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RESEARCH ARTICLE

Analysis of the Impact of Tax Planning on Financial Performance in Multinational Companies Listed on the IDX

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ABSTRACT

Tax planning is an important strategy in corporate financial management, especially for multinational companies that have cross-country operational flexibility. By utilizing legal strategies such as transfer pricing, tax treaties, and cost allocation between group entities, companies can optimize their tax burden to increase net income and financial performance. However, this strategy also has risk implications, especially related to compliance with increasingly stringent tax regulations. Tax authorities in various countries, including Indonesia, have increased supervision of aggressive tax planning practices through policies such as Base Erosion and Profit Shifting (BEPS) and the Law on Harmonization of Tax Regulations (UU HPP). This study aims to analyze the impact of tax planning on the financial performance of multinational companies listed on the Indonesia Stock Exchange (IDX). This study is based on empirical analysis that considers various contextual factors, such as industry sector, tax regulations, and corporate governance. The results of the study are expected to provide insight for companies in managing optimal tax strategies, as well as for regulators and stakeholders in designing tax policies that support corporate compliance and financial sustainability. The results of this study are that tax planning has no effect on financial performance.

Keywords: *Tax planning; financial performance; multinational companies; tax compliance; Indonesia Stock Exchange.*

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PRELIMINARY

Research Background

Tax planning has become an important strategy in corporate financial management, especially for multinational companies. With a cross-border operational scale, multinational companies have the flexibility to optimize their tax burden through legal strategies such as transfer pricing, utilization of double taxation avoidance agreements (tax treaties), and cost allocation between group entities. This strategy aims to minimize the company's tax liabilities globally, thereby increasing net income and supporting financial performance.

However, although tax planning can provide short-term benefits in the form of tax savings, this strategy also has risk implications that need to be considered. Tax authorities in various countries, including Indonesia, are increasingly increasing their supervision of tax planning practices that are considered aggressive. The implementation of regulations such as Base Erosion and Profit Shifting (BEPS) by the OECD and the implementation of the Law on Harmonization of Tax Regulations (UU HPP) in Indonesia demonstrate the government's commitment to ensuring tax compliance of multinational companies. Non-compliance can impact a company's reputation and trigger significant tax fines, which ultimately affect the company's financial stability and performance.

On the other hand, empirical research shows a diverse relationship between tax planning and financial performance. Several studies have found that tax planning increases corporate profitability due to tax efficiency. However, other studies indicate that complex tax planning strategies can increase administrative costs and tax risks, thus negatively impacting financial performance. This difference reflects contextual factors, such as industry sector, tax regulations, and corporate governance practices that influence the outcome of these strategies. In the Indonesian context, multinational companies listed on the Indonesia Stock Exchange (IDX) are often in the public and government spotlight regarding their tax planning practices. As companies that have social responsibilities to stakeholders, including the government, investors, and the community, it is important to understand how tax planning strategies affect their financial performance. Therefore, this study aims to analyze the impact of tax planning on financial performance in multinational companies listed on the IDX, with the hope of providing insights for companies, regulators, and other stakeholders regarding optimal tax management.

Formulation of the problem

Based on the background that has been described, the problem formulations in this study are:
Does tax planning affect financial performance?

LITERATURE REVIEW, FRAMEWORK AND HYPOTHES

Literature Review

Tax planning is a process carried out by companies to manage their tax obligations efficiently and reduce unnecessary tax burdens through appropriate financing structures, tax-deductible expenditure arrangements, and utilization of applicable tax incentives or policies. Research on the effect of tax planning on financial performance aims to explore the extent to which tax planning decisions can impact a company's financial performance. As a strategic element in corporate management, tax planning is believed to increase profitability and cost efficiency which in turn has a positive impact on the company's financial performance.

This theory explains the relationship between shareholders (principals) and managers (agents). In the context of tax planning, managers who are responsible for tax decisions must ensure that these decisions not only benefit the company but also consider the interests of shareholders. Managers can use tax planning strategies to increase the company's net income, but must also be aware that aggressive tax strategies can create legal or reputational risks that can harm the company in the long run.

Overly aggressive or risky tax planning strategies can increase a company's financial risk. Graham & Harvey (2001) suggest that although tax planning can generate significant tax savings, high debt usage (as part of a tax shield strategy) can increase interest expenses and increase the risk of bankruptcy. Therefore, the success of tax planning must be balanced with careful risk management to minimize the negative impact on financial performance.

Framework

Hypothesis

H1 : The influence of tax planning on financial performance

Research Results and Discussion

A. Statistical Description Test

	Mean	Median	Observed min	Observed max	Standard deviation
Kinerja Keuangan	0,105	0,073	0,006	0,313	0,084
Tax Planning	-0,172	-0,214	-0,400	0,218	0,127

From the results above, it is known:

1. In the financial performance variable, the sample is 45 samples. The mean value is 0.105. With a standard deviation of 0.084, which means that the level of data distribution is homogeneous because the standard deviation value is lower than the average value.
2. In the tax planning variable, the sample is 45 samples. The mean value is -0.172. With a standard deviation of 0.127, which means that the level of data distribution is heterogeneous because the standard deviation value is greater than the average value.

Tabel R Square

	R-square	R-square adjusted
Kinerja Keuangan	0,036	0,014

Based on the table above, the results of the R square determination coefficient test are 0.036 or 3.6%. This shows that the dependent variable, namely financial performance, is influenced by the independent variable, namely tax planning. While the remaining 96.4% (100% - 3.6%) can be explained by other variables outside the variables studied.

Tabel Path Coefficients

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Tax Planning -> Kinerja Keuangan	-0,126	-0,146	0,098	1,287	0,198

Based on the table above, the results of the t-statistic test of each independent variable against the dependent variable can be concluded as follows: The test results of the tax planning variable have a sig. value of 0.198, meaning (0.198 > 0.05). This shows that Tax Planning has no significant effect on Financial Performance. It can be concluded that the hypothesis is rejected.

Discussion

From the results above, it can be concluded that tax planning does not affect financial performance, which can be caused by several factors, including limitations in measuring financial performance, the influence of external factors, and the time needed to see the impact of tax planning. Further research with more comprehensive performance measurements and control over external factors can provide a clearer picture of the relationship between tax planning and financial performance.

Conclusion and Suggestions

Conclusion

Based on the results of the study showing that tax planning has no effect on financial performance, it can be concluded that there are a number of factors that can explain why there is no significant relationship between tax planning strategies and the company's financial performance. The effect of tax planning on financial performance may take a longer time to be seen in real terms. Many tax planning strategies have a positive impact in the long term, while this study may only measure the effect in a relatively short period of time. In this case, the impact generated by tax planning, such as tax savings, may not be immediately reflected in financial performance measured in a limited period.

The company's financial performance is influenced by various external factors such as economic conditions, market fluctuations, or regulatory changes that can be much more dominant than the effect of tax planning itself. If this study does not consider these external factors, then the effect of tax planning on financial performance may be reduced or even undetectable.

Suggestions

Further research should consider other variables that may affect financial performance, such as the influence of external policies, macroeconomic factors, and more comprehensive performance measurements. Also, further research with a longer period and more detailed performance measurements will provide deeper insights into the relationship between tax planning and financial performance.

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