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Tax Planning, and Capital Structure to Company Performance

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Abstract:

Purpose – This research aims to examine the influence of tax planning and capital structure on company performance. Based on the results of the analysis conducted, it can be concluded that tax planning and capital structure have a significant influence on the company's performance.

Design/methodology/approach – This study uses secondary data with a research method approach in the form of a non-probability sampling method. The technique used in this study is the purposive sampling technique.

Findings – This research has implications for contributing to the development of scientific studies on the impact of tax planning and capital structure on company performance, enriching the literature in the fields of finance and taxation, as well as providing input for strategic decision-making, particularly in managing capital structure and designing effective tax planning to enhance company performance

Practical implications – This study has limitations, including its narrow scope, focusing only on one sector of companies listed on the Indonesia Stock Exchange and the use of limited independent variables. This results in a low coefficient of determination and indicates that many other factors affect company performance.

Originality/value – Empirical evidence can be used to assess the effectiveness of policies related to tax planning and capital structure, while regulators are expected to strengthen supervision to prevent unethical practices within the corporate environment.

Keywords: *Tax Planning, Capital Structure, and Company Performance.*

INTRODUCTION

The main purpose of establishing a business is to obtain maximum profits, provide benefits for owners and shareholders, and maximize the value of the company. The three goals are interrelated, with different emphasis on each aspect. The value of the company reflects the condition and prospects of the business; The higher the value of the company, the higher the value for shareholders through increased return on investment. To maximize performance and competitiveness, management can take various strategies, one of which is tax planning. Tax planning is a legal effort to minimize the tax burden without violating applicable provisions, so as to improve the company's overall financial efficiency.

Taxes are the main source of state revenue used to finance routine expenditure and development. On the other hand, in business practice, taxes are often seen as a burden that can reduce a company's profits. Therefore, the company's management strives to minimize the tax burden legally through tax planning. Tax planning is a strategy that is carried out in a structured manner to reduce the tax burden without violating applicable provisions. This strategy aims to increase profit after tax and have a positive impact on the value of the company, regardless of the level of its operational performance.

A good capital structure allows the management to manage the company optimally and improve the company's performance. This structure reflects the relationship between stakeholders and supports transparency, thereby reducing the potential for fraud in financial reporting. Effective communication from management also plays a role in achieving the company's overall goals. An optimal capital structure is a balanced combination of equity and long-term debt, which aims to maximize returns for both the company and shareholders (Ritonga et al., 2021). Capital can be obtained from internal and external sources, with the selection of financing types adjusted to the company's short-term or long-term needs.

According to Nugraha et al. (2021), the capital structure is an external fund that is temporary and must be returned within a certain period of time. The selection of capital structure is a managerial strategic decision, as it affects the risk and the rate of return of the company. A high-leverage capital structure can increase potential returns, but it is also accompanied by increased risk (Muslimah et al., 2020).

Based on the description above, there are several things in the form of problem formulations, goals, and benefits that are expected to make a positive contribution to various parties. First, for academics, this study provides an overview of the influence of tax planning, accrual profit management, capital structure, company performance, and company size. It is hoped that these findings can strengthen the results of previous research and enrich the literature in the field of finance and taxation. Second, for regulators, this research is expected to be able to provide empirical evidence related to the effectiveness of policies that have been implemented regarding tax planning, accrual profit management, capital structure, company performance, and company size. The results of this research are also expected to be the basis for formulating more appropriate regulations and encouraging supervision to prevent unethical business practices. Third, for professionals, this research can be a strategic input in further analyzing the influence of tax planning, accrual profit

management, and capital structure on company performance. The results of this research can also be used as a reference in managing the company's activities so that they run optimally and in accordance with the proper managerial functions.

LITERATURE REVIEW

According to Saleh & Hasyim, (2022) states that company performance is the result of a series of business processes at the expense of various kinds of resources, namely human resources and company finance. Company performance can be said to be a formal effort carried out by the company to evaluate the efficiency and effectiveness of the company's activities that have been carried out in a certain period of time (Siregar, et al., 2019). Kurniawan and Muslichah, (2019) stated that company performance is something produced by a company in a certain period by referring to the set standards. The measurement of the company's performance activities is designed to assess how the performance of the activities and the final results are achieved. Reysa, et al., (2022) stated that company performance means a complete view of the state of the company during the exclusive period, which is a result or achievement determined by the company's operational activities in utilizing the resources it has.

According to Setyawan, et al., (2021) planning to determine the possibility of taxes to be borne where tax planning is calculated by measuring the tax retention rate, namely the comparison of net income to pre-tax income (EBIT). Islamiah & Apollo (2020) stated that tax planning is an effort by taxpayers to take advantage of various possible loopholes that can be taken in the corridor of tax regulations, so that companies can pay taxes in the minimum amount. Tax planning is the first step in tax management, at this stage the collection and research of tax regulations is carried out in order to select the type of tax saving actions to be carried out (Lestari, et al., 2018). Putra (2019) defines tax planning as the process of organizing the business of taxpayers or a group of taxpayers in such a way that tax debts, both income tax and other tax burdens are in the minimum possible position.

According to Ross (1977) Capital structure is a constant cost that reflects the ratio of long-term debt and equity. Machdar (2018) stated that the capital structure is a mixture of debt and equity that a company uses to finance its business. The capital structure is a permanent expenditure that reflects the balance between long-term debt and own capital from both internal and external sources (Nugraha, et al., 2021). Oktaviani, et al., (2019) also stated that capital structure is long-term funding used by companies to maximize shareholder wealth, so that financial managers can assess capital structure and understand risks, as well as the results of return on value. Ukhriyawati and Dewi (2019) also stated that capital structure is a combination or balance between debt and own capital (preferred shares and ordinary shares) that companies use to plan to get capital.

Previous research on tax planning, and capital structure on company performance has different results and is interesting to study further Ainaul (2019) and Setyawan, et al., (2021). Lestari, et al., (2018) and Putra (2019) showed that tax planning has an effect on company performance. In contrast to Islamiah and Apollo (2020), in their research it gave different results that tax planning had no effect on company performance.

Ritonga, et al., (2021), Nugraha, et al., (2021), Oktaviani, et al., (2019) and Ukhriyawati and Dewi (2019) in their research showed that capital structure affects company performance. (Cristy, et al., 2018) states differently that the capital structure has no effect on the company's performance.

In this study, it discusses the factors that can affect and find out how much influence tax planning, accrual profit management and capital structure on company performance moderated by company size, as follows:

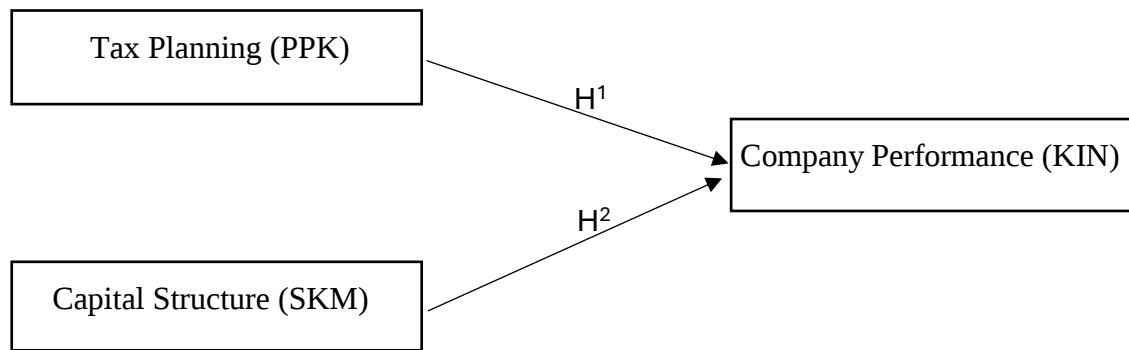


Figure 1. Frame of Mind

Tax planning is a method or technique of tax management by a company that aims to minimize tax costs, so that the tax burden is not too high. Tax planning is sought by managing and manipulating existing transactions in the company with the aim of increasing profits or profits. The company's management conducts tax planning in an effort to reduce tax costs or corporate tax burdens. Effectively managed tax planning, and avoiding abuse by violating tax laws, will increase the value of the company. Large companies feel that on the one hand they carry out tax planning to obtain optimal profits, so that they can increase the value of the company. This is because tax management by planning taxes with tax savings will remind the company's profitability which will ultimately increase the company's value. This is strengthened by research (Ainaul, 2019) and (Setyawan, et al., 2021) which states that tax planning has a positive effect on company performance. Based on the results of the study, the hypotheses that can be formulated are as follows:

Hypothesis 1: Tax Planning Strengthens Corporate Performance.

The decision to use debt by the company's management in the capital structure has taken into account the tax advantages that are the result of reduced income due to increased interest costs. It was further explained that this positive influence occurred because the use of debt in the capital structure of companies in the property and real estate sector in Indonesia had not reached its optimal point. The increase in debt carried out by the company is maintained to remain at its optimal point so that the benefits of using debt are still greater than the sacrifices made. The use of debt is carried out only for the purpose of company expansion which will bring benefits to the company in the future, such as an increase in the stock price that will increase the value of the company's performance. This is reinforced by research (Ritonga, et al., 2021) and (Nugraha, et al., 2021) which states that capital structure has a positive effect on company performance. Based on the results of the study, the hypotheses that can be formulated are as follows:

Hypothesis 2: Capital Structure Strengthens Company Performance

METHOD

In this study, the data used is secondary data. The secondary data used by the author is literature data obtained from research journals, reference books, and documentation from data collection on the Indonesia Stock Exchange. The non-probability sampling method is a method with respondents who meet certain criteria and have an equal chance of being selected as a sample. The non-probability sampling technique chosen is the purposive sampling technique. In this purposive sampling technique, samples are taken based on specific criteria formulated in advance by the researcher. The considerations in sampling in this study are companies that have the following criteria:

1. Property and real estate companies listed on the Indonesia Stock Exchange during the 2018-2023 period.
2. Property and real estate companies that publish annual reports consistently during the 2018-2023 period.
3. Property and real estate companies that include tax planning on their financial statements.
4. Property and real estate companies that issue capital structure reports.

The following is a table of populations and research samples.

Table 1. Sampling Criteria

No	Description	Sum
1	Property and real estate companies listed on the Stock Exchange Indonesia during the 2018-2023 period.	49
2	Unregistered Property and real estate companies that do not have complete financial reports	(6)
3	Total companies that can be used as samples	43
Number of research samples (n x 6 research periods)		258

According to Sujarweni (2018), operational variables are research variables intended to understand the meaning of each research variable before the analysis, instruments, and measurement sources come from. The following is the table.

Table 2. Variable Operations

Variable	Indicator	Scale Measureme nt
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Tax Planning (PPK)	$PPK_{it} = \frac{\text{Net Income}}{\text{Pretax Income (EBIT)}}$	Ratio
Capital Structure (SKM)	$SKM_{it} = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$	Ratio
Company Performance (KIN)	$KIN_{it} = \frac{\text{Laba Bersih}}{\text{Total Aset}}$	Ratio

According to Basuki & Prawoto (2016, p. 279), the regression model estimation method using panel data can be done through three approaches, including: 1) Common Effect Model (CEM), 2) Fixed Effect Model (FEM), and 3) Random Effect Model (REM). This model is also called the Error Component Model (ECM) or the Generalized Least Square (GLS) technique. To choose the right model to use in managing panel data, three tests can be carried out, namely; 1) Chow test, 2) Hausman test, and 3) Lagrange Multiplier (LM) test.

The research uses the Eviews 12 program tool. Multiple linear regression analysis is used to determine the relationship between the two independent/independent variables and the dependent or bound variables. In this study, the variables used are Tax Planning (PPK_{it}), Capital Structure (SKM_{it}), as independent variables for Company Performance (KIN_{it}) The multiple linear regression equation can be formulated as follows:

$$KIN_{it} = \alpha + \beta_1 PPK_{it} + \beta_2 SKM_{it} + \varepsilon$$

Information:

KIN_{it} : Company Performance of the company i in the period t

α : Konstanta

PPK_{it} : Corporate Tax Planning i in the period t

SKM_{it} : The Company's Capital Structure i in the period t

$\beta_1 \beta_2$: Partial Regression Coefficient

ε : Error/ other variables not identified in the model

RESULTS AND DISCUSSION

To give an overview of the following descriptive analysis will be explained in the Table as follows:

Table 3. Descriptive Statistical Analysis Results

KIN	PPK	MLA	SKM	UPN
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Mean	0.709264	3.057403	3.032287	0.858915	29.78508
Median	0.860000	1.830000	1.845000	0.020000	30.13500
Maximum	0.950000	9.860000	9.990000	15.34000	34.54000
Minimum	0.040000	0.120000	-0.470000	-0.120000	17.66000
Std. Dev.	0.263393	2.794134	3.007625	1.913013	3.012497
Skewness	-1.080912	0.767822	0.740794	3.909274	-0.925977
Kurtosis	2.543599	2.247388	2.195466	23.42226	4.035198
Jarque-Bera	52.47915	31.43977	30.55556	5140.633	48.38973
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	182.9900	788.8100	782.3300	221.6000	7684.550
Sum Sq. Dev.	17.82956	2006.447	2324.772	940.5223	2332.310
Observations	258	258	258	258	258

Source: Hasil Pengolahan Data

The following are the results of the panel data modeling test in the form of a table.

Table 4. Chow Test Results

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	15.871383	(42,211)	0.0000
Cross-section Chi-square	367.735293	42	0.0000

Table 5. Hausman Test Results

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	82.742686	4	0.0000

Table 6. Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided
(all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	140.4281 (0.0000)	4.117097 (0.0425)	144.5452 (0.0000)
Honda	11.85024 (0.0000)	2.029063 (0.0212)	9.814147 (0.0000)
King-Wu	11.85024 (0.0000)	2.029063 (0.0212)	5.783221 (0.0000)
Standardized Honda	12.39319 (0.0000)	2.499590 (0.0062)	5.816218 (0.0000)
Standardized King-Wu	12.39319 (0.0000)	2.499590 (0.0062)	3.089246 (0.0010)
Gourieroux, et al.	--	--	144.5452 (0.0000)

Next, a classical assumption test was carried out. The results of the normality test in this study can be shown as follows.

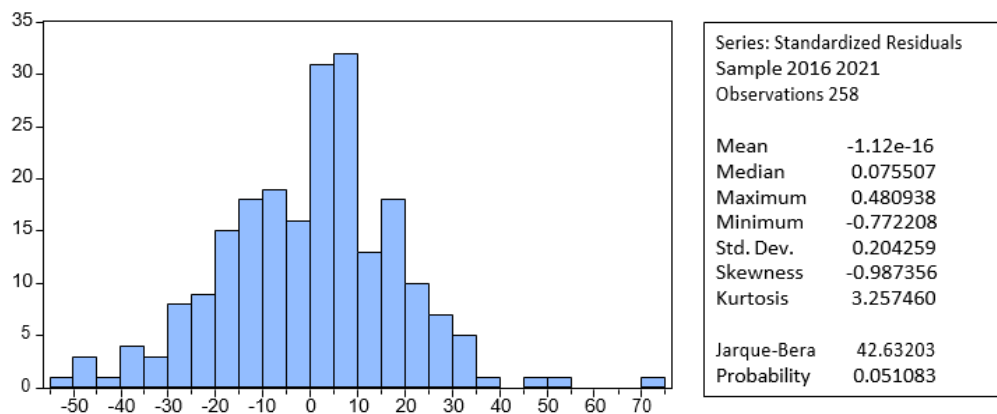


Figure 2. Normality Test Results

The results of the multicollinearity test can be seen in the table below.

Table 7. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
PPK	4.90E-05	7.370887	3.347607
SKM	4.62E-05	1.778889	1.479405
UPN	2.01E-05	158.3948	1.597200
C	0.017679	155.3151	NA

The results of the heteroscedasticity test can be seen in the table below.

Table 8. Heteroscedasticity Test Results

Heteroskedasticity Test: White
Null hypothesis: Homoskedasticity

F-statistic	1.84680	Prob. F(14,243)	0.2890
Obs*R-squared	15.3079	Prob. Chi-Square(14)	0.2870
Scaled explained SS	140.5536	Prob. Chi-Square(14)	0.0000

The results of the autocorrelation test can be seen in the table below.

Table 9. Autocorrelation Test Results

R-squared	0.371102	Mean dependent var	-7.70E-16
Adjusted R-squared	0.350896	S.D. dependent var	0.167313
S.E. of regression	0.134799	Akaike info criterion	-1.135799
Sum squared resid	4.524539	Schwarz criterion	-1.011859
Log likelihood	155.5181	Hannan-Quinn criter.	-1.085962
F-statistic	18.36632	Durbin-Watson stat	1.771662
Prob(F-statistic)	0.000000		

Based on the results of the test mentioned above, the results were obtained that the model that should be used was Random Effect.

Table 10. T Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.322035	0.109849	2.931624	0.0037
PPK	0.010988	0.004387	2.504549	0.0129
SKM	-0.014877	0.004492	-3.311801	0.0011

Based on the table above, tax planning has a regression coefficient value of 0.010988 and a t-statistic of 2.504549 with a probability value of $0.0129 < 0.05$, so it can be concluded that tax planning partially has a significant effect on the company's performance. So the hypothesis is accepted. This explains that tax planning is a method or technique of tax management by companies that aims to minimize tax costs, so that the tax burden is not too high. Tax planning is sought by managing and manipulating existing transactions in the company with the aim of increasing profits or profits. The company's management conducts tax planning in an effort to reduce tax costs or corporate tax burdens. Effectively managed tax planning, and avoiding abuse by violating tax laws, will increase the value of the company. Large companies feel that on the one hand they carry out tax planning to obtain optimal profits, so that they can increase the value of the company. This is because tax management by planning taxes with tax savings will remind the company's profitability which will ultimately increase the company's value. This is reinforced by research (Ainaul, 2019) and (Setyawan et al., 2021) which states that tax planning strengthens company performance.

Based on the table above, the capital structure has a regression coefficient value of -0.014877 and a t-statistic of -3.311801 with a probability value of $0.0011 < 0.05$, so it can be concluded that the capital structure partially has a significant effect on the company's performance. So the hypothesis

is accepted. This explains that the decision to use debt by the company's management in the capital structure has taken into account the tax advantages that are the result of reduced income due to increased interest costs. It was further explained that this positive influence occurred because the use of debt in the capital structure of companies in the property and real estate sector in Indonesia had not reached its optimal point. The increase in debt carried out by the company is maintained to remain at its optimal point so that the benefits of using debt are still greater than the sacrifices made. The use of debt is carried out only for the purpose of company expansion which will bring benefits to the company in the future, such as an increase in the stock price that will increase the value of the company's performance. This is reinforced by research (Ritonga et al., 2021) and (Nugraha et al., 2021) which states that the capital structure strengthens the company's performance.

Based on table 9, it shows that the value of the determination coefficient produced in the Adjusted R-squared test is 0.0350896. The results obtained show that Tax Planning (PPKit), and Capital Structure (SKMit) were able to contribute to influencing Company Performance by 35.0896% while the remaining 64.9104% were influenced by other variables.

CONCLUSION

This research aims to examine the influence of tax planning and capital structure on company performance. Based on the results of the analysis conducted, it can be concluded that tax planning and capital structure have a significant influence on the company's performance. However, this study has limitations, including limited coverage of only one sector of the company on the Indonesia Stock Exchange and limited use of independent variables. This leads to a low coefficient of determination and shows that there are many other factors that affect the company's performance. Furthermore, there are several suggestions that can be used as a reference for the next research, namely for data from more than one sector so that the research results become more representative and general, then it is necessary to consider other relevant variables so that the research model has a higher coefficient of determination. The results of this study have implications in the form of contributing to the development of scientific studies related to the influence of tax planning and capital structure on company performance, enriching literature in the field of finance and taxation, and becoming an input in strategic decision-making, especially in managing capital structure and designing effective tax planning to improve company performance. It provides empirical evidence that can be used to assess the effectiveness of policies related to tax planning and capital structures. Meanwhile, regulators are expected to strengthen supervision to prevent unethical practices in the corporate environment.

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