



Beyond Tax Compliance: Developing a Fiscal Adaptability Theory for AI-Based Digital Economies

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Abstract

Artificial intelligence-driven digital economies have transformed the institutional environment of taxation, creating challenges that extend beyond taxpayer compliance to the adaptive capacity of tax administrations. Although research on tax compliance, digital taxation, and technology-enabled enforcement has expanded, existing studies provide fragmented explanations of how fiscal institutions sustain long-term revenue capacity amid technological disruption. This conceptual paper addresses this gap by developing a middle-range theory explaining the adaptive mechanisms through which tax administrations respond to AI-driven digital transformation. Integrating Tax Compliance Theory, Institutional Theory, Dynamic Capabilities Theory, and Digital Government Theory, the study develops Fiscal Adaptability Theory, positioning fiscal adaptability as the core organizational capability linking AI-Enabled Fiscal Intelligence, Fiscal Sensing Capability, Institutional Learning, Adaptive Fiscal Governance, Adaptive Enforcement, and Revenue Sustainability. The proposed framework shifts attention from taxpayer behavior to institutional adaptability, explaining how technological intelligence is translated into sustainable fiscal outcomes through adaptive organizational processes. The theory provides a conceptual foundation for future empirical research while offering strategic insights for strengthening adaptive tax administration and fiscal resilience in rapidly evolving AI-driven digital economies.

Keywords

fiscal adaptability; adaptive tax administration; ai-based digital economies; dynamic capabilities; digital government; revenue sustainability

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1. Introduction

Artificial intelligence (AI), platform-based business models, cloud computing, digital payment ecosystems, and cross-border digital transactions have fundamentally transformed the architecture of the global economy. Unlike previous waves of digitalization that primarily reshaped business operations, the current AI-driven digital economy continuously redefines how value is created, exchanged, and captured across national borders. Economic activities increasingly occur through intangible assets, algorithmic decision-making, decentralized digital infrastructures, and platform ecosystems that transcend conventional jurisdictional boundaries. While these transformations accelerate innovation and economic productivity, they simultaneously challenge the capacity of governments to maintain effective taxation systems and sustainable fiscal governance (OECD, 2014, 2020; Vial, 2019; Verhoef *et al.*, 2021).

The rapid evolution of AI-based digital economies has significantly widened the gap between technological innovation and fiscal institutions. Traditional tax administration was largely designed for physical transactions, geographically identifiable taxpayers, and relatively stable business structures. In contrast, AI-enabled business ecosystems generate highly dynamic, data-intensive, and geographically dispersed economic activities that complicate taxpayer identification, tax base allocation, compliance monitoring, and revenue collection. International organizations have consequently emphasized that tax administrations must move beyond incremental digitalization toward comprehensive digital transformation, often referred to as Tax Administration 3.0, where taxation systems become increasingly integrated with digital business ecosystems and real-time economic activities (OECD, 2020, 2021, 2025).

Recent empirical evidence demonstrates that digital technologies can substantially improve tax administration performance. Digital invoicing, electronic reporting systems, and data integration have been shown to increase tax compliance, reduce tax evasion, and strengthen revenue mobilization across various jurisdictions (Bellon *et al.*, 2022; Okunogbe & Santoro, 2023). Likewise, studies examining e-tax systems suggest that digital platforms improve taxpayer experience, administrative efficiency, and voluntary compliance through enhanced transparency and service quality (Saptono *et al.*, 2023). Research on AI applications in tax administration has also highlighted the growing potential of predictive analytics, anomaly detection, automated auditing, and intelligent taxpayer services in modernizing fiscal administration (Saragih *et al.*, 2023).

Despite these important advances, the dominant literature continues to conceptualize digital transformation primarily as an instrument for improving tax compliance. Classical tax compliance theories explain taxpayer behavior through deterrence mechanisms, expected utility calculations, tax morale, or trust between taxpayers and governments (Allingham & Sandmo, 1972; Andreoni *et al.*, 1998; Kirchler *et al.*, 2008; Alm, 2019; Slemrod, 2019). More recent digital taxation studies similarly evaluate technological innovation according to its ability to enhance compliance rates, reduce administrative costs, or increase tax revenues (Bellon *et al.*, 2022; Okunogbe & Santoro, 2023). Consequently, taxation research remains predominantly compliance-oriented, treating technological change as an operational tool rather than as a catalyst for institutional transformation.

This compliance-centered perspective becomes increasingly insufficient under AI-based digital economies. Artificial intelligence not only changes how taxpayers interact with tax authorities but also continuously transforms business models, production processes, market structures, data ownership, and cross-border value creation. Fiscal authorities therefore face challenges that extend far beyond compliance enforcement. They must continuously interpret emerging technologies, redesign regulatory frameworks, develop new analytical capabilities, coordinate with multiple public and private stakeholders, and rapidly adjust

administrative processes to respond to evolving digital ecosystems. These challenges represent an adaptive rather than merely administrative problem, suggesting that the sustainability of public revenue increasingly depends on governments' capacity to adapt institutional arrangements to technological disruption rather than solely increasing taxpayer compliance.

Existing theoretical perspectives provide only partial explanations for these adaptive challenges. Tax compliance theory effectively explains taxpayer behavior but pays limited attention to organizational adaptation within fiscal institutions (Allingham & Sandmo, 1972; Alm, 2019). Institutional theory explains how organizations respond to environmental pressures through legitimacy and institutional isomorphism (DiMaggio & Powell, 1983), yet it provides limited insights into how fiscal organizations proactively develop adaptive capabilities under rapid technological disruption. Similarly, Dynamic Capabilities Theory emphasizes organizational sensing, seizing, and transforming capabilities (Teece *et al.*, 1997; Eisenhardt & Martin, 2000), but its application has largely focused on private firms rather than public fiscal institutions. Meanwhile, digital government literature primarily examines technological transformation of public services (Janowski, 2015; Mergel *et al.*, 2019; Cordella & Tempini, 2015) without explicitly theorizing how tax administrations sustain fiscal capacity amid continuously evolving AI-based economies. Collectively, these theoretical traditions explain important fragments of the phenomenon but fail to provide an integrated explanation of how tax administrations develop adaptive capacity to preserve long-term fiscal sustainability.

This paper argues that the central challenge confronting contemporary tax administrations is no longer tax compliance alone, but fiscal adaptability. Fiscal adaptability refers to the institutional capability of tax administrations to continuously sense technological change, learn from evolving digital ecosystems, reconfigure governance arrangements, and redesign administrative mechanisms to sustain public revenue under conditions of technological uncertainty. Rather than conceptualizing AI merely as a compliance-enhancing technology, this perspective positions AI-driven transformation as a catalyst requiring continuous institutional adaptation. Accordingly, fiscal sustainability depends less on isolated technological adoption than on the dynamic interaction between digital intelligence, organizational learning, adaptive governance, and responsive administrative capabilities.

Building upon insights from tax compliance research, institutional theory, dynamic capabilities, and digital government literature, this study develops a Middle-Range Theory of Adaptive Tax Administration to explain how fiscal institutions respond to AI-driven digital transformation. The proposed theory introduces fiscal adaptability as the central explanatory mechanism linking AI-enabled fiscal intelligence, institutional learning, adaptive governance, adaptive enforcement, and revenue sustainability. By integrating previously disconnected theoretical perspectives, the paper shifts the dominant research focus from taxpayer compliance toward institutional adaptability, thereby offering a more comprehensive explanation for fiscal governance in digital economies.

This study makes three primary contributions. First, it reconceptualizes the fundamental objective of contemporary tax administration from improving tax compliance to developing adaptive fiscal capability. Second, it integrates multiple theoretical traditions into a coherent middle-range theory capable of explaining institutional adaptation under AI-based digital economies. Third, it provides a conceptual foundation for future empirical research examining how governments can strengthen fiscal resilience through adaptive tax administration in increasingly complex digital environments. Through these contributions, the paper seeks to advance theory development while offering a new perspective on the future of fiscal governance beyond the traditional compliance paradigm.

2. Theoretical Foundations and Theory Integration

The rapid emergence of AI based digital economies has fundamentally altered the institutional context in which tax administrations operate. Economic transactions increasingly occur through platform ecosystems, algorithmic business models, cloud based infrastructures, and cross border digital services that continuously evolve faster than conventional fiscal regulations. Although existing literature provides important insights into taxpayer behavior, institutional change, organizational capabilities, and digital government, these perspectives remain fragmented. Each explains only part of the adaptive challenge confronting modern tax administrations. Consequently, a comprehensive theoretical explanation requires integrating these complementary perspectives into a coherent framework capable of explaining how fiscal institutions develop adaptive capacity under conditions of continuous technological disruption.

2.1 Tax Compliance Perspective

Tax compliance theory has long served as the dominant theoretical foundation for taxation research. The classical economic perspective introduced by Allingham and Sandmo (1972) conceptualizes tax compliance as an expected utility decision in which taxpayers compare the expected benefits of evasion with the probability of detection and corresponding penalties. This deterrence based perspective established the foundation for decades of empirical research investigating enforcement intensity, audit probability, and penalty severity as determinants of compliance behavior.

Subsequent research expanded this rational choice perspective by recognizing that compliance decisions are also shaped by psychological and institutional factors. Andreoni *et al.* (1998) argued that taxpayer behavior cannot be explained solely through economic incentives because social norms, perceived fairness, and moral considerations substantially influence voluntary compliance. Building upon this argument, Kirchler *et al.* (2008) proposed the Slippery Slope Framework, suggesting that tax compliance emerges from the interaction between governmental power and taxpayer trust. High enforcement increases enforced compliance, whereas institutional trust promotes voluntary compliance.

More recent syntheses continue to reinforce the centrality of compliance within taxation research. Alm (2019) demonstrates that tax compliance reflects a complex interaction among economic incentives, institutional quality, and behavioral factors, while Slemrod (2019) emphasizes that information reporting, third party verification, and administrative enforcement remain essential instruments for improving compliance performance. These developments broaden the analytical scope of tax compliance theory but retain the underlying assumption that the primary objective of tax administration is improving taxpayer compliance.

Digital transformation has further strengthened this compliance orientation. Bellon *et al.* (2022) show that electronic invoicing substantially increases value added tax compliance by improving transaction transparency and reducing opportunities for tax evasion. Similarly, Okunogbe and Santoro (2023) demonstrate that digital technologies strengthen tax mobilization through enhanced information systems, automated reporting, and improved administrative monitoring. Studies examining e tax systems also indicate that digital platforms improve user satisfaction, administrative efficiency, and voluntary compliance (Saptono *et al.*, 2023). AI applications increasingly support fraud detection, risk profiling, and intelligent auditing, further reinforcing compliance based objectives (Saragih *et al.*, 2023).

Despite these important contributions, tax compliance theory remains limited in explaining institutional adaptation. Existing studies predominantly examine how governments encourage taxpayers to comply with existing regulations rather than how fiscal institutions themselves continuously adapt to rapidly changing technological environments. AI based

economies generate new forms of value creation, new organizational structures, and new digital assets that require tax administrations to redesign regulatory frameworks, analytical capabilities, and governance arrangements. These institutional adaptation processes remain largely outside the explanatory boundaries of conventional tax compliance theory.

2.2 Institutional Adaptation Perspective

Institutional theory offers an alternative explanation by shifting analytical attention from individual taxpayers toward organizational responses to environmental change. DiMaggio and Powell (1983) argue that organizations adapt primarily to achieve legitimacy through coercive, normative, and mimetic pressures. Institutional environments therefore influence organizational structures beyond considerations of technical efficiency.

This perspective provides valuable insights into how public organizations respond to regulatory reforms, technological change, and stakeholder expectations. However, institutional adaptation is often portrayed as a gradual process driven by external legitimacy rather than continuous capability development. Such assumptions become problematic in AI based digital economies where technological change is rapid, nonlinear, and highly uncertain.

March (1991) further enriches institutional thinking by distinguishing exploration from exploitation in organizational learning. Organizations must simultaneously exploit existing knowledge while exploring new solutions under uncertain conditions. Adaptive learning therefore becomes a continuous organizational capability rather than a one time adjustment. This distinction is particularly relevant for tax administrations that must maintain operational stability while simultaneously developing new digital competencies.

Collaborative governance literature complements this perspective by emphasizing interorganizational coordination. Ansell and Gash (2008) argue that public value increasingly depends upon collaborative decision making involving governments, private organizations, and civil society. Emerson *et al.* (2012) similarly propose that collaborative governance emerges through principled engagement, shared motivation, and joint capacity for action. AI based taxation increasingly requires such collaborative arrangements because critical data, digital infrastructures, and technological innovations frequently reside outside government organizations.

Nevertheless, institutional theory primarily explains why organizations change rather than how adaptive capabilities are systematically developed and sustained. It therefore provides an important but incomplete explanation for adaptive tax administration.

2.3 Dynamic Capabilities Perspective

Dynamic Capabilities Theory provides a stronger explanation for organizational adaptation under environmental turbulence. Teece *et al.* (1997) argue that sustainable organizational performance depends upon the ability to integrate, build, and reconfigure internal and external resources in response to changing environments. Rather than emphasizing static resources, this perspective focuses on continuous capability renewal.

Eisenhardt and Martin (2000) further argue that dynamic capabilities consist of identifiable organizational processes that enable adaptation across rapidly changing environments. These processes include resource reconfiguration, organizational learning, strategic decision making, and innovation routines. The emphasis therefore shifts from resource ownership toward adaptive organizational processes.

Absorptive Capacity Theory further extends this logic by emphasizing organizational capability to recognize, assimilate, transform, and exploit external knowledge (Zahra & George, 2002). AI based digital economies generate unprecedented volumes of real time information that tax administrations must continuously interpret. Fiscal organizations

therefore require strong sensing and learning capabilities before technological investments can improve administrative performance.

Although Dynamic Capabilities Theory offers a compelling explanation for organizational adaptation, its empirical development has focused primarily on private firms. Piening (2013) demonstrates that dynamic capabilities also exist within public organizations, yet their operation differs substantially because public institutions pursue public value, legitimacy, and policy effectiveness rather than competitive advantage. Consequently, the mechanisms through which tax administrations develop adaptive capabilities remain underdeveloped within existing dynamic capabilities research.

2.4 Digital Government Perspective

Digital government research explains how information technologies transform public administration. Janowski (2015) conceptualizes digital government as an evolutionary process in which governments progressively integrate digital technologies into governance structures, service delivery, and institutional coordination. Digital transformation therefore extends beyond technological implementation toward organizational redesign.

Cordella and Tempini (2015) similarly argue that digital transformation reshapes bureaucratic structures by redefining organizational routines, accountability mechanisms, and administrative coordination. Technology should therefore be viewed as an institutional enabler rather than an isolated technical innovation.

Mergel *et al.* (2019) further conceptualize digital transformation as a multidimensional organizational change involving leadership, culture, governance, capabilities, and technology. Vial (2019) likewise argues that digital transformation fundamentally alters value creation processes through continuous interactions among digital technologies, organizational structures, and strategic responses. Verhoef *et al.* (2021) extend this multidisciplinary perspective by emphasizing that successful digital transformation depends upon organizational alignment across technological, managerial, and institutional dimensions.

Within taxation, OECD (2020, 2021, 2025) proposes Tax Administration 3.0 as a new paradigm in which taxation systems become increasingly integrated into taxpayers' natural digital environments. Rather than relying solely on post transaction reporting, future tax administration increasingly utilizes real time data exchange, digital identities, interoperable platforms, and AI enabled decision support.

Although digital government literature explains technological transformation effectively, it provides limited theoretical explanation regarding how digital transformation strengthens long term fiscal adaptability. Most studies focus on implementation, service quality, or digital maturity rather than explaining adaptive capability development under technological uncertainty.

2.5 Theory Integration and the Need for Fiscal Adaptability Theory

Collectively, these four theoretical traditions provide complementary yet incomplete explanations. Tax compliance theory explains taxpayer behavior but not institutional adaptation. Institutional theory explains organizational legitimacy but underemphasizes capability renewal. Dynamic Capabilities Theory explains adaptive capability development but has rarely been extended to fiscal institutions. Digital government literature explains technological transformation but provides limited insight into sustaining fiscal capacity amid continuous technological disruption.

These theoretical limitations reveal an important conceptual gap. Contemporary tax administrations operate within environments characterized by continuous AI innovation, rapidly evolving digital business models, cross border data flows, and increasing institutional

complexity. Maintaining fiscal sustainability therefore requires more than improving compliance or adopting digital technologies. It requires developing organizational capabilities that continuously sense technological change, learn from evolving environments, coordinate across institutional boundaries, and reconfigure governance mechanisms before fiscal capacity deteriorates.

Accordingly, this study integrates insights from these four theoretical traditions to develop Fiscal Adaptability Theory, a middle range theory that explains how adaptive tax administrations sustain fiscal resilience in AI based digital economies. Rather than replacing existing theories, the proposed framework extends them by positioning fiscal adaptability as the central organizational capability linking AI enabled fiscal intelligence, institutional learning, adaptive governance, adaptive enforcement, and long term revenue sustainability. This integrative perspective provides the theoretical foundation for the conceptual model developed in the following section.

The four theoretical perspectives reviewed above provide complementary explanations of adaptive tax administration. Their respective strengths and conceptual limitations collectively establish the foundation for developing the proposed Fiscal Adaptability Theory.

Table 1. Comparative Synthesis of Theoretical Foundations Supporting Fiscal Adaptability Theory

Theoretical Perspective	Primary Focus	Key Strength	Conceptual Limitation	Contribution to FAT
Tax Compliance Theory	Taxpayer compliance behaviour	Explains compliance decisions, enforcement, deterrence, trust, and tax morale	Focuses primarily on taxpayers rather than institutional adaptation	Provides the behavioural foundation while highlighting the need to shift attention toward adaptive fiscal institutions
Institutional Theory	Organizational legitimacy and institutional change	Explains how organizations respond to environmental pressures and legitimacy demands	Explains why organizations change but not how adaptive capabilities are continuously developed	Supports adaptive governance, institutional flexibility, and organizational legitimacy
Dynamic Capabilities Theory	Organizational adaptation under environmental turbulence	Explains sensing, learning, resource reconfiguration, and organizational renewal	Developed mainly for private-sector organizations with limited attention to public fiscal institutions	Provides the adaptive capability logic underlying fiscal sensing and organizational learning
Digital Government Theory	Digital transformation of public administration	Explains digitalization, organizational redesign, and technology-enabled governance	Focuses largely on implementation and digital maturity rather than long-term adaptive capability	Explains AI-enabled fiscal intelligence and digital transformation within tax administration
Integrated Perspective	Adaptive tax administration	Combines behavioural, institutional, capability, and technological perspectives	Existing theories remain fragmented when examined individually	Establishes Fiscal Adaptability Theory as an integrated middle-range explanation of adaptive tax administration in AI-based digital economies

Source: Developed by the author based on Allingham and Sandmo (1972), DiMaggio and Powell (1983), Teece et al. (1997), Janowski (2015), and the theoretical synthesis presented in this study.

Table 1 demonstrates that each theoretical perspective explains a distinct dimension of adaptive tax administration but remains insufficient when considered independently. Their integration provides the conceptual rationale for Fiscal Adaptability Theory by combining behavioural, institutional, organizational, and technological perspectives into a coherent explanatory framework. This synthesis directly motivates the conceptual model presented in the subsequent figure.

Although existing theories collectively explain important dimensions of taxation in digital economies, their fragmented perspectives leave an unresolved conceptual gap. An integrated theoretical position is therefore required to explain adaptive tax administration.

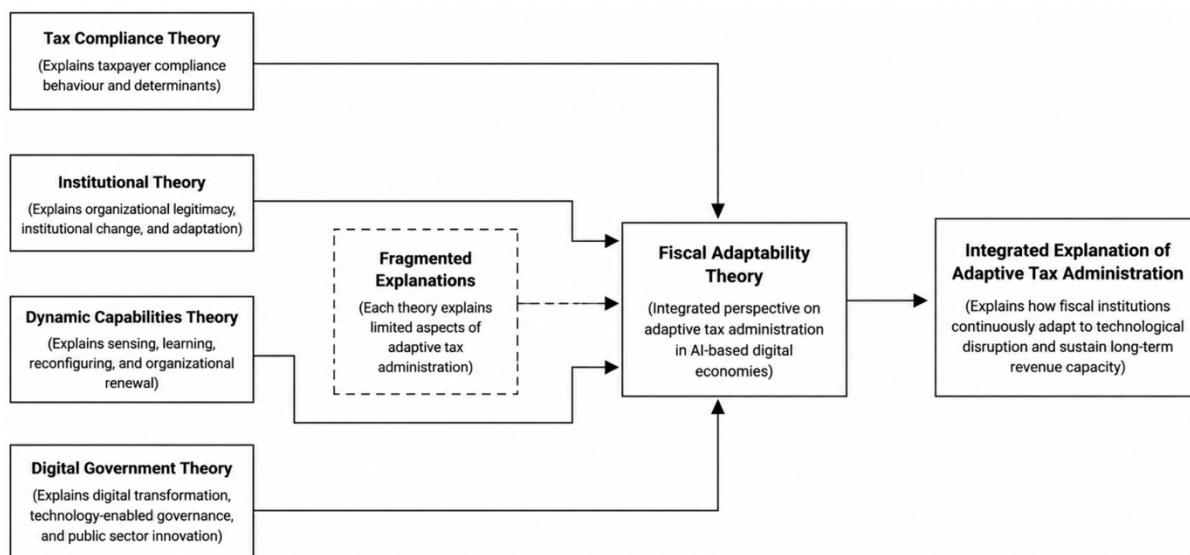


Figure 1. Theoretical Positioning of Fiscal Adaptability Theory

Source: Developed by the author.

Figure 1 illustrates the theoretical positioning of Fiscal Adaptability Theory by integrating four complementary theoretical traditions into a unified middle-range explanation. Rather than replacing existing perspectives, the proposed theory synthesizes their respective strengths to explain adaptive tax administration under AI-based digital economies, thereby addressing the fragmented explanatory scope identified in previous literature.

3. Building the Fiscal Adaptability Theory

The preceding discussion demonstrates that existing theoretical perspectives explain important but disconnected dimensions of taxation in digital economies. Tax Compliance Theory explains taxpayer behavior, Institutional Theory explains organizational legitimacy, Dynamic Capabilities Theory explains organizational adaptation, and Digital Government Theory explains technological transformation. However, none sufficiently explains how tax administrations continuously adapt to AI driven economic transformation while maintaining long term fiscal capacity. This section develops Fiscal Adaptability Theory as a middle range theory by specifying its domain, defining its core constructs, explaining the underlying causal mechanism, identifying contextual boundaries, and proposing theoretically grounded propositions.

3.1 Domain Specification

Fiscal Adaptability Theory is developed to explain how tax administrations maintain fiscal capacity under conditions characterized by rapid technological disruption, AI enabled economic activities, and continuously evolving digital business models. Unlike traditional taxation theories that emphasize taxpayer compliance, this theory positions the tax

administration itself as the primary unit of analysis. Consequently, the theory focuses on organizational adaptation rather than individual taxpayer behavior.

The domain of the proposed theory is limited to public tax administrations operating within digitally transforming economies where taxation increasingly depends upon digital infrastructures, integrated information systems, real time transaction data, and AI assisted decision making. These characteristics distinguish contemporary taxation from conventional fiscal administration designed around physical assets, stable business structures, and periodic reporting systems (OECD, 2020, 2021, 2025).

Within this domain, fiscal adaptability refers to the institutional capability of tax administrations to continuously detect technological changes, interpret emerging fiscal risks, learn from digital environments, reconfigure governance arrangements, and redesign administrative processes to sustain public revenue. Adaptation therefore becomes a dynamic organizational capability rather than a single policy response.

The theory assumes that technological disruption is continuous rather than episodic. AI continuously alters business models, transaction mechanisms, organizational boundaries, and value creation processes. Consequently, fiscal institutions cannot rely solely on periodic regulatory reforms but must develop adaptive capabilities that evolve alongside technological change. This assumption differentiates Fiscal Adaptability Theory from conventional tax administration models that emphasize implementation of fixed regulations.

The proposed theory also assumes that fiscal sustainability increasingly depends upon organizational learning and institutional flexibility rather than technological adoption alone. AI itself does not improve fiscal performance. Instead, organizational capability determines whether technological opportunities can be translated into adaptive governance and sustainable revenue generation.

3.2 Core Constructs

Fiscal Adaptability Theory consists of seven interrelated constructs representing sequential organizational capabilities through which adaptive tax administration develops.

The first construct is AI Enabled Fiscal Intelligence, referring to the capability of tax administrations to utilize artificial intelligence, advanced analytics, machine learning, and integrated digital data to improve environmental scanning and fiscal decision making. Rather than functioning merely as automation tools, AI technologies expand organizational capacity to detect emerging tax risks, identify changing economic behaviors, and generate predictive fiscal insights (OECD, 2020; Saragih *et al.*, 2023).

The second construct is Fiscal Sensing Capability, adapted from Dynamic Capabilities Theory (Teece *et al.*, 1997). Fiscal sensing represents the organizational capability to identify technological changes, recognize emerging fiscal threats, monitor evolving taxpayer behavior, and anticipate regulatory challenges before they become institutional problems. Unlike traditional monitoring activities, fiscal sensing is proactive, continuous, and data driven.

The third construct is Institutional Learning, representing the capability of tax administrations to acquire, interpret, integrate, and institutionalize knowledge generated through AI enabled sensing activities. Organizational learning enables governments to transform raw digital information into administrative knowledge supporting regulatory innovation and organizational improvement (March, 1991; Zahra & George, 2002).

The fourth construct is Adaptive Fiscal Governance, referring to the capability of fiscal institutions to redesign policies, regulatory frameworks, interorganizational coordination mechanisms, and administrative procedures in response to technological change. Adaptive

governance emphasizes flexibility without sacrificing institutional legitimacy, transparency, or accountability (Ansell & Gash, 2008; Emerson *et al.*, 2012).

The fifth construct is Adaptive Enforcement, which extends conventional tax enforcement beyond auditing and sanctions. Adaptive enforcement integrates AI based monitoring, risk based auditing, digital verification, real time compliance support, and collaborative regulatory approaches. Enforcement therefore evolves alongside changing taxpayer behaviors rather than relying exclusively on static regulatory procedures.

The sixth construct is Fiscal Adaptability, the central construct of the proposed theory. Fiscal adaptability represents the organizational capability to continuously integrate technological intelligence, institutional learning, governance innovation, and adaptive enforcement into coherent organizational responses that preserve fiscal effectiveness despite environmental uncertainty.

The final construct is Revenue Sustainability, referring to the long term capability of governments to maintain stable, resilient, and legitimate revenue generation despite continuous technological disruption. Revenue sustainability reflects the ultimate outcome of adaptive tax administration rather than short term improvements in tax compliance.

The proposed theory consists of interrelated organizational capabilities that operate sequentially to explain adaptive tax administration. The following synthesis clarifies each construct and its theoretical function within the proposed mechanism.

Table 2. De Core Constructs and Sequential Roles in Fiscal Adaptability Theory

Construct	Definition	Key References	Role in Theory
AI Enabled Fiscal Intelligence	Organizational use of AI and advanced analytics to support fiscal decision making	OECD (2020); Saragih <i>et al.</i> (2023)	Antecedent
Fiscal Sensing Capability	Capability to identify technological and fiscal change	Teece <i>et al.</i> (1997); Eisenhardt & Martin (2000)	Dynamic capability
Institutional Learning	Organizational acquisition and integration of new fiscal knowledge	March (1991); Zahra & George (2002)	Mediating capability
Adaptive Fiscal Governance	Continuous redesign of governance mechanisms	Ansell & Gash (2008); Emerson <i>et al.</i> (2012)	Governance capability
Adaptive Enforcement	Flexible and intelligence driven regulatory implementation	Bellon <i>et al.</i> (2022); OECD (2025)	Operational capability
Fiscal Adaptability	Institutional capability to sustain adaptive fiscal performance	Proposed theory	Core construct
Revenue Sustainability	Stable fiscal capacity under technological change	OECD (2024); Okunogbe & Santoro (2023)	Ultimate outcome

Source: Developed by the author based on Teece et al. (1997), March (1991), Zahra and George (2002), Ansell and Gash (2008), Janowski (2015), OECD (2020, 2025), and the conceptual synthesis developed in this study.

Table 2 demonstrates that Fiscal Adaptability Theory is structured as a sequential capability framework rather than a collection of independent constructs. Each construct performs a distinct organizational function that contributes cumulatively to adaptive tax administration, ultimately explaining how AI-enabled fiscal intelligence is transformed into sustained revenue resilience through organizational adaptation.

3.3 Mechanism Development

The central mechanism proposed by Fiscal Adaptability Theory explains how AI based technological transformation is translated into sustainable fiscal outcomes through a sequence of adaptive organizational capabilities.

The process begins with AI Enabled Fiscal Intelligence. AI systems collect, integrate, and analyze increasingly complex fiscal information generated from digital transactions, platform ecosystems, electronic invoicing, digital identities, and cross border economic activities. However, AI itself does not directly improve fiscal performance because information alone possesses limited organizational value.

AI generated information strengthens Fiscal Sensing Capability by enabling tax administrations to detect emerging taxpayer behaviors, identify previously invisible fiscal risks, and anticipate structural changes in digital business ecosystems. Consistent with Dynamic Capabilities Theory, sensing represents the earliest stage of organizational adaptation (Teece *et al.*, 1997).

Sensing activities subsequently generate Institutional Learning. Organizations interpret technological signals, evaluate policy implications, integrate new knowledge, and redesign internal decision processes. Learning transforms dispersed information into organizational capability, allowing tax administrations to recognize which institutional arrangements remain effective and which require modification (March, 1991; Zahra & George, 2002).

Institutional learning supports Adaptive Fiscal Governance. Learning enables governments to redesign regulatory frameworks, strengthen interagency coordination, improve digital interoperability, and establish governance arrangements capable of responding to continuous technological change. Governance therefore evolves dynamically rather than remaining constrained by historical institutional arrangements.

Adaptive governance subsequently enables Adaptive Enforcement. Rather than relying solely on audits and penalties, enforcement becomes predictive, intelligence driven, collaborative, and increasingly embedded within digital ecosystems. AI supports continuous compliance monitoring, automated verification, and targeted intervention while reducing administrative burden.

These adaptive capabilities collectively generate Fiscal Adaptability, representing the institutional capacity to sustain effective taxation despite continuous environmental uncertainty. Fiscal adaptability therefore emerges as an organizational capability produced through sequential interactions among technological intelligence, sensing, learning, governance, and adaptive enforcement.

Finally, fiscal adaptability enhances Revenue Sustainability. Sustainable revenue does not arise because taxpayers simply become more compliant, but because fiscal institutions continuously adapt their organizational capabilities to changing technological environments. This distinction represents the principal theoretical contribution of the proposed framework.

3.4 Boundary Conditions

Fiscal Adaptability Theory is unlikely to operate uniformly across all institutional contexts. Several boundary conditions determine its explanatory power.

First, institutional quality influences organizational capacity to transform technological intelligence into adaptive governance. Weak institutional arrangements may limit organizational learning despite sophisticated AI systems (DiMaggio & Powell, 1983).

Second, digital maturity affects organizational readiness to implement integrated digital taxation systems. Countries with fragmented digital infrastructures may experience weaker adaptive capabilities even when technological investments are substantial (OECD, 2024).

Third, regulatory agility determines the speed with which governments translate institutional learning into policy innovation. Highly rigid legal systems may reduce organizational responsiveness.

Fourth, data governance capability influences AI effectiveness. Reliable, interoperable, and secure data ecosystems strengthen sensing and learning capabilities, whereas fragmented information systems reduce adaptive performance (Mergel *et al.*, 2019).

Finally, administrative capability shapes organizational capacity to integrate technology, governance, and human expertise. Adaptive tax administration therefore depends upon both technological and managerial competencies.

3.5 Proposition Development

Based on the proposed mechanism, six propositions are advanced.

Proposition 1

AI Enabled Fiscal Intelligence positively enhances Fiscal Sensing Capability by improving organizational ability to detect technological and fiscal change.

Proposition 2.

Fiscal Sensing Capability positively influences Institutional Learning by increasing organizational capacity to interpret and integrate emerging fiscal knowledge.

Proposition 3.

Institutional Learning positively strengthens Adaptive Fiscal Governance by facilitating continuous redesign of regulatory and administrative arrangements.

Proposition 4.

Adaptive Fiscal Governance positively influences Adaptive Enforcement through the development of flexible, intelligence driven regulatory mechanisms.

Proposition 5.

Adaptive Enforcement positively contributes to Fiscal Adaptability by enabling continuous organizational adjustment to technological disruption.

Proposition 6.

Fiscal Adaptability positively enhances Revenue Sustainability, and this relationship becomes stronger under conditions of high institutional quality and advanced digital maturity.

The six propositions collectively specify the causal logic of Fiscal Adaptability Theory by linking sequential organizational capabilities that transform AI-enabled intelligence into sustainable fiscal performance under technological disruption.

Table 3. Sequential Organizational Capability Framework for Fiscal Adaptability

Stage	Organizational Capability	Causal Mechanism	Expected Intermediate Outcome	Related Proposition
1	AI-Enabled Fiscal Intelligence	AI-supported analytics generate real-time fiscal information and strategic intelligence.	Enhanced visibility of technological and fiscal change	P1
2	Fiscal Sensing Capability	Continuous environmental scanning detects emerging risks, opportunities, and evolving taxpayer behaviour.	Early recognition of adaptive requirements	P2
3	Institutional Learning	Organizational interpretation and knowledge integration transform information into institutional capability.	Improved organizational learning and policy knowledge	P3
4	Adaptive Fiscal Governance	Governance structures, regulations, and interagency coordination are redesigned in response to technological change.	Flexible institutional arrangements	P4

Stage	Organizational Capability	Causal Mechanism	Expected Intermediate Outcome	Related Proposition
5	Adaptive Enforcement	Intelligence-driven enforcement combines AI-supported monitoring, risk-based auditing, and responsive regulatory action.	More adaptive and efficient regulatory implementation	P5
6	Fiscal Adaptability → Revenue Sustainability	Integrated organizational capabilities collectively strengthen long-term fiscal resilience under AI-driven disruption.	Sustainable fiscal performance and institutional resilience	P6

Source: Developed by the author based on the theoretical propositions and causal mechanism proposed in Fiscal Adaptability Theory.

Table 3 synthesizes the sequential causal mechanism underlying Fiscal Adaptability Theory by demonstrating how each organizational capability builds upon the preceding stage. Rather than representing isolated relationships, the propositions collectively explain an integrated adaptive process through which AI-enabled fiscal intelligence is progressively transformed into sustained revenue resilience under conditions of continuous technological disruption.

4. Discussion and Implications

The emergence of AI based digital economies fundamentally reshapes the assumptions underpinning contemporary tax administration. Whereas conventional taxation research has predominantly emphasized taxpayer compliance, the proposed Fiscal Adaptability Theory argues that the sustainability of fiscal systems increasingly depends upon the adaptive capability of tax administrations themselves. This shift is not merely semantic. It represents a change in the theoretical locus of explanation from taxpayer behavior toward institutional capability. In rapidly evolving digital environments characterized by algorithmic business models, platform ecosystems, cross border data flows, and AI driven transactions, tax administrations are required to continuously reconfigure organizational routines, governance mechanisms, and regulatory instruments rather than relying on static compliance frameworks. Consequently, Fiscal Adaptability Theory offers a broader explanatory perspective for understanding fiscal resilience under technological disruption.

4.1 Theoretical Contributions

The first contribution of this study is the reconceptualization of the primary objective of tax administration. Existing taxation literature largely assumes that the effectiveness of tax administration is reflected in higher compliance rates, stronger enforcement, or increased tax collection (Allingham & Sandmo, 1972; Alm, 2019; Slemrod, 2019). Although these outcomes remain important, they represent operational consequences rather than the underlying organizational capability that enables fiscal systems to remain effective under continuous environmental change. The present study argues that fiscal adaptability constitutes a higher order organizational capability that precedes and sustains compliance performance.

This reconceptualization extends Tax Compliance Theory without rejecting its core assumptions. Taxpayer compliance remains an essential component of effective taxation, yet compliance should be viewed as one consequence of adaptive fiscal institutions rather than the ultimate objective of tax administration. AI enabled economies generate new forms of taxable activities that frequently emerge before regulatory frameworks can adequately respond. Consequently, the long term effectiveness of taxation increasingly depends upon institutional capability to anticipate, interpret, and respond to technological change rather than exclusively strengthening traditional enforcement mechanisms.

The second contribution lies in integrating previously disconnected theoretical traditions into a coherent middle range explanation. Tax Compliance Theory explains behavioral compliance, Institutional Theory explains organizational legitimacy, Dynamic Capabilities Theory explains capability renewal, and Digital Government Theory explains technological transformation (DiMaggio & Powell, 1983; Teece *et al.*, 1997; Janowski, 2015; Vial, 2019). Individually, each theory explains an important aspect of fiscal administration. Collectively, however, they leave an important explanatory gap concerning how tax administrations continuously adapt to technological disruption while maintaining fiscal sustainability.

Fiscal Adaptability Theory addresses this gap by specifying a sequential organizational mechanism linking AI enabled fiscal intelligence, fiscal sensing capability, institutional learning, adaptive fiscal governance, adaptive enforcement, and revenue sustainability. This mechanism provides explanatory logic that extends beyond descriptive accounts of digital transformation. Rather than treating technology as an independent driver of organizational performance, the proposed theory emphasizes that organizational adaptation mediates the relationship between technological innovation and sustainable fiscal outcomes. AI therefore functions as an enabling condition whose value depends upon organizational capability development.

A third theoretical contribution concerns the extension of Dynamic Capabilities Theory into the public fiscal domain. Dynamic capabilities have traditionally been examined within private organizations pursuing competitive advantage (Teece *et al.*, 1997; Eisenhardt & Martin, 2000). Public organizations, however, operate under different institutional logics characterized by accountability, legality, transparency, and public value creation. By conceptualizing fiscal adaptability as a public sector dynamic capability, this study broadens the applicability of capability based theory while recognizing the distinctive institutional context of tax administration. The proposed theory therefore contributes to emerging discussions regarding dynamic capabilities in public organizations (Piening, 2013).

Finally, Fiscal Adaptability Theory contributes to digital government scholarship by shifting attention from digital transformation as technological implementation toward digital transformation as institutional adaptation. Previous research has primarily evaluated digital government through service quality, digital maturity, or administrative efficiency (Cordella & Tempini, 2015; Mergel *et al.*, 2019; Verhoef *et al.*, 2021). The present study instead argues that sustainable digital transformation depends upon organizational capability to continuously redesign governance arrangements under conditions of technological uncertainty. This perspective provides a stronger theoretical explanation for why similar technological investments often produce different fiscal outcomes across jurisdictions.

4.2 Managerial Implications

The proposed theory carries important implications for tax administration leaders and public managers responsible for fiscal modernization. First, investments in AI should not be evaluated solely according to technological sophistication. Organizational capability development should receive equal strategic attention because AI systems generate value only when supported by effective sensing, learning, governance, and adaptive decision making. Tax administrations should therefore view AI implementation as an organizational transformation initiative rather than an information technology project.

Second, organizational learning should become a strategic capability within tax administrations. AI continuously generates new information regarding taxpayer behavior, digital business models, and emerging fiscal risks. Without institutional mechanisms that translate these insights into organizational knowledge, technological investments may remain underutilized. Managers should establish continuous learning systems that integrate analytical outputs into regulatory redesign, operational procedures, and workforce capability development.

Third, adaptive governance requires stronger interorganizational collaboration. Modern taxation increasingly depends upon coordination among tax authorities, financial regulators, customs agencies, digital platform providers, financial technology firms, and international organizations. Collaborative governance therefore becomes an essential managerial capability rather than an optional administrative arrangement (Ansell & Gash, 2008; Emerson *et al.*, 2012). Building interoperable data ecosystems and shared governance structures will likely become increasingly important as digital economies continue to evolve.

Fourth, workforce development should accompany technological modernization. AI cannot replace institutional judgment regarding regulatory interpretation, ethical decision making, and governance design. Tax administrations should therefore invest simultaneously in digital competencies, analytical capabilities, policy innovation, and organizational learning to strengthen adaptive capacity.

4.3 Policy Implications

The proposed Fiscal Adaptability Theory also offers several implications for policymakers engaged in fiscal reform. Current tax modernization initiatives frequently emphasize digitalization through electronic filing, electronic invoicing, integrated databases, and automated auditing. Although these initiatives improve administrative efficiency, they may not ensure long term fiscal resilience if governments fail to develop adaptive institutional capabilities. Policymakers should therefore expand modernization agendas beyond technological implementation toward continuous institutional capability development.

The theory also supports ongoing international initiatives promoting digitally integrated tax administration, including the OECD Tax Administration 3.0 agenda (OECD, 2020, 2021, 2025). However, the present framework suggests that successful implementation requires complementary investments in governance flexibility, organizational learning, and adaptive policy making. Digital infrastructure alone cannot generate sustainable fiscal outcomes without institutional mechanisms capable of translating technological intelligence into regulatory adaptation.

For developing economies, Fiscal Adaptability Theory highlights the importance of sequencing reform initiatives. Many governments face resource constraints that limit large scale AI adoption. The proposed framework suggests that strengthening organizational learning, interagency coordination, and adaptive governance may provide substantial benefits even before advanced AI technologies become fully operational. Consequently, institutional readiness should be considered alongside technological readiness when designing fiscal reform strategies.

At the international level, rapidly expanding digital trade, multinational platform ecosystems, and AI driven business models increasingly challenge national taxation systems. Fiscal adaptability therefore requires greater international policy coordination regarding digital reporting standards, interoperable information exchange, cross border taxation, and AI governance. Such cooperation strengthens the ability of individual tax administrations to respond effectively to globally integrated digital economies.

4.4 Boundary Conditions and Limitations

Several limitations should be acknowledged. First, Fiscal Adaptability Theory is intentionally developed as a conceptual middle range theory and has not yet been subjected to empirical testing. Future studies should operationalize the proposed constructs and examine their relationships across different national contexts.

Second, the theory focuses primarily on tax administration as the organizational unit of analysis. Broader macroeconomic factors, political institutions, fiscal federalism, and international tax competition undoubtedly influence fiscal outcomes but remain outside the

immediate scope of the proposed framework. Incorporating these contextual factors may further enrich future theoretical development.

Third, the proposed mechanism assumes that AI technologies are implemented within institutional environments characterized by minimum levels of digital infrastructure and administrative capability. Jurisdictions experiencing severe technological limitations or institutional instability may exhibit different adaptation processes. Accordingly, the explanatory power of Fiscal Adaptability Theory is expected to vary according to institutional quality, digital maturity, regulatory agility, and governance capacity.

Finally, technological change itself remains highly dynamic. Emerging technologies such as generative AI, autonomous agents, blockchain based taxation, programmable money, and decentralized digital identities may introduce new institutional challenges beyond those considered in the present framework. Rather than representing a final explanation, Fiscal Adaptability Theory should therefore be viewed as an evolving theoretical foundation that can be refined as digital economies continue to transform.

Overall, the discussion demonstrates that shifting analytical attention from taxpayer compliance toward institutional adaptability provides a more comprehensive explanation for fiscal resilience in AI based digital economies. By integrating multiple theoretical perspectives into a coherent middle range theory, this study offers a stronger conceptual foundation for understanding adaptive tax administration and opens new avenues for empirical research and policy innovation.

5. Future Research Agenda

The proposed Fiscal Adaptability Theory provides a conceptual foundation for understanding how tax administrations respond to AI driven digital transformation. As a middle range theory, its primary purpose is not to offer a universally applicable explanation but to establish a theoretically coherent framework that can be refined, extended, and empirically validated across diverse institutional contexts. Future research should therefore move beyond examining whether digital technologies improve tax compliance and instead investigate how adaptive organizational capabilities enable fiscal resilience under conditions of continuous technological change.

A first research priority concerns the empirical operationalization of the proposed constructs. While this study conceptually defines AI Enabled Fiscal Intelligence, Fiscal Sensing Capability, Institutional Learning, Adaptive Fiscal Governance, Adaptive Enforcement, Fiscal Adaptability, and Revenue Sustainability, future studies should develop reliable measurement scales for each construct. Construct validation through exploratory and confirmatory factor analyses would strengthen the theoretical precision of Fiscal Adaptability Theory and facilitate cumulative knowledge development. Structural equation modeling could subsequently examine the sequential relationships proposed in this paper, while longitudinal research designs would provide stronger evidence regarding organizational adaptation over time.

Second, future studies should examine contextual heterogeneity across countries. Fiscal institutions operate within markedly different legal systems, administrative traditions, technological infrastructures, and governance capacities. Consequently, the mechanisms proposed in Fiscal Adaptability Theory may vary between developed and developing economies. Comparative cross national research would help identify whether institutional quality, digital maturity, governance effectiveness, or administrative capacity moderate the relationship between adaptive tax administration and revenue sustainability. Such comparative analyses would also clarify the contextual boundaries of the proposed theory and identify conditions under which adaptive capabilities become more or less effective.

A third research direction involves expanding the theoretical scope of adaptive tax administration. The present framework primarily focuses on organizational adaptation within tax authorities. Future studies may integrate additional perspectives such as public sector innovation, organizational resilience, ecosystem governance, or institutional entrepreneurship to explain how adaptive fiscal capability evolves through interactions among multiple public and private actors. Such theoretical integration would enrich understanding of collaborative adaptation in increasingly interconnected digital economies.

The rapid evolution of AI technologies also presents important opportunities for extending the proposed framework. Emerging applications including generative AI, autonomous decision support systems, predictive regulatory analytics, blockchain enabled taxation, programmable digital currencies, and digital identity infrastructures may fundamentally alter the nature of fiscal governance. Future research should investigate how these technologies reshape organizational learning processes, governance structures, regulatory design, and administrative decision making. Rather than treating AI as a single technological variable, scholars should examine how different categories of AI generate distinct adaptive mechanisms within tax administrations.

Another promising avenue concerns the development of multilevel research designs. Fiscal adaptability may emerge not only from organizational capabilities but also from interactions among individual employees, organizational routines, interagency collaboration, and national policy environments. Future studies could therefore investigate adaptive mechanisms operating simultaneously at individual, organizational, and institutional levels. Such multilevel perspectives would provide a richer understanding of how adaptive capabilities are created, institutionalized, and sustained across public sector ecosystems.

Finally, future research should examine the broader consequences of fiscal adaptability beyond revenue sustainability. Adaptive tax administration may influence public trust, policy legitimacy, investment attractiveness, economic resilience, and government responsiveness during technological disruption. Exploring these broader outcomes would position Fiscal Adaptability Theory within wider debates concerning digital governance, public value creation, and sustainable economic development. Such extensions would strengthen the relevance of the theory for both management scholarship and public policy research.

Building upon the proposed middle-range theory, several research directions emerge for validating, extending, and contextualizing Fiscal Adaptability Theory across diverse institutional environments and evolving technological settings.

Table 4. Future Research Agenda for Fiscal Adaptability Theory

Research Direction	Key Research Questions	Suggested Methods	Expected Contribution
Construct Validation	How can Fiscal Adaptability and its dimensions be reliably measured?	Scale development, EFA, CFA, SEM	Establish valid measurement instruments
Cross Country Comparison	Do institutional quality and digital maturity shape fiscal adaptability?	Comparative studies, multigroup SEM, panel analysis	Define contextual boundary conditions
Theory Extension	How can ecosystem governance and organizational resilience complement Fiscal Adaptability Theory?	Conceptual development, qualitative synthesis	Extend the explanatory scope of the theory
Emerging AI Technologies	How do generative AI, blockchain, and digital identity reshape adaptive tax administration?	Case studies, mixed methods	Refine adaptive mechanisms under technological disruption

Research Direction	Key Research Questions	Suggested Methods	Expected Contribution
Multilevel Adaptation	How do individual, organizational, and institutional capabilities jointly produce fiscal adaptability?	Multilevel modeling, longitudinal studies	Explain cross level adaptation processes
Broader Outcomes	Does fiscal adaptability improve public trust, policy legitimacy, and economic resilience?	Cross country surveys, panel data, PLS SEM	Expand the theory beyond revenue sustainability

Source: Developed by the author based on the future research agenda proposed in this study.

In summary, the future research agenda emphasizes that Fiscal Adaptability Theory should be viewed as an evolving theoretical platform rather than a closed explanatory model. Its value lies not only in explaining adaptive tax administration under AI based digital economies but also in stimulating a broader research program that integrates taxation, public management, digital government, and strategic capability perspectives. Through systematic empirical validation and theoretical refinement, the proposed framework has the potential to become a foundational explanation for adaptive fiscal governance in the next generation of digital economies.

6. Conclusion

The accelerating diffusion of artificial intelligence, platform based business models, and digitally integrated economic systems has fundamentally altered the institutional landscape in which tax administrations operate. While existing taxation research has generated substantial knowledge regarding taxpayer compliance, digital tax administration, and technology enabled enforcement, the literature remains fragmented in explaining how fiscal institutions themselves adapt to continuous technological disruption. This study was motivated by the recognition that the central challenge confronting contemporary tax administrations extends beyond improving compliance rates to sustaining fiscal capacity in increasingly dynamic and uncertain digital environments. Addressing this unresolved theoretical problem, the study sought to develop a middle range theory capable of explaining the organizational capabilities through which tax administrations continuously adapt to AI based digital economies.

The principal contribution of this study lies in shifting the analytical focus from taxpayer behavior toward institutional adaptability. Rather than conceptualizing tax administration primarily as a mechanism for enforcing compliance, the proposed Fiscal Adaptability Theory positions adaptive organizational capability as the fundamental driver of long term fiscal sustainability. By integrating insights from Tax Compliance Theory, Institutional Theory, Dynamic Capabilities Theory, and Digital Government Theory, this study advances a coherent conceptual explanation that bridges previously disconnected streams of research. The proposed framework introduces fiscal adaptability as a higher order organizational capability emerging through the sequential interaction of AI Enabled Fiscal Intelligence, Fiscal Sensing Capability, Institutional Learning, Adaptive Fiscal Governance, and Adaptive Enforcement, ultimately supporting Revenue Sustainability. In doing so, the study extends existing knowledge by explaining not only why digital technologies matter for tax administration but also how their value is translated into sustainable fiscal outcomes through adaptive institutional processes.

Beyond its theoretical contribution, the proposed framework also provides important implications for practice and policy. For tax authorities, the study suggests that successful digital transformation requires more than investing in advanced technologies. Sustainable modernization depends upon developing organizational learning capabilities, governance flexibility, interagency collaboration, and continuous institutional renewal. For policymakers,

the findings reinforce that fiscal reform should prioritize adaptive governance alongside digital infrastructure, particularly as governments confront increasingly complex AI driven economic activities. Consequently, the study contributes to ongoing discussions surrounding digital government, Tax Administration 3.0, and public sector innovation by emphasizing that technological progress alone cannot guarantee resilient fiscal systems without corresponding institutional adaptability.

Notwithstanding these contributions, several limitations should be acknowledged. As a conceptual theory building study, the proposed framework has not yet been empirically validated, and the causal relationships among its constructs remain theoretical propositions requiring systematic examination. Moreover, the theory focuses primarily on tax administration as the organizational unit of analysis and therefore does not explicitly incorporate broader political, macroeconomic, or international institutional dynamics that may also shape fiscal adaptation. These limitations, however, represent opportunities for further theoretical refinement rather than weaknesses of the conceptual contribution itself.

Future research should therefore prioritize empirical validation of the proposed constructs and propositions across diverse institutional contexts using longitudinal, comparative, and multilevel research designs. Scholars may also examine how institutional quality, digital maturity, regulatory agility, and governance capacity condition the effectiveness of fiscal adaptability, while extending the framework to emerging technological developments such as generative AI, blockchain enabled taxation, digital identity ecosystems, and programmable digital currencies. Such research would not only refine the explanatory boundaries of Fiscal Adaptability Theory but also strengthen its applicability across different public sector environments and stages of digital transformation.

In conclusion, this study argues that the future of tax administration should no longer be understood primarily through the lens of taxpayer compliance but through the capacity of fiscal institutions to continuously adapt to technological and economic transformation. By repositioning adaptability as the central explanatory mechanism linking artificial intelligence, organizational capability, and sustainable fiscal governance, the proposed Fiscal Adaptability Theory offers a novel and integrative foundation for future scholarship. As AI based digital economies continue to redefine the nature of public administration and economic activity, understanding how governments cultivate adaptive fiscal institutions will become increasingly essential for advancing both theory and practice in taxation, public management, and digital governance.

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