p-ISSN 2714-6308 | e-ISSN 2714-6294
Amnesty
Jurnal Riset Perpajakan

The Influence of Tax Planning Vs Aggressive Tax Planning on Company Value in Domestic and Foreign Companies: Literature Review

Indri Nugraha and Ida Farida Adi Prawira
Indonesian Education University, Master of Accounting Science
Email: indrinugraha@upi.edu

Keywords:
tax planning, aggressive tax planning, company value

Abstract

The purpose of this research is to analyze the impact of Tax Planning and Aggressive Tax Planning on company value. Tax Planning, measured using three indicators—Cash Effective Tax Rate, Book Tax Difference, and Tax Shelter—was found to have a significant influence on company value. Conversely, Aggressive Tax Planning showed no significant effect on company value. This study employs the Systematic Literature Review (SLR) method, utilizing a sample of 30 journal articles as the primary data source. The SLR approach enables a comprehensive analysis by synthesizing findings from multiple studies, ensuring robust and reliable conclusions. The findings highlight the importance of effective tax planning strategies in enhancing company value while suggesting that overly aggressive tax planning may not yield the desired benefits for firms. These results underscore the need for companies to adopt balanced and sustainable tax strategies to optimize their financial performance and long-term value. Future research is encouraged to explore additional factors influenced by Tax Planning and Aggressive Tax Planning. This may include examining their impact on other financial performance metrics, governance structures, or stakeholder trust. Furthermore, the study's implications can guide policymakers and practitioners in designing tax frameworks and strategies that align with corporate value creation objectives. Ultimately, this research serves as a valuable reference for academics, practitioners, and policymakers, providing insights into the nuanced effects of tax strategies on firm value and laying a foundation for future investigations.

1. Introduction

In both developed and emerging economies, taxation plays a pivotal role in the financial sustainability of governments, serving as the primary source of state revenue for infrastructure development and public service funding. In Indonesia, taxes represent the largest share of government income, and the government continues to emphasize tax collection as a means to support national growth. However, taxes present a dual-edged sword for companies. While they are essential for state revenue, taxes also represent a financial burden, reducing the available profits that companies could otherwise reinvest or distribute to shareholders. As a result, firms across the globe, including those in Indonesia, seek ways to minimize their tax liabilities to maximize profit and, in turn, enhance their corporate value.

Corporate value, a measure of a company's financial health, is essential for attracting investors. According to Marsaid and Pesudo (2019), a company's value directly correlates with its market performance and investor perceptions. Companies that manage to increase their value through high returns are considered attractive to investors, thereby raising shareholder welfare. A key strategy for companies aiming to increase their value is through tax planning. Tax planning involves arranging business transactions to minimize tax liabilities while staying within legal boundaries, thus allowing companies to retain more earnings for investment or distribution. In contrast, aggressive tax planning, often involving strategies that exploit loopholes or riskier approaches to minimize tax liabilities, can sometimes push the limits of legal and ethical frameworks.

This study focuses on comparing the impact of Tax Planning and Aggressive Tax Planning on company value in both domestic and foreign companies. Tax planning is typically seen as a way to create sustainable value by reducing tax burdens through efficient management, while aggressive tax planning has been a topic of concern for policymakers and stakeholders due to its potential to distort tax fairness and corporate transparency. This literature review synthesizes existing research to assess the effect of both approaches on company value, aiming to provide insights into how tax strategies contribute to or detract from the long-term performance of firms.

The growing body of literature suggests that tax planning, when executed correctly, can positively impact a company's value by enhancing profitability, promoting investor confidence, and ensuring legal compliance. On the other hand, aggressive tax planning often yields mixed results, with some studies indicating positive impacts on company value, while others suggest potential drawbacks such as increased risk or reputational damage. This research will help shed light on these contradictory findings and provide a nuanced understanding of how tax strategies affect corporate performance, laying the groundwork for future research and policy recommendations aimed at aligning corporate taxation with sustainable business practices.

2. Literature review

2.1 Tax Planning

According to Effivani and Effendi (2023), tax planning is a key function in tax management, wherein companies aim to minimize their tax liabilities legally, ensuring that their tax obligations remain as low as possible without violating applicable tax laws. Tax planning plays a crucial role in reducing the impact on a company's liquidity and profitability. The Effective Tax Rate (ETR) is often used to measure a company's tax burden and can also serve as an indicator of the company's overall performance (Razali et al., 2018). Companies typically strive to reduce income tax in order to maximize their post-tax profits. In addition, tax planning seeks to increase company value, which is closely tied to the quality of organizational and managerial planning. Managers often look for ways to minimize their tax liabilities to maximize after-tax returns or enhance shareholder wealth.

Masaid and Pesudo (2019) explain that tax planning is not about incorrectly fulfilling tax obligations, but rather exploiting opportunities within tax regulations that benefit the company while still ensuring that the government also benefits. Companies can minimize their tax liabilities through legal means or, in some cases, violate regulations (illegal practices). The research by Masaid and Pesudo (2019) indicates that cash effective tax rates and tax sheltering activities significantly affect company value, while the book-tax difference does not. This suggests that companies can leverage existing tax regulations to optimize tax planning and company value.

Research conducted by Yulianti, Vista, et al. (2023) shows that tax planning positively affects company value, while tax avoidance does not. Mgammal (2020) defines tax planning as the ability to organize financial activities in such a way that tax expenditures are minimized. Additionally, tax planning involves structuring affairs to defer, reduce, or eliminate taxes owed. Mgammal's research on corporate tax disclosure in Malaysia found that tax planning positively influences tax disclosure, meaning that tax planning is linked to lower tax disclosure, helping companies address transparency issues when implementing aggressive tax policies.

Various formulas can be used to measure tax planning, including:

a. **Effective Tax Rate (ETR):** Shows the percentage of tax paid on taxable income.
b. **Tax Savings:** Measures the reduction in tax liabilities due to tax planning.
c. **Tax Efficiency Ratio:** Assesses how efficiently a company generates profit after tax from total revenue.
d. **Deferred Tax Asset to Total Asset Ratio:** Measures the proportion of assets represented by deferred tax assets.
e. **Current Tax Expense to Total Tax Expense Ratio:** Compares the current tax burden to the total tax burden.
f. **Tax Burden Ratio:** Evaluates the tax burden relative to Earnings Before Interest and Taxes (EBIT).
g. **Cash Tax Rate:** Measures the percentage of taxes paid in cash relative to pre-tax income.
h. **Tax Liability Reduction Percentage:** Measures the percentage reduction in tax liabilities from tax planning.
i. **Adjusted Gross Income (AGI) to Total Income Ratio:** Measures the proportion of adjusted gross income relative to total income.
j. **Capital Gains Tax Efficiency:** Assesses the efficiency of paying capital gains tax relative to total capital gains.
k. **Net Operating Loss (NOL) Utilization Rate:** Measures the extent to which net operating losses are used to reduce future taxable income.
l. **Tax Shield:** Measures tax savings resulting from deductible interest.

2.2 Aggressive Tax Planning

Tax aggressiveness, according to Yuliana and Wahyudi (2018, in Hasanah & Yohanes, 2022), involves a company violating tax regulations in a way that negatively affects its sustainability. The goal of the company is to maximize profits, and tax aggressiveness is often driven by frequent changes in legislation. In research by Hasanah and Yohanes (2022), tax aggressiveness is measured using the effective tax rate (ETR) formula, where the total tax burden is divided by pre-tax profit. The study shows that company size affects tax aggressiveness, while capital intensity, inventory intensity, company risk, audit committees, and independent commissioners do not.

Naibaho and Sudjiman (2022) define tax aggressiveness as an effort to minimize taxes within legal boundaries, yet often through exploiting loopholes in tax law, which can be harmful to the government due to dishonest reporting. According to Prastiwi and Mariana (2023), tax aggressiveness involves manipulating taxable income, either through tax avoidance or tax evasion. One major driver of tax aggressiveness is financial distress. Financial distress refers to a significant decline in financial performance that may lead to serious issues like bankruptcy (Platt & Platt, 2002). Companies in financial distress tend to avoid aggressive tax strategies because maintaining a positive reputation through regulatory compliance is more important for long-term survival than short-term tax benefits.

Graham, IO, and Adeniyi, SI (2022) explain that tax aggressiveness involves structuring business operations to avoid maximum tax liabilities. Tax aggressiveness is allowed in many countries, including Nigeria, and is used as a strategy to reduce tax liabilities, which may, in turn, increase the company's value. Research by Dewi and Cynthia (2018) defines tax aggressiveness as actions to reduce taxable income through tax planning and engineering taxable income. Companies tend to be more aggressive in their tax planning when facing a significant tax burden. However, tax aggressiveness can be considered socially irresponsible, as it may reduce government revenue, which is used for public welfare. From the perspective of stakeholder theory, tax aggressiveness only benefits the company and neglects other stakeholders, including the government and society. Their research shows that liquidity affects tax aggressiveness, while corporate social responsibility, earnings management, and company size do not.

2.3 Company Value

According to Husna and Satria (in Effendi, 2023), company value represents the price at which a company is considered valuable by investors. This value is critical for investors when making investment decisions. To maximize shareholder wealth, company management focuses on increasing the company's share price, which reflects company value. Sukmawati and Ardiansari (in Effendi Arief, 2023) also state that company value is reflected in its share price. A higher share price means higher company value, as it reflects the prosperity of shareholders. Conversely, a low share price negatively impacts company value and leads to unfavorable investor perceptions.

Research by Marsaid and Mauliana (2019) supports this, highlighting that share price is a key indicator of company value. The independent variable in this research, tax planning, is measured using Cash Effective Tax Rates (CETR), Book Tax Differences (BTD), and Tax Sheltering Activities (TSA). Their findings suggest that CETR and tax shelter activities positively influence company value, while book-tax differences do not.

Israel and Ebimobowei (2021) found that tax planning variables, including effective tax rates and tax savings, do not impact company value. They discuss several interpretations of company value, including fair market value, investment value, and intrinsic value. An increase in share prices indicates investor confidence, which can lead to higher financial profits and, ultimately, a higher company value.

According to Desai and Hines (2002), comprehensive tax planning, such as utilizing foreign tax credits, can improve company performance and, consequently, company value. They suggest that tax planning, when effectively executed, can positively influence company performance by signaling to investors that the company is working to reduce its tax liabilities, thus increasing income and shareholder dividends.

In summary, company value reflects the wealth of shareholders and is influenced by factors such as share price, tax planning, and management performance. Tax planning plays a crucial role in maximizing company value by minimizing tax liabilities within legal boundaries.

3. Research Methods

This study uses a **Systematic Literature Review (SLR)**, which is a research method aimed at comprehensively and systematically reviewing various relevant journals or articles on the discussed topic. The research process begins with searching for relevant journal articles via Google Scholar using the keywords **"Tax Planning vs Aggressive Tax Planning Impact on Firm Value."** The search results yielded over 343,000 journals, and after applying specific selection criteria, 30 relevant journals were selected for further analysis.

The journal search process involved considering several important aspects such as publication year, methodology used, theories applied, and research topics. The articles were then grouped based on the main theme and sub-themes related to the research object. The data were selected using the **skimming** method, a technique of fast reading to find the main idea without reading the entire article. This technique is used to obtain an overview from the various articles found.

The selected journal data were then analyzed using a **synthetic matrix**, a table that helps to group and classify arguments from the different articles. The goal is to combine various elements from the articles and draw conclusions from the overall articles reviewed (Murniati, et al., 2018).

4. Results and Discussion

4.1 The Impact of Tax Planning on Firm Value

From the 15 journals discussing the impact of tax planning on firm value, 7 articles showed a significant positive effect, while 8 other journals found no significant effect. Some of the variables used to measure tax planning's impact include Cash Effective Tax Rates, Book Taxes Differences, and Tax Shelters. For instance, Marsaid and Mauliana's (2019) study showed that Cash Effective Tax Rates and Tax Shelters affect firm value, while Book Taxes Differences had no significant impact.

Similar results were found in Razali, MW et al.'s (2018) study, which showed a positive and significant relationship between Effective Tax Rates and firm value in companies listed on Bursa Malaysia. Another study by Shella (2021) indicated that Cash Effective Tax Rates had a significant positive impact on firm value in Indonesia, while Book Taxes Differences showed a negative influence.

4.2 The Impact of Aggressive Tax Planning on Firm Value

Of the 15 journals discussing the impact of aggressive tax planning, only 2 journals showed a positive impact on firm value, while 13 others showed that aggressive tax planning had no significant effect. For example, a study by Hitten, Akhmad, and Novita (2020) indicated that, unlike liquidity, profitability, and solvency, which have a negative effect on tax aggressiveness, firm value actually has a significant positive effect on tax aggressiveness. However, other studies, such as the one by Arora, Taruntej, and Gill, Suveera (2021), showed a significant negative relationship between tax aggressiveness and firm value.

5. Closing

5.1 Conclusion

Based on the results of this research, it can be concluded that tax planning has a clearer impact on firm value compared to aggressive tax planning. Out of 15 articles discussing tax planning, 7 showed a positive impact on firm value, while 8 others found no significant effect. In contrast, of the 15 articles on aggressive tax planning, only 2 showed a positive impact, while 13 others found no significant effect.

This study suggests that good tax planning can increase firm value, while aggressive tax planning is more controversial and does not consistently produce positive effects on firm value, which also contradicts the expectations of society and the government.

Bibliography

Angelina, Shella and Darmawan, Arif. (2021). The impact of Tax Planning on firm value. Journal of Applied Accounting and Taxation. Vol. 6, 2548-9925

Apandi, RNN (2018). The phenomenon of Tax Planning in Indonesia: effect of Aggressive Tax Planning and audit quality on tax shelter. Advances in Economic, Business and Management Research, vol. 65.

Arora, Taruntej, Singh and Gill, Suveera. (2021). impact of corporate tax aggressiveness on firm value: evidence from India. Managerial Finance. Vol.48, No. 2, 313-333.

Ayu, Yullinda Novita and Ernandi, Herman. (2022). The influence of Tax Planning , profitability and tax avoidance on firm value in plantation companies listed on the IDX for the 2017-2019 period. Indonesian Journal of Innovation Studies. Vol. 17.569.

Christina, Silva. (2019). The effect of corporate tax planning on firm value. Journal of Accounting and Finance Review. 4(1)01-04(2019).

Desai, M., Dyck, A., & Zingales, L. (2007). Theft and taxes. Journal of Financial Economics, 84(3), 591–623. doi: 10.1016/j. jfineco.2006.05.005

Dewi, Indira, S. and Tresnawaty, Nia. (2023). Analysis of the determinants of manufacturing company tax aggressiveness. Liabilities: Scientific Journal of Economics and Accounting. Vol.8 No.1.

Dewi, S., Prima and Cynthia. (2018). Aggressiveness Tax in Indonesia. Accounting Journal. Vol.22, No.2 : 239-254.

Effivani., Effendi, M, A. (2023). The Influence of Tax Planning and Other Factors on Company Value. TSM Accounting E-Journal, vol.3, No. 1, p. 175-186.

Ftouhi, Khaoula, et al. (2015). Tax Planning and Firm Value: Evidence from European Companies. International Journal Economics & Strategic Management of Business Process, vol.4, pp. 73-78

Graham, I. O., and Adeniyi, S. I. (2022). Tax Aggressiveness and Firm Value: Evidence From Publicly Listed Industrial Goods Companies in Nigeria. Annals of Spiru Haret University. Economic Series., 22(1), 571-580.

Hasanah, Hafidhah and Yohanes. (2022). Factors that influence Tax Aggressiveness in Manufacturing Companies. TSM Accounting E-Journal, vol.2 (2) p. 733-746.

Hitten, Akhmad and Novita. (2020). Determinants of Tax Aggressiveness and Relationship with Firm Value (Empirical Study of Companies Listed Go-Public in Indonesia Stock Exchange). Journal of Business Economics and Entrepreneurship (JEBIK). Vol. 9, no. 2, 109-124.

Ikechukwu, Dibie and Ogbodo, O., C. (2024). Firm Attributes and Aggressive Tax Planning Among Listed Manufacturing Companies in Nigeria. Journal of Accounting and Financial Management, Vol.10, No.1

Israel, Omesi and Ebimobowei, Appah. (2021). Corporate Tax Planning and Firm Value of Listed Consumer Goods Companies in Nigeria . Journal of Business and Management, V o l. 23 . 2 . February (2019) : 42-51 .

Le, Vinh Hoang., et. al. (2022). Tax Planning and Firm Value: The Case of Companies with Different State Ownership in Vietnam. Journal of Eastern European and Central Asian Research. Vol.9, No.2

Lestari, Nanik and Wardhani, Ratna. (2015). The Effect of the Tax Planning on Firm Value with Moderating Board Diversity. International Journal of Economics and Financial Issues. Vol. 5, 315-323.

Lestari, Nanik and Roshinta, Windya. (2022). Effect of Tax Planning on Corporate Value with Audit Quality Moderating. Journal of Accounting, Economics and Business Management. Vol.10, No. 1.,24-35.

Lily and Suhardjo, Ferry. (2022). Factors that Influence the Tax Aggressiveness of Manufacturing Companies on the Indonesian Stock Exchange. E- TSM Accounting Journal, vol.2, no.1, p. 119-134.

Marsaid, Mauliana, T. (2019). The Influence of Tax Planning on Company Value. E - J u r n al Economic Frame , V o l. 14 . 2 . August (2019) : 1 1 -24 .

Mgammal, Mahfoudh Hussein. (2020). Corporate Tax Planning and Corporate Tax Disclosure. Meditari Accountancy Research, vol.28, no.2, pp. 327-364.

Naibaho, Yedija, Revan and Sudjiman, Paul, E. (2022). The Influence of Liquidity and Company Size on Tax Aggressiveness. Intellectiva, vol.3, no.10.

Prastiwi, Dewi and Mariana. (2023). Tax Aggressiveness: Financial Distress and Risk Management Committee. Journal of Economics, Finance and Studies, Vol.6.(2023), 738-746.

Rachma, Agusti, Rosalita. (2017). Financial Reporting and Corporate Tax Aggressiveness: impact on Firm Value. Russian Journal of Agricultural and Socio-Economic Sciences, 8(68).

Rambe, A., Alfarisi and Utami, Wiwik. (2021). Analysis of Factors Affecting Tax Aggressivity in Property and Real Estate Companies Listed in Indonesia Stock Exchange, International Journal of Business, Economics and Low, vol.24, No.1.

Razali, MWM, et al. (2018). Tax Planning and Firm Value: Evidence from Malaysia . International Journal of Academic Research in Business & Social Sciences, 8(11), 210-222

Usman, Timothy Onechojon et.al. (2020). Corporate Tax Planning , board compensation and firm value in Nigeria. Accounting and Taxation Review 4(3), S. 11-28.

VU, Thu Anh Thi and LE, Vinh Hoang. (2021). The Effect of Tax Planning on Firm Value: A Case Study in Vietnam. Journal of Asian Finance, Economics and Business, vol.8.2.(2021) 0973-0979

Yuliana, Inna Fachrina, and Djoko Wahyudi. 2018. Liquidity, Profitability, Leverage, Company Size, Capital Intensity and Inventory Intensity on Tax Aggressiveness (Empirical Study of Manufacturing Companies Listed on the Indonesian Stock Exchange 2013 – 2017). Accounting, Finance And Banking Dynamics 7 (2): 105–120.

Yulianti, Vista, et al. (2023). Tax Planning and Avoidance on Firm Value. East Asian Journal of Multidisciplinary Research. Vol.2, No.9, 3753-3764.

Yusuf, Muhammad. (2019). Contribution of Intellectual Capital and Tax Aggressiveness to the Value of Financial Services Companies in Indonesia.Scientific Journal of Reflection: Economic, Accounting, Management and Business. Vol.2, No.4.

Zahra, Mutia, et al. (2018). The Influence of Mangerial Ownership, Earning Management, Intellectual Capital, and Tax Aggressiveness to Firm Value. Accounting Scientific Journal, Faculty of Economics. Vol. 4, no. 1, p. 19-28