

Moderation of tax attitudes on the relationship of knowledge and tax incentives on sustainable MSMEs performance

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ABSTRACT

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Recently, public opinion regarding tax avoidance has become unbreakable; and issues related to tax institutions are disrupting tax revenues. Tax avoidance leads to an issue that still requires resolution and is firmly entrenched among the business community in developed countries. The small and medium business sector refers to a sector that is involved in aggressive tax avoidance practices. Thus, tax can be accepted as a problem to achieve sustainability. This research applies a fiscal psychology theory approach with a survey approach on 150 MSME owners in Bandung City, West Java. The collected data was then analyzed using the Partial least squares approach to test and analyze the hypothesis. The results of this research show that tax knowledge and the tax incentives provided have a positive effect on the sustainable business performance of MSMEs in Bandung. Apart from that, this research also proves that tax attitudes are a determinant that can strengthen or weaken the relationship between tax knowledge and the tax incentives provided in achieving sustainable MSME business performance. It is hoped that the results of this research will add to the literature and expand the body of knowledge, especially in the context of taxation and business performance, and for practitioners, especially business owners. It can be a consideration that compliance in paying taxes is an essential factor in achieving business performance.

Introduction

Several literatures have linked various factors to increasing business sustainability, such as business networks, green concepts, and innovation (Barbosa, 2020; Neumeyer, 2018; Stawicka, 2021). However, the link between tax behavior and the concept of sustainability in the MSME context is still very limited and is of concern to academics or practitioners (Li et al., 2022). In addition, promoting sustainable development goals is the main agenda of all governments in various countries to achieve people's living standards (Pratima Bansal & Mark DesJardine, 2014; Schaltegger, 2011). The role of MSMEs is the main instrument for achieving a country's development goals. Its existence is considered important as an economic engine that can be used as an instrument to reduce poverty, and unemployment and increase economic income (Jansson et al., 2017). According to Weldeless et al. (2019) To continue contributing to economic growth, the sustainability of MSME businesses must be maintained and managed. Therefore, understanding how sustainable MSMEs are built in developing countries is important and requires solutions to provide the support needed to survive and continue to contribute to a country's economy (Deyganto, 2022). Azaka and Balogun (2022) linked sustainable business performance with psychosocial tax compliance. As stated by Bird and Davis-Nozemack (2018) MSMEs actors have little knowledge of taxation. Knowledge factors regarding taxation, incentives provided, and trust related to tax compliance can be influenced by the attitude of business owners to pay taxes, thus having an impact on its sustainability (Budiman et al., 2022).

Numerous efforts have been made by the government to support MSME players to achieve sustainability in business (Ardila et al., 2021). One way that can be done is by providing tax incentives which are intended to encourage MSMEs through deductions and exemptions from tax obligations within a certain period (Budiman et al., 2022). Fazriputri et al. (2021) stated that tax incentives can have a positive influence on the sustainability of a business. Therefore, well-designed tax incentive practices can reduce the burden and have a significant effect on the growth and sustainability of MSMEs (Deyganto, 2022). However, apart from the contribution of MSMEs to domestically generated tax revenues, the level of tax compliance in the MSMEs sector is not specifically known so

understanding the factors that influence it is very important, especially in the context of sustainability. Since the taxes generated can help the economy and contribute to the provision of facilities and support for social welfare, the issue of taxation is an issue that is of great concern to both developing and developed countries.

Therefore, the purpose of this research is to undertake to find out the role of tax knowledge and tax incentives on sustainable MSME business performance with tax attitudes as a moderating variable in the city of Bandung. In West Java Province, the number of MSMEs has increased by 5.83% since 2022 (Open Data Jabar, 2024). As the capital of the province, Bandung City has quite a large number of MSMEs, namely 523.584 MSMEs, indicating massive business activity within the region. However, despite this large number, it has been mentioned that the MSME actors' understanding of financial reporting and taxation is still considered low (Yudatama, 2023; Bird & Davis-Nozemack, 2018).

Even though there has been a lot of research on tax knowledge (Bhalla et al., 2022; Bornman & Ramutumbu, 2019), there is still little that relates to the concept of business sustainability in the context of MSMEs (Li et al., 2022; Aribaba et al., 2019). The existing studies on tax knowledge or tax incentives often link the variable to tax compliance (Alshirah et al., 2022; Azaka & Balogun, 2022; Oladipo et al., 2022). In addition, these prior researches, especially regarding tax knowledge, often use individual taxpayers as the unit of analysis. To distend this gap, this study attempts to understand the linkage between tax knowledge, tax incentives, tax attitude, and business performance within the context of MSMEs. Therefore, it is expected that this research can contribute to the literature, especially on taxation, as well as for organizations to understand the role of tax knowledge in achieving business sustainability. Therefore, the findings and recommendations from this research can provide material and information for various parties, especially MSME owners.

Literature Review

Fiscal Psychology Theory

Hasseldine and Bebbington (1991) state that tax leads to a mandatory contribution whose incentives cannot be enjoyed directly by taxpayers. With taxes, the government can increase its income to finance expenses that can be felt by the general public. According to Damayanti et al. (2015) to increase voluntary tax compliance, taxpayers must obtain concrete evidence that the taxes paid are evidence that can be felt directly by the public. In the concept of sustainability, a business can be said to be performing well if its economic, social, and environmental factors are good. In the social aspect, a business that performs well must be able to provide many benefits to society and this can be done, one way, by paying taxes.

Fiscal psychology theory was first developed by Lewis (1982), who discussed the overlap between social psychology and taxation, mainly taxpayer behavior and their perception of taxes. This theory explores how individuals' attitudes, beliefs, and subjective norms can affect their compliance with tax laws (Houdek & Koblovsky, 2015). This theory posits that tax compliance behavior is influenced by the intention to comply, which is in turn influenced by subjective norms and perception of the government (Kirchler, 2007). In fiscal psychology theory, taxes paid must provide direct benefits for both the taxpayer and the tax receiver. Apart from that, this theory also states that the main purpose of the tax itself is to generate income to accelerate growth in various aspects. Fiscal psychology theory also explores various perspectives and examines their impact on entrepreneurial behavior. However, the high level of tax evasion behavior carried out by MSMEs has reduced business growth and development (Albulescu et al., 2016; Abdixhiku et al., 2018; Fernandez-Bastidas, 2023).

Knowledge of taxation and the rules formulated by the government is very important in managing business performance. General tax knowledge indicates a willingness to comply with tax laws. Meanwhile, non-compliance with taxes and lack of knowledge or deliberation can lead to heavy penalties that hinder business performance and reputation. Thus, tax knowledge is considered as one of the main drivers in determining company performance. Apart from that, this research also investigates tax incentives and tax attitudes of MSME actors as factors that influence business performance.

Hypothesis Development

Azaka and Balogun (2022) state that tax knowledge is an understanding of the rules and regulations of the tax system formulated by the government. General, procedural, and legal tax knowledge are three important elements identified in tax knowledge (Bhalla et al., 2022). Tax knowledge comprises fiscal awareness as well as procedural knowledge which refers to understanding tax compliance procedures and legal knowledge (Budiman et al., 2022; Oladipo et al., 2022). According to Bornman and Ramutumbu (2019) In the theory of reasoned action, taxpayers who comply with regulations can cause the business to be in a stable condition, whereas failure to comply with taxes can cause the business to be in a critical situation. Yasa et al. (2021) state that tax knowledge is a person's perception of their ability to comply with tax regulations, which includes technical tax knowledge and general tax knowledge about the tax system and tax compliance. In tax literature, it is stated that knowing the tax

system can change the attitudes of business people (Young et al., 2016). Tax non-compliance, whether due to lack of knowledge or intentional can result in heavy fines and penalties that hinder a company's profitability and reputation. Bornman and Ramutumbu (2019) state that tax knowledge refers to the skills to maintain timely records. Proper knowledge of tax procedures, regulations, and tariffs has shown a tremendous positive impact on an organization, its economy, and its business in the long run due to its compliance with the law (Alshirah et al., 2022). Thus, there is a correlation between tax knowledge and business sustainability. The first hypothesis is proposed as follows:

H₁: Tax knowledge has a positive effect on sustainable MSMEs' business performance.

According to Daniel and Faustin (2019), Taxation provides information about the tax collection system, as well as all legal regulations and provisions relating to taxes. Thus, taxation is an important tool for government intervention in the economic and social development of a country (Rahmayanti et al., 2020). Governments can introduce regulations and incentives to stimulate economic, social, and environmental development (Andreansyah & Farina, 2022). Hosono et al. (2023) Tax incentives are a reduction in the tax burden that is generally associated with taxable activities. The main purpose of this incentive is to manipulate the behavior of business actors by providing certain assistance. Conceptually, incentive tax policy aims to guide, regulate, and encourage business activities in a better direction. The introduction of tax incentives is part of the implementation of state tax policy. Therefore, the government can choose to implement favorable tax policies to create jobs, encourage certain sectors, or provide assistance to business people (Andreansyah & Farina, 2022).

Governments in various countries have tried to take initiatives to increase business sustainability through various tax incentives. As stated by Budiman et al (2022), tax incentives for business sustainability are government policies designed to encourage the business world to implement responsible practices, especially environmentally and socially. These incentives are intended to reward and encourage actions that contribute to sustainable goals (Budiman et al., 2022; Daniel & Faustin, 2019). Previous research has confirmed that there is a correlation between tax incentives and business sustainability. Thus the second hypothesis is proposed as follows:

H₂: Tax incentives have a positive effect on sustainable MSME business performance

Knowledge about taxation which includes regulations, systems, and laws can be influenced by individual attitudes so that it leads to the performance of the business being run. Azaka and Balogun (2022) states that attitudes towards taxation are very important for the sustainability of the organization. Definition Raúl et al. (2022) state that attitudes are relatively long-lasting individual or organizational beliefs about an object that can influence their actions. Previous research has documented the relationship between attitudes on various aspects that are closely related to taxes (Agusti & Rahman, 2023; Night & Bananuka, 2020). Further, Ma (2017) states that taxpayers in various countries are influenced by individual attitudes. Researchers state that high and low tax knowledge can be determined by the attitude of the taxpayer himself. Tax knowledge and tax incentives provided by the government can lead to sustainable business performance when the attitude of the individual or business owner responds well. As said by Victor et al. (2020) organizations that want a well-performing and sustainable business must connect stage by stage. However, as the organization grows it will be faced with various threats. Tax problems regarding the sustainability of MSMEs can increase or decrease according to the attitude of the business owner himself. Thus, the final hypothesis is proposed as follows:

H₃: Tax attitudes moderate the relationship between tax knowledge and sustainable MSME business performance

H₄: Tax incentives moderate the relationship between tax knowledge and sustainable MSME business performance.

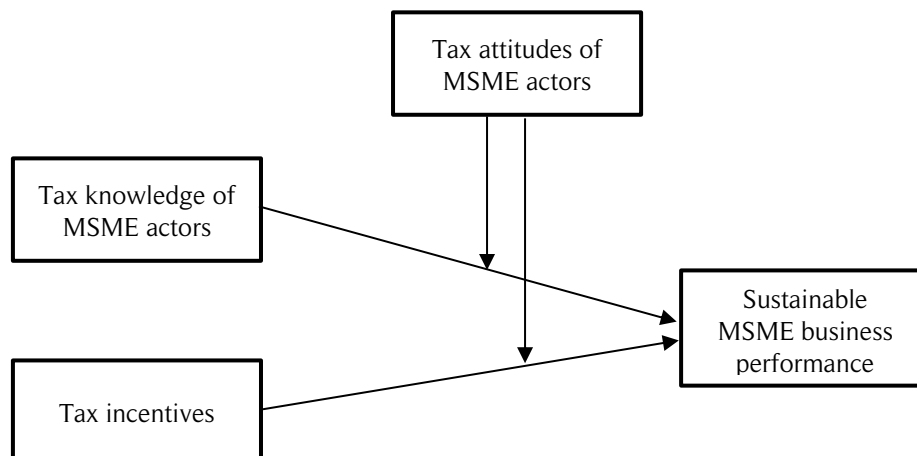


Figure 1. Conceptual framework

Research Method

This research was conducted using a quantitative approach designed to test and determine the causal influence between the variables studied. The population of this research is MSME actors who are known and registered with the Department of Cooperatives and Small and Medium Enterprises in the city of Bandung, West Java. The sample was determined using a purposive sampling technique, with the criteria that the MSME owners had been running their business for 5 years or more. This is because MSMEs that have been running business for five years have experienced the dynamics of environmental changes that have occurred. Then the sample was selected from as many as 150 MSMEs consisting of various sectors (food, fashion, and crafts). The questionnaire was measured using a 5-point Likert scale from 1 to 5 (strongly disagree to strongly agree). Next, the data analysis process was carried out using the SEM PLS approach.

Variable Measurement

This research uses two independent variables and one moderating variable to explain how they influence business sustainability. Tax knowledge is defined as a taxpayer's understanding of how to file and pay taxes. Tax knowledge was measured by four items adopted from Bhalla et al. (2022) tax model, billing understanding, tariff understanding, and procedural knowledge. Tax incentives as explained by Budiman et al. (2022) are a policy implemented by the government in the form of reducing the tax burden borne by taxpayers. Tax incentives were measured by two items adopted by Latief et al. (2020). Then the tax attitude as stated by Agusti and Rahman (2023) is defined as the general attitude or perspective of a person or organization towards taxation. Tax attitudes were measured by three items adopted from the definition by Raúl et al. (2022) which include thoughts, opinions, and emotions. Lastly, business sustainability as stated by Budiman et al. (2022) is an organization's ability to operate efficiently and profitably over a long period. Business sustainability was measured by three items adapted from Deyganto (2022) namely economic, social, and environmental.

Results and Discussion

Based on the characteristics or profiles of respondents shown in Table 1, it is recognized that based on age, the majority of respondents are in the age range of 30 to 35 years with a total of 86. Based on education, the majority of respondents are in undergraduate education with a total of 83. Then based on the length of business operation, the majority of respondents have been running a business for 5 to 8 years as many as 93 respondents. Finally, based on income, the majority of respondents have an income of 5 to 7 million/month with a total of 101.

Table 1. Respondent characteristics

Respondent characteristics	Total
Age	
25 – 30 years	27
30 – 35 years	86
35 – 40 years	28
More than 40 years	9
Education	
Senior High School	44
Bachelor	83
Postgraduate	23
Business has been carried out	
5 – 8 years	93
8- 10 years	43
More than 10 years	14
Business income/month	
2 – 5 million/month	27
5 – 7 million/month	101
7 – 10 million/month	14
More than 10 million/month	8

Source: Data processed 2023

Validity and Reliability Test

Reliability testing for the measurement model was tested using Cronbach's Alpha, Composite Reliability (C.R), and Average Variance Extract (AVE) (Urbach & Ahlemann, 2010). Acceptance criteria for Cronbach's Alpha and CR

reliability testing must be greater than 0.7, while for AVE it must be greater than 0.5 (Fornell & Larcker, 1981; Chin, 1998). Table 2 presents the results of the test, with a minimum value for Cronbach's Alpha of 0.706, a CR value of 812, and an AVE value of 0.524.

Table 2. Reliability test

	Cronbach's alpha	C.r	Ave
Business sustainability	0.799	0.882	0.714
Tax attitude	0.831	0.899	0.748
Tax incentives	0.783	0.902	0.822
Tax knowledge	0.706	0.812	0.524

Source: *Data processed 2023*

Examining the validity of the measurement model was carried out using discriminant validity, namely by comparing the correlation value between constructs with the square root value of AVE (Fornell & Larcker, 1981). The acceptance criteria for this test is that the square root value of AVE must be greater than all correlation values between constructs (Fornell & Larcker, 1981). Apart from that, validity testing can be done by looking at the Heterotrait-Monotrait Ratio (HTMT) value, with acceptance criteria that must be below 0.85 (Henseler et al., 2014). Table 3 shows that all correlation values between constructs are greater than the square root of the AVE value, and the HTMT value is <0.85.

Table 3. Model validity test

	Fornell larcker criterion				Heterotrait-monotrait ratio (htmt)			
	Bs	Ta	Ti	Tk	Bs	Ta	Ti	
Bs	0.845				Bs			
Ta	0.844	0.865			Ta	0.788		
Ti	0.813	0.772	0.906		Ti	0.698	0.790	
Tk	0.656	0.663	0.678	0.724	Tk	0.794	0.837	0.848

Source: *Data processed 2023*

Model Structure

The predictive power of the measurement model was evaluated using the R² value, which is 0.812 for Business Sustainability. This indicates that Tax Knowledge and Tax Incentives account for 81.2% of the variance in Business Sustainability. The factor loading values, which should be greater than 0.7, are presented in Table 4. The test results show that all factor loadings exceed the 0.7 threshold.

Table 4. Factor loading

Constructs and items	Factor loading
Business sustainability	
Bs1	0.804
Bs2	0.836
Bs3	0.893
Tax attitude	
Ta1	0.830
Ta2	0.922
Ta3	0.839
Tax incentives	
Ti1	0.906
Ti2	0.907
Tax knowledge	
Tk1	0.733
Tk2	0.786
Tk3	0.756
Tk4	0.788

Source: *Data processed 2023*

Hypothesis Test

Hypothesis testing was carried out using the bootstrapping technique using a subsample of 500. Table 5 shows the complete hypothesis results. Tax Knowledge ($\beta = 0.296$; $t = 4.714$; $p\text{-values} = 0.000$), has a positive impact on Business Sustainability, hypothesis 1 is supported. Tax Incentives ($\beta = 0.247$; $t = 3.354$; $p\text{-values} = 0.001$) have a positive impact on Business Sustainability, hypothesis 2 is supported. Tax Attitude ($\beta = 0.205$; $t = 3.590$; $p\text{-values} = 0.000$) moderates the relationship between Tax Knowledge and Business Sustainability positively and significantly, H3a is supported. Tax Attitude ($\beta = 0.221$; $t = 3.443$; $p\text{-values} = 0.001$) moderates the relationship between Tax Incentives and Business Sustainability positively and significantly, H3b is supported.

Table 5. Path coefficients

	Original Sample	Sample Mean	Std. Deviation	T Statistics	P Values	Support
TK → BS	0.296	0.300	0.063	4.714	0.000	YES
TI → BS	0.247	0.255	0.074	3.354	0.001	YES
TAXTX → BS	0.205	0.193	0.057	3.590	0.000	YES
TAXTI → BS	0.221	0.199	0.064	3.443	0.001	YES

Source: *Data processed 2023*

Discussion

This research aims to investigate the role of tax knowledge and tax incentives on MSME business performance in the city of Bandung with tax attitudes as a moderating variable. The findings show that there is a positive relationship between tax knowledge and improving business performance. Specifically, knowledge of taxation which consists of understanding bills, rates to be paid, and procedural knowledge. As stated by Bhalla et al. (2022) MSME actors who have tax knowledge tend to comply with their obligations have a positive attitude and influence business performance, especially in the financial aspect. The results of this research also show that low and high levels of tax compliance among MSME owners in the city of Bandung are influenced by their knowledge of taxes. Oladipo et al. (2022) stated that tax knowledge will be very useful for MSME owners in improving their business performance. Thus, a good business is not only profit-oriented, but must provide many benefits to the wider community, and this can be done when the business owner is obedient in paying taxes.

Then, this research also found that tax incentives affect MSME business performance in the city of Bandung. The findings show that the incentives provided by the government are to increase tax compliance so that business performance can be improved through savings on costs incurred by organizations related to tax regulations. As stated by Deyganto (2022) The existence of tax incentive practices can encourage the existence of MSME's performance. Therefore, to improve business performance, the government must give top priority to improving the MSMEs business climate in its country by implementing additional tax incentive practices to reduce various negative impacts, especially during times of crisis. Policymakers must continue to shape tax incentive policies by considering various parameters to support business performance.

Then, this research also uses tax attitudes as a moderating variable between tax knowledge and tax incentives on MSME's business performance. The results of this research show that tax attitudes can be formed by various factors, such as groups and culture, where these factors can increase or decrease individual attitudes toward paying taxes (Sriharan & Salawati, 2019). On the other hand, this research also found that an attitude, whether negative or positive, can be influenced by the environment in which the business operates. The economic climate in Indonesia, especially in Bandung, has recently been very massive, the increase in various needs as well as expensive and difficult goods and services has become a factor in avoiding paying taxes. Even though the law has stipulated provisions for MSME owners to only pay taxes when they make a profit, the owner's uncertain attitude can be a strong predictor in complying with tax payments. Thus, the knowledge and incentives provided by the government can be strengthened or weakened by the attitudes of MSME owners, thereby having an impact on their business performance.

Conclusions

Based on the results and discussions that have been carried out, the findings of this research strongly indicate that tax knowledge and tax incentives provided by the government can improve the business performance of MSMEs in Bandung. Apart from that, tax attitudes are also a strong factor in moderating the relationship between knowledge and tax incentives on the performance of MSME businesses. Tax knowledge has a positive correlation with business performance, so it is recommended that the government further improve its education regarding the obligation to pay taxes. As is known, a good business is a business that is not only profit-oriented but must have a wider impact on the people of society. This can be done when MSME business actors comply with paying taxes so

that the proceeds from these taxes are used by the government for the benefit of the wider community. Apart from that, reward programs and other forms of incentives provided can be an alternative to increase tax compliance. The existence of this incentive practice can encourage the existence of achieving sustainable MSME performance, especially during times of crisis.

In conclusion, this research also has limitations, including; first, this research is only limited to the context of MSMEs in the city of Bandung. Further research could expand the context of respondents in different cities and objects. Second, this research only uses the variables of tax knowledge, tax incentives, and tax attitudes. Future research could use other tax factors and dimensions such as perceptions of tax fairness, tax avoidance, etc. It is also hoped that this research can contribute to filling out the literature on taxation and for business people it is hoped that it will be a consideration that compliance in paying taxes is an important factor in achieving sustainable business performance.

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