

# THE EFFECT OF PROFITABILITY ON FIRM VALUE MEDIATED BY TAX AVOIDANCE IN MANUFACTURING COMPANIES LISTED ON THE IDX

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## *Abstract*

*This research is driven by the critical importance of firm value as a fundamental indicator for investors in assessing a company's prospects, with profitability serving as a primary catalyst. Given the inconsistent findings in prior literature regarding the role of tax avoidance, this study evaluates its function as a mediating variable. Utilizing a quantitative approach focused on manufacturing firms listed on the Indonesia Stock Exchange, and employing path analysis via Eviews, the results demonstrate that profitability exerts a significant positive influence on both firm value and tax policies. Crucially, the study confirms that tax avoidance acts as a partial mediator; this indicates that market valuation increases not only through direct profit growth but also through strategic tax efficiency. Consequently, management is encouraged to integrate legal tax planning into financial strategies to bolster cash flow, while investors should scrutinize tax management effectiveness as a vital sign of managerial competence in sustaining long-term firm value.*

**Keywords:** Profitability, Firm Value, Tax Avoidance, Mediation, Manufacturing Companies

## INTRODUCTION

Profitability serves as a key pillar in evaluating an entity's financial health and is a crucial parameter for investors in determining investment feasibility. The efficiency of asset and equity utilization in generating profit can be measured through the Return on Assets (ROA) and Return on Equity (ROE) ratios. Referring to data from manufacturing issuers on the Indonesia Stock Exchange (IDX) for the 2021-2024 period, the average ROA was 8.9% and ROE reached 18.7% (Alaika et al., 2023). Fluctuations in these values indicate that profit generation is highly dependent on cost management, operational effectiveness, and macroeconomic dynamics. This aligns with the findings of Taha et al. (2023), which assert that ROA and ROE are dominant predictors in projecting financial performance and guiding investment decisions (Taha et al., 2023).

Profitability needs to be studied because it is a crucial indicator for investors in evaluating investment feasibility. According to signaling theory, high profits are considered a positive signal to investors regarding a company's future prospects, thus increasing market confidence and strengthening the company's value (Afinindy et al., 2021; Nidaurifa et al., 2024) In Indonesia, the manufacturing sector contributes significantly to Gross Domestic Product (GDP), but the profitability of companies in this sector often fluctuates over time. Data from the Indonesia Stock Exchange (IDX, 2023) shows that although some manufacturing companies have successfully increased net income, not all are able to maintain consistent profitability growth. Previous studies have also yielded mixed results, with some stating that profitability has a positive impact on company (Aji et al., 2024; Appah et al., 2023; Oktaviani & Putra, 2023), while others found an insignificant effect (Guo et al., 2024) These fluctuating conditions and inconsistent results make investors more cautious in assessing whether profitability can truly be used as a reliable benchmark for determining company value (Akuntansi et al., 2019).

The gap between theory and reality is often found in business practice, where high profitability does not always correlate linearly with increased company value (Rahman, 2021; Valerie, 2024). Inconsistencies in previous research findings emphasize this phenomenon; Sofhia & Viola demonstrated that profitability positively contributes to company value, but this finding contrasts with Handayani's research, which stated no significant impact. This inconsistency indicates a research gap, indicating that profitability does not stand alone as a determinant of company value but is instead influenced by other moderating or mediating variables within market dynamics (Gowira et al., 2024; Revi & Anom, 2021)

Company value is a crucial instrument in evaluating the success of a business entity, reflecting market perception of its future prospects. It is generally measured through indicators such as stock price, Tobin's Q, or Price to Book Value (PBV) (Satria, 2021; Varissa & Andalas, 2025). Nugraha emphasized that company value reflects the market's perception of operational efficiency, financial stability, and agility in navigating a dynamic business environment (Nugraha & S., 2025). In addition to financial aspects, Fitri & Mildawati demonstrated that information transparency and quality of governance are determinants of investor confidence (Dewi & Fitriani, 2024). This finding is reinforced by the findings of Putri & Gantino, who stated that non-financial elements, including sustainability and corporate social responsibility (CSR), significantly contribute to investor assessments in the capital market (Putri & Gantino, 2023).

Tax avoidance is a common strategy adopted by taxpayers, both corporations and individuals, with the primary goal of optimizing the tax burden owed to the state treasury (Mappadang, 2021). Unlike illegal acts, tax avoidance is considered safe because it is carried out within the legal framework. According to Pohan (2022), this practice specifically exploits "grey areas" or loopholes in tax laws and regulations to minimize fiscal obligations without explicitly violating the law (Pohan, 2022).

Tax avoidance in Indonesia is a managerial strategy that exploits regulatory loopholes for fiscal gain without violating the law, although it is difficult to monitor (Lestari & P., 2021). Empirical evidence shows varying dynamics: the manufacturing sector tends to engage in tax avoidance when profits increase (Siti et al., 2025), while in the mining sector, profitability is not the primary driver of such behavior (Simanjuntak et al., 2024). These divergent results, coupled with the limited literature linking tax avoidance directly to firm value, highlight a knowledge gap. Therefore, further investigation is needed to provide a more consistent picture of the influence of financial performance and tax policy on corporate market appreciation in Indonesia.

Bernard & Prang (2024) found that company size has a positive and significant influence on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange. This occurs because larger companies tend to have more adequate resources and higher operational complexity, thus providing management with the flexibility to design aggressive tax efficiency strategies. On the other hand, profitability was not proven to have a significant effect on tax avoidance. This finding suggests that high profit levels are not always the primary driver for companies to undertake tax savings, as other factors beyond profitability may be more dominant in influencing corporate tax policy. This research model demonstrated a predictive ability of 12.9% in explaining the practice of tax avoidance phenomena carried out by companies.

Nofiata et al. (2020) suggest that debt policy and profitability significantly influence firm value. Furthermore, tax avoidance practices have also been shown to significantly influence firm value in the food and beverage sub-sector during the 2014–2018 period. This suggests that debt financing decisions and a company's ability to generate profits are crucial determinants of a company's perceived value among investors. Conversely, dividend policy was not found to influence firm value, indicating that for companies in this sub-sector, investors tend to respond more to debt policy and tax efficiency than to dividend distribution amounts.

Ikmaliyah & Maria (2021) found that profitability has a positive influence on firm value. This relationship can be strengthened or weakened by the role of leverage and tax avoidance, which serve as moderating variables. This suggests that increased profitability does not automatically increase firm value, but rather depends heavily on how the

company manages its capital structure through debt and its decisions regarding tax avoidance. The use of tax avoidance and leverage as moderators indicates that investors consider risk and tax efficiency strategies as factors that determine the quality of a company's earnings, ultimately influencing market assessments of the company's value.

Ariani et al. (2024) showed that profitability had a positive and significant effect on firm value in the food and beverage sub-sector on the Indonesia Stock Exchange during the 2017–2020 period, while tax avoidance had no significant effect on firm value. Information transparency was found to weaken the effect of both profitability and tax avoidance on firm value. This phenomenon indicates that when companies increase information disclosure, the market response to both profits generated and tax-saving strategies becomes more moderate, where investors may be more cautious in interpreting the impact of these activities on the company's sustainability. Overall, profitability and tax avoidance, together with these moderating variables, were able to explain 73% of the variation in firm value.

Revi & Anom (2021) that profitability has a positive effect on firm value, indicating that operational efficiency and a company's ability to generate profits are key positive signals for investors. Conversely, tax avoidance was not shown to have a significant effect on firm value, indicating that the market may not view tax efficiency practices as a key determinant in assessing firm quality. Furthermore, the role of dividend policy in moderating the relationship between these variables was found to be inconsistent. This inconsistency indicates that investors do not always use dividend distribution policy as an absolute benchmark in responding to a company's profitability activities or tax strategies, thus the impact of this moderating variable on firm value cannot be uniformly determined.

Unlike previous studies that have largely focused on the positive role of tax avoidance in enhancing firm value through cost efficiency, this study offers a distinct contribution by demonstrating the limitations of this mediating mechanism. By providing empirical evidence that tax avoidance fails to mediate the relationship between profitability and firm value, this research highlights a significant shift in market sentiment within the Indonesian manufacturing sector. It underscores that investors now prioritize fundamental operational earnings over aggressive tax management, which is increasingly perceived as a source of reputational and regulatory risk rather than a creator of value. Thus, this study redefines the role of tax planning as a secondary financial consideration rather than a primary catalyst for corporate valuation.

Building upon this redefinition, the significance of this research extends beyond mere empirical findings. It provides a nuanced understanding of the tension between profit optimization through tax strategies and market perceptions of corporate integrity. In the context of national economic recovery, these findings offer valuable insights for regulators in designing a more resilient and equitable tax system that balances fiscal revenue needs with corporate sustainability. Furthermore, by utilizing up-to-date data and a rigorous quantitative approach, this study not only enriches financial accounting literature but also serves as a critical reference for policymakers and corporate managers in navigating the complex interplay between fiscal strategy and long-term shareholder confidence

## **RESEARCH METHODS**

This study uses a quantitative research design with a causal associative approach. This approach was chosen to analyze the causal relationship between variables, namely to test the effect of profitability on firm value with tax avoidance as a mediating variable. The research focused on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2025 period. The population in this study included all manufacturing companies on the IDX, while the sample was determined using a purposive sampling method. The sample selection criteria included companies that published consecutive annual financial reports, had complete data related to profitability, tax expense, and stock price variables, and did not record losses during the observation period to maintain financial ratio stability.

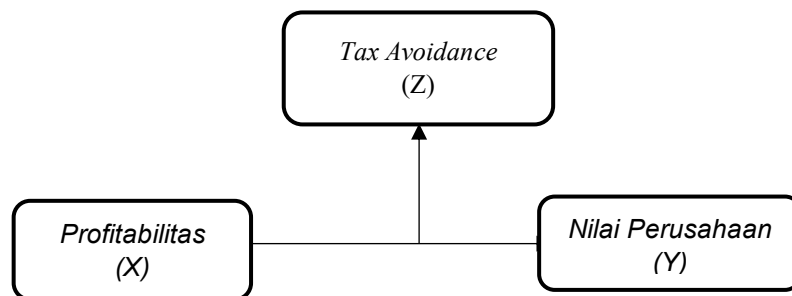
The research instrument used was secondary data sourced from annual financial reports and annual reports officially published by the Indonesia Stock Exchange through the website [www.idx.co.id](http://www.idx.co.id). The collected data were quantitative, including data on net profit, total assets, income tax expense, profit before tax, as well as data on closing stock prices and the number of shares outstanding. The data collection procedure is carried out through documentation

techniques, namely by downloading and collecting historical data from the financial database of companies that meet the sample criteria, then compiling it into a panel data format for analysis purposes.

This study uses three main variables to analyze the relationship between financial performance and market appreciation. Profitability is positioned as an independent variable proxied by Return on Assets (ROA), which is the ratio between net income to total assets that reflects management effectiveness in optimizing the company's internal resources. As a mediating variable, tax avoidance is measured using the Effective Tax Rate (ETR), calculated by dividing income tax expense by profit before tax, where a low ETR value indicates a higher intensity of tax efficiency practices. Meanwhile, firm value as a dependent variable is measured by the Tobin's Q ratio, which represents the market estimate of firm value by the sum of the market value of equity with total liabilities divided by total assets. All variables are calculated using a ratio scale based on consistent annual financial report data.

The data analysis technique in this study is carried out through a descriptive statistical approach and panel regression analysis. Considering the data structure which is a combination of cross-section (company) and time-series (time) data, the best model is selected between the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM) through the Chow test and the Hausman test. Hypothesis testing is carried out through path analysis using EViews software to test the significance of the direct and indirect influence of the independent variables on the dependent variable through the mediating variable, with a significance level of 5% ( $\alpha = 0.05$ ).

This study develops a conceptual framework linking financial performance to market valuation through the mechanism of tax strategies. Profitability is positioned as an independent variable representing an entity's financial strength. This line of thought then explores how tax avoidance strategies act as a mediator, strengthening or weakening the influence of profitability on firm value. By considering the dimensions of fiscal efficiency and reputational risk, this framework provides a theoretical basis for examining whether tax avoidance practices can bridge the relationship between profit generation and increased equity value in the capital market.



**Picture 1. Framework**

This hypothesis is based on the premise that profitability is a key determinant of an entity's financial effectiveness. Within the framework of Signaling Theory, superior profit performance is viewed as asymmetric information communicated by management to the public to demonstrate operational efficiency and growth prospects. Investors respond to this positive signal as an indicator of company quality, directly strengthening expectations of future returns. Consequently, increased profitability tends to be accompanied by an increase in company value, as market confidence and demand for the company's shares increase (**H1**).

This hypothesis is based on the assumption that tax avoidance is a dual instrument capable of influencing company value by optimizing the fiscal burden. From an efficiency perspective, a company's success in legally minimizing tax liabilities can increase net cash flow and after-tax profit, which is a positive signal for shareholder welfare. However, the market also considers the risk aspect; tax avoidance practices are often accompanied by the

threat of administrative sanctions, strict oversight by tax authorities, and reputational degradation. Therefore, the impact of tax avoidance on company value is contingent, depending on the extent to which investors perceive the practice as a cost-saving measure or a sustainability risk (H2).

The third hypothesis examines the effect of profitability on a company's propensity to engage in tax avoidance. In theory, high profits will increase tax liabilities, thus encouraging management to pursue fiscal efficiency through legal tax planning. However, this relationship is not always linear. Various other elements such as corporate governance, government oversight, and potential reputational risk are also important considerations for management. Therefore, the impact of profitability on tax avoidance varies widely and is influenced by the specific characteristics of each company (H3).

Through the fourth hypothesis, this study explores the role of tax avoidance in mediating the impact of profitability on firm value. Management in highly profitable companies is often motivated to engage in tax avoidance to maximize net income. When net income increases, investor appreciation of the company also increases, which is then reflected in increased firm value. In this context, tax avoidance acts as a bridge connecting profit-generating ability with market perception. If this mediating function is empirically proven, it can be concluded that the contribution of profits to increasing firm value also involves the role of tax management (H4).

## RESULTS AND DISCUSSION

### RESULTS

#### Normality Test

The normality test is used to detect data distribution patterns. In this test, data is categorized as normally distributed if the significance value is greater than 0.05. This condition indicates that there is no significant difference between the distribution of the research data and a normal distribution (the null hypothesis is accepted). A summary of the normality test results can be seen in the table below.

**Table 1. Results of Data Normality Test**

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		250
Normal Parameters <sup>a,b</sup>	Mean	.0856615
	Std. Deviation	.88224632
Most Extreme Differences	Absolute	.085
	Positive	.057
	Negative	-.085
Kolmogorov-Smirnov Z		1.344
Asymp. Sig. (2-tailed)		.054
a. Test distribution is Normal.		
b. Calculated from data.		

Source: SPSS (2026)

Based on the results of the normality test, a significance value of 0.054 was obtained. This value is greater than the established significance level of 0.05 ( $0.054 > 0.05$ ). Thus, it can be concluded that the residual data in this study is normally distributed.

### Selection Of The Best Equation Model

Panel data regression model selection is conducted by comparing three approaches: the Common Effects Model (CEM), the Fixed Effects Model (FEM), and the Random Effects Model (REM). The best model is determined step by step using the Chow Test (to choose between the CEM and the FEM) and the Hausman Test (to decide between the FEM and the REM).

### Chow Test

**Table 2. Chow Test**

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.238854	(4,243)	0.2950
Cross-section Chi-square	5.046878	4	0.2825

Source: Processed Data (2026)

Based on the Chow test results, the cross-section chi-square value was 5.046878 with a probability of 0.2825. Since this p-value exceeds the 0.05 significance level, the null hypothesis—which supports the use of a common intercept—cannot be rejected. Therefore, the Common Effect Model (CEM) is selected as the most appropriate model for this analysis.

### Hausman Test

**Table 3. Hausman Test**

Correlated Random Effects - <i>Hausman</i> Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.768333	2	0.1520

Source: Processed Data (2026)

Based on the results of the Hausman test, the chi-square statistic value was 3.7683 with a probability of 0.1520. Considering that the probability value is greater than the 0.05 significance level ( $0.1520 > 0.05$ ), the null hypothesis cannot be rejected. Therefore, the Random Effect Model (REM) is declared as the most appropriate model for use in data analysis, compared to the Fixed Effect Model (FEM).

## Lagrange Multiplier Test

**Table 4. Lagrange Multiplier Test**

<i>Lagrange Multiplier</i> 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	0.010189 (0.9196)	0.404328 (0.5249)	0.414517 (0.5197)

Source: Processed Data (2026)

## Hypothesis Testing

Hypothesis testing in this study was conducted to determine the influence of independent variables on dependent variables partially, simultaneously, and through mediating variables.

**Table 5. Summary Table of Hypothesis Testing Results**

Hypothesis	Hypothesis Statement	t-statistic / z-value	Significance Value (p-value)	Decision
H1	Profitability affects company value	5,690	0,000	ACCEPTED
H2	Tax Avoidance affects Company Value	1,285	0,199	REJECTED
H3	Profitability affects Tax Avoidance	6,386	0,000	ACCEPTED
H4	Tax Avoidance mediates the effect of Profitability on Firm Value	1,257	0,208	REJECTED

Source: Processed Data (2026)

Based on the test results, the profitability variable is proven to have a positive and significant influence on company value. This is indicated by a probability value of 0.0000, which is smaller than the 0.05 significance level, and a t-statistic value of 5.690, which exceeds the critical value of 1.96. Furthermore, the regression coefficient value of 0.382505 indicates that every one-unit increase in the profitability variable will increase company value by 0.382505. Thus, the first hypothesis (H1), which states that profitability influences company value, is officially accepted.

Based on the analysis results, the Tax Avoidance variable measured by the Effective Tax Rate (ETR) has a probability value of 0.1999, which is higher than the significance limit of 0.05. This condition indicates that Tax Avoidance does not have a significant influence on company value. Although the regression coefficient value shows a positive direction of 0.092333, the t-statistic value obtained is only 1.285, which is smaller than the critical t-table value of 1.96. Thus, it can be concluded that the second hypothesis (H2) which states that Tax Avoidance has an effect on company value is empirically rejected.

The test results show that the profitability variable has a positive and significant influence on tax avoidance. This conclusion is supported by a probability value of 0.0000, which is below the 0.05 significance level, and a t-

statistic value of 6.386, which exceeds the critical value of 1.96. Furthermore, the regression coefficient value of 0.351567 indicates that any increase in the profitability variable will increase the level of tax avoidance. Thus, the third hypothesis (H3), which states that profitability has an effect on tax avoidance, is empirically accepted.

**Table 6. Coefficient of Determination (R<sup>2</sup>)**

Equation Model	Variables	R-squared value (R <sup>2</sup> )	Adjusted R-squared Value
Equation 1	The Effect of ROA and ETR on Tobin's Q	0,157103	0,150278
Equation 2	The effect of ROA on ETR	0,141229	0,137766

Source: Processed Data (2026)

The results of the simultaneous significance test (F Test) show an F-statistic value of 23.01849 with a probability level of 0.0000. Because the significance value is smaller than 0.05, it can be concluded that profitability and Tax Avoidance together have a significant influence on company value. This result also confirms that the estimated regression model has met the model feasibility criteria (goodness of fit). Meanwhile, the results of the determination coefficient test in equation 1 produce an Adjusted R<sup>2</sup> value of 0.150278. This indicates that the contribution of the profitability and Tax Avoidance variables in explaining variations in company value is 15.0%, while the remaining 85.0% is influenced by other factors not explored in this model.

Based on the results of panel data regression testing, the F-statistic value obtained in the first equation is 23.01849 with a probability of 0.0000 (<0.05), which proves that the variables of profitability and Tax Avoidance simultaneously have a significant effect on company value and confirms the feasibility of the model (fit). In this model, the Adjusted R-squared value is recorded at 0.150278 or 15.0%, which indicates that the ability of the combination of independent variables to explain variations in company value is 15.0%, while the remaining 85.0% is influenced by other factors outside the model. Meanwhile, the results of testing the second equation produce an F-statistic value of 40.78476 with a probability of 0.0000 (<0.05), which indicates that profitability simultaneously has a significant effect on Tax Avoidance. With an Adjusted R-squared value of 0.137766 or 13.7%, this second model confirms that the profitability variable has limited ability to explain variations in Tax Avoidance, where a larger portion, namely 86.3%, is explained by other external variables outside the study.

### **SOBEL TEST (MEDIATION)**

The Sobel test is conducted to determine whether the Tax Avoidance variable is able to mediate the relationship between profitability and firm value.

**Table 7. Sobel Test**

Keterangan	Nilai
Koefisien A	0,351
Koefisien B	0,092
Standard Error A (SE <sub>a</sub> )	0,055
Standard Error B (SE <sub>β</sub> )	0,071
Nilai t (Sobel Test)	1,269
One-tailed Probability	0,102
Two-tailed Probability	0,204

Source: Processed Data (2026)

Based on the results of the Sobel test analysis, the calculated t-value was only 1.269, which is smaller than the t-table value of 1.96 at a 5% significance level. This finding indicates that tax avoidance does not play a significant role in mediating the relationship between profitability and firm value. Therefore, it can be concluded that there is no mediation effect in this research model, so the fourth hypothesis (H4) stating that profitability influences firm value through tax avoidance as an intermediary variable is officially rejected.

## **DISCUSSION**

### **The Influence of Profitability on Company Value**

Research findings demonstrate that profitability, proxied by Return on Assets (ROA), exerts a positive and significant influence on firm value (Tobin's Q). This result indicates that a company's capacity to generate earnings from its asset base is directly proportional to market appreciation. As a primary performance indicator, high profitability serves as a signal of management's operational efficiency and internal resource optimization. In accordance with signaling theory, robust profitability is interpreted by market participants as positive 'good news' regarding the company's future prospects (Amni & Nustini, 2024). Consequently, superior earnings signals foster investor confidence, stimulate share demand, and ultimately enhance market value (May & Susanto, 2024; Putri & Gantino, 2023).

While this study explores the potential mediating role of tax management—measured by the Effective Tax Rate (ETR)—it is essential to interpret this variable with caution. Theoretically, a higher ETR indicates lower tax aggressiveness. Therefore, the empirical evidence presented here should be viewed through the lens of whether highly profitable firms pursue tax efficiency as a deliberate financial strategy to sustain their competitive advantage and, subsequently, further elevate their valuation.

### **The Effect of Tax Avoidance on Company Value**

The findings of this study indicate that tax avoidance, as proxied by ETR, does not exert a significant direct impact on firm value. This suggests that market participants do not prioritize tax aggressiveness as a primary indicator for valuation. Instead, investors remain skeptical, perceiving potential tax savings as secondary to core operational performance. This sentiment aligns with the argument that aggressive tax strategies may be viewed as opportunistic, carrying reputational risks and the potential for future administrative sanctions, which could jeopardize long-term sustainability (Dewardani et al., 2025; Lim, 2023).

These results are consistent with Serly (2024) and Yuliandana et al. (2021) reinforcing the view that the market prioritizes fundamental financial data—such as consistent earnings growth and business stability—over tax-induced profit variations. Theoretically, while tax planning may provide short-term cash flow advantages, the market appears to discount these benefits due to the associated uncertainties. Consequently, the mediating role of tax avoidance in the relationship between profitability and firm value is found to be statistically insignificant in this study, implying that profitability influences firm value primarily through operational success rather than tax management strategies.

### **The Effect of Tax Avoidance on Profitability**

The findings of this study provide nuanced insights into the relationship between tax management and financial performance. While theory suggests that tax avoidance can enhance net profit by reducing fiscal burdens, our empirical results indicate that the direct influence of tax avoidance (proxied by ETR) on profitability is not statistically significant within the observed manufacturing sector. This suggests that the internal resource optimization achieved through tax planning—such as reinvestment in productive activities tax planning to maintain profit stability, our study suggests that the impact of this strategy on corporate performance is conditioned by other factors. It appears that market competitiveness and operational fundamentals remain the primary drivers of profit, rather than tax-saving strategies alone. Consequently, while tax efficiency is a prudent financial practice, management must exercise caution; aggressive tax strategies may carry legal and reputational risks that outweigh the marginal financial benefits.

Thus, the implementation of tax planning should be viewed as a complementary financial tool rather than a core driver of corporate profitability

### **The Effect Of Profitability On Firm Value Is Mediated By Tax Avoidance**

The results of this study indicate that tax avoidance, as proxied by ETR, does not effectively mediate the relationship between profitability and firm value. This suggests that the impact of profitability on market valuation is primarily direct, rather than contingent upon tax management strategies. Market participants appear to prioritize core operational performance—specifically the capacity to generate stable, sustainable, and high-quality earnings—as the fundamental driver of corporate value. For investors, profitability serves as a more reliable signal of future prospects compared to technical tax burden management.

These findings are consistent with Sulistiyowati (2021), who emphasized that tax-saving policies play a limited role in influencing firm value. Investors generally discount the potential gains from tax strategies in favor of fundamental financial stability. Furthermore, as noted by Utami & Kurniyawati (2025) fiscal savings do not automatically enhance firm value due to the inherent risks of transparency and corporate reputation. Aggressive tax avoidance is often perceived as a 'double-edged sword'; while it may reduce tax expenses, it can trigger negative market sentiment and erode stakeholder trust, thereby nullifying any potential financial benefits. Consequently, our findings imply that management should prioritize sustainable operational growth over tax-aggressive behaviors to preserve long-term value

### **CONCLUSION**

This study, examining the effect of profitability on firm value with tax avoidance as a mediating variable in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period, concludes that profitability (Return on Assets) has a positive and significant effect on firm value (Tobin's Q), indicating that profit-generating capacity is directly proportional to investor appreciation. Conversely, tax avoidance (Effective Tax Rate) does not significantly influence firm value because it is not a primary market consideration, although this fiscal burden-saving strategy has been shown to significantly increase profitability through profit efficiency. Based on the Sobel test, tax avoidance is not proven to mediate the relationship between profitability and firm value, confirming that the increase in firm value due to profitability occurs directly without the need for tax avoidance mechanisms.

Based on these findings, company management is advised to continue optimizing profitability through operational efficiency and to be cautious in implementing tax policies to avoid compromising corporate reputation. Investors are advised to prioritize fundamental indicators such as profitability when formulating investment decisions. The government and regulators are expected to tighten oversight and close loopholes in tax regulations to mitigate aggressive tax avoidance practices. Finally, for future researchers, it is recommended to expand the scope of sectors and observation periods, as well as integrate other variables such as capital structure, company size, and Good Corporate Governance (GCG) to produce a more comprehensive analysis.

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