

Tax Planning Strategies and Their Economic Impact on Corporate Financial Performance

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Abstrak

Perencanaan pajak mengacu pada serangkaian strategi dan keputusan yang diambil oleh perusahaan untuk mengurangi beban pajak melalui cara-cara yang legal. Strategi ini dapat mencakup optimalisasi pengurangan pajak (deductions) dan pemilihan struktur organisasi yang efisien secara pajak. Tujuan dari penelitian ini adalah untuk menganalisis Strategi Perencanaan Pajak dan Dampaknya terhadap Kinerja Keuangan Perusahaan. Jenis penelitian ini menggunakan penelitian kualitatif dengan pendekatan tinjauan pustaka (literature review). Metode tinjauan pustaka merupakan metode yang digunakan untuk mensintesis kerangka teori yang relevan, temuan empiris, serta perkembangan terkini dalam bidang perencanaan pajak dan implikasinya terhadap kinerja keuangan perusahaan. Tinjauan pustaka ini telah mengkaji peran strategi perencanaan pajak dalam membentuk kinerja keuangan perusahaan. Hasil penelitian menunjukkan bahwa perencanaan pajak yang efektif dapat secara signifikan meningkatkan hasil keuangan perusahaan dengan mengurangi kewajiban pajak, mengoptimalkan alokasi sumber daya, dan meningkatkan profitabilitas setelah pajak. Keputusan pajak yang strategis seperti pengalihan penghasilan (income shifting), pemanfaatan insentif pajak, dan mekanisme transfer pricing telah terbukti memiliki korelasi positif dengan peningkatan return on assets (ROA), pendapatan bersih, dan nilai bagi pemegang saham, selama dilakukan dalam batas-batas hukum dan etika.

Kata Kunci: Pajak; Strategi; Keuangan; Kinerja.

Abstract

Tax planning refers to a set of strategies and decisions undertaken by a company to reduce its tax burden through legal means. These strategies may include the optimization of tax deductions and the selection of tax-efficient organizational structures. The objective of this study is to analyze tax planning strategies and their impact on corporate financial performance. This research employs a qualitative approach using a literature review method. The literature review method is used to synthesize relevant theoretical frameworks, empirical findings, and recent developments in the field of tax planning and its implications for corporate financial performance. This review has examined the role of tax planning strategies in shaping corporate financial performance. The findings indicate that effective tax planning can significantly enhance a company's financial outcomes by reducing tax liabilities, optimizing resource allocation, and increasing after-tax profitability. Strategic tax decisions such as income shifting, utilization of tax incentives, and transfer pricing mechanisms have been shown to positively correlate with improved return on assets (ROA), net income, and shareholder value provided they are implemented within legal and ethical boundaries.

Keyword: Tax; Strategi; Finance; Performance.

1. Introduction

Taxation is one of the most significant obligations for corporations and represents a key source of revenue for governments. For companies, taxes are not just a statutory liability but also a critical financial burden that directly impacts net income and operational efficiency. Therefore, tax planning has emerged as a crucial financial strategy used by corporations to legally minimize their tax liabilities and optimize financial performance (Hanlon & Heitzman, 2023). In today's competitive business environment, where profit margins are tightly monitored, effective tax planning can be a decisive factor in sustaining profitability and ensuring long-term growth. Tax planning refers to a series of strategies and decisions taken by corporations to reduce tax expenses through legal means. These may include optimizing deductions, selecting tax-efficient organizational structures, adjusting the timing of income and expenses, and taking advantage of tax incentives provided by the government (Sari & Martani, 2023). While the primary objective is to minimize the tax burden, tax planning must also comply with existing tax laws to avoid legal repercussions and reputational risks. As such, the balance between effective tax planning and legal compliance remains a central issue in corporate financial management. Numerous studies have highlighted the potential benefits of tax planning strategies on corporate financial performance. Companies that implement tax-efficient strategies often report improved cash flows, higher return on assets (ROA), and better overall financial health (Richardson, Taylor, & Lanis, 2022). A more favorable tax position allows companies to allocate more resources toward innovation, expansion, and debt reduction, all of which contribute to strengthening a firm's market position. Moreover, sound tax planning can also enhance firm valuation by signaling good governance practices and financial discipline to investors. However, the effectiveness of tax planning strategies varies across jurisdictions and industries. In emerging economies, including Indonesia, the regulatory framework often undergoes frequent changes, making tax planning more complex and dynamic. For instance, the introduction of Indonesia's Harmonized Tax Law (UU HPP) in 2022 was designed to modernize and simplify the tax system, while also offering several incentives for businesses (Direktorat Jenderal Pajak, 2023). Despite this progress, many firms still struggle to navigate the tax system efficiently due to limited tax literacy, lack of skilled tax professionals, and the evolving nature of tax compliance standards.

The implementation of aggressive tax planning strategies—such as the use of offshore tax havens, base erosion and profit shifting (BEPS), and loophole exploitation—has raised ethical and economic concerns. Although technically legal in some cases, such practices are often criticized for undermining fair competition, reducing government revenues, and damaging corporate reputations (OECD, 2022). High-profile cases involving multinational companies like Google, Apple, and Amazon have brought this issue to the forefront of global tax debates, prompting regulatory bodies to enforce stricter tax transparency and reporting requirements. Given these dynamics, understanding the economic impact of tax planning on corporate financial performance is more relevant than ever. While tax planning has the potential to increase profitability, it may also expose firms to compliance risks and reputational damage if not managed properly. Additionally, there is an increasing emphasis on responsible tax behavior as part of environmental, social, and governance (ESG) frameworks, which urges companies to adopt more transparent and ethical tax strategies (Lanis & Richardson, 2021). In the Indonesian context, where the government is actively working to improve tax compliance and expand the tax base, there is a growing need for companies to adopt tax strategies that align with both business objectives and regulatory expectations. This balance becomes even more critical for publicly listed companies, which are under constant scrutiny from stakeholders and regulatory authorities. Therefore, analyzing how tax planning strategies influence corporate financial performance in Indonesia can provide valuable insights for businesses, policymakers, and academics alike. This study aims to examine the extent to which tax planning strategies contribute to the economic performance of companies, particularly in terms of profitability, liquidity, and value creation. It also seeks to explore whether there is a trade-off between aggressive tax minimization and corporate sustainability. Through this investigation, the study hopes to shed light on the role of tax planning as a value-enhancing tool and its implications for corporate governance and fiscal policy. In conclusion, tax planning stands at the intersection of corporate strategy,

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financial performance, and regulatory compliance. As companies strive to navigate an increasingly complex fiscal environment, the need for robust, ethical, and effective tax planning has never been greater. Thus, this research addresses a timely and relevant issue with significant theoretical and practical implications.

2. Literatur Review

Tax planning is a strategic process where companies design methods to legally minimize their tax liabilities while optimizing their financial performance. It involves a range of techniques, such as optimizing tax deductions, selecting efficient organizational structures, and strategically timing income and expenses to reduce tax burdens (Hanlon & Heitzman, 2023). In practice, tax planning not only aims to reduce tax obligations but also seeks to improve after-tax profitability, enhance liquidity, and create value for shareholders (Sari & Martani, 2023). Among the most common tax planning strategies are income shifting, tax deferral, tax incentives utilization, and transfer pricing mechanisms. These strategies, often employed by multinational corporations, are designed to reduce global tax liabilities by transferring income between subsidiaries or exploiting different tax jurisdictions (De Simone, Mills, & Stomberg, 2020). The impact of tax planning on corporate financial performance has been widely studied, with many researchers finding a positive relationship between effective tax planning and improved financial metrics such as Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS) (Lanis & Richardson, 2015). Tax savings achieved through efficient planning can directly boost a company's net income, which, in turn, enhances profitability and financial health. However, aggressive tax planning strategies, while providing short-term financial gains, can also lead to increased scrutiny from tax authorities, reputational risks, and long-term financial instability (Desai & Dharmapala, 2009). Therefore, maintaining a balance between effective tax planning and legal compliance is crucial for sustainable business operations.

Another critical aspect of tax planning is risk management. Aggressive tax strategies, such as utilizing offshore tax havens or exploiting legal loopholes, expose companies to higher levels of tax uncertainty, which may result in increased earnings volatility and investor concerns (Armstrong *et al.*, 2015). On the other hand, tax planning, when done within legal frameworks and supported by strong internal controls, can act as a risk mitigation tool by stabilizing after-tax income and improving long-term financial forecasting (Taylor, Richardson, & Lanis, 2022). Moreover, strong corporate governance is a vital factor in moderating the relationship between tax planning and firm performance. Companies with robust governance structures are more likely to balance tax minimization strategies with ethical and sustainable business practices (Richardson, Taylor, & Lanis, 2016). The size and industry of the firm also play significant roles in shaping tax planning strategies, with larger firms typically having more resources to engage in complex tax planning but also facing greater regulatory scrutiny (Chen, Huang, & Shevlin, 2023). In the context of Indonesia, where the government has introduced the Harmonized Tax Law (UU HPP) in 2022 to simplify the tax system and offer various business incentives (Direktorat Jenderal Pajak, 2023), tax planning remains a challenge due to frequent regulatory changes, limited tax literacy, and a shortage of skilled professionals. Firms operating in emerging markets like Indonesia must navigate these complexities while ensuring their tax strategies align with both business objectives and regulatory expectations. Additionally, international tax reforms such as the OECD's Base Erosion and Profit Shifting (BEPS) project and the global minimum tax aim to curb aggressive tax avoidance practices and have a significant influence on multinational companies' tax strategies (OECD, 2021). Overall, effective tax planning can significantly enhance a company's financial performance by reducing tax liabilities and improving after-tax profitability. However, overly aggressive tax strategies can expose companies to regulatory risks and reputational damage. Therefore, it is essential for companies to manage their tax planning carefully, balancing efficiency with compliance and ethical considerations.

3. Research Methodology

This study uses a qualitative research design through a literature review (LR) approach to synthesize theoretical frameworks, empirical findings, and recent developments in tax planning and its impact on corporate financial performance. The methodology follows the systematic review guidelines proposed by Kitchenham and Charters (2007), which are adapted to the fields of accounting and finance. The research design employs a descriptive and analytical approach, focusing on a comprehensive review of peer-reviewed journal articles, academic books, and professional reports published between 2015 and 2024. The primary objective is to evaluate tax planning strategies such as income shifting, tax deferral, the use of tax havens, and transfer pricing, and their economic effects on financial performance indicators, including return on assets, return on equity, effective tax rates, and earnings per share. Literature was sourced from major databases like Scopus, Web of Science, Google Scholar, ProQuest, ScienceDirect, SpringerLink, and SSRN, with strict inclusion criteria: peer-reviewed articles, English-language publications, and works published between 2015 and 2024, focusing on tax planning, avoidance, corporate performance, and governance. Non-English publications, grey literature, and articles not directly addressing both tax planning and corporate financial performance were excluded. A systematic keyword search was conducted using terms like "tax planning," "corporate tax avoidance," and "tax strategies" to refine the results. The analysis involved content analysis to identify tax planning typologies (e.g., aggressive versus conservative strategies), explore theoretical frameworks such as agency and stakeholder theory, and assess the relationship between tax planning and corporate performance. The review also considered moderating variables like corporate governance, firm size, and industry type. To ensure reliability and validity, a quality assessment checklist from the Critical Appraisal Skills Programme (CASP) was used to evaluate the clarity of research objectives, methodological rigor, and data validity. Since the research is based solely on secondary data, no human or animal subjects were involved, and ethical clearance was unnecessary; however, all sources were cited to maintain academic integrity and prevent plagiarism.

4. Results and Discussion

4.1 Results

4.1.1 Overview of Tax Planning Strategies

Tax planning is a critical process that involves analyzing financial situations from a tax perspective with the aim of legally minimizing tax liability. Companies employ a range of tax planning strategies, including income shifting, tax deferral, the utilization of tax incentives, and offshore profit allocation. These strategies are typically designed to maximize shareholder value by reducing corporate tax burdens (Hanlon & Heitzman, 2010). Recent research highlights the increasing complexity of tax planning due to globalization and the intricacies of international tax regulations. For example, multinational enterprises (MNEs) often leverage strategies such as transfer pricing, using tax havens, and structuring inter-company debt to minimize their global tax liabilities (De Simone, Mills, & Stomberg, 2020). Furthermore, the use of the effective tax rate (ETR) has gained popularity as an indicator of tax planning aggressiveness, where a consistently lower ETR suggests a more aggressive approach to tax planning (Chen *et al.*, 2023).

4.1.2 Impact of Tax Planning on Financial Performance

A considerable body of literature has examined the relationship between tax planning and corporate financial performance, typically measured through indicators like Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS). The findings, however, show mixed results. On the positive side, tax savings directly improve net income, which in turn enhances profitability metrics. For instance, Lanis and Richardson (2015) found that firms engaged in effective tax planning exhibited higher ROA and

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ROE compared to their counterparts. Conversely, aggressive tax planning may have negative or neutral impacts. Such practices can lead to increased scrutiny by tax authorities, damage a company's reputation, and create uncertainties in financial reporting, potentially harming long-term performance (Desai & Dharmapala, 2009; Minnick & Noga, 2010). In Indonesia, Putri and Rachmawati (2022) found that while tax planning positively influenced financial performance in manufacturing firms, the effect was statistically insignificant, suggesting that the benefits may vary depending on contextual factors, such as governance and capital structure.

4.1.3 Tax Planning and Risk Management

The intersection between tax planning and corporate risk has also been widely discussed in the literature. Aggressive tax strategies often involve complex legal interpretations and cross-border operations, increasing the likelihood of disputes with tax authorities. As a result, companies that adopt such strategies may face higher tax uncertainty, which can translate into earnings volatility and concerns from investors (Armstrong *et al.*, 2015). On the other hand, tax planning, when executed within legal boundaries and backed by strong internal controls, can serve as a risk management tool. It can help stabilize after-tax income and enable better financial forecasting and planning (Taylor, Richardson & Lanis, 2022).

4.1.4 Governance, Transparency, and Moderating Factors

Corporate governance mechanisms, such as board independence and audit quality, play a crucial role in moderating the relationship between tax planning and firm performance. Firms with robust governance structures are more likely to strike a balance between minimizing taxes and ensuring ethical, sustainable business practices (Richardson, Taylor, & Lanis, 2016). Moreover, firm size, industry characteristics, and regulatory environments significantly influence tax planning strategies. Larger firms typically have more resources to engage in sophisticated tax planning, but they are also subject to greater scrutiny from regulators (Chen, Huang, & Shevlin, 2023).

4.1.5 Practical and Policy Implications

From a managerial standpoint, it is essential to understand the trade-off between tax efficiency and reputational or regulatory risk. When tax planning is aligned with a company's long-term corporate strategy, it can serve as an effective tool for improving profitability and enhancing competitiveness. For policymakers, these findings highlight the need to design tax regulations that close loopholes without deterring legitimate business investments. The implementation of international tax reforms, such as the OECD's Base Erosion and Profit Shifting (BEPS) project and the Pillar Two global minimum tax, reflects a global effort to address concerns about tax avoidance (OECD, 2021). These reforms seek to level the playing field and ensure that companies contribute their fair share to national revenues, while maintaining an environment that fosters business growth.

4.2 Discussion

Tax planning plays a pivotal role in the financial strategy of corporations, as it directly impacts their financial performance and long-term sustainability. The strategies employed in tax planning, such as income shifting, tax deferral, and the use of tax incentives, are designed to minimize the corporate tax burden while aligning with broader financial goals, primarily to maximize shareholder value. However, the impact of these strategies on financial performance is nuanced, with both positive and negative outcomes. On one hand, efficient tax planning can significantly enhance a company's financial performance by improving profitability metrics such as Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS). This is particularly evident in studies like that of Lanis and Richardson (2015), which show that firms engaging in strategic tax planning report higher ROA and ROE. By reducing the overall tax liability, companies have more resources to reinvest into the business, fund innovation, or reduce debt, which strengthens their market position and financial health. In this sense, tax planning becomes an integral tool for firms aiming to optimize financial outcomes while maintaining legal compliance.

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However, the aggressive pursuit of tax savings can lead to unintended consequences. While short-term financial gains may be realized, aggressive tax planning strategies often invite heightened scrutiny from tax authorities, which can result in reputational damage and increased regulatory risks. For instance, the use of tax havens or complex transfer pricing mechanisms can raise questions about a company's ethical stance on taxation, leading to investor skepticism and potential public backlash. Moreover, as Desai and Dharmapala (2009) and Minnick and Noga (2010) argue, such strategies can create long-term volatility in earnings, as companies may face legal challenges or tax audits. This creates an inherent risk where short-term profitability improvements may be offset by the potential long-term costs of non-compliance or reputational harm. In the context of Indonesia, the study by Putri and Rachmawati (2022) highlights that the impact of tax planning on financial performance may vary depending on the specific characteristics of a firm. The study found a positive, though statistically insignificant, relationship between tax planning and financial performance in manufacturing firms. This suggests that the effectiveness of tax planning strategies may be contingent upon firm-specific factors such as governance structures and capital structure, as well as the regulatory environment in which the firm operates. In emerging economies like Indonesia, frequent changes in tax laws and limited tax literacy among firms can create challenges in implementing tax planning strategies that align with both financial goals and regulatory requirements. Another important aspect discussed in the literature is the relationship between tax planning and corporate risk. Aggressive tax strategies increase the likelihood of tax-related disputes, particularly in cross-border operations where different jurisdictions may have conflicting tax regulations. Armstrong *et al.* (2015) point out that such tax uncertainty can lead to earnings volatility, which in turn increases the perceived risk by investors. Therefore, while aggressive tax planning may provide immediate tax relief, it also exposes companies to the risks of tax audits, fines, and legal complications. On the other hand, when tax planning is conducted within legal boundaries and supported by strong internal controls, it can act as a risk mitigation tool by ensuring more predictable financial outcomes and reducing the volatility of earnings (Taylor, Richardson & Lanis, 2022).

Corporate governance also plays a crucial role in how tax planning is implemented and its impact on financial performance. Firms with strong governance structures, including independent boards and high-quality audits, are more likely to balance the goals of tax minimization with ethical considerations and long-term sustainability. Such companies are less likely to engage in aggressive tax strategies that could compromise their reputation or expose them to significant risks. As noted by Richardson, Taylor, and Lanis (2016), good governance helps ensure that tax planning aligns with the broader interests of shareholders and other stakeholders, fostering an environment where ethical business practices are prioritized alongside financial performance. In addition, firm size and industry characteristics are key factors influencing tax planning strategies. Larger firms, with greater resources and more complex operations, often have more opportunities to engage in sophisticated tax strategies, such as utilizing transfer pricing or offshore tax havens. However, these strategies also attract greater scrutiny from tax authorities and may be subject to more stringent regulations, as larger firms are typically more visible and have more at stake in terms of public reputation (Chen, Huang & Shevlin, 2023). Smaller firms, in contrast, may lack the resources or expertise to implement complex tax strategies, but may still benefit from simpler tax planning mechanisms that help reduce their tax liability without attracting the same level of scrutiny. From a managerial perspective, the challenge lies in understanding and managing the trade-off between tax efficiency and reputational or regulatory risks. Tax planning should not be viewed in isolation but should be integrated into the company's broader corporate strategy, with careful consideration of both short-term financial benefits and long-term sustainability. Effective tax planning should prioritize legal compliance and ethical considerations, ensuring that the company can maintain its competitive edge while avoiding the risks associated with aggressive tax avoidance practices. For policymakers, the findings underscore the importance of designing tax regulations that close loopholes without discouraging legitimate business investments. The introduction of global tax reforms, such as the OECD's Base Erosion and Profit Shifting (BEPS) initiative and the Pillar Two global minimum tax, reflects a growing global consensus on addressing tax avoidance. These reforms aim to ensure that businesses pay a fair share of taxes while maintaining an environment conducive to investment and economic growth.

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As tax regulations evolve, it will be essential for policymakers to strike a balance between curbing tax avoidance and fostering an investment-friendly environment that supports business growth and innovation. In conclusion, while tax planning is an essential strategy for improving corporate financial performance, its effectiveness depends on the approach taken and the broader business context. Companies must weigh the benefits of tax savings against the risks of regulatory scrutiny and reputational damage. Strong governance, careful risk management, and alignment with long-term corporate strategy are crucial for ensuring that tax planning contributes positively to both financial outcomes and corporate sustainability.

5. Conclusion

This literature review has examined the role of tax planning strategies in shaping corporate financial performance. The findings suggest that effective tax planning can significantly enhance a firm's financial outcomes by reducing tax liabilities, optimizing resource allocation, and increasing after-tax profitability. Strategic tax decisions such as income shifting, utilization of tax incentives, and transfer pricing mechanisms have been shown to positively correlate with improved return on assets (ROA), net income, and shareholder value when executed within legal and ethical boundaries. However, the literature also highlights the potential risks associated with overly aggressive tax planning. While short-term financial gains may be achieved, such practices can lead to regulatory scrutiny, reputational damage, and long-term financial instability. Therefore, the balance between minimizing tax burdens and ensuring regulatory compliance is essential. Overall, tax planning emerges not merely as a technical accounting function but as a strategic managerial tool that significantly influences corporate sustainability and competitiveness in both domestic and global markets.

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