a growing need for international cooperation to combat tax evasion and aggressive tax planning, as these are global issues requiring collective action. International organisations, such as the OECD, the United Nations, and the IMF, play vital roles in facilitating cooperation by setting standards, sharing expertise, and providing technical assistance. Information exchange and transparency are key tools in addressing cross-border tax evasion (Darmawan, 2021, p. 200).

Bilateral and multilateral tax treaties are crucial instruments for avoiding double taxation and preventing tax evasion; however, these treaties also raise questions about their impact on national tax sovereignty. International tax cooperation faces challenges in striking a balance between national interests and sovereignty, on the one hand, and the need for coordinated global action, on the other. It is essential to ensure fair representation of developing countries and address their concerns within international tax governance structures. International tax policy also influences sovereign debt levels of states (Ftouhi, 2020, p. 335). The base erosion and profit shifting (BEPS) practices by multinationals are a growing global concern. These practices deprive states of tax revenues, distort competition, and challenge tax sovereignty. Initiatives like the OECD's BEPS project aim to address these issues through coordinated measures among states and international bodies. Protecting the national tax base is a core aspect of a state's fiscal sovereignty. However, tension exists between national sovereignty and international efforts to curb base erosion and profit shifting. Legislative measures and policy initiatives have been enacted to prevent base erosion, but protecting the tax base faces challenges related to complex global value chains, movement of intangible assets, the use of tax havens, and the need for international cooperation and harmonization of tax rules (Acito, 2022, pp. 24–25).In this light, sovereignty theory provides a valuable tool to assess whether international obligations respect the fiscal independence of states or impose undue constraints. The key lies in designing cooperative frameworks that uphold both transparency and national interest

2.9 A Recent Literature Review on BEPS and Tax Sovereignty in the Digital Economy

The last decade has witnessed a significant expansion in the literature addressing the issue of tax sovereignty in the face of Base Erosion and Profit Shifting (BEPS), particularly in light of the development of the digital economy and dematerialized business models. A recent study by Beer et al. (2023) revealed that approximately 40% of the profits of multinational corporations are shifted to tax havens, thereby weakening the ability of countries, particularly developing ones, to exercise their tax sovereignty effectively. The study concluded that traditional tax systems are no longer suitable for modern digital models, requiring a shift towards taxes based on "actual economic location." In the same context, de Mooij et al. (2022) concluded that the reforms proposed within the BEPS 2.0 project, especially Pillar One, which addresses the redistribution of tax rights, may contribute to enhancing global tax justice. However, they also raise questions about the extent to which they reduce countries' sovereignty in designing their tax systems in light of their national circumstances. On the other hand, Ahrens & Bothner (2023) discussed the concept of "adaptive tax sovereignty" as a flexible response to digital challenges, calling for the need to redefine the concept of sovereignty to include participatory and technological dimensions, instead of adhering to traditional sovereignty, which has proven ineffective in confronting cross-border tax evasion structures. Bunn et al. (2023) argue that international cooperation alone is insufficient, as the ability of developing countries to benefit from BEPS mechanisms depends on internal factors, such as legislative structure and institutional efficiency. Therefore, tax sovereignty is not only exercised by law, but is embodied through institutional readiness and effective governance. Together, these studies demonstrate that addressing BEPS in the digital age necessitates a rebalancing of national sovereignty and international cooperation through a hybrid approach that combines flexible domestic legislative tools with fair and comprehensive international coordination mechanisms.

3. Statistical analysis and discussion of results

3-1. Data Collection Methods:

This section presents a comprehensive analysis of the field research results, providing a detailed interpretation through the use of descriptive and inferential statistical tools. Such analysis deepens our understanding of the studied variables and addresses the core questions related to the primary research constructs. Hypothesis-testing methods, including correlation and regression analyses,

were employed to investigate relationships and assess the magnitude of effects among the study variables. This analytical approach not only enriches academic knowledge but also opens new avenues for understanding how sovereignty theory influences tax planning practices, making a significant contribution to the field of research. The researcher selected a questionnaire as the primary data collection instrument due to its suitability for this study's context. The questionnaire was carefully designed to align with the research objectives and informational needs, comprising a set of focal questions that probe the role of sovereignty theory in curbing tax planning behaviours. Questions were phrased to capture participants' attention, ensuring their positive engagement and enhancing the accuracy of the results. A five-point Likert scale was employed to gauge response gradations, as this scale provides an effective means for data collection and analysis, enabling reliable inferences that support the study's findings. The use of the Likert scale not only facilitates information gathering but also promotes respondents' engagement with the content, thereby increasing the study's impact and effectiveness.

3-1-1. Description of Study Variables

The following table outlines the study variables employed in the empirical section.

Table 1. Description of Study Variables

No.	Construct	Number of Items
1	**Role of Sovereignty Theory**	7
2	**Limitations of Tax Planning Practices**	7

3-1-2. Statistical Methods Employed in the Study

The researcher relied on a set of statistical techniques using SPSS version 26 to analyse the data:

1. **Descriptive Statistics**: Calculation of the mean, standard deviation, and coefficient of variation to summarise central tendency, dispersion, and relative variability of each variable.
2. **Normality Test**: Assessment of data normality to verify assumptions and select appropriate statistical indicators.
3. **Pearson Correlation Coefficient**: To provide a precise measure of the strength and direction of the relationship between study variables.
4. **Linear Regression Analysis**: To measure the direct effect of the independent variable on the dependent variable, estimate the magnitude and statistical significance of this influence.

3-1-3. Normality Assessment:

To examine the distributional characteristics of the data for the variables "Role of Sovereignty Theory" and "Limitation of Tax Planning Practices," the Kolmogorov–Smirnov test was applied. Table 2 summarises the results of this test, showing that the data approximate a normal distribution. Specifically, the Kolmogorov–Smirnov test yielded significance (P-value) values of 0.122 and 0.147, both of which exceeded the 0.05 threshold. This indicates no statistically significant departures from normality. Consequently, the data for both constructs can be treated as approximately normally distributed, justifying the use of parametric methods (e.g., Pearson correlation, linear regression) in subsequent analyses.

Table 2. Kolmogorov–Smirnov Test for Normality

Variable	Test Statistic	Sig. (P-value)
Role of Sovereignty Theory	0.205	0.122
Limitations of Tax Planning Practices	0.341	0.147

3-1-4. Cronbach's Alpha Coefficient:

Cronbach's Alpha is a vital reliability measure in scientific research, used to assess the internal consistency of the measurement instrument. This coefficient reflects the instrument's ability to yield dependable results, thereby enhancing the credibility of the academic study.

Table 3. Reliability Coefficients (Cronbach's Alpha)

No.	Construct	Number of Items	Cronbach's Alpha
1	**Role of Sovereignty Theory**	7	0.809
2	**Limitations of Tax Planning Practices**	7	0.837

The values in Table 3 exceed the commonly accepted minimum threshold of 0.60 (Cronbach, 1951), indicating a high level of internal consistency. Such reliability strengthens confidence in the data collection instrument's capacity to accurately capture the intended constructs, ensuring that the study's findings on tax accounting behaviours and the influence of sovereignty theory are based on a robust and trustworthy measurement tool.

3-2: Description of the Study Sample:

Table 4: Characteristics of the Study Sample

Category	Subcategory	Frequency	%
Place of Employment	Federal Board of Supreme Audit	35	38%
	General Commission for Taxes	33	36%
	Experts and Academics	24	26%
	Total	92	100%
Job Title	Employee	27	29%
	Manager	25	27%
	Academic Professor	16	17%
	Tax and Financial Expert	24	26%
	Total	92	100%
Years of Experience	Less than 5 years	19	21%
	5 to 10 years	65	71%
	More than 10 years	8	9%
	Total	92	100%

The table above presents the distribution of the study sample according to demographic characteristics:

1. **Place of Employment:** The sample distribution shows a relatively balanced representation between the Federal Board of Supreme Audit (38%) and the General Commission for Taxes (36%). Additionally, the group of experts and academics constituted 26% of the sample.
2. **Job Title:** The job titles were categorised into four groups. The "Employee" category ranked first, with 29%, followed by "Manager" at 27%, then "Tax and Financial Expert" at 26%, and finally "Academic Professor" at 17%.
3. **Years of Experience:** Participants with 5 to 10 years of experience represented the majority of the sample, accounting for 71%. This was followed by participants with less than 5 years of experience (21%), while those with more than 10 years of experience accounted for 9%.

3-3: Descriptive Statistics:

3-3-1: First Axis—The Role of the Sovereignty Theory

The following table presents the descriptive statistical indicators for the items related to the first axis: The Role of the Sovereignty Theory.

Table 4: Descriptive Statistics for "The Role of the Sovereignty Theory"

Question	Mean	Std.	C.V	RIR
Globalisation and the digital economy threaten the principles of "territoriality" and "personal nexus" as foundations of tax sovereignty.	3.984	0.901	22.62%	7
The lack of physical presence of digital companies weakens the ability of your country to apply the "permanent establishment" principle.	4.151	0.842	20.28%	5
International tax treaties (such as double taxation agreements) represent a concession of tax sovereignty.	3.976	0.765	19.24%	3
Excluding "acts of sovereignty" from judicial oversight threatens the principle of the rule of law in the tax domain.	3.872	0.762	19.68%	4
Weak political will is a significant challenge to enforcing tax sovereignty in developing countries.	3.883	0.652	16.79%	1
The "race to the bottom" in corporate tax rates poses a serious threat to your country's tax sovereignty.	4.220	0.793	18.79%	2
Adopting IFRS standards affects the state's independence in establishing tax accounting rules.	4.045	0.868	21.46%	6
Total	4.051	0.890	21.94%	—

The results presented in the table above provide a clear overview of the sample's perspectives regarding the role of the Sovereignty Theory. The average mean value across this axis was **4.051**, which significantly exceeds the theoretical average of 3. This indicates a strong level of agreement with the content of the first axis, suggesting that participants perceive the Sovereignty Theory as playing an effective role in achieving tax-related objectives. The standard deviation was **0.890**, and the coefficient of variation was **21.94%**, indicating a moderate variation in responses and reflecting a diversity of opinions among participants. When ranking the items by importance based on the coefficient of variation, the following observations can be made:

1. The item stating that **"weak political will is the major challenge to enforcing tax sovereignty in developing countries"** ranked highest in importance. It received a mean score of **3.883**, reflecting strong agreement with its content. The relatively low standard deviation (**0.652**) indicates stable responses, while the coefficient of variation (**16.79%**) suggests acceptable variability. These results highlight weak political will as the most pressing barrier to implementing tax sovereignty in such contexts.
2. In contrast, the item stating that **"Globalisation and the digital economy threaten the principles of territoriality and personal nexus as foundations of tax sovereignty"** ranked lowest in terms of importance. Nevertheless, it still received a high mean score of **3.984**, indicating notable agreement with its premise. However, it also recorded the highest standard deviation (**0.901**) and coefficient of variation (**22.62%**), signalling a considerable divergence

in opinions regarding its impact. These findings underscore the need to reconsider the role of globalisation and the digital economy in shaping foundational principles of tax sovereignty, and they call for further research to enhance the effectiveness of these frameworks in the future.

3-3-2: Second Axis—*Reducing Tax Planning Practices*

The significance of this axis is illustrated in **Table 5**, which reflects the participants' responses based on the mean, standard deviation, coefficient of variation, and the relative importance of the variable related to reducing tax planning practices.

Table 5: Items of the Second Axis

Question	Mean	Std.	C.V	RIR
The ambiguity of tax legislation is the main reason behind the shift from legitimate to aggressive tax planning.	4.066	0.613	15.08%	2
Simplifying tax legislation reduces the opportunities for tax planners to exploit loopholes.	4.018	0.695	17.30%	5
Mechanisms for imposing tax on digital services are sufficient to curb tax evasion.	4.080	0.609	14.93%	1
Reactive tax legislation (after loopholes appear) is less effective than proactive mechanisms.	4.148	0.788	19.00%	6
International cooperation can address the issue of "tax havens" without violating state sovereignty.	4.048	0.633	15.64%	4
Cross-border exchange of tax information is sufficient to confront profit shifting (BEPS).	4.089	0.629	15.38%	3
Reactive tax policies (such as frequent legislative amendments) affect economic stability.	3.914	0.822	21.00%	7
Total	4.033	0.653	16.19%	—

The above table illustrates the level of awareness and engagement among the individuals surveyed regarding the variable *"Reducing Tax Planning Practices."* The overall mean value for this axis reached **4.033**, which exceeds the hypothetical average of 3, indicating a strong alignment with the content of the axis and reflecting a significant level of agreement among respondents.

The responses showed a moderate spread, as evidenced by a **standard deviation of 0.653** and a **coefficient of variation of 16.19%**, indicating a reasonable level of variation in opinions.

1. The item **"Mechanisms for imposing tax on digital services are sufficient to curb tax evasion"** emerged as one of the most significant statements. It received a mean score of **4.080**, clearly indicating strong agreement. The standard deviation was **0.609**, suggesting stable responses, and the coefficient of variation was **14.93%**, reflecting acceptable variability in views.
2. On the other hand, the item **"Reactive tax policies (such as frequent legislative amendments) affect economic stability"** ranked lowest in terms of importance. Nonetheless, it received a mean score of **3.914**, which still demonstrates a notable level of agreement. However, the relatively high **standard deviation of 0.822** and the **coefficient of variation of 21.00%** suggest considerable diversity in respondents' perspectives regarding its effectiveness.

3-4: Hypothesis Testing

3-4-1: First Main Hypothesis

There is a statistically significant correlation between sovereignty theory and the reduction of tax planning practices.

Table 6: Pearson Correlation Coefficient

Variables	Pearson Correlation	Sig. (2-tailed)	N
Role of Sovereignty Theory → Reduction of Tax Planning Practices	0.744**	0.000	92

Based on the data presented in the table above, it is evident that there is a **strong and statistically significant correlation** between sovereignty theory and the reduction of tax planning practices. The Pearson correlation coefficient reached **0.744**, indicating a statistically significant relationship at the **0.05** level of significance. This result supports the **first central hypothesis**, confirming the existence of a meaningful association between Sovereignty Theory and efforts to limit tax planning practices. This relationship underscores the crucial role of sovereignty theory in mitigating aggressive or unethical tax planning strategies. In light of this evidence, the **first central hypothesis is accepted**.

3-4-2: Second Main Hypothesis

There is a statistically significant impact of sovereignty theory on reducing tax planning practices.

Table 7: Regression Analysis

Model	R	Adjusted R^2	Constant	B	F	Sig.
1	0.744	0.553	1.209	0.769	33.981	0.000

(*Tabulated F = 3.98*

The data in Table 7 reveal the following:

1. The impact of **sovereignty theory** on limiting tax planning practices is evident. The results indicate a substantial effect, which can be modelled using a **simple linear regression equation** characterised by high correlation and explanatory strength. The calculated **F-value (33.981)** exceeds the tabulated value (**3.98**), confirming the statistical significance of the model for predictive purposes.
2. The **adjusted R-squared (R^2 = 0.553)** indicates that approximately **55.3% of the variance** in tax planning reduction can be explained by the sovereignty theory variable. The model demonstrates strong statistical significance, as indicated by the p-value (Sig = 0.000), which is significantly below the conventional threshold of 0.05. This reflects the clear and measurable influence of sovereignty theory on limiting tax planning activities.
3. These findings affirm the **second central hypothesis**, which states that sovereignty theory has a **statistically significant impact** on the reduction of tax planning practices.

4-1: Conclusions

1. This study demonstrated a strong positive correlation and a significant impact of the theory of tax sovereignty in limiting aggressive tax planning practices within the complex context of globalization and the digital economy. The statistical results (Pearson's correlation coefficient r = 0.744, coefficient of determination R^2 = 0.553) indicate that strengthening the application of tax sovereignty principles contributes effectively to combating base erosion."

2. The study's main findings revealed that weak political will is the primary obstacle to the effective implementation of tax sovereignty in developing countries. This underscores that the challenges are not merely legal or technical, but are fundamentally political and institutional."
3. It was found that the current reactive tax legislation in developing countries is less effective in addressing the increasing complexities of aggressive tax planning. This highlights an urgent need to develop more proactive and adaptive legislative frameworks in response to a rapidly evolving economic environment."
4. In contrast, the study affirmed that strong international cooperation—particularly in the area of information exchange—plays a critical role in combating tax havens and Base Erosion and Profit Shifting (BEPS) practices. Rather than undermining national sovereignty, such cooperation enhances countries' capacity to exercise it effectively."

4.2 Recommendations:

1. Enhancing Political Will:

"Given that weak political will is identified as the most significant barrier, the study recommends strengthening political commitment at the highest levels of government to confront aggressive tax planning. This can be achieved through measures such as adopting clear national strategies, supporting institutional reforms, and addressing corruption in tax administrations."

2. Reforming Tax Legislation:

"In light of the limited effectiveness of reactive legislation, the study urges the modernization and proactive development of national tax laws. These laws should be comprehensive, adaptable to new technologies and business models in the digital economy, and aligned with modern international standards such as the Pillar One and Pillar Two rules."

3. Strengthening International Cooperation:

"Building on the demonstrated positive impact of international cooperation, the study recommends greater participation in global initiatives for tax information exchange and combating base erosion (e.g., the Global Forum on Transparency, the Inclusive Framework on BEPS). It also encourages leveraging technical assistance and international expertise."

4. Simplifying and Clarifying Tax Laws:

"To ensure effective enforcement, tax laws should be simplified and clarified to reduce the complexity exploited by tax planners. Additionally, tax personnel should receive training on the latest investigative and audit techniques.

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