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The Effect of Tax Planning and Profitability on Company Value with Good Corporate Governance as a Moderating Variable

Suyanto[1], Risty Emilia[*1], Yhoga Heru Pratama[1], Fuadhillah Kirana putri[1]
Universitas Sarjanawiyata Tamansiswa, Indonesia[1]
*Coresponding Email : emiliaristy226@gmail.com

ABSTRACT

This research aims to investigate the impact of Tax Planning and Profitability on a company's value, with Good Corporate Governance (GCG) serving as a moderating factor. The purpose of this investigation is to gain insight into how tax regulations and profitability impact corporate value, along with the contribution of effective governance in managing this relationship. By employing quantitative techniques, the study analyzes secondary information from 61 manufacturing firms registered on the Indonesia Stock Exchange (IDX) from 2019 to 2023, utilizing various methods, including linear regression and moderated regression analysis (MRA). The findings reveal that Tax Planning positively and significantly affects a company's value. However, there is a lack of evidence suggesting that profitability has a considerable effect on corporate worth. Furthermore, GCG has a significant negative moderating effect on the relationship between tax planning and company value, indicating that the positive effects of tax planning might be diminished. On the other hand, GCG shows a substantial positive impact on the relationship between a firm's value and profitability. This research concludes that while Tax Planning is vital for enhancing company value, the application of GCG may influence this relationship.

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INTRODUCTION

Company value reflects the performance and prospects of a business entity in the eyes of investors (Siallagan & Machfoedz, 2006), and increasing this value is a fundamental goal of financial management for the welfare of shareholders (Swardika & Mustanda, 2020). Achieving this optimal value often faces major challenges from global and domestic economic fluctuations. The manufacturing sector, as the main contributor to Indonesia's GDP, is highly vulnerable to external shocks. Data shows that during the period 2019 to 2023, this sector faced high volatility, marked by a sharp decline in Company Value (e.g., PBV ratio) in 2020 due to the pandemic, followed by uneven recovery efforts amid global market uncertainty, which requires a focus on internal variables capable of maintaining value stability. For example, the tech winter phenomenon that hit the valuations of global technology companies (such as the losses of PT GoTo, Gojek Tokopedia Tbk in 2022) shows the vulnerability of company value to massive external factors (Alamsah & Adi, 2022).

With Good Corporate Governance (GCG) acting as a moderating variable, this study focuses on two main internal factors: Profitability and Tax Planning. Profitability, which measures a company's ability to generate profits, is a crucial indicator for investors and a strong signal for markets that are considered capable of providing optimal returns (Ndruru et al., 2020; Fatoni & Yuliana, 2021). Meanwhile, Tax Planning is a legal effort to minimize tax burdens, which, if managed effectively, can increase net profits, in line with the Agency

Theory principle that managers must strive to maximize owner welfare through efficiency (Siallagan & Machfoedz, 2006).

However, previous studies indicate a significant research gap. Regarding tax planning on company value, several studies by Chukwudi et al. (2020) and Anisran & Ma'wa (2023) found a positive effect, while other studies by Wardani et al., (2020) and Effivani & Effendi (2023) showed inconsistent results. This inconsistency highlights the need for explanatory variables, namely GCG, as a balancing mechanism to ensure that efforts to improve efficiency and profitability are not opportunistic. However, the role of GCG as a moderating variable also produced different findings, with some studies supporting the moderating role of GCG (Magfiroh, 2022), while others concluded that GCG "does not moderate the relationship between Tax Planning and company value" Wardani et al., (2020). These differences in results highlight the need for further investigation. The main research gap is the lack of empirical validation in the manufacturing sector covering the period from 2019-2023. This creates a periodical gap and a contextual gap, as the findings of previous studies conducted before the crisis and recovery period may no longer be relevant or valid in describing the effectiveness of GCG in moderating tax planning and profitability amid the current market volatility.

These differences highlight the need for further investigation to validate the role of GCG. Therefore, this study aims to comprehensively examine how Profitability and Tax Planning affect business value, and how GCG functions as a moderating factor in this relationship for manufacturing companies listed on the IDX between 2019 and 2023. This study uses a time frame that covers the post-pandemic turmoil, as well as an explicit focus on the moderating role of GCG on the two main independent variables. The theoretical contribution of this study is to provide new empirical evidence that enriches Agency Theory regarding the role of GCG as a signal buffer amid market volatility, while its practical contribution is to provide strategic guidance for management in setting optimal limits for Tax Planning and improving GCG practices so that efforts to improve internal performance can be positively translated into sustainable increases in Company Value.

METHODS

This research method uses an associative-causal study design and a quantitative approach, which is a type of research that emphasizes numerical analysis. Quantitative research is research that is systematic, planned, and clearly structured from the beginning to the creation of the research design, including the research objectives, research objects, samples, data, data sources, and methodology (Sugiyono, 2013). Specifically, this research is a type of explanatory quantitative research. The objective is to examine the impact of Tax Planning and Profitability on Company Value, with Good Corporate Governance (GCG) as a moderating variable.

This study uses secondary data from the annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2019-2023, where the selection of the population is limited to this sector due to its important role in the economy. The research sample was selected using purposive sampling with strict inclusion criteria, namely: (1) Manufacturing companies must be listed on the IDX for the 2019-2023 period; (2) Manufacturing companies that have been consistently listed on the IDX from 2019 to 2023; (3) Manufacturing companies listed on the IDX that have earned profits during the 2019-2023 research period; (4) Companies that uploaded complete annual reports for 2019-2023; and (5) Companies that did not use the rupiah currency. After examination and selection, 260 observations from 52 companies were obtained from the five-year observation period.

In this study, tax planning was measured using the tax retention ratio (TRR), calculated using the formula (net profit/profit before tax) (Rajab et al., 2022). Profitability was measured using the return on equity (ROE) ratio, calculated by dividing net profit by

capital (Maqfida, 2021). For the capital intensity variable, the measurement was carried out using the ratio of total non-current assets / total assets (Nadhifah & Arif, 2020). Meanwhile, company value was measured using the price to book value (PBV) ratio, which is the price per share/book value per share (Apriliana & Fidiana, 2021). Finally, good corporate governance (GCG), which functions as a moderating variable, is measured through the independent board of commissioners (PKI) indicator, which is the ratio of the number of independent commissioners to the total number of board of commissioners (Sitorus & Bowo, 2018).

Data analysis was conducted quantitatively using panel data regression, which is a standard procedure in quantitative research (Sugiyono, 2013). The testing consisted of three stages: descriptive statistics to provide an overview of the data used, regression model selection through Chow's test, the Hausman test, and the Lagrange Multiplier (LM) test to determine the best model, and hypothesis testing using the t-test (partial), F-test (simultaneous), and Coefficient of Determination (R2) test to examine the relationship between variables. All tests were performed using Eviews 10 software.

RESULT AND DISCUSSION

The analysis of data for this research was performed quantitatively with the use of Eviews 10 software. The method of data analysis employed sought to gather both descriptive and inferential statistical insights regarding the variables being examined. Several steps of data analysis were performed in order, including descriptive statistical tests, the choice of a panel data regression model, and hypothesis testing, to achieve precise results.

Table 1. Descriptive Statistical Test

	Mean	Maximum	Minimum	Std. Dev.	Observations
Y	2.190077	29.66000	0.000000	2.931248	260
X1	0.789538	5.550000	0.190000	0.427049	260
X2	0.083385	0.420000	0.000000	0.065318	260
Z	0.409692	0.800000	0.170000	0.107552	260

Source: Secondary data analysis (2025)

The average value of the Company Value variable (Y) is 2.190077, signifying the typical value calculated from all data points. The highest value recorded is 29.66000, while the lowest value is 0.000000, demonstrating a significantly broad range of data. The standard deviation of 2.931248 shows that the data points are quite spread out from the average value and are not clustered together.

The Tax Planning variable (X1) ranges from a maximum value of 5.550000 to a minimum of 0.190000, with an average value of 0.789538. The standard deviation of 0.427049 indicates a large range of values.

The Profitability variable (X2) has an average value of 0.083385, a maximum value of 0.420000, and a minimum value of 0.000000. The standard deviation of 0.065318 indicates a wide range.

In conclusion, the GCG(Z) variable ranges from 0 to 0.800000, with an average value of 0.409692 and a minimum value of 0.170000. The standard deviation of 0.107552, which is quite small, suggests that GCG values are more clustered around the average than other variables. Every variable is measured using information gathered from 260 observations.

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-sectionF	21.06436	(51,205)	0.0000
Cross-section Chi-square	476.071754	51	0.0000

Source: Secondary data analysis (2025)

Given that the probability result is 0.0000, falling under the threshold of 0.05, the Fixed Effect Model (FEM) is the best option for model selection. With the Chow test validated, we move on to the Hausman test.

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d. f.	Prob.
Cross-section random	5.765715	3	0.1236

Source: Secondary data analysis (2025)

The random result shows a value of 0.1236, which is greater than 0.05. Therefore, the results from the Hausman Test imply that the Random Effect Model (REM) is the appropriate approach for examining this data.

Table 4. Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	313.2330	0.226921	313.4600
	(0.0000)	(0.6338)	(0.0000)
Honda	17.69839	-0.476363	12.17781
	(0.0000)	(0.6831)	(0.0000)
King-Wu	17.69839	-0.476363	4.314188
	(0.0000)	(0.6831)	(0.0000)
Standardized Honda	18.28102	-0.182957	8.119488
	(0.0000)	(0.5726)	(0.0000)
Standardized King-Wu	18.28102	-0.182957	1.802914
	(0.0000)	(0.5726)	(0.0357)
Gourieroux, et al.	--	--	313.2330
			(0.0000)

Source: Secondary data analysis (2025)

According to the findings from the Lagrange Multiplier (LM) test displayed in the table, this analysis was performed with the null hypothesis indicating no individual or time influences (Common Effect model) and the alternative hypothesis suggesting the presence of individual or time influences (Random Effect model). This was done using both two-sided (Breusch-Pagan) and one-sided (other) approaches. The results of the Breusch-Pagan test reveal a statistical figure of 313.2330 for the cross-section influence, with a probability of 0.0000; a figure of 0.226921 for the time influence, with a probability of 0.6338; and a figure of 313.4600 for the combined impacts of both cross-section and time, with a probability of 0.0000.

Furthermore, various testing methods, including Honda, King-Wu, Standardized

Honda, and Standardized King-Wu, indicate a notable cross-sectional effect, with test results varying from 17 to 17.69839. Most of the LM tests produce probability values that fall below the 5% significance threshold.

Table 5. Hipotesis Test (T-test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.082119	0.423363	0.193969	0.8464
X1	2.539804	1.048718	2.421818	0.0161
X2	-2.575765	6.542564	-0.393693	0.6941
X1_Z	-4.461556	1.720806	-2.592713	0.0101
X2_Z	51.81262	13.79250	3.756579	0.0002

Source: Secondary data analysis (2025)

With an observation period from 2019 to 2023 and based on the results of panel data analysis using the Panel EGLS (Effect Cross Section Random) technique, this study involved 52 cross sections during five observation periods with a total of 260 balanced observations. The test results show that the constant variable (C) has a positive coefficient of 0.082119 with a probability of 0.8464, which means it is not statistically significant at the α 5% level. This finding indicates that when all independent variables are zero, the company's value does not experience significant changes.

This condition can be attributed to the situation of the manufacturing sector in Indonesia after the COVID-19 pandemic, where most companies are still trying to restore their financial and operational stability. In this context, the basic factors of the company represented by the constant are not strong enough to influence the company's value without the support of other variables such as profitability and corporate governance. Below this section, further explanation is provided regarding the results of the above column:

1. The Tax Planning variable shows a positive coefficient of 2.539804 with a probability of 0.0161, indicating a statistically significant positive relationship.
2. The Profitability variable has a negative coefficient of -2.575765 with a probability of 0.6941, which means it is not statistically significant.
3. The GCG variable, which moderates Tax Planning on Company Value, has a negative coefficient of -0.000193 with a probability of 0.0101, indicating a significant negative effect.
4. The GCG variable that moderates Profitability on Company Value shows a very large positive coefficient of 51.81262, with a probability of 0.0002, indicating a statistically significant positive effect. Economically, this shows that the implementation of Good Corporate Governance strengthens the effect of profitability on increasing company value. However, the magnitude of the coefficient needs to be interpreted with caution because it may be influenced by multicollinearity, which is a very strong relationship between the variables of profitability, GCG, and the interaction between the two. This condition can cause the moderation coefficient to be very large statistically without fully reflecting the actual economic effect.

Table 6. Simultan Test (F-test)

Statistik	Nilai
FF-statistic	30.94052
PProb(F-statistic)	0.000000

Source: Secondary data analysis (2025)

The elements of tax strategy and earnings have a considerable impact on the worth of the business, showing significance at a level of 5%, according to the data provided. The findings from the F-test, also known as the Simultaneous Test, showed a figure of 30.94052

along with a p-value of 0.000000. This suggests that the variables of tax strategy and earnings significantly influence one another. The established regression model is capable of connecting the variations in business value according to the combined impacts of these findings.

Table 7. R2 Test

Statistik	Nilai
R2	0.326754
Adjusted R2	0.316193

Source: Secondary data analysis (2025)

The Adjusted R^2 value of 0.316193 indicates that the research model is only able to explain approximately 31.6% of the variation in company value, while the remaining 68.4% is influenced by other factors outside the model. This value is relatively low, which means that the variables of profitability, tax planning, and Good Corporate Governance (GCG), along with their moderating effects, are not yet fully capable of explaining changes in company value as a whole. This condition may occur because, in the manufacturing sector, after the COVID-19 pandemic, company value is also greatly influenced by external factors such as macroeconomic conditions, government policies, and supply chain stability, as well as other internal factors such as capital structure, sales growth, and dividend policy, which have not been included in the research model.

The findings of the hypothesis test lead to the following conclusions. First, tax planning significantly and positively affects company value. With a probability of 0.0161, the positive coefficient of 2.539804 supports hypothesis H1. Chukwudi et al. (2020), Rajab et al. (2022), Effivani & Effendi (2023), and Anisran & Ma'wa (2023)This finding aligns with previous studies that have also demonstrated the positive effects of tax preparation on business value, and these results are consistent with their findings. This implies that effective tax planning strategies, which aim to reduce the tax burden legally, can increase after-tax net income, making companies more valuable in the eyes of budget-conscious investors.

Second, profitability does not greatly influence firm value. Even though the coefficient is negative (-2.575765), the probability of 0.6941 shows that it is statistically unimportant. This finding goes against what was initially expected (H2), which thought profitability would have a positive impact, similar to findings from earlier studies by Ndruru et al., (2020) and Fatoni & Yuliana (2021). This lack of significance might mean that, during the study period, profitability was not the only key factor affecting investment choices or how the market values companies, or that there were other factors that had a stronger effect on how investors viewed them.

Third, when looking at effective corporate governance (GCG), tax planning can negatively affect a company's worth. There is a chance of 0.0101, along with a negative coefficient of -4. The figure 461556 supports hypothesis H3. The research shows that good tax planning can increase a company's value when it is backed by strong corporate governance (GCG). Strong corporate governance promotes better accountability and openness. This could explain why aggressive tax planning methods, while legal, can be hard to carry out or could be viewed negatively by the market if they seem to diminish transparency. According to Wardani et al., their study backs up findings from 2020 that suggest good corporate governance (GCG) does not always lessen the impact of tax planning on a company's value. The success of GCG largely depends on the dedication and actions of the management team, and aggressive tax planning can still happen even when a strong GCG is in place.

Fourth, good corporate governance (GCG) positively and significantly influences the way profitability affects a company's value. Hypothesis H4 is backed by a notably high

positive coefficient of 51. The likelihood of this happening is 0. This finding shows how strong GCG enhances the relationship between a company's value and its profitability. Investors often feel more assured of a company's worth when solid corporate governance is established, as they realize that profits are handled transparently with shareholders' interests considered. These findings are consistent with recent studies done by Magfiroh (2022) and Djati & Susilowati (2022). Furthermore, the F test indicates that Tax Planning and Profitability significantly influence Company Value, as shown by a p-value of 0. The value is 000000, and the F statistic is 30. This shows that these two separate factors can together explain changes in a company's value. The regression model created shows a strong ability to clarify the dependent variable, evident from its R-squared value of 0. This means that around 32.67% of the shifts in a company's value stem from tax planning and profitability (including their interaction with GCG), while the other 67,32% is affected by factors not included in this model analysis.

CONCLUSION

The findings of the study suggest that tax planning positively and significantly influences a company's value. According to this, successful tax strategies can increase net income after taxes and enhance the company's reputation in the market. Nonetheless, there is a lack of evidence suggesting that profitability by itself has a notable effect on the value of a firm, which implies that the study may not have sufficiently addressed profitability. has been the main factor influencing the investment choices of investors. A closer look shows the intricate regulatory role of Good Corporate Governance (GCG), which greatly affects and negatively influences the connection between tax planning and the value of a business. This indicates that strict Good Corporate Governance (GCG) can diminish the advantages of bold tax planning strategies, as the market may view them as lacking transparency. In comparison, the connection between a firm's profitability and its value is positively and significantly influenced by Good Corporate Governance (GCG). This shows that effective governance, culture, and ethics (GCG) can build investor confidence by guaranteeing that profits are handled openly and with consideration for shareholders. which increases the worth of the business. In summary, the worth of a company is significantly influenced by the interplay between tax planning and profitability, although each of these factors exerts a unique influence. The regression model employed accounts for approximately 31.6% of the changes in firm value, while the other 68.4% is affected by factors that are not included in the analysis model.

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