

From awareness to capability in financial and tax reporting among entrepreneurs

International Journal of Economics and Financial Modelling

Vol. 11, No. 1, 1-13, 2026

ISSN:2523-9546



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ABSTRACT

The present study examines the awareness of financial reporting and taxation issues among entrepreneurs in micro, small, and medium-sized enterprises (MSMEs) in the Greater Solo region of Indonesia. An exploratory qualitative approach was adopted for the data collection stage, involving semi-structured interviews, non-participant observation, and document review. The study involved MSMEs from a range of business sectors. Thematic analysis demonstrates that entrepreneurs recognize the significance of financial record-keeping and tax compliance for ensuring business sustainability, facilitating access to financing, and maintaining administrative legitimacy. However, this awareness is predominantly outcome-oriented and is not yet fully supported by procedural knowledge, accounting skills, or confidence in tax reporting. Bookkeeping practices are predominantly manual or semi-digital, inconsistent, and influenced by operational pressures, limited accounting literacy, and the psychological burden associated with taxation. Tax compliance is primarily driven by legal obligations and fear of penalties, rather than by a voluntary understanding of tax obligations, leading to reliance on external assistance. These findings draw on the Theory of Planned Behavior and demonstrate how perceived behavioral control is a key factor explaining the discrepancy between awareness and reporting ability. This study makes a valuable contribution by integrating financial reporting awareness, accounting competence, and tax compliance within a qualitative framework for SMEs.

Keywords: *Developing economies, Financial reporting awareness, MSMEs, Qualitative research, Tax compliance.*

DOI: 10.55284/811.v11.i1.1876

Citation | Markhumah, U., & Falikhatun, F. (2026). From awareness to capability in financial and tax reporting among entrepreneurs. *International Journal of Economics and Financial Modelling*, 11(1), 1-13.

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Funding: This study received no specific financial support.

Institutional Review Board Statement: The study involved minimal risk and followed ethical guidelines for social science fieldwork. Formal approval from an Institutional Review Board was not required under the policies of Institute for Research Ethics Committee of the Universitas Sebelas Maret, Surakarta, Indonesia. Informed verbal consent was obtained from all participants, and all data were anonymized to protect participant confidentiality.

Transparency: The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any deviations from the planned study have been explained. This study adhered to all ethical practices throughout the data collection, analysis, and writing processes.

Competing Interests: The authors declare that they have no competing interests.

Authors' Contributions: Both authors contributed equally to the conception and design of the study. Both authors have read and agreed to the published version of the manuscript.

History: Received: 25 December 2025/ Revised: 15 April 2026/ Accepted: 29 June 2026/ Published: 9 July 2026

Publisher: Online Science Publishing

Highlights of this paper

- This study explores MSME entrepreneurs' awareness of financial and tax reporting in Solo Raya, Indonesia, using a qualitative exploratory approach.
- The findings reveal a clear gap between entrepreneurs' recognition of the importance of reporting and their practical capability to prepare consistent financial and tax records.
- The study highlights the need for integrated capacity-building interventions, including applied accounting education, simplified digital tools, mentoring, and facilitative tax support.

1. INTRODUCTION

MSMEs play an important role in Indonesia, including in Greater Solo, in terms of job creation and local economic dynamics. The latest local report shows that the number of MSMEs in Surakarta has increased rapidly, but digitization across industries is not yet evenly distributed across all regions, with only a small portion having implemented digital business processes (Prabowo, 2024). There is a growing contrast between business expansion and administrative capacity for formal financial reporting and tax activities.

Decisions related to administration and loans are hampered by inadequate accounting documentation, stemming from low financial literacy and weak accounting capacity. This is a permanent obstacle to MSME development. Modern literature on financial literacy emphasizes the importance of financial knowledge as a form of human capital, with significant implications for the quality of decision-making and economic welfare (Lusardi & Mitchell, 2023). This challenge is exacerbated in the SME sector due to lax, informal, and manual bookkeeping practices, which limit performance monitoring and the credibility of financial reports for banks, investors, and support programs (Adela et al., 2024) suggest that regular recording is a sound basis for business control and performance management, based on international evidence showing a link between bookkeeping practices and the preparation of effective financial reports.

Conversely, entrepreneurs face increasing pressure to digitize their accounting efforts. Cloud-based accounting systems are the least-used systems among MSMEs. This is because these systems are underutilized and do not offer much support (Mujalli, Wani, Almgrashi, Khormi, & Qahtani, 2024). This is also due to limited resources (Mujalli et al., 2024). This is why companies decide not to use technology. However, supporting evidence from Emerald outlets confirms that ICT-based systems can revolutionize MSME accounting practices. Nevertheless, many MSMEs find it difficult to produce reliable and useful reports for decision-making due to a lack of capabilities and implementation issues (Zotorvie, Fiagborlo, & Kudo, 2025).

Financial reporting skills and tax compliance are also inseparable. VAT reporting is a challenge for MSMEs, who sometimes find it complicated and administratively burdensome. This contributes to disproportionately high compliance costs for small companies that do not employ specialists (Ernest, Danie, & Nicholas, 2022). Previous research also shows that perceived tax complexity and poor tax knowledge contribute to non-compliance and reporting errors. This suggests that technical understanding and ease of use of the system influence actual compliance behavior (Saad, 2014). Behavioral theory also provides another perspective: the Theory of Planned Behavior (Ajzen, 1991) suggests that attitudes (personal beliefs), subjective norms, and perceived behavioral control can predict intentions and behavior. This well-tested framework can be used to interpret entrepreneurial decisions regarding accounting and tax compliance.

Despite the abundance of literature on financial literacy, digital accounting adoption, and tax compliance, these topics are often explored separately, rather than as an integrated field. There is a lack of qualitative research on how entrepreneurs approach (or avoid) daily bookkeeping practices for accurate tax reporting in specific regional MSME

ecosystems, such as Greater Solo. This exploratory qualitative approach examines entrepreneurs' awareness, understanding, and experiences, as well as their support needs regarding financial and tax reporting, with the aim of enhancing capacity building, particularly in policy interventions for MSMEs in developing regional economies.

The remainder of this study is organized into five sections. The first section provides an overview of the study's background and objectives. The theoretical framework is presented in Section 2. The program also includes a module on hypothesis development. Please refer to Section 3 for a full description of the research methods. Section 4 discusses and reports on the empirical findings, while Section 5 concludes the study and highlights its contributions, limitations, and directions for future research.

2. METHODS

The research method in this study is a qualitative, exploratory approach that examines entrepreneurs' awareness of financial and tax reports. A qualitative methodology is justified because the research aims to record responses, experiences, and motives related to accounting and tax practices rather than to test hypothesized relations. The literature on accounting and taxation has argued that qualitative research can be a powerful tool to investigate MSMEs because reporting practices are informal, differentiated, and isomorphic (Matthew, Osabohien, Fagbeminiyi, & Fasina, 2018; Mennicken, Vollmer, & Preda, 2009) in such contexts, as well as all accounting studies argue that it may also offer a means of making sense of institutional or other constraints in MSMEs (Ahrens & Chapman, 2006; Carmela Barbera, Sicilia, & Steccolini, 2024; Oats & Tuck, 2019). Furthermore, interpretive qualitative studies are popular in SME accounting research to reveal how financial literacy, recording routines, and compliance behavior are performed in practice (Moll & Hoque, 2011; Quattrone, 2017). Such a design allows theory-relevant inductive patterns to be drawn from empirical evidence.

Data collection involves a combination of semi-structured in-depth interviews, non-participant observation, and document review. Researchers can use semi-structured interviews to investigate predetermined topics. These topics may include understanding financial reporting, experience with accounting procedures, or familiarity with taxation procedures. These interviews also allow participants to report on their experiences and answer questions about their own narratives. This approach is a commonly used method for obtaining information from people about their experiences in the qualitative accounting and taxation research literature (O'Dwyer, 2004; Parker & Northcott, 2016; Saldaña, 2021). MSME owners were recruited as respondents through purposive sampling to target those directly responsible for financial and tax accounting. This method was chosen to increase data saturation and collect a broad spectrum of experiences, as is common in qualitative MSME research (Patton, Sawicki, & Clark, 2015; Saunders et al., 2018).

The thematic analysis used follows Braun and Clarke's six-phase approach to identifying, developing, and interpreting themes. This approach is widely used in qualitative accounting research because of its flexibility and analytical transparency (Braun & Clarke, 2021; Gioia, Corley, & Hamilton, 2013; Guest, 2014). To enhance reliability, we implemented several validation procedures. These procedures included triangulation across interviews, observations, and documents; participant verification to ensure the accuracy of our interpretations; and peer discussions to improve analytical rigor. In accordance with the quality criteria for case study research (Alvesson, Sandberg, & Einola, 2022; Lincoln & Guba, 1985) an audit trail was maintained to document coding decisions and theme development.

3. RESULTS

3.1. Overview of Respondents' Financial and Tax Reporting Practices

This article is based on findings from six in-depth interviews with micro, small, and medium enterprise (MSME) owners across various sectors in Greater Solo, conducted to provide a comprehensive overview of the region's MSME sector. Table 1 reports descriptive statistics on respondents' financial behavior and tax payments. As shown in the table, almost all entrepreneurs keep their books manually or semi-digitally using traditional books or Excel spreadsheets. Daily recording is common, but consistency and organization vary significantly between cases. Respondents' understanding of financial reports is limited to "monitoring profits, cash, or purchasing decisions," but does not include report preparation. Tax expertise varies significantly among respondents. Some respondents have no knowledge of taxes and have never filed a tax return. Others use consultants to handle technical and administrative aspects. Overall, the findings in Table 1 show significant variation in the ability to report to information systems. However, common challenges often arise, including a lack of formality, inadequate knowledge, and operational barriers.

Table 1. Financial and tax reporting by respondents.

Aspect	R1	R2	R3	R4	R5	R6
Business sector	Convection	Hijab wholesale	Retail	Apparel	Retail	Fishing equipment
Financial report understanding	Profit-loss	Basic importance	Business evaluation	Purchase decisions	Cash flow	Overall condition
Bookkeeping method	Manual	Notebook	Manual & Excel	Manual	Excel	Manual & Excel
Recording frequency	Daily	Irregular	Weekly	Daily	Daily	Daily
Tax knowledge	Very low	Low	Medium	Basic obligation	PPH/PPN	Legal obligation
Tax reporting experience	Never	Late filing	Difficult	Self-reported	Consultant-assisted	Consultant-assisted

3.2. Financial Statement Understanding and Bookkeeping Practices

Thematic analysis shows that respondents have basic knowledge of financial reporting, but lack in-depth knowledge of formal accounting language. As shown in Table 2 (Theme A and Theme B), financial reports are considered a monitoring tool for profits, cash flow, or daily operations, rather than a decision-making system. Bookkeeping is mostly done manually, with Excel being used as an additional tool by only some respondents. Although most respondents reported daily recording, irregular recording was noted due to time constraints and workload in most discussions. Sporadic assistance from family members or staff, except administrators, appears to be ad hoc. Incomplete records are the result of unfamiliarity with standard formats and reliance on memory, as shown in Table 2. This widens the gap between financial reporting practices, their implementation, and knowledge of them.

Table 2. Thematic coding of financial reporting practices.

Theme	Subtheme	Code	Meaning	Respondents
A. Financial understanding	Function	A1	Knowing profit/loss	R1-R6
	Limitation	A2	Not familiar with formal formats	R1, R2
B. Bookkeeping practice	Method	B1	Manual / Excel	R1-R6
	Frequency	B2	Daily to irregular	R1-R6
	Assistance	B3	Family/admin/staff	R2, R3, R5, R6

3.3. Tax Awareness and Reporting Experience

Thematic analysis shows that respondents have basic knowledge of financial reporting, but lack in-depth knowledge of formal accounting language. As shown in Table 3 (Theme A and Theme B), financial reports are considered a monitoring tool for profits, cash flow, or daily operations, rather than a decision-making system. Bookkeeping is mostly done manually, with Excel being used as an additional tool by only some respondents. Although most respondents reported daily recording, irregular recording has been noted as a result of time constraints and workload during most of the discussions. Sporadic assistance from family members or staff, except administrators, appears to be ad hoc. Incomplete records are due to unfamiliarity with standard formats and reliance on memory, as shown in Table 3. This widens the gap between financial reporting practices and their implementation, as well as knowledge about them.

Table 3. Financial reporting codes by theme.

Theme	Subtheme	Code	Key Issue	Respondents
D. Tax awareness	Knowledge level	D1	Low to medium	R1–R6
	Information source	D2	Internet, peers, consultants	R2–R6
E. Tax reporting	Reporting mode	E1	Self / assisted	R1–R6
	System issues	E2	Errors and complexity	R4, R6
	Cost burden	E3	Perceived heavy tax	R2, R6

3.4. Linkage between Financial Records, Motivation, and Support Needs

The last results note increasing attention to financial records and their linkage to tax reports, though the operationalization remains limited. As reported in Table 4, there is increasing awareness among the respondents that financial statements serve as the foundation for tax computation, while incomplete records tend to cause pressure or errors in late filing and reporting. Compliance motives are predominantly driven by legal requirements and business credibility rather than by an innate understanding tier. Emotional reactions of fear, bewilderment, and coercion are common. Most importantly, there was unanimous agreement that training, ease-of-use tools, mentorship, and system upgrades are key, as awareness is not enough without institutional and technical backing.

Table 4. Chapters Coverage of central themes and needs for entrepreneurs.

Theme	Core Finding
Financial–tax linkage	Records seen as basis for tax
Motivation	Driven by obligation and legality
Psychological burden	Fear, stress, confusion
Support needs	Training, apps, mentoring, system reform

4. DISCUSSION

This study explores entrepreneurs’ awareness in preparing financial and tax reports among MSMEs in Solo Raya through an in-depth qualitative approach. The findings reveal that awareness exists at a basic level, yet it remains fragmented and weakly institutionalized. This section discusses the results by linking empirical themes to established theories and recent international literature, thereby explaining why these patterns emerge and how they contribute to ongoing challenges in MSME financial and tax compliance.

4.1. Financial Reporting Awareness and the Limits of Functional Understanding

The findings demonstrate that most MSME owners possess only functional awareness of financial reporting, viewing it primarily as a tool to monitor profit, cash flow, or daily transactions rather than as a structured system for strategic decision-making. This aligns with prior research indicating that MSME financial reporting is often

driven by immediate operational needs rather than formal accounting standards (Barbera et al., 2025; Moll & Hoque, 2011). From a financial literacy perspective, this reflects a distinction between basic financial awareness and applied accounting capability, where entrepreneurs understand why records matter but not how to produce standardised, decision-useful reports (Lusardi & Mitchell, 2023).

The dominance of manual and semi-digital bookkeeping observed in this study further reinforces this limitation. Even when entrepreneurs record transactions daily, the absence of standard formats and consistent classification reduces the informational quality of financial data. Prior studies published in Elsevier and Emerald journals similarly note that informal bookkeeping constrains SMEs' ability to translate records into credible financial statements, limiting access to finance and weakening performance evaluation (Alkaraan, Albitar, Hussainey, & Venkatesh, 2022; Sian & Roberts, 2009). Thus, the findings suggest that awareness alone is insufficient; without technical competence and structural support, financial reporting remains symbolic rather than instrumental.

4.2. Bookkeeping Practices, Digital Constraints, and Capability Gaps

The results indicate that while some respondents have begun using Excel or basic digital tools, digital accounting adoption remains partial and uneven. This supports earlier findings that technology uptake among SMEs is shaped less by availability and more by perceived ease of use, skills, and contextual readiness (Magson et al., 2021; Thong, 1999). Recent studies in SME accounting emphasise that digital tools can enhance reporting accuracy and efficiency only when accompanied by adequate training and organisational capability (Kusumastuti & Aligarh, 2024; Quattrone, 2017).

The persistent reliance on manual systems reflects a broader capability gap, where entrepreneurs lack not only technical skills but also confidence in using formal accounting systems. This gap is particularly salient in developing-economy contexts, where accounting education and advisory services are unevenly distributed (World Bank, 2023). The findings corroborate recent Wiley and Emerald studies showing that SMEs often experience "digital fatigue," adopting technology superficially without integrating it into core accounting routines (Mhlanga & Moloji, 2020; Moll & Hoque, 2011). Consequently, bookkeeping remains vulnerable to errors, omissions, and inconsistencies, undermining both financial control and regulatory compliance.

4.3. Tax Awareness, Compliance Behaviour, and the Theory of Planned Behavior

Tax-related findings reveal low to moderate tax awareness, with entrepreneurs perceiving tax reporting as complex, stressful, and risky. These perceptions can be effectively interpreted through the Theory of Planned Behavior (TPB), which posits that behaviour is shaped by attitudes, subjective norms, and perceived behavioural control (Ajzen, 1991). In this study, negative attitudes toward taxation (e.g., fear and confusion), weak subjective norms (limited peer learning), and low perceived control (lack of technical knowledge and system difficulties) collectively weaken compliance intentions.

Recent tax compliance research confirms that MSME owners' perceptions of administrative burden and system complexity significantly influence reporting behaviour (Alabi, Lawrence, Ayeni, & Olumurewa, 2024; Ndlovu & Schutte, 2022). The heavy reliance on consultants observed among some respondents reflects a compensatory mechanism to overcome low perceived behavioural control, consistent with findings from Elsevier-based tax studies (Alm, Burgstaller, Domi, März, & Kasper, 2023). However, this reliance also reinforces dependency and cost concerns, potentially discouraging long-term compliance capability development.

Importantly, the study shows that entrepreneurs who recognise the link between financial records and tax calculations exhibit relatively higher compliance confidence (Kamleitner, Korunka, & Kirchler, 2012; Yong & Fukofuka, 2023). This supports emerging evidence that tax literacy is inseparable from financial reporting quality, particularly for small firms without dedicated accounting staff (Webb et al., 2025).

4.4. Linking Financial Reporting, Tax Compliance, and Institutional Support

A key contribution of this study lies in revealing how financial reporting and tax compliance are experienced as interconnected practices rather than isolated obligations. While most respondents acknowledge that financial statements form the basis for tax calculation, weak bookkeeping practices often lead to late filing, incorrect inputs, and compliance anxiety. This finding echoes international evidence showing that poor accounting quality is a primary source of tax errors among SMEs (Hsu, Yang, & Wu, 2024).

The strong demand for training, mentoring, and system improvement expressed by respondents highlights the importance of institutional support mechanisms. Prior research in Emerald journals emphasizes that compliance improves when SMEs receive continuous guidance rather than one-off socialization programs (Libanore, Liguori, & Raccanelli, 2023; Oats & Tuck, 2019). The findings, therefore, suggest that policy interventions should move beyond enforcement toward capacity-building approaches that integrate accounting education, digital tools, and tax assistance.

Overall, this study extends existing literature by providing qualitative evidence that entrepreneurial awareness is not merely a cognitive issue but a structural and behavioral phenomenon shaped by skills, systems, and institutional context. By integrating financial literacy, digital accounting capability, and TPB-based behavioral insights, the study offers a holistic understanding of MSME financial and tax reporting challenges in a regional developing-economy setting.

4.5. In-Depth Synthesis of Interview Findings: Entrepreneurial Awareness in Practice

This subsection provides a deeper synthesis of interview findings, integrating entrepreneurs' narratives into analytically meaningful patterns that explain how awareness of financial and tax reporting is formed, constrained, and enacted in practice. The synthesis moves beyond descriptive results by highlighting behavioural logics, structural pressures, and capability gaps consistently articulated across respondents.

4.5.1. Core Patterns Emerging from Interviews

Based on cross-case comparison, five dominant patterns emerge.

1) Awareness is pragmatic rather than procedural

Entrepreneurs recognise financial reports as useful for monitoring profit, cash flow, and business continuity; however, this awareness is not accompanied by knowledge of formal accounting structures. Reporting is treated as a practical tool rather than a governance mechanism.

2) Bookkeeping practices are shaped by operational pressure

High transaction volumes, limited time, and fluctuating sales conditions directly influence recording consistency. Even when daily recording is intended, practice often deteriorates during peak operational periods.

3) Tax compliance is experienced as a risk-management activity

Tax reporting is perceived less as routine compliance and more as a source of risk. Fear of penalties, system errors, and miscalculation dominates entrepreneurs' narratives, creating psychological distance from proactive compliance.

4) External assistance substitutes internal capability

The reliance on consultants, family members, or administrative staff reflects low perceived behavioural control. While assistance enables compliance, it also limits learning and long-term capability development.

5) Strong readiness for structured support interventions

Despite constraints, entrepreneurs consistently express willingness to adopt better systems if supported through training, simplified applications, mentoring, and clearer guidance.

4.5.2. Detailed Interview-Based Synthesis Table

Table 5 summarises the core insights derived from cross-case interview analysis by integrating empirical evidence with behavioural interpretations and practical implications. The table demonstrates that MSME entrepreneurs' awareness of financial and tax reporting is predominantly outcome-oriented and shaped by operational pressures, limited technical knowledge, and psychological factors such as fear and uncertainty. These conditions constrain standardised reporting and sustainable compliance, while simultaneously revealing a strong readiness for structured support, including training, digital tools, mentoring, and institutional intervention.

Table 5. Comprehensive synthesis of interview-based insights.

Analytical Dimension	Empirical Evidence from Interviews	Behavioural Interpretation	Implication
Financial reporting awareness	Used mainly to check profit, cash flow, and daily performance	Awareness exists at outcome level, not process level	Limits decision quality and standardisation
Accounting knowledge	Limited understanding of report formats and classification	Knowledge gap between awareness and technical skill	Need for applied accounting education
Bookkeeping routines	Manual or Excel-based, inconsistent under pressure	Habits dominate over systems	Vulnerable to errors and omissions
Operational constraints	Time scarcity, sales decline, transaction overload	Structural barriers override intention	Compliance depends on business conditions
Tax knowledge	Fragmented, informally acquired	Low confidence in rules and procedures	Increases compliance anxiety
Tax reporting experience	Stressful, system-dependent, error-prone	Perceived high compliance risk	Encourages avoidance or outsourcing
Use of consultants	Seen as the safest option	External control replaces internal capability	Long-term dependency risk
Motivation to comply	Legal obligation and fear of sanctions	Extrinsic motivation dominates	Weak sustainability of compliance
Psychological response	Fear, confusion, pressure	Negative compliance attitude	Reduces proactive engagement
Expressed needs	Training, apps, mentoring, system reform	High readiness for support	Opportunity for policy intervention

4.5.3. Integrative Interpretation of Interview Insights

Overall, the interview data suggest that, where it exists, entrepreneurial consciousness is only partial and predominantly operates at the cognitive/instrumental level. Financial and tax reporting is important for entrepreneurs, but they lack the process knowledge, self-confidence, and systemic support needed to make it a regular habit. Knowing without being able to act leads only to half-hearted conformism and a sense of external dependence, which increases fear. The high demand for guidance and system simplification shows that resistance is not due to a lack of willingness to cooperate. Instead, it is a result of inability and systemic constraints. The

argument that strengthening MSME compliance can only be achieved through united approaches to correcting behavioral, technical, and institutional practices at one time is supported by this finding.

4.6. Practical Implications for MSMEs, Consultants, and Educators

The study's findings offer several practical implications for MSME participants, particularly those involved in capacity building like accountants and educators. First, improving financial and tax reporting for MSMEs does not require complex standards; initial efforts should focus on practical accounting methods. Business owners need a simple, systematic bookkeeping approach that fits their daily routines. Providing tangible support—such as easy cash flow templates, transaction classification guides, and accessible digital tools—can help translate knowledge into regular practice. It is crucial to emphasize understanding the process itself rather than just tracking results to improve decision-making and reporting effectiveness.

Secondly, the findings suggest that accounting consultants and business advisors should shift their focus from mere compliance to building capacity. Currently, their main role is assisting business owners with tax reporting, which can lead to dependency and limit learning opportunities for micro, small, and medium-sized enterprises (MSMEs). Instead, these professionals should act as facilitators, explain the reasoning behind processes, and actively involve entrepreneurs in production to foster trust over time. This approach aligns with existing professional accounting literature, emphasizing the importance of advisory and coaching services for small businesses rather than solely transactional compliance.

Third, this emphasizes the importance of including social components in accounting and taxation education for educators and trainers. Traditional accounting courses often do not meet the needs of MSMEs, as they tend to focus on theoretical frameworks and standards rather than practical skills. Short, modular training programs that integrate bookkeeping, tax calculation, and simulation-based reporting with real MSME cases can enhance learning outcomes. Additionally, it is vital to include behavioral aspects such as overcoming compliance anxiety and building trust within the training design. This is particularly significant given the psychological barriers reported by pilot participants. Overall, these practical insights underscore the need for a more integrated, participatory, and step-by-step learning approach, moving away from purely technical lessons.

4.7. Policy Implications for Tax Authorities and Local Government

From a policy perspective, the likely conclusion is that MSME compliance issues are not primarily caused by deliberate non-compliance, but are more “technical” in nature, if we may use that term, because the issues are not fully understood and are caused by functional capacity limitations. Therefore, tax authorities should focus more on developing governance capacity to facilitate compliance, rather than law enforcement initiatives. Providing clear, step-by-step instructions, minimizing system errors, and simplifying the reporting interface can significantly improve MSME taxpayers' perceived control. User-oriented system design is crucial, especially given that negative experiences with digital tax systems have been associated with increased stress and resistance.

The gap between policy and practice is also beginning to close, at least in appearance, by local authorities. Local governments can introduce focused sectoral mentoring programs in collaboration with universities, professional accounting bodies, and trade associations, rather than relying on general tax outreach programs. MSMEs are more likely to comply if they receive regular guidance over time rather than attending occasional training sessions. In addition, financial reporting support can be integrated into business licenses, access to financing, and MSME development programs to encourage compliance.

Finally, the point about taxes and psychological pressure suggests that policy evaluation should also consider behavioral perspectives. When discussing SME tax rates, exemptions, and reporting obligations, it is important to consider how these affect people's views on whether the policy is considered fair, manageable, and good for business in the long term. The institutional support needed to strengthen SME tax and fiscal reporting capacity should be an integrated package, including legal certainty about rules, usable computer systems, and ongoing interaction with local governments, in line with the implications of this policy.

5. CONCLUSION

The study provides novel insights into financial reporting and taxation by analyzing the interaction between awareness, capability, and behavioral responses in the context of regional MSMEs. In contrast to earlier research that examined financial literacy, tax literacy, or the adoption of digital accounting in isolation, this study integrates these dimensions. It uncovers that entrepreneurs prioritize outcomes over processes. This has resulted in incomplete reporting practices and a reliance on mere compliance. The study makes a theoretical contribution to the expanded application of the Theory of Planned Behavior to SME accounting and taxation, as well as to bottom-line reporting behavior. In this context, low behavioral control directly affects reporting, going beyond merely influencing attitudes or intentions. The factors influencing this behavior include technical complexity, system constraints, and psychological burden. From a pragmatic standpoint, these findings underscore the necessity for a more comprehensive approach to SME compliance, one that cannot be based solely on deterrence or intermittent training. A more comprehensive approach is essential, one that involves applied accounting education, user-friendly digital tools, mentoring, and institutional support. The study emphasizes the importance of enabling governance in improving the financial and tax reporting capabilities of MSMEs for policymakers and practitioners. Drawing on the experiences of entrepreneurs, this study offers comprehensive insight into accounting and taxation theories and practices relevant to business. This study provides practical insights into promoting the sustainability of MSMEs and formal compliance in a developing regional economy.

5.1. Limitations and Future Research

It is important to note that this study has several limitations that should be considered when interpreting its findings. First, the study is based on a small number of qualitative interviews conducted in a specific local context, the Greater Solo Region. This may limit the generalizability of the findings to other regions or institutional settings. Secondly, it should be noted that the data are primarily based on self-reported accounts from respondents. As with any self-reported data, there is a possibility that recall bias or social desirability bias may have influenced the responses, particularly in the cases where participants discuss tax compliance. The third focus of this study is MSME entrepreneurs. It does not incorporate the perspectives of tax officials, accounting consultants, or financial institutions. This could provide a broader understanding of the financial reporting and tax ecosystem. Future research could address these limitations by adopting quantitative or mixed-methods designs using a larger and more heterogeneous sample of MSMEs. This would allow researchers to test the generalizability of these themes as well as the relationship between financial literacy, accounting competence, and tax compliance. Cross-regional or cross-country studies could provide additional clarity regarding the role of the institutional context. To ensure the most comprehensive assessment of the impact of training, mentorships, and digital accounting initiatives, longitudinal research is necessary to evaluate the change in reporting awareness and behavior subsequent to these interventions.

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