

Systematic Literature Study: Challenges and Opportunities for the Application of Withholding Tax in the Era of Globalization

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ABSTRACT

The implementation of Withholding Tax (WHT) in Indonesia confronts multifaceted challenges encompassing both internal taxpayer factors—including staff understanding, motivation, and capacity—and external factors such as transaction complexity, administrative procedures, and limited system digitalization. Risks of incorrect withholding, tax avoidance, and sectoral compliance variations underscore the necessity for integrated strategic interventions. This study aims to analyze WHT challenges, identify opportunities, and examine strategies based on Tax Compliance Theory, considering taxpayers' attitude, subjective norms, and perceived behavioral control. The research employs a systematic literature review methodology, analyzing 50 peer-reviewed journals (Q1-Q3 international and S2-S3 national publications) published within the last decade. Literature selection followed rigorous inclusion criteria: studies specifically addressing WHT implementation, containing challenge and opportunity analyses, and demonstrating methodological rigor. The analytical framework utilized thematic synthesis to identify patterns across internal and external compliance factors, subsequently evaluated through the Tax Compliance Theory lens. Findings indicate that effective strategies include system digitalization, staff training, taxpayer education, incentive-penalty mechanisms, regulatory harmonization, and real-time monitoring and auditing. Notably, this study contributes novel insights by synthesizing WHT compliance challenges within the globalization context, particularly addressing cross-border digital transactions and fintech sector implications previously underexplored in Indonesian taxation literature. The integrated strategic framework proposed bridges theoretical understanding with practical implementation, offering evidence-based policy recommendations. Implementing these integrated strategies is expected to enhance voluntary compliance, minimize withholding errors, and strengthen WHT effectiveness across all sectors, including MSMEs and fintech.

KEYWORDS

Withholding Tax, Tax Compliance Theory, Digitalization, Taxpayer Education



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INTRODUCTION

Taxes are the main source of state revenue to finance development and public services. One important type is Withholding Tax, which is tax deducted directly from the source of income before being received by the taxpayer. This tax is imposed on payments of dividends, interest, royalties, or services. The direct withholding mechanism helps the state reduce the risk of tax evasion and ensures that revenues are collected effectively (Sulfan, 2020). The successful implementation of Withholding Tax depends on the compliance of taxpayers and withholding parties. Therefore, understanding the practice of implementing Withholding Tax is very important.

The era of globalization has significantly changed the economic and taxation systems. International trade, cross-border investment, and capital flows are increasing rapidly. Economic digitalization also poses new challenges for tax implementation. For example, digital services are often provided from one country to another, making it difficult to determine tax jurisdiction (Putri & Indriana, 2020). Globalization makes it easier for multinational companies to practice tax planning, which can reduce compliance. Additionally, taxpayers may face

administrative difficulties in withholding and reporting taxes. This challenge requires a deep understanding of the factors that affect taxpayer compliance (Pangestuti & Wardhani, 2019).

Tax withholding has a strategic role in ensuring fair and efficient tax revenue. Withholding taxes allow the government to obtain taxes at the source before the funds are received by the taxpayer. This mechanism simplifies administration because the obligation is carried out by the party who pays the income. The risk of tax avoidance can be reduced more effectively than with the usual self-assessment system (Nurwati & Anwar, 2019). However, its effectiveness highly depends on the behavior and compliance of taxpayers and the withholding party. Taxpayers who do not understand the rules or do not comply can cause withholding or reporting errors (Irwanti et al., 2025). Therefore, the implementation of Withholding Tax requires analysis of human behavior, not just technical rules. This study uses Tax Compliance Theory to analyze the factors that affect compliance. The results of this analysis are expected to help improve compliance strategies.

Tax Compliance Theory emphasizes three main factors that affect tax compliance. First, attitude, meaning the attitude of taxpayers towards tax obligations. A positive attitude encourages compliance, while a negative attitude decreases it. Second, subjective norms, which are pressures or expectations from other parties influencing the taxpayer's decision. Third, perceived behavioral control, which is the perception of ease or difficulty in carrying out tax obligations. These three factors may explain variations in compliance levels among taxpayers. In the context of Withholding Tax, this theory is relevant because withholding is done by a third party. This analytical framework helps to understand the effectiveness of the implementation of withholding taxes (Hayat et al., 2022).

Previous research by Petkova (2021) demonstrates that the primary challenges in WHT implementation emerge from insufficient taxpayer understanding. Withholding parties frequently struggle to comprehend taxable income categories and reporting procedural requirements, leading to withholding errors that reduce tax compliance and revenue collection. Technical factors including complex administrative systems and intricate reporting procedures further impede compliance. Globalization and economic digitalization compound these difficulties, particularly for cross-border transactions requiring coordination across multiple jurisdictional frameworks.

Conversely, Nurwati & Anwar (2019) identified significant opportunities for compliance enhancement through strategic interventions. Information technology utilization represents a crucial strategy, exemplified by e-filing systems and automated withholding applications. Systematic taxpayer socialization and education programs can enhance regulatory understanding and compliance awareness. Incentive structures rewarding compliant behavior have demonstrated effectiveness in encouraging compliance. These strategies collectively reduce error risks while improving collection effectiveness, warranting systematic synthesis and evaluation.

Despite extensive research emphasis on international regulations and bilateral tax agreements, limited scholarly attention has focused on taxpayer compliance practices at operational levels. Yet WHT implementation success fundamentally depends on the behaviors of withholding parties and income recipients. Variations in understanding levels and taxpayer attitudes generate compliance inconsistencies across sectors and jurisdictions. Tax Compliance Theory-based analysis provides relevant frameworks for understanding factors affecting WHT

implementation, enabling identification of practical barriers and effective strategic interventions that address behavioral dimensions of tax compliance.

The novelty of this research lies in its comprehensive integration of Tax Compliance Theory with systematic evidence from diverse sectoral contexts (MSMEs, fintech, multinational corporations) and geographical jurisdictions. Unlike previous studies focusing predominantly on technical regulatory aspects or isolated sectoral analyses, this research synthesizes behavioral, technological, and institutional dimensions of WHT compliance in globalization contexts. This integrated approach addresses critical research gaps by examining not merely what challenges exist, but why they persist and how they can be systematically addressed through evidence-based strategies. The policy implications are substantial: findings provide actionable frameworks for tax authorities, practitioners, and policymakers to enhance WHT effectiveness through targeted interventions that address root causes of non-compliance rather than merely treating symptoms.

Tax Compliance Theory-based approaches provide clear analytical frameworks for examining behavioral factors affecting compliance, enabling systematic investigation of taxpayer attitudes, social pressures, and perceived implementation difficulties. This approach enhances research applicability by focusing on real-world practices and operational challenges rather than abstract regulatory frameworks. Consequently, this research generates added value through practical, evidence-based recommendations applicable for enhancing tax withholding effectiveness across diverse sectoral and jurisdictional contexts.

Given this comprehensive background, this study aims to provide a systematic overview of WHT implementation challenges and opportunities within globalization contexts. The focus on taxpayer compliance behavior is expected to generate practical understanding of existing challenges and opportunities, while research findings serve as references for academics, practitioners, and governments seeking to improve tax withholding effectiveness. The systematic, literature-based approach ensures research results maintain objectivity, relevance, and applicability within real-world implementation contexts, bridging theoretical frameworks with practical policy interventions.

METHOD

This study used a systematic literature review approach to analyze the challenges and opportunities for the implementation of Withholding Tax (WHT). Data was collected from 50 relevant scientific journals, both from national and international publications, which discussed the WHT mechanism, tax compliance, and its implementation in various sectors, including companies, MSMEs, fintech, and government institutions. The selection process is carried out systematically with inclusion criteria, namely journals that discuss the specific application of WHT, include an analysis of challenges and opportunities, and have been published in the last 10 years, as well as exclusion criteria for irrelevant or in-depth literature. Data from selected journals were then analyzed qualitatively by emphasizing general patterns in the challenges and strategies to increase the effectiveness of WHT, so as to provide a comprehensive overview as a basis for discussion:

Table 1. Journal of Publications

Journal Name	Sum	Category	Country
Journal Of European Public Policy	1	Q1	UK
International Journal of Finance & Economics	1	Q1	UK
International Tax and Public Finance	3	Q1	UK
International Journal of Social Studies	1	Q1	Russia
International Journal of Financial Studies	1	Q1	Russia
Economies	4	Q1	Russia
Sustainability	7	Q1	Russia
Energies	1	Q1	Russia
Journal of Economic Behavior and Organization	1	Q1	Russia
Journal of Risk and Financial Management	3	Q1	Switzerland
Fintech	1	Q2	Switzerland
Laws	2	Q2	Switzerland
Cogent Business & Management	1	Q2	UK
Proceedings	1	Q3	Netherlands
Liverpool Law Review	1	Q3	Netherlands
Journal of Islamic Accounting and Finance Research	1	S2	Indonesia
International Journal of PERTAPSI	1	S2	Indonesia
Indonesian Journal of Accounting Research (IJAR)	1	S2	Indonesia
The Indonesian Accounting Review	1	S2	Indonesia
ACCRUAL: Journal of Accounting	2	S2	Indonesia
ACCURACY: Journal of Accounting and Finance Research	1	S3	Indonesia
JPIM: Journal of Multidisciplinary Scientific Research	1	S3	Indonesia
Journal of Business and Economics Accounting	1	S3	Indonesia
Bareleng Accounting Journal	1	S3	Indonesia
Indonesian Tax Journal	1	S3	Indonesia
Journal of Accounting & Finance Education	2	S3	Indonesia
Journal of Accounting and Finance Education Development	1	S3	Indonesia
Simki Economic Journal	1	S3	Indonesia
Indonesian Multidisciplinary Scientific Journal	1	S3	Indonesia
LDJ: Law Development Journal	1	S3	Indonesia
Sum		50 Journal	

Based on the data above in table 1, it can be seen that the distribution of journals used in this study includes 50 international and national journals with various rankings and categories. The Q1 journals were mostly from the UK, Russia, and Switzerland, indicating a research focus on high-profile publications in the fields of tax, finance, and public policy. The Q2 and Q3 journals are spread across Europe, while the S2 and S3 journals are dominated by publications from Indonesia, reflecting the local contribution to accounting and taxation studies. This distribution demonstrates a combination of highly reputable international literature and relevant national references to provide local context, while strengthening the analysis related to the implementation of Withholding Tax and compliance enhancement strategies in Indonesia. This approach ensures a balance between global theory and national practice, supporting the validity and relevance of research findings.

RESULT AND DISCUSSION

Challenges in Implementing Withholding Tax

1. Internal Factors

Understanding and knowledge of staff is a crucial internal factor in the implementation of Withholding Tax (WHT). Research by Mpofo (2022) and Balaska (2024) shows that a lack of understanding of WHT mechanisms and reporting obligations increases the risk of misclassification of transactions and delayed withholding. Taxpayers are sometimes unaware of their full liability, resulting in inaccurate reporting. Appiah (2021) added that WHT for interest and digital services is often cut late due to a lack of knowledge. This administrative error has the potential to have legal and financial consequences. Engstrom (2022), Lierse (2022), and Wijayanti (2022) emphasized the importance of intensive training for staff to calculate and classify WHT appropriately. This limited knowledge also affects staff's ability to handle complex cross-border or digital transactions. Lack of awareness has a direct impact on compliance, especially in the service and e-commerce sectors. Systematic training modules, step-by-step guides, and real-life case simulations are important solutions to minimize the risk of errors. A good understanding of staff is the foundation for the overall effectiveness of WHT, so that perceived behavioral control is increased and compliance can be maintained.

Taxpayers' attitudes and motivations also significantly affect compliance. Putri (2020) and Surugiu (2025) found that some taxpayers showed a lack of compliance or apathy towards tax withholding, so the risk of delays and administrative errors increased. The perception that WHT is complex and burdensome reinforces resistance to compliance. Sinaga (2023) and Kollruss (2025) emphasized that organizational social and cultural pressures (subjective norms) also affect the motivation of staff to carry out obligations. Taxpayers with positive social norms tend to be more compliant, while weak social norms reduce compliance. Therefore, education and socialization strategies must emphasize the benefits of compliance as well as legal consequences so that internal motivation increases. Staff motivation is key to reducing the risk of tax evasion and miseduction, while also establishing a stronger compliance culture.

The capacity of human resources is another real challenge. Engstrom (2022), Lierse (2022), and Wijayanti (2022) emphasize that untrained staff are more prone to making administrative errors and reporting delays. Petkova (2025) and Pangesuti (2019) added that staff capabilities affect the effectiveness of processes, especially in cross-jurisdictional transactions and digital services. This limited capacity is a systemic problem, especially in MSMEs and fintech (Skandalis, 2025; Akhtar, 2025). Without adequate training, staff find it difficult to implement WHT procedures accurately. Pratama (2025) shows that intensive training and special modules increase perceived behavioral control of staff so that compliance increases. Adequate staff capacity is the foundation to reduce the risk of errors and ensure that the implementation of WHT runs optimally.

2. External Factors

The complexity of transactions, especially cross-border transactions, is a significant obstacle. Petkova (2021) and Pratama (2025) highlight that differences in regulations between jurisdictions make it difficult to coordinate and supervise. Digital and fintech transactions that are growing rapidly add complexity because traditional monitoring systems are not yet ready (Hazneci, 2025; Narwadi, 2024). Cross-jurisdictional withholding practices pose a risk of tax

avoidance, including thin capitalization and-ex practices (Ramadan, 2023). This complexity demands the harmonization of international regulations and standard guidelines to make WHT cutting more accurate and timely.

Administrative procedures that are still manual are an additional obstacle. Omodero (2025), Deslivia (2021), and Nurwati (2019) show that manual procedures are error-prone and take longer, especially in the MSME and fintech sectors (Cheisviyanny, 2023; Arianty, 2023). The lack of standard procedures and coordination between government agencies leads to delays in deductions and untimely reports (Sinaga, 2023; Kollruss, 2025). Standardization of procedures, routine audits, and system integration between agencies are strategic steps to reduce administrative risks and improve WHT efficiency.

The digitalization of the tax system is still limited, becoming a significant obstacle to compliance. Sulfan (2020) and Pratama (2021) highlight that digital infrastructure is inadequate, so e-filing, real-time monitoring, and automated withholding are not optimal. Petkova (2025) and Pangesuti (2019) emphasize the need for digital system integration to speed up WHT cutting and minimize errors. The lack of interoperability between monitoring platforms increases the risk of reporting inaccuracies, making the development of an integrated digital system a strategic priority. Digitization supports staff's perceived behavioral control, strengthens accuracy, and encourages compliance.

The risk of miscutting is a consistent problem across all sectors. Mpofo (2022), Balaska (2024), and Appiah (2021) show that interest, dividends, royalties, and digital services are often wrongly deducted due to manual procedures and limited tariff understanding. Engstrom (2022), Lierse (2022), and Wijayanti (2022) emphasize the need for standard training modules and checklists so that errors can be minimized. This inaccuracy affects the realization of tax revenue and poses financial risks to the government.

Tax avoidance remains a serious challenge, especially for multinational companies. Ramadhan (2023) highlights thin capitalization and-ex practices that reduce the effectiveness of WHT, while Surugiu (2025) adds that differences in regulations across countries increase the risk of systemic avoidance. Digital supervision strategies and regulatory reforms are important to suppress tax avoidance practices, while improving taxpayer compliance and state revenue effectiveness.

Variations in compliance between sectors are also a challenge. Putri (2020), Fitriani et al. (2025), and Surugiu (2025) found that compliance differs between MSMEs, fintechs, and multinational companies. Skandalis (2025) and Akhtar (2025) emphasized that complicated procedures for MSMEs and fintech reduce compliance levels. Sinaga (2023) and Kollruss (2025) added that coordination between agencies and staff understanding also affect compliance variations. Strategies based on digitalization, education, and simplification of procedures are relevant solutions to reduce the compliance gap in various sectors.

The problem is that the WHT cuts on digital and e-commerce services are often late or inappropriate (Appiah, 2021; Hazneci, 2025). MSMEs and fintechs face difficulties due to complicated procedures and limited monitoring systems (Skandalis, 2025; Akhtar, 2025). The need for harmonization of international regulations increases along with the growth of cross-border transactions (Petkova, 2025; Petkova, 2021). International tax supervision is still weak and at risk of systemic avoidance (Ramadhan, 2023; Pratama, 2025). The challenge of integrating tax system digitalization, including automated withholding, e-filing, and real-time

monitoring, is a strategic priority so that WHT compliance and effectiveness can be improved overall.

3. Analysis Based on Tax Compliance Theory

In the framework of Tax Compliance Theory, the attitude of taxpayers is one of the main determinants of compliance with the WHT. Mpofu (2022) and Balaska (2024) emphasized that a positive attitude towards tax withholding obligations increases taxpayer awareness to carry out procedures appropriately and in a timely manner. On the other hand, apathy or the perception that WHT is complicated and burdensome can lower the level of compliance, leading to delays in cutting and administrative errors. This attitude does not stand alone, but is intertwined with the organization's social and cultural norms (subjective norms), which emphasize the influence of the work environment, peer pressure, and institutional culture on staff motivation. Sinaga (2023) and Kollruss (2025) emphasize that strong social norms can strengthen taxpayer awareness, encourage voluntary compliance, and suppress tax-evasion behavior, while weak social norms tend to result in higher compliance variations and administrative risks.

In addition, perceived behavioral control is an important factor that determines the ability of taxpayers and staff to carry out WHT procedures appropriately (Engstrom, 2022; Lierse, 2022; Wijayanti, 2022). These factors include technical skills, access to digital systems, human resource capacity, and an understanding of applicable tax procedures. When staff have adequate capacity and facilities, they are able to manage complex transactions, including cross-border and digital transactions, more accurately and efficiently. The interaction between attitudes, subjective norms, and perceived behavioral control explains the variation in compliance seen in various sectors, ranging from MSMEs to multinational companies, as well as the risk of wrongful deductions and tax avoidance. Therefore, the improvement strategy must be integrated, including intensive training of staff, digitization of systems, simplification of WHT procedures, harmonization of regulations, and the establishment of a strong compliance culture so that the effectiveness of WHT can be improved overall (Lestari, 2023; Hayat, 2022).

Compliance Improvement Opportunities and Strategies

1. Opportunities and Strategies in Improving Withholding Tax Compliance

The use of technology is the main strategy to increase WHT compliance. The implementation of WHT (automated withholding) automation software or applications can minimize deduction errors, speed up reporting, and simplify tax calculation (Irwanti, 2025; Nurferyanto, 2024; Saptono, 2021). E-filing and real-time monitoring allow taxpayers and withholding staff to review withholding status directly so that delays and errors can be minimized (Putri, 2025; Hendrastuti, 2024; Saptono, 2021). Integrated digital platforms also facilitate cross-sector and cross-border deductions, reducing tax avoidance risks due to procedural inaccuracies. A strong digital infrastructure supports voluntary compliance, strengthens transparency, and provides accurate data for the analysis of WHT effectiveness (Nuryanah, 2022; Gunadi, 2022).

In addition, technology allows for the simplification of administrative procedures that have been an obstacle. Automated monitoring systems reduce reliance on manual procedures, allowing staff to focus more on compliance analysis and auditing (Panjaitan, 2025; Mahmud,

2024; Cahyadini, 2024). Vijver (2020) and Noked (2018) emphasized that digitalization improves perceived behavioral control, as staff have better ability to execute cuts according to regulations. Fast-changing digital and e-commerce transactions require a flexible platform that can be updated in real-time, so the potential for errors can be suppressed. The use of technology also supports interagency coordination with cross-platform data integration, making it easier to check and enforce WHT rules.

Education and socialization are crucial strategies to build voluntary compliance. An intensive training program for WHT cutting staff improves understanding of tariff procedures and mechanisms, so that the risk of administrative errors can be reduced (Němec, 2021; Al Lawati, 2021). Socialization of taxpayers regarding reporting obligations, WHT mechanisms, and tax rates supports higher legal awareness (attitude) (Rendón, 2021; Tyurina, 2023; Mamede, 2020). Educational modules for MSMEs, fintech, and the digital sector ensure that understanding is equitable across all levels of taxpayers, reducing compliance variations between sectors (Ali, 2022; Jesus, 2024; Kotlán, 2021). With proper education, apathy or the perception that WHT is burdensome can be minimized.

Staff training and socialization for taxpayers not only increases administrative compliance, but also strengthens subjective norms, as organizational norms and internal social pressures can be directed towards compliance (Richte, 2025; Wahlberg, 2021). Ongoing programs, such as workshops, case simulations, and online tutorials, enable taxpayers to understand the legal consequences and benefits of compliance, while improving their technical capabilities (Lestari, 2023; Hayat, 2022). In this way, education and socialization become an important foundation for creating a stable culture of compliance in various sectors.

The use of incentives and sanctions is an important strategy to encourage compliance. Incentives in the form of reduced administration or access to fast services for compliant taxpayers increase internal motivation and willingness to comply with WHT provisions (Irwanti, 2025; Nurferyanto, 2024). On the other hand, strict sanctions for late or incorrect taxpayers (penalty enforcement) emphasize the legal and financial consequences of non-compliance (Saptono, 2021; Putri, 2025). The combination of incentives and sanctions encourages voluntary compliant behavior while suppressing tax avoidance practices. This strategy is effective when supported by a digital system that records and monitors every cutting activity transparently.

The harmonization of regulations and standardization of procedures is an important opportunity, especially for cross-border transactions and diverse sectors. The integration of WHT regulations nationally and internationally helps reduce the risk of inaccurate cuts due to differences in jurisdictions (Hendrastuti, 2024; (Saptono 2021). Standard procedure guidelines for MSMEs, fintechs, and multinational companies make it easier for staff to implement WHT deductions consistently (Nuryanah, 2022; Gunadi, 2022). Strengthening inter-agency coordination reduces duplication of procedures and facilitates audits (Panjaitan, 2025; Mahmud, 2024; Cahyadini, 2024). This harmonization and standardization is the strategic foundation to support long-term compliance.

Monitoring and auditing are the last strategic steps to ensure WHT compliance. Digital monitoring allows tax authorities to detect deduction errors quickly (Vijver, 2020; Noked, 2018). Regular audits and the use of compliance checklists help identify potential tax avoidances and correct inappropriate procedures (Němec, 2021; Visit, 2021). Real-time

monitoring integration improves the effectiveness of compliance strategies by providing accurate and fast data for policy evaluation and adjustment (Tyurina et al., 2023); (de Andrade et al., 2020). With this system, administrative risks and cutting errors can be minimized.

2. Analysis Based on Tax Compliance Theory

Within the framework of Tax Compliance Theory, the attitude of taxpayers affects compliance with the WHT through legal awareness and internal motivation. Ali (2022), Jesus (2024), and Kotlán (2021) emphasize that taxpayers who have a clear understanding of legal obligations and consequences tend to be more compliant in withholding and reporting WHT. This awareness is the foundation to reduce the risk of administrative errors and late payments. In addition, subjective norms determine the social and cultural pressures of the organization that also affect staff compliance. Richté (2025) and Tarras-Wahlberg (2021) assert that strong norms, both from colleagues and the organizational environment, encourage staff to comply with tax procedures consistently, while weak norms can reduce internal motivation to comply.

In addition to social attitudes and norms, perceived behavioral control is related to the ability of staff and taxpayers to carry out WHT procedures appropriately and efficiently. Lestari (2023) and Hayat (2022) explained that staff who are trained and have access to adequate digital systems are able to reduce deduction errors and increase the effectiveness of tax reporting. The interaction between attitudes, subjective norms, and perceived behavioral control explains the variation in compliance, the risk of withholding errors, and the potential for tax avoidance. Therefore, compliance improvement strategies must be integrated, including staff training, system digitalization, simplification of procedures, regulatory harmonization, and integration of real-time monitoring to ensure that WHT can be implemented accurately, in a timely and consistent manner across sectors.

CONCLUSION

The study reveals that the implementation of Withholding Tax faces multifaceted challenges stemming from internal issues like staff understanding, motivation, and human resource capacity, as well as external factors such as transaction complexity, cumbersome administrative procedures, and limited system digitalization. These challenges increase the risks of withholding errors, tax evasion, and inconsistent compliance across sectors. Grounded in Tax Compliance Theory, the findings identify taxpayers' attitude, subjective norms, and perceived behavioral control as key determinants of compliance, highlighting the need for an integrated strategy. Effective WHT improvement requires combining digital automation of withholding and reporting, intensive staff training, taxpayer education, procedural simplification, and harmonization of national and international regulations. Additionally, a balanced mix of incentives and sanctions should promote voluntary compliance, supported by strengthened real-time monitoring and auditing to reduce errors and ensure sector-wide consistency, especially in MSMEs and fintech. Future research could explore the design and impact of specific incentive-sanction frameworks and the role of emerging digital technologies in enhancing WHT compliance in diverse economic sectors.

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