

Influence of Taxation Policies on Corporate Financial Performance: The Mediating Role of Tax Planning Effectiveness

Md. Azmir Hossain ^{1,*}

* Correspondence: Department of Business Administration, Dhaka International University, Bangladesh; azmirdu@gmail.com

¹ Department of Business Administration, Dhaka International University, Bangladesh; azmirdu@gmail.com

Abstract: This study aims to analyze the effect of tax policy on the financial performance of companies and analyse the effect of tax planning effectiveness as a mediator among companies in Malaysia. While previous research has shown that the importance of taxation policies in influencing corporate behaviour and financial outcomes, there is little empirical evidence on the mechanism that links these policies to better financial performance. The study is based on Agency Theory, Institutional Theory, and Resource-Based View, which suggests the effectiveness of tax planning as a strategic capability to enable firms to transform favourable tax planning policies into better financial performance. The research design adopted was a quantitative approach that involved a cross section survey of the finance directors, CFOs, tax managers, financial controllers and senior accountants of Malaysian companies. SmartPLS 4 was used to analyse the 312 valid responses using Partial Least Squares Structural Equation Modelling (PLS-SEM). The results indicate that taxation policies significantly affect the tax planning effectiveness and financial performance of the firm. The effectiveness of tax planning is also strongly positively related to corporate financial performance. Additionally, mediation analysis reveals that the mediation effect of tax planning effectiveness partially exists in the taxation policies and corporate financial performance relationship; the results show that corporate financial performance is positively affected by taxation policies both directly and indirectly through tax planning effectiveness. The model is able to provide satisfactory explanatory and predictive power, and hence the proposed conceptual framework is robust.

Keywords: Taxation policies; Corporate financial performance; Tax planning effectiveness; Tax incentives; Malaysia



Citation: Hossain, M. A. (2026). Influence of Taxation Policies on Corporate Financial Performance: The Mediating Role of Tax Planning Effectiveness. *Journal of Economics and Financial Affairs*, 1(2), 145-157. <https://doi.org/10.66348/jefa.26.a101>

Received: 2026-07-08
Revised: 2026-09-28
Accepted: 2026-09-29
Published: 2026-09-30

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1. Introduction

One of the most powerful fiscal policy tools at the disposal of governments to encourage economic growth, a source of revenue generation and influence corporate behavior is taxation. Taxation is a key instrument in fostering investment and innovation, developing industries, and enhancing national competitiveness, in addition to being a source of government revenue. Corporate taxation policies, such as tax rates, tax incentives for firms, tax administration, and regulatory reforms have direct effects on firms' decisions to invest, their financing choices, the efficiency of their operations and their profitability. The impact of taxation policies on corporate financial performance is thus an important research theme in accounting, finance and public policy research. Governments in both developed and emerging economies constantly change their taxation policies in order to seek a balance between fiscal sustainability and competitiveness of the businesses, which makes it important to gain insight into how businesses respond to taxation policy changes.

One of the key measures of organisation success and sustainability is its corporate financial performance. Better financial performance means more money for investing in innovation, growing business in the market, adding value to the shareholder, and also weathering the storm during difficult economic times. Past research has reported various factors that affect financial performance of the companies, such as the corporate governance, sustainability practices, innovation capability, financial management and institutional quality

(Ameer & Othman, 2012; Wang et al., 2016; Shahwan, 2015). Taxation policies have become a salient outside factor influencing firm performance in more recent years. Studies have shown that a good tax policy enhances corporate profitability through lower operational costs and increased investment in the company when tax policies are also favourable, predictable, and tax administration is efficient (Arin et al., 2009; Fang et al., 2022). Likewise, environmental tax and green fiscal policies are found to induce innovation and increase the market value of the firm by improving resource efficiency and technological improvement (Chang et al., 2022; Long et al., 2022; Liu et al., 2024).

An important mechanism by which taxation policies may affect the financial performance of the companies is the effectiveness of tax planning. Tax planning is the process of structuring financial and operational decisions in a manner that allows for the reduction of tax liability, while still complying with all tax laws. Good tax planning can help businesses maximize the use of after-tax earnings, better manage cash flow, minimize tax risks, and have more money available for productive investments and business growth. Tax planning has evolved from tax avoidance to strategic planning, aiming to match tax strategies with the overall organisation's goals and compliance. Previous research has shown that the governance quality, sustainability efforts, digital transformation, and institutional contexts are all factors that shape the tax management practices of companies (Minnick & Noga, 2010; Ao et al., 2023; Jiang et al., 2022; Velte, 2023).

Malaysia is an appropriate country to look at this relationship as the country's corporate taxation regime has been continuously improved to enhance its economic competitiveness, provide incentives for foreign direct investment, facilitate small and medium enterprises, and promote sustainable development. The Malaysian government has launched various fiscal measures such as investment tax allowances, pioneer status incentives, digitisation incentives, and sector-specific tax relief measures and has also taken steps to boost the tax administration framework by digitising tax matters and providing greater regulatory oversight. In the midst of these changes, strategic tax planning has become even more crucial for businesses in Malaysia, as organisations strive to benefit from available tax incentives while staying within the bounds of changing tax laws. However, empirical studies on Malaysian companies in respect of their use of taxation policies to enhance financial performance are still scarce and the mediating role of tax planning effectiveness between the two is still unknown.

Theoretically, the current research is based on Agency Theory, Institutional Theory and Resource-Based View to explain the relationship between taxation policies, the effectiveness of tax planning and the financial performance of the companies. According to Agency Theory, a manager will take efficient tax planning measures to increase the wealth of shareholders by increasing the after-tax return to shareholders, while considering the compliance costs and agency costs. The Institutional theory suggests that organisations adjust their tactics in response to shifts in the regulatory environment and/or institutional conditions, such as tax policy. However, the Resource-Based View sees tax planning as an important ability in the organisation that helps the firm to gain the sustainable competitive advantage by managing the financial resources efficiently. The literature has already revealed direct links between tax policy, tax avoidance and financial performance of enterprises, but there are still some significant gaps. First, the previous research mainly focuses on fiscal policies as direct factors of firm performance without providing sufficient explanations of the organisational processes that link fiscal policies with financial results. Second, a large proportion of the previous studies is limited to tax avoidance, effective tax rates or corporate tax burdens, instead of the broader concept of effectiveness of tax planning. Thirdly, the empirical evidence drawn from Malaysia is still relatively limited even as the tax climate in the country is dynamic and tax reform is ongoing. Lastly, there are few studies that have studied the direct and indirect impact of taxation policies on corporate financial performance in a mediation context using Partial Least Squares Structural Equation Modelling (PLS-SEM).

The general thrust of this study is therefore to explore the impact of taxation policies on the financial performance of companies and to investigate the role of tax planning effectiveness as a mediator among Malaysian companies. In particular, the study aims to understand if the taxation policies have a direct effect on corporate financial performance, if they

have an effect on the tax planning effectiveness, and if tax planning effectiveness is a strategic mechanism through which the taxation policies have an effect on financial performance. This study addresses these objectives in three important ways to contribute to the literature. First, it helps to build on what has been already known, adding tax planning effectiveness as a mediator between taxation policies and corporate financial performance. Second, it incorporates the wide body of theories, and offers a more complete conceptual explanation of corporate tax behaviour. Third, it provides useful guidance to policy makers, corporate managers and tax professionals on designing effective taxation policies and strategic tax planning practices that foster sustainable corporate development.

2. Literature Review

The importance of taxation policies as a significant determinant of corporate behaviour and financial performance has been long recognised. Taxation is used by governments not just as a means to raise revenue, but also as a policy tool that can influence the allocation of resources, stimulate investment, encourage innovation and boost economic competitiveness. Corporate tax rate, tax incentives, tax pressure and tax reform have a direct impact on corporate investment decisions, financing decisions, operating costs and profitability. Overall, empirical findings support the notion that positive tax policies have a positive impact on corporate financial performance, the extent and sign of which vary across firm-specific and institutional characteristics. For example, Arin et al. (2009) showed that tax policies have a significant effect on financial markets in the G3 economies and Fang et al. (2022) found that income tax incentives created by the tax revenue-sharing reform in China had positive effects on corporate financial performance. In the same way, the effect of fiscal pressure on the financial performance of energy firms was found to be significant by Batrancea et al. (2021) and tax reforms had a positive impact on the performance of small and micro energy firms as shown by Bhalla et al. (2022). Recent finding from Pakistan also verified that the CIT plays a significant role in the performance of the firm as it positively influences the performance of the firm under the condition of access to liquidity (Ahmad et al., 2023).

However, the link of taxation policies to corporate financial performance is not straightforward and it varies in different institutional settings. There is increasing evidence that the impact of tax policies is significantly influenced by how responsive firms are in the way they plan their taxes in the light of tax policy development. Tax planning is the legal structure used to arrange commercial operations in order to minimize taxes subject to payment in light of the current tax rules. Good tax planning will help businesses maximise after-tax profits, boost cash flow, lower financial risk and deploy more capital for productive investments. A significant impact of corporate governance characteristics on firms' tax management decisions was found by Minnick and Noga (2010), which suggests that organisational capabilities are important in tax planning effectiveness. Jing et al. (2022) also found that mandatory corporate social responsibility disclosure could have a significant impact on the corporate tax avoidance behavior, and Ao et al. (2023) also showed that environmental uncertainty and digital technologies play significant roles in shaping corporate tax avoidance strategies. Likewise, Jiang et al. (2024), Velte (2023) and Mkadmi and Ben Ali (2024) found that corporate sustainability practices and environmental, social and governance (ESG) performance have a significant impact on tax activities in firms.

Recent studies have also enriched the literature on taxation by focusing on the impact of the use of specific fiscal instruments, with a special emphasis on the impact of environmental taxes and green tax policies on the corporate performance. Environmental taxes are growing in number and have been increasingly used around the world to promote sustainable production and discourage activities that pose environmental risks. While they can raise compliance costs for firms in the short term, the evidence indicates that these taxes can actually encourage innovation, technological upgrading and operational efficiency and thus enhance the long-term financial performance of firms. Chang et al. (2022) discovered that within the Chinese renewable energy industry, green fiscal policy incorporated with research and development investment boosted the market value of the

companies. Similarly, Long et al. (2022) found a positive impact of environmental protection tax on the performance of heavily polluting industries. Liu et al. (2024) also found that digital transformation enhanced the positive effects of environmental taxation on financial performance, and He et al. (2023) have identified that the environmental tax laws significantly positively affected the ESG performance among heavy polluting enterprises. Similarly, Zhu et al. (2020) found that carbon tax facilitated more environmentally friendly financial activities and corporate strategic development.

In general, corporate financial performance had been measured by accounting-based and market-based measures such as return on assets (ROA), return on equity (ROE), asset turnover, profitability, Tobin's Q, and market valuation. Many studies have examined the organisational aspects that can lead to better financial performance and have shown that having good governance, sustainability management, efficiency in operations and strategy for decision making, will all have a positive impact on the financial results. Ameer and Othman (2012) found that top global companies' financial performance was significantly affected, when the companies adopted sustainability practices, and another comprehensive meta-analysis by Wang et al. (2016) validated the positive relationship between corporate social responsibility and financial performance in different institutional environments. Lin et al. (2019) also found that CSR can lead to good firm performance by lowering the tax risk and Shahwan (2015) revealed that having a good corporate governance will lead to good financial performance and reduction of financial distress. Furthermore, Oyinkansola and Omodero (2023) revealed that statutory audit and effective tax contributed to the profitability of listed companies in Nigeria.

Although there is significant literature that has focused on taxation policies, tax management and corporate financial performance, there are still some gaps that are yet to be filled in both theoretical and empirical aspects. First, numerous studies have examined the direct link between taxation policies and firm performance, but have not given a proper account of how taxation policies affect financial outcomes. Second, prior studies have focused on tax avoidance or tax compliance and little work has been done on tax planning effectiveness as a strategic organizational ability that converts taxation policies into better corporate performance. Third, empirical evidence on the impact of corporate tax changes is still limited despite the development of the corporate tax system and the current process of fiscal reforms in emerging economies, such as Malaysia. Finally, only a few studies used mediation models that can be used to analyse the direct and indirect impact of taxation policy on firm performance. In this regard, the present study aims to overcome these deficiencies by suggesting a mediation mechanism between the taxation policies and corporate financial performance in the form of tax planning effectiveness. The study aims to develop a more in-depth explanation of how firms are able to convert taxation policies into better financial performance by applying good tax planning strategies on the basis of Agency theory, Institutional theory, and Resource-based View. Figure 1 shows the conceptual model.

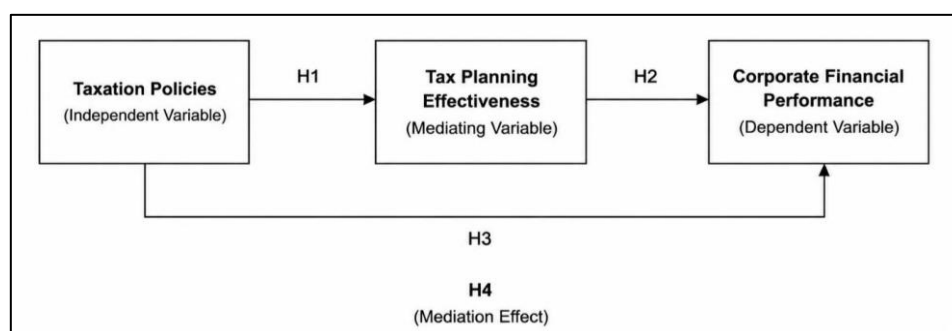


Figure 1. Conceptual model

3. Methodology

This study used a quantitative research design to investigate the impact of taxation policies on the financial performance of the companies, and the effectiveness of tax

planning as a mediator. Considering the advantages of collecting primary data from a large sample of respondents in a relatively short time and the suitability of the cross-sectional survey approach to test the complex causal relationships using structural equation modelling, the approach was adopted. The study was conducted on Malaysian companies that span different industry segments where the taxation policies are of utmost importance in influencing managerial decisions and financial consequences. The unit of analysis was the individual firm and the respondents were finance directors, chief financial officers, tax managers, financial controllers, senior accountants and other finance and taxation-related professionals who have the knowledge and experience to assess corporate tax policies and financial performance.

Purposive sampling was used to identify the individuals who would be eligible for inclusion in the study. In particular, respondents had to have at least three years' work experience in taxation, finance, accounting or corporate financial management and actively engage in tax planning or financial decision making in their organisations. The sampling frame included medium and large companies in Malaysia that are engaged in manufacturing, services, construction, technology, energy, consumer goods, financial services and other major industries. The minimum sample size for analyzing mediation models with multiple latent constructs is estimated to be more than 200 observations, as per the recommendations for Partial Least Squares Structural Equation Modelling (PLS-SEM).

Primary data has been obtained by means of the structured questionnaire which has been based on the measurement scales found in the literature of taxation, accounting and corporate finance and already validated. Some adjustments have been made for consistency with Malaysian taxation regime and the objectives of the current research. The questionnaire had four sections. This first section gathered data on the demographic and organisational factors such as the respondent's experience, industry, size of the firm, ownership and years of operation. Taxation policies were measured in the second section through items that represented tax rates, tax incentives, complexity of tax compliance, efficiency of tax administration, and stability of tax policies. The third was concerned with the effectiveness of tax planning based on indicators of strategic tax planning, tax risk management, effectiveness of executing tax obligations and effective use of tax incentives. The last section concerned the evaluation of corporate financial performance based on perceptual measures of profitability, operational efficiency, sales growth, market competitiveness and overall financial success compared to competitors. Each of the items on the constructs were measured with a 7-point Likert scale from 1 ("strongly disagree") to 7 ("strongly agree"), which enabled respondents to indicate a range of responses and enhanced the sensitivity of measurement.

The questionnaire was expert reviewed and pilot tested for clarity, content and contextual relevance before the main survey. The questionnaire was evaluated in terms of appropriateness of the measurement items by academic experts specializing in taxation, accounting and corporate finance. Next, a small-scale pilot test was performed with about 30 respondents to check the instrument's reliability and understandability. Feedback from the pilot phase was used to adjust wording of items and ensure that the questionnaire was easy to read. Ethical aspects were also considered during data collection. The participation was voluntary, respondents were told the purpose of the study, confidentiality and anonymity were ensured, and informed consent was given prior to filling in the questionnaires. The gathered data were analyzed through the use of SmartPLS 4, a software that is specifically suitable for analyzing a complex structural model that includes multiple indicators and mediating relationships in the model.

4. Results

Table 1 shows the respondents' demographic details on the survey. A total of 312 valid responses were received from the finance and taxation professionals of Malaysian companies. There were 61.2% male and 38.8% of female respondents. Most respondents (41.0%) were between 30 and 39 years old, with another 30.8% between 40 and 49 years, which means that the majority of the respondents were experienced professionals in their organisations. In terms of job position, finance managers (26.9%) were the most common,

followed by senior accountants (23.7%), tax managers (21.5%), financial controllers (15.4%) and chief financial officers (12.5%). The majority of the respondents had 6 to 10 years of work experience (34.9%) indicating a significant level of experience in taxation and financial management. The sample also included a broad cross-section of industries from manufacturing to services, construction, technology and energy, and over half of the participating organisations (57.4%) were large enterprises. The overall demographic distribution basically shows that the study was able to gather information from qualified respondents who have adequate knowledge of taxation policy and corporate financial performance.

Table 1. Demographic Profile of Respondents (N = 312)

Variable	Category	Frequency	Percentage (%)
Gender	Male	191	61.2
	Female	121	38.8
Age (Years)	Below 30	42	13.5
	30–39	128	41.0
	40–49	96	30.8
	50 and above	46	14.7
Position	Chief Financial Officer	39	12.5
	Finance Manager	84	26.9
	Tax Manager	67	21.5
	Senior Accountant	74	23.7
	Financial Controller	48	15.4
Working Experience	3–5 years	68	21.8
	6–10 years	109	34.9
	11–15 years	81	26.0
	Above 15 years	54	17.3
Industry	Manufacturing	82	26.3
	Services	96	30.8
	Construction	41	13.1
	Technology	38	12.2
	Energy	26	8.3
	Others	29	9.3
Firm Size	Medium	133	42.6
	Large	179	57.4

Descriptive statistics and correlation coefficients of the study variables are presented in Table 2. The mean scores varied between 5.12 and 5.31 on seven-point Likert scale, which shows that generally the respondents had positive perceptions about taxation policies, effectiveness of tax planning and financial performance of companies. The obtained standard deviation values were relatively low (0.73 to 0.84), showing that the respondents' views were not too variable and thus there was consistency in the responses collected. The results of the correlation analysis showed that all constructs had positive and statistically significant correlations. Tax planning effectiveness was strongly positively correlated with taxation policies ($r = 0.648$, $p < 0.001$), indicating that the more favourable the taxation policies, the more effective the tax planning of the firms. Likewise, the effectiveness of tax planning was found to be significantly positively related with the financial performance of the company ($r = 0.694$, $p < 0.001$) and taxation policies was also moderately positively related with financial performance of the company ($r = 0.541$, $p < 0.001$). The results of this preliminary analysis support the proposed conceptual model and suggest that the variables are reasonably interrelated for further structural model analysis.

Table 2. Descriptive Statistics and Correlation Matrix

Construct	Mean	SD	TP	TPE	CFP
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Taxation Policies (TP)	5.31	0.84	0.891		
Tax Planning Effectiveness (TPE)	5.12	0.79	0.648***	0.902	
Corporate Financial Performance (CFP)	5.28	0.73	0.541***	0.694***	0.914

Notes: Diagonal values (bold) represent the square root of the Average Variance Extracted (AVE).
***p < 0.001.

The results from the measurement model assessment (indicator reliability, internal consistency reliability, and convergent validity) are presented in Table 3. The outer loadings of all the indicators are greater than the 0.70 threshold (ranging between 0.812 and 0.926), indicating that each indicator has a good representation of the latent construct associated with the indicator. The Cronbach's alpha values ranged from 0.909 to 0.928, and the rho_A values ranged from 0.913 to 0.931, which demonstrated good internal consistencies reliability of the instruments. The composite reliability values ranged from 0.930 to 0.946, which is greater than the recommended minimal value of 0.70 and had high construct reliability. In addition, the average variance extracted (AVE) values were also higher than 0.50, which is considered as the threshold value of satisfactory convergent validity, and ranged from 0.794 to 0.836. Overall, the results suggest that the measurement model has good psychometric characteristics and that the latent constructs are measured reliably and consistently.

Table 3. Measurement Model Assessment

Construct	Items	Outer Loading	Cronbach's Alpha	rho_A	Composite Reliability	AVE
Taxation Policies	TP1	0.812	0.921	0.924	0.937	0.794
	TP2	0.876				
	TP3	0.901				
	TP4	0.914				
	TP5	0.893				
Tax Planning Effectiveness	TPE1	0.842	0.909	0.913	0.930	0.814
	TPE2	0.894				
	TPE3	0.918				
	TPE4	0.901				
Corporate Financial Performance	CFP1	0.881	0.928	0.931	0.946	0.836
	CFP2	0.917				
	CFP3	0.926				
	CFP4	0.895				
	CFP5	0.909				

The Fornell–Larcker criterion and the heterotrait–monotrait ratio (HTMT) are used to assess the discriminant validity in Table 4. Based on the Fornell–Larcker criterion, the AVE's for each of the constructs were greater than the correlations between the constructs and their respective indicators, indicating that each construct accounts for more variance with its respective indicators than with other latent constructs. In particular, the square roots of the AVE for taxation policies (0.891), tax planning effectiveness (0.902) and corporate financial performance (0.914) exceeded the inter-construct correlations. The HTMT ratios also confirmed the discriminant validity as they did not exceed the conservative threshold of 0.85 (ranged between 0.596 and 0.764). These results show that all three constructs are conceptually different and empirical discriminable, and hence meet the requirements for discriminant validity that are recommended in PLS-SEM analysis.

Table 4. Discriminant Validity Assessment

Construct	TP	TPE	CFP
Taxation Policies (TP)	0.891		
Tax Planning Effectiveness (TPE)	0.648	0.902	
Corporate Financial Performance (CFP)	0.541	0.694	0.914
Constructs	HTMT		

TP → TPE	0.721
TP → CFP	0.596
TPE → CFP	0.764

The results of the structural model and the hypotheses testing derived from the bootstrapping procedure with 5,000 resamples are presented in Table 5. The results show that the taxation policies have a large positive impact on the effectiveness of tax planning ($\beta = 0.648$, $t = 15.805$, $p < 0.001$), thus supporting H1. The effectiveness of tax planning also has a significant positive impact on the financial performance of companies ($\beta = 0.531$, $t = 9.482$, $p < 0.001$), which is supporting H2. Additionally, taxation policies have a direct and positive impact on the financial performance of companies ($\beta = 0.197$, $t = 3.230$, $p = 0.001$) in support of H3. The positive and significant path coefficients indicate that the favourable taxation policies, not only improve the tax planning capacity of the firms, but also directly contribute to better financial performance of the firms. In general, the empirical results of the structural model are in good agreement with the proposed theoretical model.

Table 5. Structural Model Assessment and Hypothesis Testing

Hypothesis	Structural Path	β	Std. Error	t-value	P-value	95% CI	Decision
H1	Taxation Policies → Tax Planning Effectiveness	0.648	0.041	15.805	<0.001	[0.567, 0.726]	Supported
H2	Tax Planning Effectiveness → Corporate Financial Performance	0.531	0.056	9.482	<0.001	[0.420, 0.635]	Supported
H3	Taxation Policies → Corporate Financial Performance	0.197	0.061	3.230	0.001	[0.078, 0.315]	Supported

Table 6 presents the explanatory power and the predictive ability of the proposed structural model. Based on the coefficient of determination (R^2), it can be seen that taxation policies have a value of 42.0% which means that 42.0% of the variance in the effectiveness of tax planning is explained by the taxation policies and taxation policies and tax planning effectiveness together contribute 56.6% to the variance in corporate financial performance. These values show moderate to high explanatory power, according to the PLS-SEM rules of thumb. Both the predictive relevance values for tax planning effectiveness (0.319) and the predictive relevance values for corporate financial performance (0.451) are above 0, which proves that the model has a satisfactory predictive relevance. According to the effect size analysis, the taxation policies have a large effect on the effectiveness of tax planning ($f^2 = 0.724$) and the effectiveness of tax planning has a large effect on corporate financial performance ($f^2 = 0.381$). The direct influence of taxation policies in the corporate financial performance is relatively small, on the other hand, ($f^2 = 0.061$), so that the influence of taxation policies is felt indirectly through tax planning effectiveness.

Table 6. Coefficient of Determination, Effect Size, and Predictive Relevance

Endogenous Construct	R^2	Adjusted R^2	Q^2	Interpretation	
Tax Planning Effectiveness	0.420	0.418	0.319	Moderate explanatory power	
Corporate Financial Performance	0.566	0.563	0.451	Moderate to substantial explanatory power	
Relationship				f^2	Effect Size
Taxation Policies → Tax Planning Effectiveness				0.724	Large
Tax Planning Effectiveness → Corporate Financial Performance				0.381	Large
Taxation Policies → Corporate Financial Performance				0.061	Small

The mediation analysis results to determine the indirect effect of taxation policies on the financial performance of companies through the mediation of tax planning effectiveness are shown in Table 7. The indirect effect is positive and significant ($\beta = 0.344$; $t = 8.000$; $p < 0.001$), which indicates that tax planning effectiveness is one of the significant mediating mechanisms. Even after the mediator was introduced into the model, the direct

influence of tax policy on financial performance of the companies is still statistically significant ($\beta = 0.197$, $p = 0.001$), which means that there is a direct relationship in addition to the indirect relationship. Overall, taxation policies have a positive impact on firm performance, with a total effect of 0.541 ($p < 0.001$). Furthermore, the Variance Accounted For (VAF) value of 63.6% shows the partial mediation to be that the indirect effect accounts for a large portion of the overall relationship, but the direct effect is still present. As such, H4 is supported, indicating that the taxation policies and the corporate financial performance are somewhat mediated by the effectiveness of tax planning.

Table 7. Mediation Analysis of Tax Planning Effectiveness

Effect	β	Std. Error	t-value	p-value	95% CI
Direct Effect (TP $\rightarrow$ CFP)	0.197	0.061	3.230	0.001	[0.078, 0.315]
Indirect Effect (TP $\rightarrow$ TPE $\rightarrow$ CFP)	0.344	0.043	8.000	<0.001	[0.262, 0.429]
Total Effect	0.541	0.048	11.271	<0.001	[0.446, 0.633]
Measure	Value				
Variance Accounted For (VAF)	63.6%				
Mediation Type	Partial Mediation				
Hypothesis (H4)	Supported				

The overall model fit and predictive performance of the proposed PLS-SEM model is summarised in Table 8. The value for the Standardised Root Mean Square Residual (SRMR) of 0.051 is lower than the recommended value of 0.08, suggesting a good model fit. Likewise, Normed Fit Index (NFI) value is found to be .927, which is greater than the recommended value of .90 and indicates that the proposed model is a good fit to the observed model. The RMS Theta value of 0.097 also is less than the recommended value of 0.12, further supporting the model quality. In addition, as shown by the PLS-Predict assessment, all Q^2 Predict are positive and the PLS model always gives lower RMSE values than the benchmark linear model. The results show a reasonably good out-of-sample forecasting performance, and support the conclusion that the proposed structural model is both explainable and predictive. The overall results show that the model has good statistical performance and also has strong empirical evidence on the hypothesized relationships between taxation policies, effectiveness of tax planning, and the overall financial performance of the company.

Table 8. Model Fit and Predictive Performance

Fit Index	Value	Recommended Threshold	Decision			
SRMR	0.051	< 0.08	Acceptable			
d_ULS	0.624	Lower than HI95	Acceptable			
d_G	0.438	Lower than HI95	Acceptable			
NFI	0.927	> 0.90	Good Fit			
RMS Theta	0.097	< 0.12	Acceptable			
Construct		RMSE (PLS)	RMSE (LM)	MAE (PLS)	Q^2 Predict	Predictive Power
Tax Planning Effectiveness		0.593	0.621	0.472	0.298	Medium
Corporate Financial Performance		0.547	0.578	0.431	0.386	High

5. Discussions

This study's results support the strong empirical evidence that taxation policies positively affect the effectiveness of tax planning and financial performance of the Malaysian companies. The findings suggest that tax strategy and systematic tax planning in the organisations are positively influenced by positive tax policies and it also has positive impact on the financial performance of the organisation. Tax planning effectiveness is positively and significantly related to taxation policies, which aligns with the notion that firms react to fiscal policies proactively and are able to devise effective tax-planning strategies that minimise their tax liabilities while ensuring adherence to tax laws. This finding supports the Agency Theory that managers take advantage of legitimate tax planning strategies to maximize wealth of their shareholders by increasing the after-tax profitability. The

findings also supports the Resource-Based View that sees tax planning capacity as a valuable organisational resource which can provide sustainable competitive advantage. This finding aligns with Minnick and Noga (2010) who found that good corporate governance promotes good tax management practices and Ao et al. (2023) who found that firms' tax-planning behaviour is influenced by environmental uncertainty and institutional environment. Similarly, Jiang et al. (2022) and Jiang et al. (2024) posited that the changing tax policy environment affects the tax management choices of firms and that organisational strategies and governance mechanisms play a crucial role in this framework.

The study also shows that the effectiveness of tax planning is very high and has a remarkable impact on the performance of the company's finances. This discovery indicates that companies with the ability to plan taxes efficiently are more likely to optimize cash flow, cut unproductive tax spending, enhance profitability, and boost operational efficiency. A good tax planner would ensure efficient use of financial resources in areas of investment, innovation, and business growth, while keeping up with taxation laws. Thus, tax planning shouldn't just be seen as a tool to minimize tax obligations, but as a fundamental part of financial planning. This finding is consistent with earlier empirical studies that Ahmad et al. (2023) have reported that the impact of corporate taxation on firm performance is also significant especially during favourable financial conditions. Likewise, Fang et al. (2022) found that the tax incentives significantly affect the financial performance of companies as a result of the increased investment and operation. The result is also consistent with the findings of Batrancea et al. (2021) which shows that fiscal pressure plays a significant role in the financial performance of firms, and Bhalla et al. (2022) which suggests that tax reforms have a positive effect on the performance of business because of the improvement in operational efficiency and managerial decision making.

The other important finding of this study is that taxation policies have direct positive effect on corporate financial performance. This indicates that structured and foreseeable tax regimes offer a stable environment for companies, stimulate and support investment, facilitate long-term planning and mitigate financial uncertainty. Clear and predictable tax rules, along with favourable tax rates and streamlined tax procedures, help businesses allocate resources efficiently and enhance their performance. The finding corroborates earlier studies by Arin et al. (2009), who showed that tax policy does have a significant effect on financial markets and corporate investments. Similarly, Chang et al. (2022) discovered that green fiscal policies have a positive impact on the market value of companies by promoting R&D investments. Environmental taxation also enhances the performance of companies that emit high levels of pollution, as found by Long et al. (2022), who noted that the incentive fosters technological innovation and efficiency in these companies. Additionally, Liu et al. (2024) demonstrated that digital transformation reinforces the positive link between environmental taxation and financial performance, indicating a greater interdependence between taxation strategies and organisational capabilities. These studies, as a whole, confirm the current finding that taxation policy can be used as a significant strategic tool to improve corporate financial performance.

One of the most important findings of the present study is the mediation analysis. The results show that the effect of taxation policies on corporate financial performance is partially mediated by the effectiveness of tax planning, suggesting that taxation policies impact corporate financial performance directly and indirectly through the effectiveness of tax planning. This outcome implies that whilst favourable tax policies might be necessary to achieve the best possible financial performance, the organisations should also have the managerial skill and organisational ability to convert these tax policies into effective tax planning strategies. The partial mediation result suggests that taxation policies can have a direct effect on firm performance, but that a large share of the effect is through greater tax planning effectiveness. This study addresses the issue by complementing existing literature on the effects of taxation on financial outcomes, which has mostly analyzed direct links between taxation and financial outcomes, without explicitly analyzing the mechanisms through which these effects are mediated. The findings also align with those of Velte (2023), Jiang et al. (2024), and Mkadmi and Ben Ali (2024), who found that tax-related strategic decisions are a key factor in the relationship between corporate

governance practices, sustainability practices, and financial performance. The current study fills in the full picture of how firms turn taxation policies into actual financial gains by including the mediator of taxation planning effectiveness.

The results also provide valuable theoretical and practical implications. Theoretically, the study contributes to the existing literature in taxation and corporate finance by combining three theories: Agency Theory, Institutional Theory, and Resource-Based View in one conceptual framework. Agency Theory tends to focus on the incentives of managers to maximise the value for shareholders by effective tax planning, Institutional Theory on the adaptation of the firms to the tax regulations, and the Resource-Based View on the effectiveness of tax planning as a strategic capability of the organisation that can give it competitive advantage. The empirical evidence in support of the mediation model helps to reinforce these theories by revealing that the value of taxation policies is not only through the direct financial effect but also through its organisational capacities, which allows for effective tax planning. The conclusions, from a practical point of view, indicate that it is important for policy makers to create transparent, stable and investment friendly tax policy that stimulates legal and efficient tax planning and not only provides for additional tax compliance requirements. On the organisational level, corporate managers need to invest in professional tax expertise, digital tax management systems and strategic tax planning capabilities, so that the utmost financial benefit can be derived from the favorable tax policies. The results are especially significant for Malaysia, where the ongoing tax reforms and shifting tax structures make it imperative for businesses to become more sophisticated in their approach to tax planning to stay competitive in a rapidly changing business landscape.

6. Conclusions

The current study has aimed to examine the relationship between taxation policy and financial performance of companies in Malaysia through the lens of tax planning effectiveness. Based on Agency Theory, Institutional Theory and Resource-based View, a structural model was proposed and empirically tested to understand how taxation policies influence firms' financial outcomes by means of effective tax planning practices. The results, obtained through a quantitative research design and Partial Least Squares Structural Equation Modelling (PLS-SEM), offer valuable evidence to conclude that taxation policies have a significant and positive effect on tax planning effectiveness and corporate financial performance. Additionally, the effectiveness of tax planning significantly positively affected the corporate financial performance which means that the firms that are able to devise effective tax planning techniques are likely to attain better financial performance. More importantly, the mediation analysis revealed that the relationship between taxation policies and corporate financial performance is partially mediated by the effectiveness of tax planning, which suggests that taxation policies have a direct impact on corporate financial performance and also an indirect impact through the tax planning effectiveness.

The results are of relevance to the taxation and corporate finance literature as they build on existing research, which has mostly concentrated on the direct impact of taxation policies or tax avoidance on firm performance. This study contends that the effectiveness of the tax planning is one of the organisational capabilities that is missing in preceding research, which is the means of converting tax policies into better financial performance. Combining several theoretical approaches offers a broader understanding of the behavior of firms with respect to fiscal policies and their strategic role in corporate financial management. The study thus contributes to the existing body of literature by showing that the impact of taxation policies is not only related to the features of the tax system as such, but also to the capacity of companies to make use of the available tax opportunities in a legal, efficient and strategically sensible way.

The study also has a number of practical implications for policy makers, corporate managers, and tax professionals. The results imply that from a policy perspective, stable, transparent, and investment-oriented taxation policies could be conducive to corporate tax planning and increase the general competitiveness and economic growth of businesses. A reduction in complexity, improved administrative effectiveness and a good tax

design of incentives could also be more effective in improving firms' financial impacts. The findings highlight the need for companies to prioritize building their own professional tax knowledge, implementing digital tax management systems, and fostering strategic tax management skills to maximize after-tax profitability and regulatory compliance. Tax professionals also need to be more pro-active in embedding tax solutions within the greater financial and operational outcomes and support organisations to build sustainable shareholder value in compliance with ethical tax principles.

The study has several drawbacks that need to be recognised. First, the study used a cross sectional design, which does not allow for causal changes over time. Further research can use longitudinal designs to explore the impact of tax policy modifications on the corporate performance over different periods. Second, it was only conducted on Malaysian companies, so the findings might not be valid for other institutional and regulatory settings. Comparative studies could be done across several countries or emerging economies to gain a wider picture of the effectiveness of taxation policies across tax regimes. Third, the study was based on perceptual measures of corporate financial performance and, therefore, did not use objective measures of financial performance like return on assets, return on equity, or Tobin's Q. Future research should combine perceptual and objective measures of financial performance to assess financial performance more completely. Lastly, future research can further elaborate the proposed framework by adding more mediating or moderating factors: Corporate governance quality, Digital transformation, Innovation capability, Tax compliance culture, ESG performance, or organisational resilience, to decipher the complex connection between taxation policies and corporate financial performance.

Declarations

Ethics and Guidelines: The study was conducted in accordance with the Declaration of Helsinki. The ethical approval specifically covers the research procedures and data collection activities conducted for this study.

Consent to participate: Written informed consent was obtained from all participants prior to data collection. Consent was obtained using a standardized written form, signed by each participant before participation in the survey.

Consent to publish: The authors have provided consent to publish.

Competing interests: The authors declare no competing interests.

Data availability statement: Data will be made available on reasonable request from the corresponding author.

Funding: This research received no external funding.

Clinical Trial Number: Not Applicable.

Declaration of using generative AI: During the preparation of this work the author(s) used ChatGPT in order to correct the grammatical errors. After using this tool/service, the author(s) reviewed and edited the content as needed and take full responsibility for the content of the published article.

Author Contributions: M.A.H.: Conceptualization, methodology, writing—original draft preparation, writing—review and editing. All authors have read and agreed to the published version of the manuscript.

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