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Systematic Literature Review: Determinants and Financial Consequences of Corporate Effective Tax Rate (ETR) in Emerging and Developed Markets

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ABSTRACT

The Effective Tax Rate (ETR) is widely utilized in the empirical accounting and corporate finance literature as a robust proxy for corporate tax planning, compliance, and aggressiveness. This study provides a comprehensive Systematic Literature Review (SLR) focusing on the key determinants and financial consequences of ETR over the past two decades (2005-2025). Employing a rigorous SLR framework following the PRISMA protocol, we synthesized 52 empirical articles retrieved exclusively from leading international databases indexed by Scopus (Q1–Q4). Moving beyond localized research biases, this review explicitly balances the jurisdictional dynamics between developed and emerging economies while exploring the emerging impact of the digital economy on corporate tax behavior. The synthesis reveals that internal corporate attributes (such as firm size, leverage, and capital intensity) and external macro-environmental pressures represent the critical determinants shaping corporate ETR strategies. Furthermore, our findings indicate that ETR optimization exhibits multi-directional impacts on financial performance (ROA, ROE) and corporate value, which are heavily moderated by corporate governance frameworks, information asymmetry, and ESG mandates. Ultimately, this review exposes critical research gaps regarding AI driven predictive tax planning and establishes a strategic framework for future cross border empirical tax research.

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Keywords: *Effective Tax Rate (ETR), Tax Planning, Systematic Literature Review, Financial Performance, Corporate Governance, Digital Economy.*

INTRODUCTION

Taxes constitute the primary source of state revenue, playing a critical role in financing national development and enhancing public welfare (Arnold, 2012). Consequently, both individual and corporate taxpayers are legally obligated to fulfill their liabilities in compliance with statutory provisions (Nariswari et al., 2024). Beyond its fiscal function in public revenue mobilization, taxation serves as a crucial macroeconomic tool to foster economic stability (Effendi et al., 2021). In practice, however, corporate taxpayers frequently seek to mitigate their tax obligations through strategic tax planning and management (Faqih & Sulistyowati, 2021). Because corporations view taxes as an operational cash outflow that diminishes net profitability, management is inherently incentivized to minimize this fiscal burden through legitimate mechanisms (Lestari & Agustiningsih, 2023). Within empirical accounting and financial literature, the Effective Tax Rate (ETR) serves as the primary global baseline metric to capture corporate tax strategy, planning efficiency, and tax aggressiveness (Dyreng et al., 2010). Over the last two decades (2005-2025), structural transformations, including rapid digital disruption,

International Journal of Economic, Technology and Social Sciences
url:https://jurnal.ceredindonesia.or.id/index.php/ injects
Volume 7 Number 1 pages 26- 34 2026

aggressive globalization, and international regulatory measures such as the OECD/G20 Base Erosion and Profit Shifting (BEPS) framework, have complexified how corporations formulate tax strategies (Beuselinck & Pierk, 2024). Consequently, understanding the underlying institutional and operational determinants that cause variance in corporate ETRs, as well as the cascading financial consequences of these configurations, has never been more vital. Prior empirical studies regarding ETR display highly fractured and contradictory findings. A subset of researchers argues that low ETRs achieved via deliberate, structured tax planning directly bolster operational cash flows and elevate metrics like Return on Assets (ROA) and firm value (Dewi & Aulia, 2023; Zhang et al., 2022). Conversely, alternative research demonstrates that overly aggressive tax optimization strategies, which drive ETR far below statutory baselines, engender substantial agency risk, diminish reporting transparency, and trigger long-term reputational damage that destroys shareholder value (Elamer et al., 2024; Safitri & Oktaviani, 2024).

This systematic review addresses these contradictions directly, with a specific focus on evaluating how these dynamics unfold across different jurisdictions, comparing developed economies with emerging markets where corporate governance and monitoring environments create unique tax-planning dynamics. The overarching objectives of this research are threefold:

1. To map the global academic literature regarding corporate ETR over a 20-year horizon (2005–2025) using a highly rigorous Scopus-indexed corpus.
2. To systematically categorize the institutional, structural, and operational variables that function as either primary determinants or direct outcomes of ETR variation.
3. To isolate critical gaps in contemporary empirical research, specifically regarding corporate digitization, to establish clear directions for future international accounting and public policy studies.

LITERATURE REVIEW

This systematic framework evaluates the structural underpinnings of corporate tax behavior, integrating historical empirical findings with standard organizational and accounting paradigms. To reconcile the divergent outcomes associated with ETR variance, literature over the past two decades has heavily relied on five primary theoretical frameworks. Agency Theory establishes that asymmetric information structures between corporate insiders (management) and external equity stakeholders allow managers to utilize complex tax minimization schemes as an opportunistic shield to obscure the extraction of rents or manage earnings (Jensen & Meckling, 1976). Conversely, Signaling Theory suggests that a highly optimized, non-volatile ETR path reflects sustainable operational efficiency, conveying positive stability signals to capital markets (Spence, 1973). Positive Accounting Theory provides the operational basis for analyzing corporate responses to external size thresholds and regulatory pressures, positing that controllers utilize tax choices strategically to manage political costs (Watts & Zimmerman, 1986). Finally, Stakeholder, Legitimacy, and Risk Management theories emphasize that extreme downward deviations from statutory tax rates create intense socio-regulatory friction, trading immediate tax savings for profound systemic risk, legal penalties, and institutional legitimacy shocks (Freeman, 1984; Suchman, 1995). A critical analysis of previous methodologies highlights that traditional models are significantly constrained by their localized focuses. A vast plurality of historical empirical literature remained bound within specific domestic frameworks, failing to accurately capture how modern corporations exploit cross-border regulatory disparities. Furthermore, traditional literature exhibits a structural lag regarding the digital economy. The majority of historical empirical investigations rely heavily on physical asset concentrations, such as capital intensity and inventory structures, to explain ETR variances, leaving an analytical vacuum regarding

International Journal of Economic, Technology and Social Sciences
url:https://jurnal.ceredindonesia.or.id/index.php/ injects
Volume 7 Number 1 pages 26- 34 2026

how decentralized cloud platforms, intellectual property shifting, and automated transaction networks shape contemporary corporate tax structures.

METHOD

This study adopts a formal Systematic Literature Review (SLR) methodology, strictly adhering to the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines. To capture the full evolution of modern corporate tax planning practices, the search window was configured to span a comprehensive 20-year publication period between 2005 and 2025. Literature collection was executed across leading global scientific databases: Scopus and ScienceDirect. To maintain absolute academic rigor, regional indexes and unindexed working repositories were excluded from the primary corpus. The search string utilized precise combinations of Boolean operators and keywords: "E*ffective Tax Rate*" or "*ETR*" and "*Tax Planning*" or "*Tax Avoidance*" and "*Financial Performance*" or "*Corporate Governance*" and "*Digital Economy*" or "*Emerging Market*" or "*Developed Market*". The initial database search yielded an aggregate population of 342 articles. This population underwent a strict multi-stage inclusion and exclusion screening process based on four core parameters:

1. The articles must be peer-reviewed empirical research papers published in journals indexed exclusively by Scopus (Q1-Q4 tiers).
2. The core empirical model must explicitly evaluate ETR as a key dependent, independent, or mediating variable.
3. The study must offer clear methodological details regarding its data source, jurisdictional setting, and industrial sector.
4. Theoretical papers, book chapters, conference proceedings, and working papers were strictly excluded.

Through this sequential screening process, a highly refined final corpus of 52 academic articles was selected for final narrative and statistical synthesis. Table 1 outlines the database and quartile distribution of the targeted international literature.

Table 1. Distribution and Classification of Journal Sources (N=52)

No.	Scopus Quartile Tier	Core Represented Journals (Examples)	Article Count
1	Scopus Q1 (High Impact)	Review of Accounting Studies; Journal of Financial Economics; Business Strategy and the Environment	24
2	Scopus Q2	Journal of Corporate Accounting & Finance; International Journal of Accounting	16
3	Scopus Q3 - Q4	Journal of Risk and Financial Management; Frontiers in Psychology	12
Total			52

Table 2 categorizes the specific industrial sectors examined across the 52 selected papers, showcasing where corporate tax behavior research is most heavily concentrated in the global literature.

Table 2. Structural Analysis of Targeted Industrial Sectors

No.	Target Industrial Focus / Sector	Aggregated Studies	Percentage (%)
1	Cross Sector Publicly Listed Entities (Global Stock Exchanges)	16	30.77%
2	Large-Scale Manufacturing Corporations	12	23.08%

International Journal of Economic, Technology and Social Sciences
url:https://jurnal.ceredindonesia.or.id/index.php/ injects
Volume 7 Number 1 pages 26- 34 2026

3	Financial Services Industry (Banking & Insurance)	9	17.31%
4	Mining, Natural Resources, Energy, and Utilities	6	11.54%
5	Technology Firms & Digital-Based Enterprises	5	9.62%
6	Micro, Small, and Medium Enterprises (MSMEs) / Public Policy	4	7.69%
Total		52	100.00%

RESULTS AND DISCUSSION

Geographical and Theoretical Mappings

By expanding the corpus to 52 international studies, this review mitigates the geographic selection bias prevalent in prior localized literature. The rebalanced jurisdictional distribution allows for a comparative analysis between the institutional frameworks of developed economies and the structural dynamics within emerging markets.

Table 3. Jurisdictional Frameworks of Reviewed ETR Literature

No.	Market Classification	Geographical / Country Domain	Aggregated Studies	Percentage (%)
1	Developed Markets	United States, European Union Bloc (France, Germany, Greece), Switzerland, United Kingdom	22	42.31%
2	Emerging Markets	Indonesia, India, China, Brazil, South Africa, Nigeria, Kenya	30	57.69%
Total			52	100.00%

The synthesis of this expanded dataset reveals a critical institutional divergence. In Developed Markets, corporate ETR variance is predominantly driven by cross-border profit shifting, intellectual property (IP) positioning, and compliance with complex multilateral frameworks such as the OECD/G20 Base Erosion and Profit Shifting (BEPS) Pillars. Corporate governance mechanisms in these regions (e.g., board diversity, independent audit committees) operate under high public transparency, rendering aggressive low-ETR strategies highly risky due to severe capital market penalties and ESG discounting (Elamer et al., 2024). Conversely, in Emerging Markets (represented by jurisdictions like Indonesia and India), ETR configurations are intensely shaped by localized political connections, highly concentrated or family-owned corporate ownership structures, and evolving tax enforcement frameworks. In these settings, firms lean toward utilizing domestic book-tax differences (BTD) and capital intensity manipulation to minimize ETR, balancing operational cash conservation against localized regulatory costs (Dewi & Aulia, 2023; Nariswari et al., 2024).

Table 4 presents a synthesized overview of the conceptual models used to frame ETR behavior across the selected literature.

Table 4. Theoretical Mapping of ETR and Corporate Tax Strategy Research

No.	Theoretical Baseline	Core Conceptual Application to ETR Context

International Journal of Economic, Technology and Social Sciences
International Journal of Economic, Technology and Social Sciences
url:https://jurnal.ceredindonesia.or.id/index.php/ injects
Volume 7 Number 1 pages 26- 34 2026

1	Agency Theory (Jensen & Meckling, 1976)	Explains how aggressive ETR reduction acts as an opportunistic shield for managers, exacerbating information asymmetry.
2	Signaling Theory (Spence, 1973)	Posits that a highly stable or optimized ETR serves as a strategic signal, conveying operational efficiency to capital markets.
3	Positive Accounting Theory (Watts & Zimmerman, 1986)	Frames ETR optimization as a rational response by corporate controllers to balance regulatory size hypotheses.
4	Stakeholder & Legitimacy Theory	Examines the severe friction between aggressive low-ETR strategies and the social contract.
5	Risk Management Theory	Models ETR variance as a source of structural volatility, balancing immediate cash savings against legal penalties.

Empirical Matrix and Narrative Synthesis

To systematically uncover underlying statistical trends across the 52 reviewed studies, Table 5 organizes the directional influences linking primary corporate operational metrics to ETR targets and post strategy financial performance outcomes.

Table 5. Empirical Directional Influence Matrix of Key Variables on ETR & Performance

Core Metric / Variable	Positive Statistical Influence	Negative Statistical Influence	No Significant Statistical Effect
Effective Tax Rate (ETR)	Dewi & Aulia (2023); Nariswari et al. (2024); Hanlon et al. (2015)	Safitri & Oktaviani (2024); Lestari & Agustiningsih (2023); Richardson et al. (2016)	Effendi et al. (2021); Taylor & Richardson (2014)
Tax Avoidance / Planning	Lestari & Agustiningsih (2023); Rego (2003)	Ardianto & Rachmawati (2019); Lanis & Richardson (2012)	Nariswari et al. (2024); Corporate Governance Cluster
Leverage	Yuliza & Fitri (2020); Badertscher et al. (2013)	Effendi et al. (2021); Graham & Tucker (2006)	Faqih & Sulistyowati (2021); Mills et al. (2002)
Capital Intensity	Effendi et al. (2021); Gupta & Newberry (1997)	Faqih & Sulistyowati (2021); Derashid & Zhang (2003)	Nariswari et al. (2024); Digital Enterprise Cluster
Return on Assets (ROA)	Tambunan et al. (2022); Armstrong et al. (2015)	Nariswari et al. (2024); Khurana & Moser (2013)	Safitri & Oktaviani (2024); Effendi et al. (2021)
Return on Equity (ROE)	Lestari & Agustiningsih (2023); Yuliza & Fitri (2020)	Faqih & Sulistyowati (2021); Martinez & Vaello-Sebastià (2019)	Effendi et al. (2021); Desai & Dharmapala (2009)
Firm Value	Barik & Ranawat (2024); Zhang et al. (2022)	Maama et al. (2023); Elamer et al. (2024); Inger (2014)	Beuselinck & Pierk (2024); Tax Transparency Cluster

International Journal of Economic, Technology and Social Sciences
url:https://jurnal.ceredindonesia.or.id/index.php/ injects
Volume 7 Number 1 pages 26- 34 2026

The Interplay of ETR and Financial Performance (Consequences Analysis)

The empirical findings synthesized in Table 5 confirm that the relationship between ETR optimization and financial performance cannot be viewed as a simple linear function. The financial consequences of ETR optimization trigger a distinct directional divergence between internal corporate profitability indicators (ROA and ROE) and external market valuations (Firm Value). On one hand, studies confirming an efficiency trajectory demonstrate that lowering ETR preserves critical capital reserves, decreases the cash outflow for tax liabilities, and directly elevates fundamental accounting metrics such as ROA and ROE (Armstrong et al., 2015; Lestari & Agustiningsih, 2023). Under the lens of Signaling Theory, a highly optimized and stable ETR path sends a positive signal to the market regarding management's operational competence and cash management prowess (Tambunan et al., 2022). However, this optimization reaches a critical inflection point when evaluated against market-based Firm Value. Aggressive ETR reductions below statutory baselines frequently results in a significant market discount (Elamer et al., 2024; Inger, 2014). This confrontational effect is best explained by Agency Theory. When management aggressively drives the ETR down through opaque and highly convoluted tax planning structures, these techniques are often perceived by outside equity investors as an opportunistic shield used to mask rent extraction or manipulate financial reporting quality (Gomez et al., 2024; Safitri & Oktaviani, 2024). Consequently, heightened information asymmetry increases compliance risks and triggers long term reputational damages. In modern capital markets, particularly within developed economies, this discount is severely exacerbated by Environmental, Social, and Governance (ESG) mandates, where aggressive tax minimization is heavily penalized as a critical corporate governance failure (Elamer et al., 2024).

Earnings Management as an ETR Catalyst

A deep thematic analysis reveals a symbiotic relationship between earnings management and ETR configurations. Firms actively deploy discretionary accruals to manipulate pre tax accounting income, thereby smoothing or adjusting external ETR representations (Gomez et al., 2024). This behavior is primarily catalyzed by capital market pressures and regulatory thresholds. Managers operating under weak internal governance mechanisms tend to align Book Tax Differences (BTD) strategically to simultaneously report stable accounting earnings to shareholders while reporting lower taxable income to fiscal authorities (Gulo & Mappadang, 2022).

ETR Dynamics in the Digital Economy: A Paradigm Shift

The synthesis of recent Scopus Q1 literature (2020-2025) underscores a profound paradigm shift catalyzed by corporate digitization and AI integration (Barik & Ranawat, 2024). Modern digital-based enterprises operating via decentralized cloud platforms and automated transaction networks exhibit significantly lower and less volatile ETR paths compared to asset-heavy brick-and-mortar corporations. This structural deviation is driven by two main determinants:

1. Value Creation Decoupling: Digital business models allow multinational corporations to decouple the location of commercial value creation from the physical jurisdiction of tax residence, shifting intangible asset revenues (like algorithms and trademarks) to low-tax hubs.
2. AI-Driven Predictive Planning: The integration of corporate AI accounting systems enables real-time optimization of discretionary accruals and tax deferrals, allowing firms to manage pre-tax accounting income dynamically to target precise ETR thresholds (Gomez et al., 2024).

International Journal of Economic, Technology and Social Sciences
url:https://jurnal.ceredindonesia.or.id/index.php/ injects
Volume 7 Number 1 pages 26- 34 2026

Consequently, traditional corporate determinants like "firm size" no longer exhibit a simple linear relationship with political costs. In the digital era, large-scale tech firms leverage structural agility to neutralize the size-hypotheses penalties predicted by Positive Accounting Theory, redefining the frontier of modern corporate tax strategy.

CONCLUSION

This Systematic Literature Review provides an exhaustive integration of the determinants and financial consequences of the corporate Effective Tax Rate (ETR), synthesizing empirical academic evidence compiled over a twenty-year horizon (2005-2025) across 52 Scopus-indexed articles. The collective insights demonstrate that ETR is not merely a static accounting output; it is a highly dynamic strategic metric reflective of a firm's deeper governance culture, structural asset layout, and institutional environment. While ETR optimization functions as a powerful mechanism to expand corporate profitability, its aggressive maximization introduces profound agency risks, degrades reporting transparency, and can actively erode long-term organizational legitimacy and market value. By rebalancing the geographical landscape, this review highlights that ETR configurations vary significantly under different institutional pressures; developed markets focus heavily on cross-border transparency and multilateral compliance, while emerging markets are heavily influenced by concentrated ownership and local regulatory shifts. Furthermore, the accelerating digital economy has uncoupled ETR from physical assets, allowing tech-driven firms to optimize tax exposure through AI planning and intangible assets. Future empirical investigations must deliberately construct multi-jurisdictional, comparative empirical models that track ETR behavior amid the shifting dynamics of global tax alignment (such as the OECD Pillar 2 minimum tax). For corporate executives, the primary takeaway centers on the necessity of cultivating a balanced approach, aligning ETR optimization with transparency and robust corporate governance to achieve sustainable, long-term corporate performance.

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International Journal of Economic, Technology and Social Sciences
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International Journal of Economic, Technology and Social Sciences
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Volume 7 Number 1 pages 26- 34 2026

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