



Religiosity, ethical behavior, and tax evasion attitude; A confirmatory study of small-medium enterprises in Indonesia

Religiosidad, comportamiento ético y actitud ante la evasión fiscal; un estudio confirmatorio de pequeñas y medianas empresas en Indonesia

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Abstract

This study aims to investigate the intricate relationship between religiosity and tax evasion in Small and Medium Enterprises (SMEs) in the fashion sector in Indonesia, exploring the direct impact of religiosity on individuals' propensity for tax evasion, mediated by ethical behavior. The study population comprises Small and Medium Enterprises (SMEs) in the fashion sector within West Java Province, selecting 384 SMEs to participate. Collected data were analyzed employing Structural Equation Modeling (SEM) utilizing the SPSS-AMOS application program. The study reaffirmed the positive link between religiosity and ethical behavior, showing how religious teachings guide ethical behavior in SMEs. Furthermore, stronger religious beliefs correlated with reduced tendencies for tax evasion, mediated by ethical behavior. These findings, aligned with prior studies, underscore the importance of religious teachings and ethical values in guiding entrepreneurial attitudes and behaviors in entrepreneurship and taxation studies. The study's novelty lies in incorporating Ethical Behavior as a mediating variable.

Código JEL: C01, H26, H30

Palabras clave: religiosity; ethical behavior; tax evasion attitude; small-medium enterprises (SMEs); mediating

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Resumen

Este estudio pretende investigar la intrincada relación entre religiosidad y evasión fiscal en las Pequeñas y Medianas Empresas (PYME) del sector de la moda en Indonesia, explorando el impacto directo de la religiosidad en la propensión de los individuos a la evasión fiscal, mediada por el comportamiento ético. La población del estudio se compone de 384 pequeñas y medianas empresas (PYME) del sector de la moda de la provincia de Java Occidental. Los datos recogidos se analizaron empleando el modelo de ecuaciones estructurales (SEM) utilizando el programa de aplicación SPSS-AMOS. El estudio reafirmó el vínculo positivo entre religiosidad y comportamiento ético, mostrando cómo las enseñanzas religiosas guían el comportamiento ético en las PYME. Además, unas creencias religiosas más fuertes se correlacionaron con una menor tendencia a la evasión fiscal, mediada por el comportamiento ético. Estos resultados, en consonancia con estudios anteriores, subrayan la importancia de las enseñanzas religiosas y los valores éticos a la hora de orientar las actitudes y comportamientos empresariales en los estudios sobre emprendimiento y fiscalidad. La novedad del estudio radica en la incorporación del comportamiento ético como variable mediadora

JEL Code: C01, H26, H30

Keywords: religiosidad; comportamiento ético; actitud de evasión fiscal; pequeña mediana empresa; mediación

Introduction

Tax evasion is avoiding tax obligations legally but not following the spirit of justice and morals. Corporate or individual taxpayers can carry out tax evasion. In Indonesia, tax evasion has become a severe problem that can harm the country. According to the Ministry of Finance data, estimated tax evasion in Indonesia in 2020 reached IDR 68.7 trillion (Ibrahim et al., 2021). This figure is equivalent to 5.7% of the 2020 tax revenue target.

Several modes of tax evasion that are commonly used in Indonesia are (1) using legal loopholes, (2) earnings management, and (3) transfer pricing transactions (Mahaputra et al., 2018; Seralurin & Ermawati, 2019; Sugiyarti & Atmaja, 2021). Taxpayers use legal loopholes in tax regulations to reduce their tax burden (Saxunova & Szarkova, 2018). For example, taxpayers take advantage of lower tax rates for certain transactions. In addition, taxpayers carry out accounting engineering to reduce their taxable profits (Azizah & Kusmuriyanto, 2016). Here, taxpayers record expenses that should not be deductible from taxes. In transfer pricing transactions, taxpayers carry out transactions with affiliated companies abroad at unreasonable prices (Liu et al., 2017), which can reduce their taxable profits.

Tax evasion can have a negative impact on the country. Tax evasion reduces state tax revenues, hindering development and social welfare (Beck et al., 2014; Yamen et al., 2018). Taxpayers who do not avoid taxes will compete with taxpayers who avoid taxes so that it can harm taxpayers who do not avoid

taxes. What is worse is that foreign investors may reconsider their investments in other countries if the level of tax avoidance is high (Kemme et al., 2020).

This tax evasion phenomenon has attracted the attention of scientists, governments, and tax authorities. For this reason, several determinants of tax evasion need to continue to be explored. Several studies on tax evasion are often examined from an economic and law enforcement perspective (Ibrahim et al., 2021; Liu et al., 2017; Mescall & Klassen, 2018; Saxunova & Szarkova, 2018; Yamen et al., 2018). However, these studies are only limited to the company's financial profit and loss. For this reason, several behavioral studies have emerged about non-financial and non-economic aspects, or precisely the social and psychological aspects of tax evasion, including the impacts of demographic variables (Al-Rahamneh et al., 2023; Ferrer-i-Carbonell & Gërkhani, 2016; Kemme et al., 2020; Khalil & Sidani, 2022; Mahaputra et al., 2018; Shafiq, 2015). Several studies indicate that religiosity can specifically impact ethical behavior and tax evasion (Carsamer & Abbam, 2020; Khalil & Sidani, 2020, 2020; Kirchmaier et al., 2018). This ethical behavior is believed to strengthen the influence of religiosity on tax evasion attitudes.

Studies suggest that higher religiosity could lead to lower tax evasion levels. This suggestion is based on the premise that religious teachings often emphasize ethical behavior, honesty, and fulfilling civic duties, including paying taxes (Kirchmaier et al., 2018). More religious individuals may internalize these values and be more inclined to comply with tax regulations due to their moral beliefs. Research exploring this relationship has shown mixed findings across different countries and regions (Rashid et al., 2021). In some cases, high religiosity is associated with lower tax evasion. At the same time, in other situations, this relationship might not hold or maybe more complex due to the various governmental, social, and cultural factors (Alasfour et al., 2016).

Moreover, ethical behavior represents an individual's ethical standards and moral beliefs regarding tax compliance (Budiarto et al., 2018). It encompasses attitudes toward paying taxes, perceptions of tax fairness, and the belief that paying taxes is a moral obligation. Religiosity can foster ethical behavior, which may lead to taxpayer tax compliance (Carsamer & Abbam, 2020; Khalil & Sidani, 2020, 2022; Mahaputra et al., 2018). In this sense, tax evasion is unethical behavior that contradicts their religious beliefs and values (McGee et al., 2020).

Table 1
The tax ratio size of members of the G20 countries in 2022

No	Country	Tax rate	Total Tax and Excise Revenue
1	France	40,31%	17.439,25
2	Italy	38,30%	11.909,34
3	European Union	37,78%	97.733,71
4	Germany	36,40%	22.845,96
5	Australia	32,24%	8.657,46
6	United Kingdom	26,99%	13.444,25

7	Russia	26,63%	8.845,20
8	United States	19,57%	76.297,80
9	Japan	19,31%	12.617,28
10	South Korea	18,09%	4.885,41
11	Canada	16,50%	4.733,10
12	Argentina	15,71%	1.542,49
13	Brazil	14,10%	4.159,85
14	Turkey	13,75%	1.715,46
15	Mexico	13,71%	3.041,21
16	China	13,40%	38.240,50
17	Saudi Arabia	10,79%	1.698,62
18	Indonesia	10,39%	2.034,58
19	India	9,42%	5.086,20
20	South Africa	8,05%	515,61
Average		22,85%	16.872,16

Source: tbrights.com

In 2022, the tax ratio in Indonesia remained relatively low at 10.39%. In light of Indonesia's current classification as a lower-middle income country, with an average tax ratio of 19% among countries in this category, it is evident that there is room for improvement in this regard. This indicates that the 2022 tax ratio of 10.39% remains suboptimal. This phenomenon can be attributed to a number of factors, including the low level of compliance resulting from the high cost of taxpayer compliance (Rachmat & Rachman, 2020).

This study aims to investigate the complex relationship between religiosity, ethical behaviour, and attitudes towards tax evasion among small and medium-sized enterprises (SMEs) operating in the fashion sector in Indonesia. SMEs are of significant economic importance in Indonesia, providing substantial employment opportunities and contributing to economic growth. However, they frequently encounter challenges related to tax compliance. The central research question that informs this investigation is: The objective of this study is to examine the influence of religiosity and ethical behaviour on tax evasion attitudes among SMEs. In order to address this question, the study proposes the following working hypotheses: The first hypothesis (H1) posits a positive association between religiosity and ethical behaviour. The second hypothesis (H2) suggests a negative association between religiosity and tax evasion behaviour. The third hypothesis (H3) asserts a negative association between ethical behaviour and tax evasion behaviour. The fourth hypothesis (H4) proposes that ethical behaviour mediates the association between religiosity and tax evasion behaviour. The prevalence of tax evasion in the fashion industry, exacerbated by a lack of awareness and understanding of tax obligations, highlights the necessity for this research. By examining these relationships, the study aims to provide insights into how religious beliefs and ethical standards can influence tax compliance attitudes among entrepreneurs in this crucial sector.

This study aims to investigate the intricate relationship between religiosity and tax evasion in Small Medium Enterprises (SMEs) in fashion sector in Indonesia, exploring the direct impact of religious beliefs and practices on individuals' propensity for tax evasion. Moreover, it seeks to unravel the mediating role of ethical behavior in this relationship, assessing how religiosity influences ethical standards, which in turn affect attitudes and behaviors related to tax compliance. Through a confirmatory analysis, this research explores how religiosity intertwines with ethical behavior, shaping taxpayers' attitudes and actions regarding tax evasion.

Literature review

Tax evasion, a form of non-compliance with tax laws, can be understood through various lenses, including economic and financial theories as well as social and psychological approaches (Ceccato & Benson, 2016; Khalil & Sidani, 2022; Nurkholis et al., 2020; Taing & Chang, 2021). From an economic perspective, tax evasion can be seen through rational choice theory (Labunets & Mayburov, 2023). Individuals weigh the costs and benefits of compliance versus non-compliance. Taxpayers may engage in tax evasion if the perceived benefits (such as reducing tax liability) outweigh the perceived costs (like the risk of penalties or detection).

Financial theories also consider tax evasion as part of a risk-return tradeoff. Tax evaders take risks by violating tax laws in pursuit of higher returns (lower tax payments) (Awang & Amran, 2014). They assess the likelihood of being caught against potential gains from evading taxes, considering penalties versus the saved taxes. Economists focus on the role of information asymmetry and enforcement mechanisms. When tax authorities need more information or enforcement is weak, individuals may exploit these gaps to evade taxes, perceiving a lower probability of detection.

Several previous studies also examine the phenomena from social and psychological approaches (Awang & Amran, 2014; Ceccato & Benson, 2016; Kirchmaier et al., 2018, 2018; Taing & Chang, 2021). Social approaches emphasize the role of societal norms and cultural influences. Norms surrounding tax compliance within a community or culture can influence an individual's decision to evade taxes (Mahaputra et al., 2018; Nurkholis et al., 2020). Strong social norms favoring compliance can deter evasion (Budiarto et al., 2018). Meanwhile, a culture of acceptance or justification of tax evasion can encourage it (Budiarto et al., 2018; Ferrer-i-Carbonell & Gërkhani, 2016; Nurkholis et al., 2020). Taxpayers' attitudes towards the government, how much they trust institutions, their perception of fairness in the tax system, and their sense of morality can all affect how they behave when paying taxes (Jimenez & Iyer, 2016). Sometimes, people come up with excuses or justifications for not paying their taxes, which can affect their decision to evade taxes. Behavioral economics studies how individuals making decisions.

It looks at things like the mistakes people make, the shortcuts they take, and the limits of their thinking. These things can affect how people feel about risk and follow tax laws (Labunets & Mayburov, 2023). In this case, someone might be too sure of themselves or only think about the present moment when deciding what to do with their taxes.

Some studies suggest that higher religiosity correlates with lower levels of tax evasion due to ethical considerations (Budiarto et al., 2018; Khalil & Sidani, 2020, 2022; Kirchmaier et al., 2018; McGee et al., 2020). Therefore, while religiosity may have an impact, it is just one of several factors influencing tax evasion behavior. The strong religious beliefs and ethical behavior of taxpayers have a significant influence on whether they evade taxes (Alasfour et al., 2016). When people are highly religious, they tend to follow moral values like honesty and integrity preached by their faith. It means they see paying taxes as a moral duty. Religious communities often back up these ethical standards, creating social pressure to do the right thing, including obeying tax laws (Mohdali & Pope, 2014). Also, religious individuals usually feel accountable to society and trust in government institutions, seeing tax payment as a way to contribute positively. Because of these factors, highly religious people are less likely to engage in tax evasion, as their faith-based ethics guide them toward compliance with tax rules (Benk et al., 2016).

In Indonesia, a predominantly Muslim country, religiosity plays a fundamental role in shaping various aspects of life (Budiarto et al., 2018; Ibrahim et al., 2021). Islam is the predominant religion and a significant cultural and social influence, deeply ingrained in daily routines, societal norms, and governance. Islamic principles guide various facets of life, from personal conduct to societal norms. Islam in Indonesia is not just a religious practice; it is integrated into the culture and social fabric of the nation. Despite its Muslim-majority status, Indonesia upholds principles of religious tolerance, allowing various faiths to coexist peacefully. In a way, this religiosity factor is an essential foundation in forming ethical behavior, regardless of religious affiliation (Wijaya Mulya & Aditomo, 2019).

Religiosity profoundly impacts the ethical behavior of entrepreneurs of small and medium enterprises (SMEs) in several developing countries (Al-Rahamneh et al., 2023; Carsamer & Abbam, 2020; Farooq & Zaher, 2020). It is rooted in religious principles. Religiosity molds the ethical framework guiding these entrepreneurs. It emphasizes honesty, integrity, and fairness in dealings, serving as a moral compass shaping business practices. Small business owners who follow religious teachings often prioritize ethical behavior. They aim to establish transparent and trustworthy interactions with customers, suppliers, and employees. Adhering to religious values helps them make ethical decisions and avoid fraudulent practices. In doing so, they cultivate a culture of integrity within their business operations.

Moreover, religiosity fuels a sense of social responsibility among business leaders in SMEs (Gursoy et al., 2017; Namatovu et al., 2018; Zelekha et al., 2014). Driven by their religious beliefs, these individuals integrate ethical considerations into their business strategies, fostering a focus on community

welfare and social impact. Many SMEs led by religious entrepreneurs engage in charitable initiatives, ethical employment practices, and responsible sourcing. They view these actions as fulfilling their religious obligation to contribute positively to society. This commitment to social responsibility underscores the importance of ethical behavior beyond profit-making, aligning business objectives with broader societal welfare.

Additionally, religiosity in Indonesian SMEs fosters a business environment that prioritizes fairness, equity, and relationship-building. Islamic teachings advocate for equitable treatment of stakeholders. It leads to business practices that avoid exploitation and prioritize fair dealings. These entrepreneurs emphasize building trust-based relationships with stakeholders. They recognize the significance of ethical conduct in nurturing long-term partnerships and sustainable business growth. The ethical framework shaped by religiosity serves as a guiding principle, influencing their decisions and actions, ultimately contributing to the ethical behavior of Indonesian SMEs (Budiarto et al., 2018; Ibrahim et al., 2021; Seralurin & Ermawati, 2019).

Religiosity in Indonesia significantly influences the ethical behavior of entrepreneurs, particularly in Small and Medium Enterprises (SMEs) (Machmud & Hidayat, 2020), which, in turn, can impact their attitudes toward tax evasion. In Indonesia, where religiosity is deeply embedded in societal norms, entrepreneurs often draw ethical guidelines from their religious beliefs. Islamic teachings, predominant among many entrepreneurs, emphasize honesty, integrity, and social responsibility (Rafiki & Nasution, 2019). These principles guide business practices, shaping ethical behavior such as transparent dealings, fair treatment of stakeholders, and a commitment to social welfare. As a result, highly religious entrepreneurs tend to exhibit more vigorous ethical conduct in their business operations due to their adherence to religious teachings (Anggadwita et al., 2017).

The ethical behavior influenced by religiosity can extend to tax compliance attitudes among entrepreneurs (Benk et al., 2016; McGee et al., 2020). Ethical solid principles, instilled through religiosity, often discourage tax evasion. Religious entrepreneurs, guided by moral values, may perceive tax evasion as violating ethical standards and societal responsibilities. Their commitment to honesty and fairness, derived from religious teachings, can translate into a reduced willingness to engage in practices that involve tax evasion. Therefore, religiosity's influence on ethical behavior may deter tax evasion attitudes among these entrepreneurs (Zelekha et al., 2014).

When it comes to whether or not people evade taxes, religiosity can play a role. However, there are also other factors to consider (Taing & Chang, 2021). In this sense, how people feel about the tax system, the economic situation, cultural norms, and personal motivations can all impact attitudes toward tax compliance (Jimenez & Iyer, 2016). Despite the influence of religiosity on ethical behavior, people's interpretation of religious teachings and external pressures or economic incentives can also play a role.

In this study, the concept of Religiosity refers to the extent to which an individual is devout, committed, or involved in religious principles, practices, and communities. Thus, it can be reflected from (1) religious principles, (2) religious practices, and (3) religious community. Next, Ethical Behavior represents an individual's ethical standards and moral beliefs regarding tax compliance. It can be seen from (1) honesty and integrity, (2) civic responsibility and compliance, and (3) fairness and equity. Finally, Tax Evasion Attitude can be measured by (1) intent and willful non-compliance, (2) perceived risk and detection avoidance, and (3) rationalization.

Using confirmatory analysis, the model can be depicted in Figure 1.

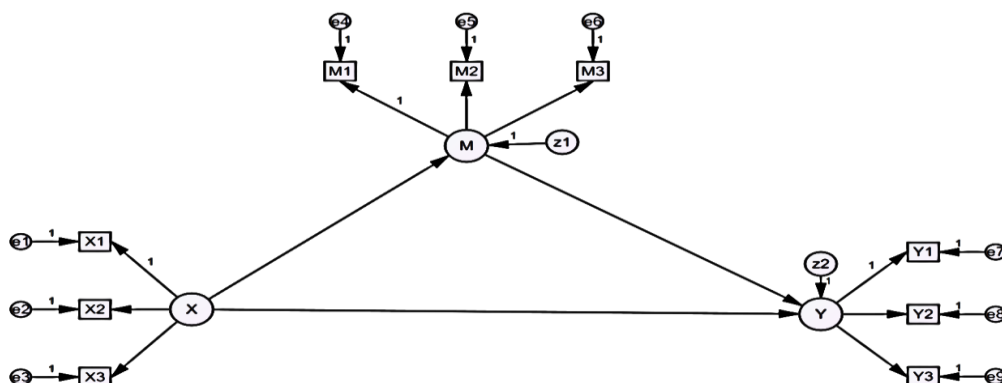


Figure 1. Proposed Model

Notes:

X = Religiosity

M = Ethical Behavior

Y = Tax Evasion Behavior

Based on the proposed model, the hypotheses can be developed.

Hypothesis 1

Religiosity is positively associated with ethical behavior.

Hypothesis 2

Religiosity is negatively associated with tax evasion behavior.

Hypothesis 3

Ethical behavior is negatively associated with tax evasion behavior.

Hypothesis 4

Ethical behavior mediates the association between religiosity and tax evasion behavior.

Methodology

The study's methodology section employs descriptive and hypothesis testing methods, incorporating Confirmatory Factor Analysis (CFA) within Structural Equation Modeling (SEM) (Marsh et al., 2020). The study focuses on three main variables: Religiosity (independent variable), Ethical behavior (mediating variable), and Tax Evasion Attitude (dependent variable), each comprising three dimensions.

Religiosity, the independent variable, is assessed through three dimensions: Religious Principles, Religious Practices, and Religious Communities. Ethical behavior, the mediating variable, is measured using three dimensions: Honesty and Integrity, Civic Responsibility and Compliance, and Fairness and Equity. Tax Evasion Attitude, the dependent variable, encompasses Intent and Willful Non-Compliance, Perceived Risk and Detection Avoidance, and Rationalization.

The study population comprises 1.8 million Small and Medium Enterprises (SMEs) in the fashion sector within West Java Province. For the sample, proportional random sampling is employed, selecting 384 SMEs to participate in the study. This sampling technique ensures representation from various population segments, allowing for generalizable findings.

Data analysis is conducted in two phases. Firstly, descriptive analysis is performed utilizing mean, standard deviation, and categorical measures. These measures provide a comprehensive understanding of the variables' characteristics and distributions within the sample. Secondly, inferential analysis employs Structural Equation Modeling (SEM) utilizing the SPSS-AMOS application program. SEM allows for confirming or rejecting hypothesized relationships among variables and assessing the direct and indirect effects. Confirmatory Factor Analysis (CFA) within SEM is utilized to validate the measurement model and confirm the reliability and validity of the constructed scales for the dimensions of religiosity, ethical behavior, and tax evasion attitude. This approach aids in understanding the association and causal relationships among the variables under investigation in the context of SMEs in the fashion sector in West Java Province, Indonesia.

Results

Survey participants were told why the survey was done and assured that their answers would stay private and unknown. They were also informed that the data collected would only be used for research purposes. Before they answered the questions, they agreed to the information being collected and used for research. A total of 384 people took part, but 24 did not finish the survey, and 21 of the surveys were not acceptable. So, in the end, 344 people completed the survey correctly. The people who took part varied in age, gender, education, income, and religion. This mix of different people, especially regarding religion, helped the

researchers see if how religious someone is might affect their thoughts about avoiding taxes by acting ethically.

Table 2
 Profile of the Participants

	Number of Participant	Percentage
Religion		
Muslim	292	84.9
Protestant	25	7.3
Catholic	10	2.9
Hindu	7	2.0
Buddha	4	1.2
Confucian	3	0.9
Others	3	0.9
Age		
30 or Below	141	41.0
31–50	160	46.5
Above 50	43	12.5
Gender		
Male	154	44.8
Female	190	55.2
Education		
High school or less	94	27.3
Undergraduate	207	60.2
Graduate	43	12.5
Employment		
Owner	67	19.5
Employee	277	80.5
Total	344	100.0

Source: own

Table 2 shows the number of participants and their percentage within different religious affiliations. Most respondents identified as Muslim, constituting 84.9% of the sample. The remaining percentages were smaller, with 7.3% Protestant, 2.9% Catholic, 2.0% Hindu, 1.2% Buddhist, 0.9% Confucian, and 0.9% belonging to other religions. The age distribution of participants is categorized into three groups. Approximately 41.0% of respondents were aged 30 or below, 46.5% fell between the ages of 31 and 50, and 12.5% were above 50. Participants' educational backgrounds are illustrated, showcasing the percentage and count of individuals within different education levels. About 27.3% had a high school education or lower, while the majority (60.2%) had completed undergraduate studies. A smaller percentage, 12.5%, were graduate degree holders. The participant's employment status indicates that 19.5% identified as owners, while the majority, 80.5%, were employees.

Table 2 summarizes the means, standard deviations, and categorizations for different dimensions (X, M, and Y) based on their respective variables. It illustrates the level and variation within each dimension and the overall combined scores for each dimension.

Table 3
Descriptive Statistics

Dimension	Mean	Standard Deviation	Category
Religious Principles - X1	3.771	0.839	High
Religious Practices - X2	4.029	0.881	Very High
Religious Community - X3	3.914	0.915	High
Religiosity (X)	3.905	0.878	High
Honesty and Integrity - M1	4.029	0.817	Very High
Civic Responsibility and Compliance - M2	3.797	0.920	High
Fairness and Equity - M3	4.095	0.845	Very High
Ethical Behavior - M	3.974	0.862	High
Intent and Willful Non-compliance - Y1	2.137	0.836	Low tendency
Perceived Risk and Detection Avoidance - Y2	2.163	0.807	Low tendency
Rationalization - Y3	2.124	0.913	Low tendency
Tax Evasion Attitude - Y	2.142	0.851	Low tendency

Notes: Ideal value for X and M is 5.000 (from 1 to 5) and ideal value of Y is 1.000 (from 5 to 1).

In Structural Equation Modelling (SEM), first we have to check the model fit summary. The output provides information on the model fit summary, fit indices, and baseline comparisons for a structural equation model (SEM). This output shows the CMIN value, a measure indicating the discrepancy between the model and the observed data. Lower values indicate better fit.

The Default Model has a CMIN of 70.309 with 24 degrees of freedom (df), resulting in a significant p-value of 0, indicating some discrepancy between the model and observed data. The CMIN/DF ratio is 2.93, suggesting a relatively acceptable fit. Meanwhile, Saturated Model achieves a perfect fit. The Default Model's RMR is 0.022, indicating a relatively small discrepancy between observed and predicted covariance matrices. The GFI of the model is 0.958, showing a high level of fit, while the AGFI (Adjusted GFI) is 0.921, indicating a slightly adjusted fit, and PGFI (Parsimony GFI) is 0.511. For the values of NFI (Normed Fit Index), RFI (Relative Fit Index), IFI (Incremental Fit Index), TLI (Tucker-Lewis Index), CFI (Comparative Fit Index), the model indices range between 0.963 and 0.983, indicating a good fit. The model fit summary, in this case, demonstrates a reasonably acceptable fit as indicated by various fit indices. It confirms that the model of religiosity can affect the tax evasion attitude in the SME fashion sector in Indonesia directly and through ethical behavior. It also confirms that the model aligns with the theoretical foundation from social and psychological perspectives.

Table 4 shows the output of the overall estimation of SEM. It includes unstandardized and standardized estimates, standard error (S.E.), critical ratio (C.R.), and p-value.

Table 4
Overall Estimation of SEM.

Path	Unstandardized Estimate	Standardized Estimate	S.E.	C.R.	P	Hypothesis
M <--- X	0.762	0.831	0.046	16.580	***	Accepted
Y <--- M	-0.533	-0.552	0.077	-6.949	***	Accepted
Y <--- X	-0.290	-0.327	0.070	-4.170	***	Accepted
Y <--- M <--- X	-0.406	-0.458	0.068	-6.387	***	Accepted
X1 <--- X	0.821	0.823	0.045	18.278	***	
X2 <--- X	0.912	0.913	0.042	21.604	***	
X3 <--- X	0.894	0.895	0.043	20.888	***	
M1 <--- M	1.000	0.918				
M2 <--- M	0.954	0.876	0.039	24.608	***	
M3 <--- M	0.962	0.883	0.038	25.082	***	
Y1 <--- Y	1.000	0.887				
Y2 <--- Y	0.959	0.851	0.045	21.076	***	
Y3 <--- Y	0.987	0.875	0.044	22.185	***	

Notes: *** = significant

Table 4 informs us that religiosity positively affects ethical behavior ($r = 0.849$, $C.R. = 16.051$, and $p < 0.05$). The effect is significant, and hypothesis 1 is accepted. Then, religiosity and ethical behavior negatively affect the tax evasion attitude. The results indicate that hypotheses 2 and 3 are accepted. The indirect effect of religiosity on tax evasion attitude through ethical behavior is -0.406, indicating the significant effect and proving acceptance of hypothesis 4. The table shows that the standardized loadings for all three variables' dimensions are above 0.7, indicating that the dimensions can strongly reflect the latent variables.

Discussion

The results show that each dimension significantly reflects the respective latent variables. In Religiosity, the dimension of religious practices reflects the variable most. It suggests that individuals' active engagement in religious practices, rituals, or observances holds significant importance in shaping their overall religiosity. These results underscore the pivotal role of religious practices in influencing and defining religious beliefs and behaviors of the entrepreneurs. The role of the dimension of the religious community is also dominant. It implies that communal involvement, group activities, and interactions

within religious communities significantly shape their religious beliefs and practices. This finding underscores the communal influence in fostering a sense of belonging and shared values and reinforcing religious principles. It will then amplify the overall religiosity among the entrepreneurs. The lower influence of the religious principles dimension on the religiosity of entrepreneurs suggests its relatively weaker impact than other dimensions. It indicates that personal adherence to religious principles remains a factor in shaping religiosity among entrepreneurs. Its influence is less pronounced than active engagement in religious practices or participation within religious communities. The emphasis on doctrinal beliefs or individual religious convictions might hold less weight in defining the overall religiosity within this particular group of entrepreneurs.

The most dominant dimensions in ethical behavior are ‘honesty and integrity,’ followed by ‘fairness and equity.’ It means that prioritizing truthfulness, moral uprightness, and maintaining high ethical standards is a significant aspect of ethical behavior among entrepreneurs. Additionally, the emphasis on ‘fairness and equity’ underscores the importance of just and impartial treatment, implying a solid commitment to ensuring equitable practices within their ethical framework. Meanwhile, ‘civic responsibility and compliance’ is lower because there might be less emphasis on adhering strictly to civic duties or compliance with external regulations than the inherent values of honesty, integrity, and fairness. In the SMEs, personal integrity and fairness are seen as more important than civic responsibilities. The cultural and contextual priorities within the business sector in Indonesia are actually less emphasized on civic responsibilities.

In tax evasion, the dimension ‘intent and willful non-compliance’ is on the top, followed by the rationalization. Meanwhile, the dimension ‘perceived risk and detection avoidance’ is less significant. Within tax evasion, the prominence of the ‘intent and willful non-compliance’ dimension indicates a propensity toward deliberate, intentional actions to evade taxes. It suggests a notable inclination within the respondents to engage in evasive behaviors knowingly and purposefully. The subsequent prominence of the ‘rationalization’ dimension implies that entrepreneurs might justify or rationalize their actions, perhaps attributing reasons or justifications for non-compliance with tax regulations. In contrast, the relatively lower significance of ‘perceived risk and detection avoidance’ suggests that within this group, concerns about the likelihood of being caught or the strategies to evade detection play a comparatively less influential role in shaping tax evasion behaviors.

The effect of religiosity on ethical behavior is positive and significant. This finding suggests that a stronger sense of religiosity correlates with a higher likelihood of exhibiting ethical behavior (emphasizing honesty, integrity, fairness, and adherence to ethical principles). The implication is that religious teachings and involvement in religious communities instill moral values, guiding individuals toward ethical behavior in various SME businesses. This finding confirms the outcomes of prior studies

that have similarly highlighted the positive association between religiosity and ethical behavior (Awang & Amran, 2014; Carsamer & Abbam, 2020; Kirchmaier et al., 2018). It reaffirms the notion that religiosity is pivotal in influencing and fostering ethical behavior (Khalil & Sidani, 2022; McGee et al., 2020). It corroborates the findings of previous research studies in this field.

The effect of religiosity on tax evasion attitude, directly and through ethical behavior, is negative and significant. The negative and significant effect of religiosity on tax evasion attitudes, both directly and indirectly through ethical behavior, suggests that higher levels of religiosity are associated with a decreased propensity for engaging in tax evasion attitudes. This finding implies that individuals with stronger religious beliefs and practices tend to exhibit a reduced inclination toward tax evasion. Moreover, their ethical behavior, guided by religiosity, mediates this relationship, indicating that religious teachings fostering ethical behavior deter tax evasion attitudes.

This outcome aligns with prior research, confirming the findings of previous studies that also established a negative relationship between religiosity and tax evasion attitude (Budiarto et al., 2018; Khalil & Sidani, 2020, 2022). It substantiates that religious beliefs and ethical behavior, intertwined in their influence, are significant factors in mitigating or discouraging tendencies toward tax evasion among individuals (Khalil & Sidani, 2020; McGee et al., 2020; Rashid et al., 2021). The findings are consistent with earlier scholarly investigations in taxation and social-behavioral studies.

Conclusions

The study revealed crucial links between religiosity, ethical behavior, and tax evasion attitudes in SME entrepreneurs. Within religiosity and ethical behavior, each dimension strongly mirrored its underlying traits. Active participation in religious practices was pivotal, significantly shaping beliefs and behaviors. Additionally, communal involvement highlighted the communal impact, reinforcing shared values and strengthening religious principles, ultimately enhancing overall religiosity among the entrepreneurs.

The findings of this study offer valuable insights into the research question of how religiosity and ethical behaviour influence attitudes towards tax evasion among small and medium-sized enterprises (SMEs) in the fashion sector in Indonesia. The findings demonstrate that elevated levels of religiosity are linked to enhanced ethical conduct, which in turn is associated with a reduction in the proclivity for tax evasion. This suggests that religious beliefs and practices play a significant role in shaping ethical standards among entrepreneurs, thereby engendering a more compliant attitude towards tax obligations. Moreover, the study underscores the pivotal role of ethical behaviour as a key mediator in this relationship, reinforcing the notion that ethical conduct is shaped by religious teachings and, in turn, affects tax compliance. It can therefore be posited that the fostering of a culture of religiosity and ethical behaviour

within SMEs may prove an effective strategy for the mitigation of tax evasion, with the ultimate consequence being greater tax compliance and economic integrity within the fashion industry.

The study reaffirmed the positive association between religiosity and ethical behavior, highlighting how religious teachings guide individuals toward ethical conduct within SME businesses. Moreover, the negative relationship between religiosity and tax evasion attitudes, mediated through ethical behavior, emphasized that stronger religious beliefs correlate with reduced tendencies toward tax evasion, supporting the role of religious teachings in discouraging such behaviors. These findings align with prior research, reinforcing the significant impact of religiosity on ethical conduct and its deterrent effect on tax evasion attitudes. They underscore the relevance of religious teachings and ethical values in guiding behaviors among entrepreneurs, contributing valuable insights to social and behavioral studies in entrepreneurship and taxation. The novelty of this study lies in including an Ethical Behavior variable as a mediator in the relationships.

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