

Beyond compliance: How financial reporting practices shape tax behavior among growing MSME'S

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ABSTRACT

This study examines the influence of entrepreneurial attitude on tax compliance among Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, with financial reporting compliance as a mediating variable and religiosity and patriotism as moderators. A survey of 500 MSME owners in West Java, Central Java, and East Java was conducted. The results show that a strong entrepreneurial attitude, which is marked by proactiveness and responsibility, positively affects tax compliance. Financial reporting compliance significantly mediates this relationship, as orderly financial reporting leads to better tax compliance. Additionally, religiosity and patriotism strengthen the link between entrepreneurial attitude and tax compliance, as business owners who uphold moral and national values are more likely to fulfill their tax obligations. These findings offer practical implications for policymakers, highlighting the need to enhance financial literacy, promote ethical entrepreneurship, and provide tax education grounded in social and national values.

Introduction

Taxation is a vital instrument for supporting national development and macroeconomic stability (Gangl et al., 2016). Beyond functioning as a primary source of revenue, taxes guide government financial decisions and enable infrastructure development and public services (Bani-Khalid et al., 2022; Werekoh, 2022). In Indonesia, where taxes financed 71% of the state budget in 2024 (Hapsari, 2024), strengthening tax compliance remains a critical policy challenge.

Recent trends show a decline in tax revenue growth, specifically from 48.6% year-on-year in January 2023 to only 5.9% by September (Siswanto, 2023). Additionally, there have been decreasing public trust stemming from cases involving misconduct among tax officials (Hakki, 2023). This environment contributes to low formal compliance among non-employee individual taxpayers, the majority of whom are MSME owners (Siswanto, 2023). Despite representing 99.9% of businesses and contributing 61.07% to national GDP, MSMEs contribute minimally to tax revenue: only about 15% comply with tax obligations (DDTC, 2022). Filing rates among non-employee taxpayers also declined from 52.44% in 2020 to 34.4% in 2023 (Siswanto, 2023). Limited tax literacy, perceived complexity, and weakening institutional trust further hinder compliance (Inasius et al., 2020; Nartey, 2023a; Prastiwi & Diamastuti, 2023). Some MSME owners even treat taxes as a burden that reduces profits, which leads to intentional noncompliance (Bimo et al., 2019).

Poor financial recordkeeping is a key structural factor behind these challenges. Many MSMEs lack accurate and timely financial statements, which making it more difficult to assess tax obligations (Adela et al., 2025; Mohamed & Gan, 2024). Financial reporting compliance in terms of accuracy, consistency, and adherence to standards, is therefore essential for improving fiscal awareness and accountability (Mesioye & Bakare, 2024). Yet, MSMEs frequently struggle due to limited accounting skills, low technology use, and resource constraints.

Entrepreneurial attitude may serve as an important behavioral driver in this context. Proactive, responsible, and professional business owners are more likely to maintain organized records and engage systematically with taxation processes (Do et al., 2022; Yin et al., 2025). Despite its relevance, the link between entrepreneurial attitude and tax compliance among MSMEs remains underexplored. Furthermore, socio-cultural factors such as religiosity and patriotism may further strengthen compliance behavior. Individual beliefs, values, and experiences influence ethical decision-making, including tax obligations.

Prior studies highlight the role of religiosity (Hidayat et al., 2022; Wang & Lu, 2021) in shaping moral behavior, reducing noncompliance (Prasetia, 2021), and encouraging responsible conduct (Utama et al., 2022).

Patriotism similarly fosters civic responsibility and prosocial behaviors, including adherence to tax norms (Alshir'ah et al., 2021; Geys & Konrad, 2020; Intansari & Supramono, 2022). However, much of this research focuses on individual taxpayers rather than MSME owners (Hidayat et al., 2022; Intansari & Supramono, 2022), which leaves a gap in understanding socio-behavioral influences in the MSME sector.

Given the central role of MSMEs in Indonesia's economy and their persistently low levels of tax compliance, a deeper and more nuanced understanding of behavioral and socio-cultural determinants is required. This study addresses these gaps by examining the effect of entrepreneurial attitude on MSME tax compliance, the mediating role of financial reporting compliance, and the moderating effects of religiosity and patriotism. This research offers several contributions. First, it extends MSME tax compliance literature by positioning entrepreneurial attitude as a behavioral antecedent, which remains underexplored compared to traditional determinants such as knowledge, sanctions, or institutional trust (Ariel, 2012; Werekoh, 2022). Second, it clarifies the mechanism through which entrepreneurial attitude influences compliance by integrating financial reporting compliance as a mediator by providing empirical evidence on how managerial behavior translates into formal financial practices and tax obligations. Third, the study incorporates religiosity and patriotism as socio-cultural moderators to explain tax behavior in Indonesian societies. Finally, the findings contribute practical insights for policymakers by suggesting that strengthening MSME tax compliance requires not only administrative reforms but also behavioral interventions grounded in values, ethics, and responsible entrepreneurship.

Literature Review

The Relationship between Entrepreneurial Attitude and Tax Compliance

The Theory of Reasoned Action (TRA) developed by Ajzen & Fishbein (1975) explains that a person's behavior is influenced by intentions based on attitudes toward the behavior. Attitude is an expression of a person's beliefs and feelings towards an object or action, which drives them to act according to their preferences. In the context of entrepreneurship, this attitude manifests itself in the form of motivation, beliefs, and orientation towards business opportunities and responsibilities (Agbetunde et al., 2022). Entrepreneurial attitude includes cognitive, affective, and behavioral aspects that drive individuals to innovate, take risks, and pursue business growth (Mahfud et al., 2020; Yousaf et al., 2021). This kind of attitude is not only relevant to business success but also plays an important role in encouraging compliance behavior with regulations, including tax obligations (Robbins & Kiser, 2020). MSMEs who have a strong entrepreneurial attitude generally understand that tax compliance is part of responsible and sustainable business ethics (Ahmed et al., 2019; Fenech et al., 2019).

The proactive and responsible attitude inherent in entrepreneurial attitude can also reflect the willingness to fulfill social obligations, including paying taxes, in order to maintain business legitimacy and build good relations with tax authorities. Furthermore, entrepreneurs who are oriented towards business growth tend to have a higher awareness of the importance of tax compliance as a long-term strategy to maintain business continuity and reputation (Ahmed et al., 2019; Yousaf et al., 2021). However, in the context of MSMEs in developing countries, tax compliance is not always a top priority. Factors such as regulatory uncertainty, low tax literacy, and perceptions of fiscal burden are often obstacles (Elly, 2015; Nartey, 2023b). Therefore, a positive entrepreneurial attitude needs to be strengthened through structural and educational support to encourage changes in attitude into consistent tax compliance behavior. With the theoretical approach of TRA, it can be understood that if the entrepreneurial attitude towards tax is positive and accompanied by a belief in the importance of contributing to the country, then it is likely that a strong intention to comply with paying taxes will be formed.

H₁: Entrepreneurial attitude has a positive effect on tax compliance.

Financial Reporting Compliance (FRC) refers to the compliance of business actors in preparing and submitting financial reports in accordance with applicable accounting principles and standards. In the context of taxation, accurate, relevant, and timely financial reports are an important basis for calculating and fulfilling tax obligations correctly. The low quality of financial reporting in MSMEs often leads to discrepancies in tax reporting, which leads to non-compliance (DDTC, 2022; Michael & Widjaja, 2024). Entrepreneurial attitude, which reflects the entrepreneur's orientation towards innovation, responsibility, and long-term growth (Yousaf et al., 2021), plays an important role in encouraging professional business practices, including in terms of financial governance. A positive entrepreneurial attitude is often reflected in concern for financial records, transparency of reports, and commitment to formal rules, all of which contribute to the quality of financial reporting (Ahmed et al., 2019; Fenech et al., 2019). Thus, MSME actors who have a high entrepreneurial attitude tend to be more aware of the importance of preparing financial reports as a legal and administrative basis for running a business responsibly.

Good financial reporting will ultimately improve tax compliance. This is in line with the findings from Elly (2015) who stated that the availability of accurate financial information encourages business actors to be more compliant with their fiscal obligations. By using the approach of the Theory of Reasoned Action from Ajzen &

Fishbein (1975), a positive attitude towards aspects of business management such as financial reporting will shape the intention and actual behavior in fulfilling tax obligations.

Based on this explanation, Financial Reporting Compliance can be positioned as a mediating variable that bridges the relationship between Entrepreneurial Attitude and Tax Compliance. This means that business actors do not necessarily comply with taxes just because they have a positive entrepreneurial attitude, but this attitude needs to be realized first in the form of financial reporting compliance which in turn encourages tax compliance. This study attempts to fill the gap in the literature by empirically testing this mediating role in the context of MSMEs in Indonesia, a dominant sector but its contribution to national tax revenue has not been optimal.

H₂: Financial reporting compliance positively mediates the relationship between Entrepreneurial attitude and tax compliance.

Religiosity and Patriotism as Moderating Variables

Tax compliance is a concrete form of citizen contribution to national development. In this context, Financial Reporting Compliance (FRC) becomes a technical instrument that allows taxpayers, especially MSMEs, to convey their financial information transparently and accurately. However, even though the financial statements have been prepared well, not all business actors show real intentions and actions to fulfill tax obligations. Therefore, deeper internal factors are needed that are psychological or personal values, such as religiosity and patriotism, to strengthen the relationship between FRC and Tax Compliance (TC).

Religiosity refers to the extent to which religious beliefs, values, and practices influence an individual's attitudes and behavior (Worthington et al., 2003). In the context of tax compliance, religiosity can be a strong moral factor that shapes an individual's integrity and social responsibility. According to Kohlberg (1973a, 1973b), moral development theory refers to the individuals who are at a high level of moral development will obey the law not only because they fear sanctions, but because they believe that the action is ethically right. In this case, religious business actors tend to view tax reporting and payment as a form of honesty and trustworthiness. Studies from Budiarto et al. (2018) and Torgler (2006) show that religiosity significantly contributes to tax compliance intentions because religious values strongly encourage fairness, responsibility, and social contribution. Thus, religiosity can strengthen the effect of accurate financial reporting on tax compliance, because taxpayers adhere not only to administrative aspects, but also to moral and spiritual commitments.

Patriotism, on the other hand, refers to a sense of love and responsibility for the country (Kemmelmeier & Winter, 2008). Within the framework of civic virtue, patriotism reflects an individual's intrinsic motivation to contribute to the progress of the country, including through fiscal compliance. Citizens who have a high level of patriotism will see paying taxes not merely as a legal obligation, but as a form of direct contribution to collective development and welfare. This is in line with the theory of civic engagement and social identity theory (Tajfel & Turner, 2019; Turner et al., 1979) which emphasize the importance of individual attachment to social groups and the country in encouraging cooperative and prosocial behavior. A study by Al-Maghrebi et al. (2022) and MacGregor & Wilkinson (2012), in addition to report from (OECD, 2020) shows that patriotism has a significant influence on increasing tax paying intentions, especially in developing countries with challenges to public trust in the government.

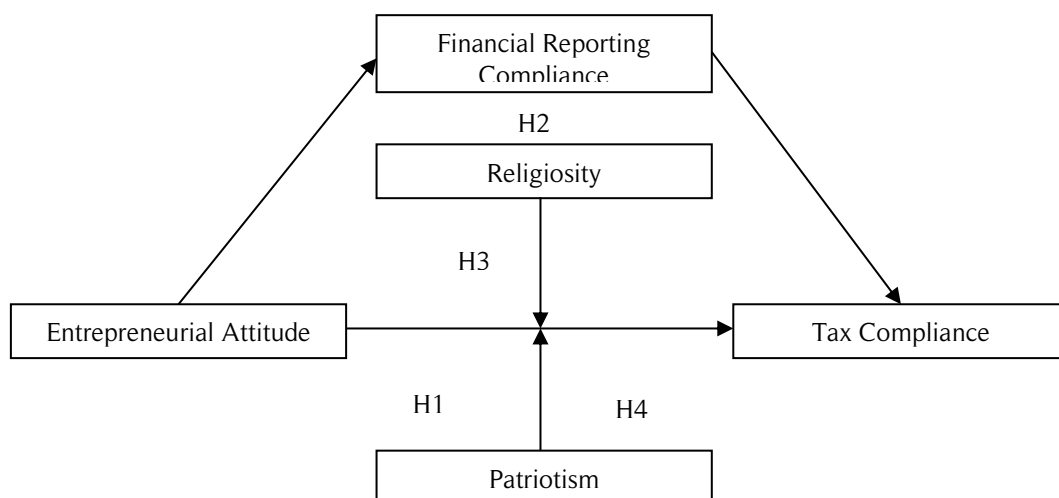


Figure 1. Conceptual Framework

Thus, in the context of this study, religiosity and patriotism act as moderating variables that strengthen the relationship between financial reporting compliance and tax compliance. When business actors have high levels of religiosity and patriotism, the effect of good financial reporting on tax compliance will be stronger and more

consistent. This indicates that administrative compliance through financial reporting alone is not enough to guarantee overall tax compliance. Internal values are needed that encourage awareness and personal commitment to responsibility as citizens.

H₃: Religiosity moderates the relationship between entrepreneurial attitude and tax compliance, this influence will be stronger or weaker depending on the level of religiosity.

H₄: Patriotism moderates the relationship between entrepreneurial attitude and tax compliance, this influence will be stronger or weaker depending on the level of patriotism value.

Research Method

Research Design and Respondents

This study uses a quantitative research design with a descriptive survey approach to test the relationship between variables in the developed model. The population in this study were MSME actors in the three provinces with the largest number of MSMEs in Indonesia, namely West Java, Central Java, and East Java, based on data from the OSS-RBA system of the Ministry of Cooperatives and MSMEs. The sample consisted of 500 respondents selected using a purposive sampling technique with the following criteria:

- 1) running a business for at least three years,
- 2) having at least 10 employees, and
- 3) annual income of more than IDR 500 million, thus included as a tax subject.

This study involved five variables, namely one independent variable, one dependent variable, one mediating variable, and two moderating variables. Entrepreneurial attitude as the independent variable, tax compliance as the dependent variable, financial reporting compliance as the mediating variable, and religiosity and patriotism as moderating variables. Each variable will be measured using a five-point Likert scale with indicators adapted from various academic sources.

The sampling technique used is multistage cluster sampling, starting from the selection of the main city or district, followed by the selection of sub-districts or MSME centers, until finally random sampling of business actors is carried out. The data analysis technique uses Structural Equation Modeling (SEM) based on Partial Least Squares (PLS) with the help of SmartPLS 3 software, considering the complexity of the model and the possibility of non-normally distributed data (Ringle et al., 2015).

Measurement

The questionnaire instrument in this study was prepared by adapting a number of reliable sources. Measurement of entrepreneurial attitudes was carried out using five statement items taken from the studies conducted by Agarwal et al. (2020), Liñán & Chen, (2009). The financial reporting compliance variable was measured through five indicators referred to from the research from Liudmyla & Maria (2022). For the religiosity variable, five items were adapted from studies conducted by Utama et al. (2022). Meanwhile, the measurement of patriotism refers to five items from Intansari & Supramono (2022) and MacGregor & Wilkinson (2012). Finally, the tax compliance variable was measured using eight items referring to the research from Nartey (2023a) and Nartey (2023b) (see Table 1).

Table 1. Measurement of Model

Variable	Items	Source
Entrepreneurial Attitude	1. Being an entrepreneur implies more advantages than disadvantages to me	Agarwal et al. (2020), Liñán & Chen, (2009)
	2. I feel enthusiastic towards entrepreneurial activities	
	3. If I had more opportunity and resources, I would like to develop a firm	
	4. Being an entrepreneur entails great satisfactions for me	
	5. I actively participate and organize entrepreneurial activities	
Financial Reporting Compliance	1. Timeliness of financial reporting	Liudmyla & Maria (2022)
	2. Completeness of information in financial reports	
	3. Compliance with accounting standards	
	4. Transparency and openness of information	
	5. Consistency of financial reporting	
Religiosity	1. I do something according to my beliefs including paying taxes.	Utama et al. (2022)
	2. I never apply religious values in business*.	
	3. My religious beliefs underlie all my activities.	

Variable	Items	Source
Patriotism	4. I rarely spend time getting to know my beliefs and beliefs better*.	Intansari & Supramono (2022) and MacGregor & Wilkinson (2012)
	5. The value of religiosity is very important to me because it is able to answer questions in various aspects of life including business.	
	1. The attitude of paying taxes is a patriotic attitude when compared to those who do not pay taxes.	
	2. A person who does not pay taxes is not patriotic.	
	3. A business that hides its sales revenue to avoid sales tax is unpatriotic.	
Tax Compliance	4. A business that cheats on sales tax has no patriotic attitude.	Nartey (2023a) and Nartey (2023b)
	5. I am willing to pay taxes if it helps my country.	
	1. I always disclose the income I earn for tax purposes.	
	2. I always report accurate reports for tax purposes.	
	3. I always pay my taxes on time.	
	4. I always pay taxes according to the specified value.	
	5. I am never orderly and honest in recording sales details on sales invoices*.	

Results and Discussion

Respondent Profile

The distribution of respondents in this study reflects the diversity of characteristics of MSME actors that are relevant to evaluating the relationship between entrepreneurial attitudes, financial reporting, and tax compliance. The majority of respondents came from West Java (38%), East Java (34%), and Central Java (28%), in line with data from the OSS-RBA system of the Ministry of Cooperatives and MSMEs. In terms of income, most are in the upper middle class (IDR 41.7–125 million per month), which is regulated to be required to report and pay taxes. The business sector is dominated by culinary, fashion, crafts, food processing, and beauty and health services, sectors that are active in terms of transactions and have the potential for implementing compliance.

Table 2. Distribution of Respondents

Category	Sub-Category	Amount (N)	Percentage (%)
Monthly Income	Rp41,7 Million – Rp83 Million	210	42%
	Rp83 Million– Rp125 Million	175	35%
	Rp125 Million– Rp166 Million	80	16%
	Rp166 Million– Rp208 Million	35	7%
MSME Sector	Culinary	135	27%
	Fashion	110	22%
	Craft	90	18%
	Agriculture and Food Processing	85	17%
	Beauty & Health Services	80	16%
Education Level	Junior High School and Below	45	9%
	High School/Vocational School	185	37%
	Diploma	95	19%
	Bachelor (S1)	140	28%
Length of Business Operation	Postgraduate (S2/S3)	35	7%
	3–5 Year	160	32%
	6–10 Year	230	46%
Form of Business (Legality)	>10 Year	110	22%
	Individual	185	37%
	CV	120	24%
	PT	140	28%
Province of Origin	Cooperatives	55	11%
	West Java	190	38%
	Central Java	170	34%
	East Java	140	28%

Source: Data Processed (2025)

The majority of respondents are high school/vocational school graduates (37%) and bachelor's degrees (28%), indicating an adequate level of understanding of entrepreneurship and financial regulations. The length of business is mostly over 6 years, indicating operational maturity. In terms of legality, 63% are already in the form of a business entity (CV, PT, Koperasi), while 37% are still individuals, indicating the need for further education. This composition strengthens the validity of the study in examining internal factors and social values that shape tax compliance behavior among MSMEs.

Convergent Validity and Reliability Test

The results of the convergent validity and reliability tests of all constructs in this study indicate that the instruments used have very good measurement quality. All outer loading values are above the minimum threshold of 0.70, indicating that each indicator has a strong contribution to the construct it measures. This confirms that each item does indeed represent the construct dimension validly. The Average Variance Extracted (AVE) values for all constructs also exceed the minimum value of 0.50, with a range between 0.683 and 0.740. This indicates that more than 50% of the variance of each construct is successfully explained by its indicators, so that convergent validity is met. Constructs such as Patriotism and Religiosity even recorded the highest AVE, namely 0.740 and 0.727, strengthening the belief that the dimensions of personal values are measured very well in this context. In addition, the Composite Reliability (CR) values of all constructs are above the standard of 0.70, even approaching or exceeding the number 0.90, indicating a very high internal consistency reliability. This is also supported by Cronbach's Alpha (CA) which is all above 0.80, indicating that the items in each construct have very good internal cohesion.

Overall, these results reinforce that the research instrument can be used reliably to measure the constructs of Entrepreneurial Attitude, Financial Reporting Compliance, Patriotism, Religiosity, and Tax Compliance. With this high validity and reliability, the relationship between variables that will be analyzed further is believed to have a strong and valid measurement basis.

Table 3. Convergent Validity Test and Reliability Test

Constructs	Items	Outer Loading	AVE	CR	CA
Entrepreneurial Attitude (EA)	EA1	0.794	0.721	0.928	0.903
	EA2	0.801			
	EA3	0.896			
	EA4	0.859			
	EA5	0.889			
Financial Reporting Compliance (FRC)	FRC1	0.828	0.683	0.915	0.884
	FRC2	0.874			
	FRC3	0.846			
	FRC4	0.757			
	FRC5	0.823			
Patriotism (PA)	PA1	0.797	0.740	0.934	0.912
	PA2	0.763			
	PA3	0.918			
	PA4	0.924			
	PA5	0.885			
Religiosity (RE)	RE1	0.823	0.727	0.930	0.906
	RE2	0.859			
	RE3	0.864			
	RE4	0.893			
	RE5	0.824			
Tax Compliance (TC)	TC1	0.800	0.687	0.916	0.886
	TC2	0.846			
	TC3	0.885			
	TC4	0.823			
	TC5	0.786			

Source: Data Processed (2025)

Discriminant Validity

The results of the discriminant validity test using two approaches, the Fornell-Larcker Criterion and Heterotrait-Monotrait Ratio (HTMT), show that each construct in the model has good discrimination between each other. In the Fornell-Larcker approach, the AVE square root value (shown in the diagonal of the table) for each construct is higher than the correlation between constructs (values outside the diagonal). For example, the AVE square root value for Entrepreneurial Attitude (EA) is 0.849, higher than its correlation with Financial Reporting Compliance (FRC) (0.427), Patriotism (PA) (0.372), Religiosity (RE) (0.369), and Tax Compliance (TC) (0.175).

This pattern is consistent across constructs, indicating that each construct shares more variance with its own indicators than with other constructs, which is a key requirement for discriminant validity to be met. In terms of HTMT, all ratio values are below the conservative threshold of 0.85 and moderate 0.90. The highest value is 0.761 between FRC and RE, which is still within safe limits. This indicates that empirically, these constructs do measure different entities and there is no construct redundancy.

Overall, these results confirm that each construct in the measurement model has adequate discriminant validity, strengthening the conceptual and operational integrity of the model. That is, constructs such as EA, FRC, PA, RE, and TC can be said to be distinctive and non-overlapping in measuring different dimensions in the research context.

Table 4. Fornell Larcker Discriminant Validity Test & HTMT Ratio

	Fornell-Larcker					Heterotrait-Monotrait			
	EA	FRC	PA	RE	TC	EA	FRC	PA	RE
EA	0.849								
FRC	0.427	0.827				0.466			
PA	0.372	0.518	0.860			0.415	0.590		
RE	0.369	0.686	0.491	0.853		0.402	0.761	0.544	
TC	0.175	0.396	0.383	0.395	0.829	0.191	0.444	0.410	0.434

Source: Data Processed (2025)

Model Hypothesis

Based on the results of the hypothesis test, the variable that has the strongest influence on Tax Compliance (TC) is Entrepreneurial Attitude (EA), with a coefficient of $\beta = 0.347$ and a *t* value of 7.826 ($p < 0.001$). This shows that among all the variables in the model, entrepreneurial attitude is the dominant factor that directly drives the level of tax compliance of MSME actors. Individuals with a high entrepreneurial attitude tend to be more responsible, proactive, and have the awareness to comply with regulations, including tax obligations. They view tax compliance not only as an administrative burden, but as part of sustainable business integrity. Furthermore, Financial Reporting Compliance (FRC) acts as a mediator that strengthens the relationship ($\beta = 0.186$; $t = 6.722$; $p < 0.001$). This indicates that entrepreneurs who have a positive attitude also tend to be more compliant in financial reporting, and through this compliance it becomes easier for them to comply with paying taxes. So, FRC is not just an administrative process, but an important element in building an orderly business structure that supports fiscal compliance.

Two moderating variables, Religiosity (RE) and Patriotism (PA), also showed significant effects, with $\beta = 0.167$ and $\beta = 0.151$, respectively. This means that the positive effect of entrepreneurial attitudes on tax compliance will be stronger if MSME actors have a high level of religiosity or patriotism. In other words, moral values and nationalism can strengthen the intention to fulfill tax obligations, so that the strengthening function of psychological aspects and personal values is very important in the social context.

Integratively, these results confirm that Entrepreneurial Attitude is a key variable that not only has a direct effect on tax compliance, but also forms an indirect path through financial reporting, and is strengthened by religious and patriotic values. An effective tax compliance improvement strategy for MSMEs needs to prioritize a holistic approach: building an ethical entrepreneurial spirit, strengthening the financial reporting system, and internalizing religious and national values in daily business activities.

Table 5. Structural Model Path Coefficients

	Hypothesis	β	<i>t</i> -value	<i>p</i> -Values	Conclusion
H1	EA \rightarrow TC	0.347	7.826	0.000	Accepted
H2	EA \rightarrow FRC \rightarrow TC	0.186	6.722	0.000	Accepted
H3	EA x RE \rightarrow TC	0.167	2.887	0.011	Accepted
H4	EA x PA \rightarrow TC	0.151	2.527	0.019	Accepted

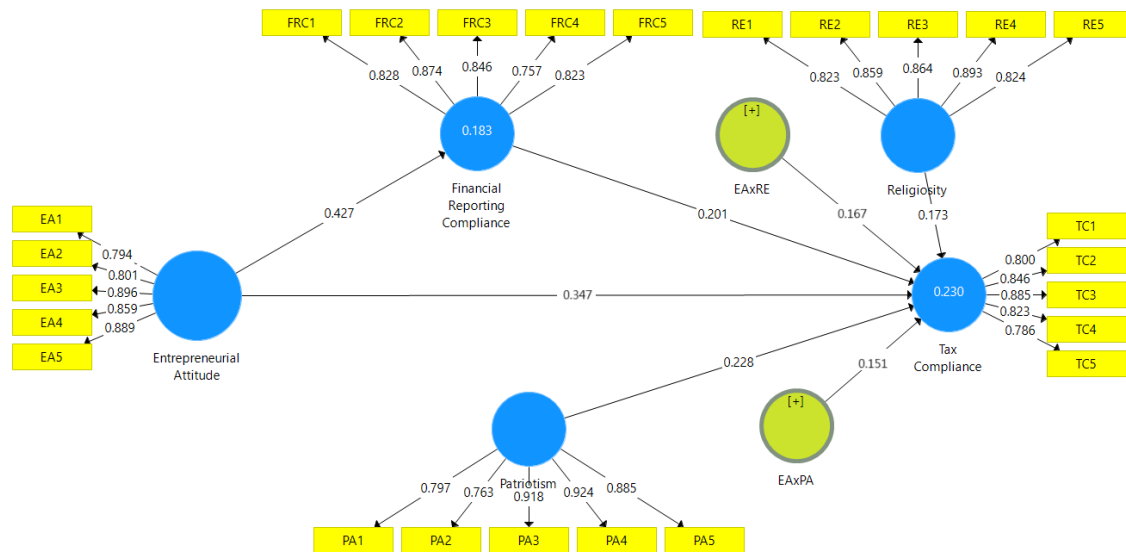


Figure 2. Research Model

Discussion

This study examined the behavioral, procedural, and value-based determinants of tax compliance among MSME owners in Indonesia, grounded in the Theory of Reasoned Action (TRA) (Ajzen & Fishbein, 1975). The model is strongly supported by the findings, underscoring the key roles of entrepreneurial attitude, financial reporting compliance, and moral-value moderators (religiosity and patriotism). Each hypothesis is discussed in detail below.

The results confirm that entrepreneurial attitude is the strongest determinant of tax compliance among MSME owners ($\beta = 0.347$, $p < 0.001$). This aligns with TRA, which posits that attitudes shape behavioral intentions and, ultimately, behavior (Ajzen & Fishbein, 1975). MSME owners who are proactive, responsible, and future-oriented are more likely to regard tax compliance as part of ethical business conduct. This finding supports earlier work showing that entrepreneurial responsibility and ethical orientation positively influence regulatory adherence (Agbetunde et al., 2022; Mahfud et al., 2020; Robbins & Kiser, 2020).

Furthermore, studies demonstrate that proactive entrepreneurial behavior encourages transparency and reduces the tendency to engage in informal or evasive practices (Fenech et al., 2019). Yousaf et al. (2021) also highlight that entrepreneurial mindset shapes compliance intentions by strengthening personal norms toward rule-following. These findings collectively emphasize that entrepreneurial attitude not only influences operational decisions but also drives compliance with institutional obligations. In the Indonesian MSME context, where informal behavior is common, entrepreneurs with strong ethical and professional orientations are better positioned to build compliant and sustainable business practices.

The results show that financial reporting compliance significantly mediates the relationship between entrepreneurial attitude and tax compliance ($\beta = 0.186$, $p < 0.001$). This underscores that tax compliance is not only a matter of positive attitudes but also of procedural capability. Entrepreneurs with strong managerial attitudes are more likely to maintain accurate and timely financial records, which facilitate correct tax reporting (Michael & Widjaja, 2024).

This finding is consistent with TRA, which emphasizes that attitudes must translate into concrete, intentional actions (Ajzen & Fishbein, 1975). Prior studies have shown that poor financial recordkeeping is a major impediment to tax compliance (Elly, 2015), especially among MSMEs with limited accounting skills. Yousaf et al. (2021) likewise argue that governance-oriented attitudes shape administrative compliance behaviors. Additional research indicates that accurate financial reporting increases transparency and reduces opportunities for underreporting (Adela et al., 2025; Mohamed & Gan, 2024). Therefore, financial reporting acts as a functional bridge that transforms a positive entrepreneurial mindset into compliant taxation behavior.

Religiosity significantly strengthens the relationship between entrepreneurial attitude and tax compliance ($\beta = 0.167$, $p = 0.011$). This finding indicates that tax compliance among MSME owners is influenced not only by managerial behavior but also by internal moral values. In line with moral development theory (Kohlberg, 1973b), individuals with strong religious commitment are more likely to comply with rules based on moral convictions rather than fear of sanctions.

This result supports previous studies showing that religiosity fosters honesty, ethical responsibility, and compliance with societal norms (Budiarto et al., 2018; Utama et al., 2022). In Indonesia's highly religious and collectivist environment, moral values embedded in religious teachings often guide business decisions, including tax obligations. Prasetya (2021) also noted that religious values discourage unethical practices such as tax evasion.

Therefore, religiosity elevates the moral importance of fulfilling tax obligations, complementing the effects of entrepreneurial responsibility.

Patriotism also significantly moderates the influence of entrepreneurial attitude on tax compliance ($\beta = 0.151, p = 0.019$). Business owners who feel a strong sense of national identity are more likely to view tax payments as a civic contribution to Indonesia's development. This finding is consistent with social identity theory (Tajfel & Turner, 2019), which suggests that individuals act in ways that support their group or nation.

Previous research affirms that patriotic individuals demonstrate higher willingness to comply with tax laws as an expression of loyalty and civic responsibility (Al-Maghrebi et al., 2022; MacGregor & Wilkinson, 2012). Patriotism enhances commitment to public interest behaviors, including taxation. Additional studies show that patriotism encourages prosocial actions and strengthens attitudes toward public obligations (Geys & Konrad, 2020). Thus, patriotism reinforces the alignment between entrepreneurial integrity and compliance behavior.

Conclusion

This study reveals that entrepreneurial attitude has a direct and indirect positive influence on tax compliance among Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. The indirect relationship is significantly mediated by financial reporting compliance (FRC), which serves as a critical mechanism for translating entrepreneurial values into concrete fiscal responsibility. FRC enhances the administrative integrity of MSMEs by promoting transparent, orderly, and accountable financial reporting. This suggests that entrepreneurial-oriented business owners are more likely to manage their finances professionally, forming a strong foundation for tax compliance. Additionally, the study finds that religiosity and patriotism are significant moderators in the relationship between entrepreneurial attitude and tax compliance. High levels of religious and national values strengthen MSMEs' psychological and ethical commitment to fulfilling tax obligations. Religiosity fosters moral and spiritual perspectives on taxation as a social duty, while patriotism cultivates collective responsibility toward national development. These socio-cultural values thus reinforce the ethical dimensions of tax compliance behavior.

This research contributes to the tax compliance literature by emphasizing the importance of integrating personal and social values into compliance behavior, especially within the MSME sector. Practically, the findings suggest that tax authorities and governments should prioritize educational campaigns that not only focus on technical systems like e-tax, but also address deeper values such as national loyalty and religious ethics.

However, the study has limitations. Its focus on Indonesian MSMEs limits generalizability to other contexts. Moreover, it does not explore variables like trust in government, fiscal risk perception, local culture, or the quality of digital systems. Also, the cross-sectional design cannot capture behavioral dynamics over time. Future research should consider comparative or longitudinal approaches, as well as mixed methods, to gain deeper insight into the evolving nature of tax compliance.

Based on the findings, several strategic recommendations are proposed. First, governments should invest in improving financial literacy and reporting practices through training in basic accounting and compliance. Second, MSME development programs should embed ethical and responsible entrepreneurial values. Third, tax education should integrate moral and patriotic elements to foster a stronger sense of civic duty. Lastly, policy segmentation based on business characteristics, such as industry, income level, education, and years in operation, should be adopted to make tax strategies more effective, inclusive, and contextually relevant. These combined efforts can promote a more equitable and sustainable tax system that supports national development.

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