
LEVERAGING DIGITAL ACCOUNTING AND DIGITAL TAXATION: ENHANCING FINANCIAL REPORTING QUALITY

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DOI: <https://doi.org/10.56457/jimk.v13i1.790>

Received: May 21, 2025

Accepted: June 20, 2025

Published: June 25, 2025

Abstract

By integrating advanced software and cloud-based solutions, digital accounting (DA) and digital taxation (DT) have transformed traditional accounting and tax practices. This research looks into the effects of DA and DT on financial reporting quality (FRQ) and tax compliance (TC) among Indonesian SMEs. The research employs a survey methodology, collecting data from 207 accountants and managers in Indonesian SMEs. Using Smart PLS for analysis, the study validates the constructs and tests the hypotheses. The results indicate that DA significantly enhances FRQ and directly improves TC, while DT positively affects FRQ and, through improved report quality, enhances TC. These findings highlight the dual pathways through which digital technologies influence TC directly through operational efficiencies and indirectly via improved financial reporting. This research provides empirical evidence on the synergistic effects of DA and DT in the SME context, an area that has received limited research attention, thereby contributing to the existing literature. Adopting these digital tools can lead to more accurate financial reporting and higher TC, providing valuable insights for policymakers and SME practitioners aiming to leverage digital solutions for enhanced business transparency and regulatory adherence. The study emphasizes the necessity of tailored digital strategies to realize these benefits fully.

Keywords – digital transformation, accounting practices, financial transparency, SMEs

INTRODUCTION

The implementation of digital technologies in production has led to significant changes in financial management, affecting accounting and taxation (Dmytryk et al., 2022). The paper of (Gnatiuk et al., 2023) notes that deposit accounting with modern algorithmic software and cloud services has changed traditional bookkeeping methods through greater accuracy,

efficiency, and availability of financial information. Moreover, tax process streamlining, helped by DT systems, allows more compliance and minimum errors through automation that is prone to real-time reporting processes (Catubig, 2024). The developments create an important window for small and medium-sized enterprises (SMEs) in Indonesia that suffer from traditional manual accounting practice with

taxation compliance issues to relook their operations approach (Yusuf et al., 2022). SMEs are a crucial component of Indonesia's economy, contributing substantially to employment and GDP. However, many of these enterprises need help maintaining high-quality financial reports and achieving full TC due to resource constraints and limited expertise (Gosal, 2023). The combination of DA and DT offers a chance to tackle these problems by improving the precision of financial reporting and assuring better adherence to tax legislation (Adhiatma et al., 2022; Pangaribuan et al., 2025). This research investigates the impact of DA and DT on FRQ and TC among Indonesian SMEs, intending to draw attention to the revolutionary possibilities of digital technologies in improving TC and company transparency.

Even with various advances in DA and DT, Indonesian SMEs still struggle to prepare accurate financial reports while engaging in complete worldwide compliance and transparency (Ningsih, 2023). The traditional methods of accounting and taxation also require much efficiency and perfection without transparency, which leads to inaccuracies in the process and cases of tax evasion. These primarily constitute problems in SMEs since there would be a shortage of technology and digital skills. The urgency for a digital transformation in these areas lies in the availability of digital solutions that can assist in more robust financial reporting and enhanced TC (Belahouaoui, 2024; Palar et al., 2024). In response to this particular issue, the authors conduct research encompassing the question of how Indonesian SMEs utilize DA and DT to

enhance their FRQ and TC directly and indirectly.

This study seeks to assess the effect of DA and DT on FRQ, with consequential impacts for TC in Indonesian SMEs as its primary objective. It explains the synergy between DA and DT by analyzing what leads to an increase in FRQ due to their interaction. As such, this deep dive aims to provide practical insights that will help SMEs in Indonesia move towards digital solutions, allowing improvement to financial reporting whilst instilling better compliance with tax laws.

Literature highlights a growing interest in the transformative potential of digital technologies, particularly in accounting and taxation (Wu & Kao, 2022), (Gnatiuk et al., 2023), (Gosal, 2023). However, while considerable advancements have been made in understanding the individual impacts of DA and DT, more research is still needed, focusing on their integrated effects, especially within the context of Indonesian SMEs. Existing studies primarily examine either the benefits of DA in enhancing FRQ or the efficacy of DT in improving TC. However, studies have yet to explore how these two digital domains synergistically interact to influence financial transparency and regulatory compliance in SME settings. This study bridges the gap by examining the combined effects of DA and DT on FRQ and TC among Indonesian SMEs. By addressing this gap, the research contributes fresh insights into the comprehensive advantages of digital integration for SMEs, informing policy and practice for digital adoption strategies within the Indonesian business context.

This study is distinctive in that it investigates the combined impacts of DA and DT on FRQ and TC within Indonesian SMEs. While digital technologies have independently transformed accounting and tax administration globally, their joint effect on SMEs in emerging economies like Indonesia still needs to be explored. This study addresses this gap by investigating how DA systems enhance financial reporting accuracy and reliability while DT frameworks improve TC through automation and transparency. The research seeks to clarify the combined consequences of these interactions, enhance theoretical comprehension, and offer practical benefits for practitioners, policymakers, and academicians who promote digital transformation in SME sectors. Furthermore, emphasizing this integrated approach underscores its potential to enhance business transparency, regulatory adherence, and economic resilience in Indonesia's SME landscape.

TC is crucial for social and economic development as it helps minimize government fiscal deficits, reduce public debt, and generate essential funds for infrastructure projects (Mpofu, 2020). Educating the public on TC, reducing tax gaps, conducting effective audits, and imposing penalties for evaders are key strategies to promote compliance (Shubailat, O. M., Al-Zaqeba, M. A. A., Madi, A., & Khairi, 2024). Effective TC is essential for government revenue, impacting public finance and improving quality of life through enhanced public services (Jimenez & Iyer, n.d.). The importance of TC extends beyond revenue collection, as it significantly influences social and

economic development by ensuring adequate public resources for communal benefits (Mascagni & Nell, n.d.).

DA systems have been shown to significantly impact the effectiveness of strategic decisions, the usefulness of accounting information, and the FRQ (Yang et al., n.d.). These systems also streamline accounting processes, improving efficiency and accuracy, which leads to cost savings and higher customer satisfaction (X. Chen et al., n.d.). Implementing DA systems enhances the precision of data and streamlines processes, enhancing customs ports' sustainability and effectiveness (Shubailat, O. M., Al-Zaqeba, M. A. A., Madi, A., & Khairi, 2024). Furthermore, adopting DA systems facilitates the integration of sustainability metrics into financial reporting, allowing companies to evaluate better and communicate their sustainability performance while aligning financial and sustainability objectives (Dharmayanti et al., n.d.). DA practices enhance accounting procedures, improve the timeliness of report generation, and boost the FRQ of banks (Zhang et al., n.d.), reduce financial fraud (Jiang et al., n.d.), increase FRQ (Odunayo, n.d.). Additionally, using DA systems has enhanced financial reporting efficiency and accuracy, crucial in improving transparency and FRQ (Gao, n.d.).

H1: DA has a positive significant impact on FRQ.

The implementation of digital technology has had beneficial impacts on customs operations and sustainability, offering vital insights for customs agencies and businesses. The digital divide reduces financial market participation, lowering household

income. Financial inclusion and digital payments improve revenue report quality (Li & Shen, n.d.). Digital financial adoption is essential for MSMEs to save and streamline financial processes, enhancing report performance (Pérez & Rodríguez, n.d.). Digitalized accounting information boosts MSME profitability and productivity (Sannajust & Vallet, n.d.), and digital finance development enhances financial reporting and corporate value (Huang et al., n.d.). Digital management impacts industrial enterprises' financial risks with mixed outcomes (Sannajust & Vallet, n.d.). DT has become crucial as economies digitalize globally. Research has also shown that DT and enhanced knowledge are vital for modern economies (Y. Chen & Liu, n.d.). DT improves the effectiveness of customs operations and promotes environmental responsibility by using automation to conduct compliance inspections and simplify tax processes (Shubailat, O. M., Al-Zaqeba, M. A. A., Madi, A., & Khairi, 2024).

The COVID-19 outbreak made the importance of electronic financial inclusion in making economies stronger stand out (Dluhopolskyi et al., n.d.), (Pérez & Rodríguez, n.d.). Linking financial reporting to taxation helps mitigate issues like earnings management (Y. Chen & Liu, n.d.). DT shapes TC, financial transparency, and systemic performance (Huang et al., n.d.). (Qiao et al., n.d.) emphasize the critical role of legal frameworks and TC in the digital economy. They suggest that international cooperation, technological innovation, and adaptive regulatory frameworks are essential for mitigating tax challenges and promoting a fair, sustainable tax system.

A supportive legal environment helps SMEs effectively navigate DT requirements, enhancing FRQ. Integrating advanced DT systems ensures more accurate and timely financial data, reduces errors, and increases transparency, ultimately improving FRQ (Gao & Ren, n.d.), (Al-Okaily et al., n.d.).

H2: DT has a positive significant impact on FRQ.

The precision with which financial statements communicate information about a company's activities, namely its anticipated cash flows, is vital for informing shareholders (Monteiro et al., n.d.). The FRQ is assessed based on standards that include understandability, relevance, reliability, comparability, and consistency (Goodwin et al., n.d.), (Rakhman & Wijayana, n.d.). High-quality financial reports provide transparency in operations and financial performance, which can positively impact TC. When SME owners have more excellent tax knowledge, they tend to exhibit higher TC behavior compared to those with less tax knowledge (Susilawati, n.d.).

The study showed that the FRQ significantly improves post-audit, which enhances the trust of report users and other stakeholders, ultimately leading to increased TC (Kasper & Rablen, n.d.). Research indicates that implementing international standard certifications enhances the FRQ for Vietnamese SMEs, leading to increased TC. This improvement is driven by greater adherence to formal accounting practices, which boosts FRQ and reduces the risk of bribery and tax fraud (Duy & Tran, n.d.). Therefore, FRQ is crucial in enhancing TC among businesses, particularly SMEs.

H3: FRQ has a positive significant impact on TC.

Digitalizing is essential in modern business operations, offering various benefits that significantly impact financial management and reporting. A study in Ethiopia found that introducing ICTs and digitized data management systems significantly improves TC by increasing reported tax revenue, as evidenced by a 12% increase in income taxes and a 48% increase in VAT (Mascagni et al., n.d.). Transitioning from paper to digital billing significantly improves TC and operational efficiency. In Peru, this shift resulted in over a 5% increase in reported sales and VAT liabilities within the first year, benefiting small businesses and traditionally noncompliant sectors. Digital billing systems, like e-invoicing, are essential for enhancing revenue collection (Bellon et al., n.d.).

(Ouyang et al., n.d.) claimed that the adoption of DA significantly benefits small businesses' entire performance, specifically in relation to their TC. An analysis of the national tax study dataset and the Peking University digital finance index has shown that a one standard deviation improvement in the digital finance index can lead to a 7.5% reduction in tax noncompliance. By overcoming funding constraints and accessing digital tax data, digital finance simplifies compliance. The study conducted by (Hang et al., n.d.) highlights that using DA apps decreases errors, ensures the accuracy and timeliness of accounting records, and effectively handles fraudulent actions in SMEs. The study verified that DA substantially affects TC and optimizes long-term advantages.

H4: DA has a positive significant impact on TC.

DT manages and streamlines tax processes using digital technology and platforms. DT comprises electronic tax filing, payment, reporting technologies, and data analytics to improve TC and enforcement (Shubailat, O. M., Al-Zaqeba, M. A. A., Madi, A., & Khairi, 2024). Integrating DA infrastructure and data technology within the government sector can impact public organizations' economic and political elements. This can lead to changes in accounting practices and adopting new organizational techniques (Alsharari & Ikem, n.d.). (Ponomareva, n.d.) asserted that the implementation of DT leads to a decrease in expenses associated with adhering to regulations, enhances operational effectiveness, precision, and openness, and diminishes the occurrence of tax evasion.

Integrating digital tools and technologies into tax administration systems has improved taxpayer compliance behavior. Tax digitization can optimize tax procedures, improve visibility and durability, and diminish tax avoidance (Wang & Hausken, n.d.). By implementing automated compliance checks, optimizing tax-related processes, and enhancing data accuracy, DT has the potential to significantly enhance TC and enforcement efforts (Belahouaoui, 2024). (Jin et al., n.d.) argued that in the digital economy, the significance of platform data quality cannot be overstated, particularly in the context of TC. Integrating DT technologies can improve voluntary TC by simplifying tax processes and fostering confidence in the tax system.

H5: DT has a positive significant impact on TC.

DA systems have revolutionized traditional accounting routines by improving financial data's accuracy, efficiency, and availability through sophisticated software and cloud-based solutions (Gnatiuk et al., 2023). These systems automate routine tasks, reduce human errors, and facilitate real-time data processing, leading to higher-quality financial reports. Similarly, DT systems streamline tax processes, improve compliance, and reduce errors through automation and real-time reporting (Catubig, 2024). Integrating these systems creates a cohesive and efficient tax administration environment, ensuring that financial reports are timely and accurate, essential for regulatory compliance (Gao & Ren, n.d.).

DT systems improve FRQ by automating compliance assurances and optimizing tax-related processes, reducing errors and enhancing transparency (Al-Okaily et al., n.d.). DT technology has also enhanced customs efficiency and facilitated the achievement of sustainability objectives by automating compliance checks and simplifying tax procedures (Shubailat, O. M., Al-Zaqeba, M. A. A., Madi, A., & Khairi, 2024). This ensures that financial reports contain precise and current tax information.

Supporting evidence highlights the significant impact of FRQ on TC. High-quality financial reports provide operational and financial performance transparency, positively impacting TC (Kasper & Rablen, n.d.). SME owners with excellent tax knowledge and access to accurate financial information tend to exhibit higher TC behavior (Susilawati, n.d.). Adopting international standards certification enhances FRQ for SMEs, leading to improved TC (Duy & Tran,

n.d.), driven by increased engagement in formal accounting practices, reducing errors and tax evasion.

Integrating DA and DT systems allows SMEs to improve FRQ and achieve better TC. These digital solutions ensure more accurate financial reporting, reduce errors, and increase transparency, fostering a compliant and transparent business environment. High-quality financial reports, characterized by relevance, reliability, comparability, and timeliness (Goodwin et al., n.d.), are crucial for decision-making by stakeholders, including investors, creditors, and tax authorities. Research indicates that implementing DA systems can significantly impact the effectiveness of strategic decisions and the usefulness of accounting information (Yang et al., n.d.). The implementation of enhanced FRQ, with the assistance of DA, improves the level of openness and accountability inside the organization. This, in turn, promotes confidence among stakeholders. For that purpose, transparency is crucial for advocating for TC, as stakeholders depend on precise financial reporting to make well-informed decisions and guarantee that the organization fulfills its tax obligations (Gao, n.d.).

The mediating role of FRQ is crucial in linking DA and DT to TC. High-quality financial reports provide a transparent and accurate representation of an organization's financial activities, which is essential for effective TC. DA systems enhance FRQ by improving data accuracy, reliability, and timeliness, fostering TC through transparency and accountability. DT systems ensure that financial reports are accurate and timely, enhancing transparency and reducing the

likelihood of tax evasion, which promotes TC.

H6: FRQ significantly mediates the influence of DA on FRQ.

H7: FRQ significantly mediates the influence of DT on FRQ.

METHODS

DA refers to adopting and integrating digital technologies and software applications within an organization's accounting processes. This includes utilizing computerized systems, cloud-based platforms, and advanced data analytics tools to streamline, automate, and enhance financial transactions' accuracy, efficiency, reliability, record-keeping, reporting, and compliance activities (Gnatiuk et al., 2023). DA facilitates real-time financial monitoring, improves data accuracy, and supports better decision-making and regulatory adherence, ultimately contributing to the overall financial health of an organization (Gao & Ren, n.d.). The measurement of DA in this study is based on the frameworks provided by (Alsharari & Ikem, n.d.) and (Shubailat, O. M., Al-Zaqeba, M. A. A., Madi, A., & Khairi, 2024). The evaluation of DA utilizes a five-point Likert scale consisting of six question items. The response answer ranges from 1 to 5, from completely disagree to completely agree.

DT involves using digital technologies and platforms to streamline tax-related processes. This includes implementing electronic systems for tax filing, payment, and reporting and leveraging data analytics to improve TC and enforcement (Catubig, 2024). The main goal of DT is to enhance the efficiency, accuracy, and transparency of tax administration while reducing the expenses related to

compliance and mitigating the risk of tax evasion. Through digital tools, governments and businesses can establish a tax system that is both more efficient and fair, as supported by research conducted by (Shubailat, O. M., Al-Zaqeba, M. A. A., Madi, A., & Khairi, 2024) and (Gao & Ren, n.d.), the study measures the implementation of DT using methodologies outlined by (Y. Chen & Liu, n.d.). The evaluation of DT utilizes a five-point Likert scale of six question items. The response answer ranges from 1 to 5, from completely disagree to completely agree.

FRQ pertains to how financial statements effectively and openly depict an organization's financial performance and condition. It encompasses several dimensions: accuracy, reliability, relevance, completeness, comparability, and transparency (Kasper & Rablen, n.d.), (Rakhman & Wijayana, n.d.). High-quality financial reports offer stakeholders such as investors, creditors, and regulators clear and reliable information, aiding in informed decision-making (Susilawati, n.d.). This study measures FRQ using methodologies from (Rakhman & Wijayana, n.d.) and (Ozer et al., n.d.). The assessment of FRQ utilizes a seven-point Likert scale consisting of eight question items. The response answer ranges from 1 to 7, which is from completely disagree to completely agree. The scale provides a detailed measure essential for capturing nuanced aspects like accuracy, reliability, and transparency in financial reporting.

TC refers to the degree to which taxpayers conform to tax laws and regulations by precisely disclosing their income, accurately determining their tax obligations, and promptly settling

their tax dues. High levels of TC indicate that taxpayers are fulfilling their legal obligations, thereby contributing to the effective functioning of the tax system (Jimenez & Iyer, n.d.). TC involves voluntary compliance, where taxpayers willingly fulfill their tax duties, and enforced compliance, where regulatory mechanisms ensure adherence to tax laws (Belahouaoui, 2024), (Mascagni et al., n.d.). The measurement of TC in this study follows the methodologies used by (Hikmah, n.d.) and (Belahouaoui, 2024). The assessment of TC utilizes a five-point Likert scale consisting of six question items. The response answer ranges from 1 to 5, which is from completely disagree to completely agree. Table 1. The measurement and construction indicators model displays each question item pertaining to the fundamental study parameter.

This study utilizes a quantitative analysis method using a survey-based procedure. The study's population comprises accountants and managers employed in SMEs in Indonesia. These individuals are assumed to possess a superior comprehension of the practice or execution associated with the pertinent factors examined in this study. The data was gathered through a combination of online and offline surveys. The questionnaire assessed each variable, and the data collection spanned from February to June 2024. The online questionnaire was disseminated through email or WhatsApp by sharing a research questionnaire hyperlink, while the offline version was distributed physically. This study posits no substantial disparity in the comprehension of the research variables between accountants and managers. In

order to validate this assumption, a t-test was performed, revealing no statistically significant disparity in comprehension understanding between the two groups (with a level of significance of $p > 0.05$).

In the initial phase, 610 questionnaires were distributed, resulting in the collection of 126 responses. In the second stage, 81 more responses were received. This resulted in 207 appropriate responses for analysis, equivalent to a response rate of 33.93%. In addition, the study examined whether there were any disparities in the comprehension of the research variables between the initial and subsequent responses. The t-test results indicated no statistically important difference among the two sections, with a significance level of $p > 0.05$.

Among the 207 participants, 166 were male (80.19%) and 41 were female (19.81%). Regarding work experience, 96 participants (46.38%) had 0-5 years, 64 participants (30.92%) had 6-10 years, and 47 participants (22.70%) had more than ten years of experience. The majority of participants worked in companies with more than 30 employees (96 participants, 46.38%), followed by those in companies with 16-30 employees (88 participants, 42.51%) and those in companies with 0-15 employees (23 participants, 11.11%). Professionally, 162 participants (78.26%) were accountants, and 45 (21.74%) were managers. Regarding educational level, 9 participants (4.34%) had completed high school, 44 participants (21.26%) had obtained a diploma, 129 individuals (62.32%) had earned a degree from a university (bachelor), and 25 participants (12.08%) held a master's degree or higher.

Figure 1 graphically illustrates the distribution of participants based on demographic factors. The thorough demographic analysis guarantees the robustness and relevance of the study's findings, providing valuable insights into the perspectives of professionals actively involved in the SME sector in Indonesia. The inclusion of a wide range of demographic groups and the implementation of rigorous statistical testing guarantee the accuracy and reliability of the collected data and the resulting findings.

Table 1 presents data regarding each indicator's averages, variations, and factor loadings. In addition, the

table provides information on the overall reliability and Cronbach's Alpha for every variable. The analysis of the DA construct yielded robust results, confirming its reliability and validity. All FL surpassed the critical limit of 0.70, underscoring strong convergent validity, indicating that the indicators reliably measure the DA construct. The average variance extracted (AVE) for the DA component was 0.607, which exceeded the permissible threshold of 0.50. This demonstrates that the DA structure explains more than 50% of the variability in its indicators, affirming its effectiveness in capturing the relevant data.

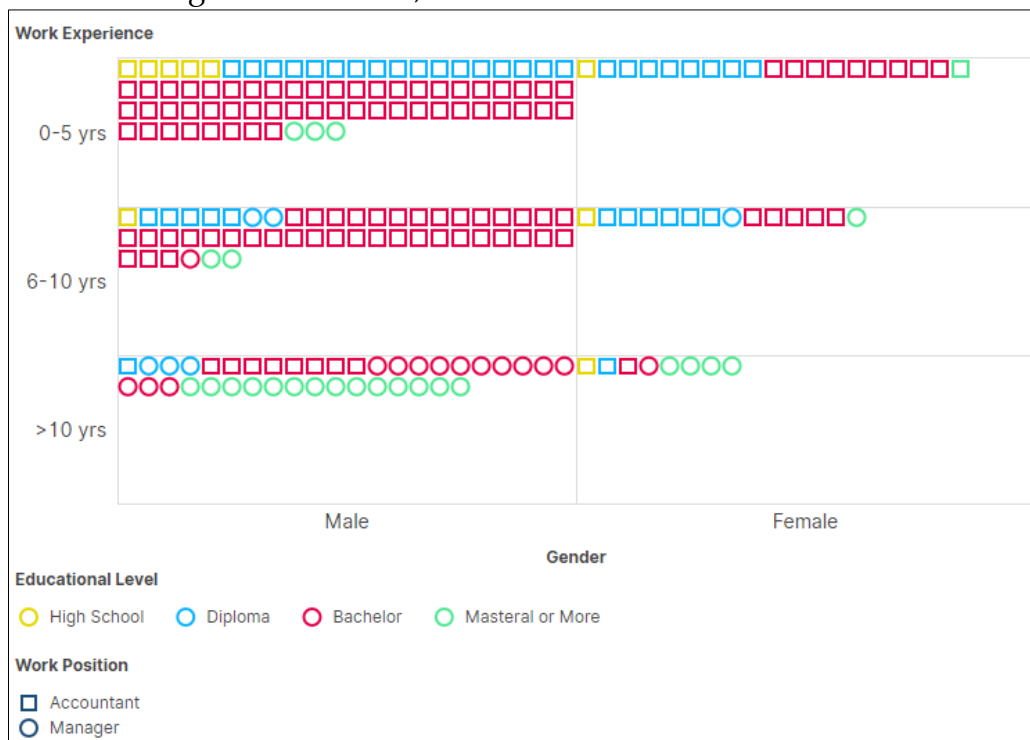


Figure 1. Participants Profile

Furthermore, the DA construct demonstrated strong consistency and reliability, as proven by a Cronbach's Alpha coefficient of 0.907 and a composite reliability coefficient of 0.902. Both values significantly exceed the threshold of 0.70, reflecting excellent reliability and internal consistency. In summary, the DA construct demonstrates strong convergent

validity, significant explanatory power, and high reliability, validating its robustness in capturing the essence of DA metrics.

All FL for the DT indicators surpassed the critical limit of 0.70, demonstrating good convergent validity, indicating that the indicators are robust measures of the DT construct. The AVE for DT is 0.558, surpassing the

acceptable threshold of 0.50. This suggests that the DT construct effectively encompasses the key attributes of DT, as it explains a substantial portion of the variability in its indicators. In addition, the DT structure's dependability is confirmed by a Cronbach's Alpha coefficient of 0.883 and a composite reliability coefficient of 0.843. Both results surpass the necessary threshold of 0.70, indicating exceptional internal consistency and dependability. The high scores indicate that the DT structure is consistently measured across several objects and is dependable for further study.

All FL for the FRQ were above 0.70, indicating good convergent validity, suggesting that the indicators are strong measures of the FRQ construct. The AVE of the FRQ is 0.607, which exceeds the minimal value of 0.50, suggesting that the FRQ construct accounts for a substantial amount of variability in its indicators, confirming its efficacy in capturing the pertinent components of FRQ. The dependability of the FRQ construct is confirmed by a Cronbach's Alpha coefficient of 0.925 and a composite reliability coefficient of 0.909. Both values are well above the acceptable threshold of 0.70, demonstrating excellent internal consistency and reliability. These high-

reliability metrics suggest that the FRQ construct is consistently measured across different items.

All FL for the TC indicators are above 0.70, demonstrating good convergent validity. This suggests that each indicator is a robust measure of the TC construct. The mean value of TC is 0.584, surpassing the recommended criterion of 0.50, indicating that the TC construct effectively captures the fundamental characteristics of TC by explaining a substantial portion of the variability in its indicators, thereby demonstrating its efficacy. Moreover, the TC construct's reliability is supported by a Cronbach's Alpha coefficient of 0.894 and an overall reliability of 0.857. Both metrics surpass the acceptable threshold of 0.70, implying a significant internal reliability and consistency level.

The constructs in this study (DA, DT, FRQ, and TC) show good validity and reliability. High FL across all items confirms strong convergent validity. AVE values above 0.50 indicate that each construct captures a substantial variance. The elevated values of composite reliability and Cronbach's Alpha for every structure demonstrate the evaluation models' strong reliability and internal consistency, affirming their robustness and dependability.

Table 1. Model for measurement and construction indicators

Indicators/ Items	Code	Mean	SD	FL	AVE	α	ρ
DA					0.607	0.907	0.902
Adoption of DA systems	DA1	3.889	1.051	0.796			
Efficiency of accounting processes	DA2	3.918	1.021	0.758			
Accuracy of financial data	DA3	3.845	1.010	0.782			

Real-time financial information	DA4	3.957	1.060	0.779			
Reducing the time spent	DA5	3.836	1.032	0.740			
Compliance with financial regulations	DA6	3.928	1.002	0.816			
DT					0.558	0.883	0.843
Adoption of digital tax filing system	DT1	3.855	1.039	0.762			
Efficiency of TC processes	DT2	3.836	1.022	0.763			
Accuracy of tax reporting	DT3	3.662	1.013	0.757			
Ease of tax payment	DT4	3.633	1.142	0.706			
Real-time tax information	DT5	3.556	1.079	0.716			
Reduction of tax aversion	DT6	3.725	1.048	0.773			
FRQ					0.607	0.925	0.909
Accuracy of financial information	FRQ1	5.488	1.311	0.809			
Reliability of financial statement	FRQ2	5.647	1.238	0.831			
Relevance of financial disclosures	FRQ3	5.343	1.492	0.740			
Completeness of financial report	FRQ4	5.604	1.191	0.720			
Comparability over time	FRQ5	5.623	1.439	0.790			
Transparency of financial disclosures	FRQ6	5.488	1.362	0.784			
Comply with the accounting standard	FRQ7	5.575	1.342	0.821			
Free from material misstatements	FRQ8	5.430	1.290	0.728			
TC					0.584	0.894	0.857

Accuracy in tax reporting	TC1	3.928	1.063	0.765
Timeliness of tax payments	TC2	3.787	1.009	0.723
Understanding of tax obligations	TC3	3.870	1.067	0.776
Record-keeping for tax purposes	TC4	3.870	1.030	0.772
Use of professional tax advice	TC5	3.870	0,661	0.734
Response to tax audits and inquiries	TC6	3.923	1.033	0.810

ρ = Composite Reliability, α = Cronbach's Alpha

RESULT AND DISCUSSION

Figure 2 displays the structural model's outcomes, emphasizing DA, DT, FRQ, and TC connections. The analysis offers valuable information regarding the direct and indirect impacts of DA and DT on TC, which FRQ facilitated. The results from Figure 2 supported the reliability measures detailed in Table 1. All DA, DT, FRQ, and TC measurement items exhibit FL larger than 0.70. The AVE values for all constructions above the 0.50 threshold demonstrated good convergent validity. High values for both α and ρ across constructs confirm the internal consistency reliability, confirming strong item reliability and validity (Table 1). Figure 2 also described the R^2 value for FRQ as 0.566, meaning that DA and DT collectively account for 56.6% of the variance in FRQ. Furthermore, the R^2 value for TC indicates that DA, DT, and FRQ together explain 72.8% of the variance in TC.

Table 2 displays the correlations and the construct discriminant validity. The diagonal numbers (0.798, 0.788,

0.779, 0.764) showed the AVE's square root for every structure. In order to confirm discriminant validity, these numbers should be bigger than the values not on the line in the same column and row. The correlations between constructs, such as the 0.745 correlation between DA and DT and the 0.692 correlation between FRQ and TC, indicated how strongly they were related. The discriminant validity of the constructs was proven when the square root of AVE for each construct was higher than the correlation values between the structures, showing that they are distinct. There was good discriminant validity if all of the square roots of AVE were higher than their corresponding relationships with other constructs. All HTMT values (numbers above the vertical) were less than 0.90, which supports the discriminant validity; each construct meets the HTMT requirement of less than 0.90. The table and figure showed that the constructs were true and reliable, which supports the strength of the measurement model used in the study.

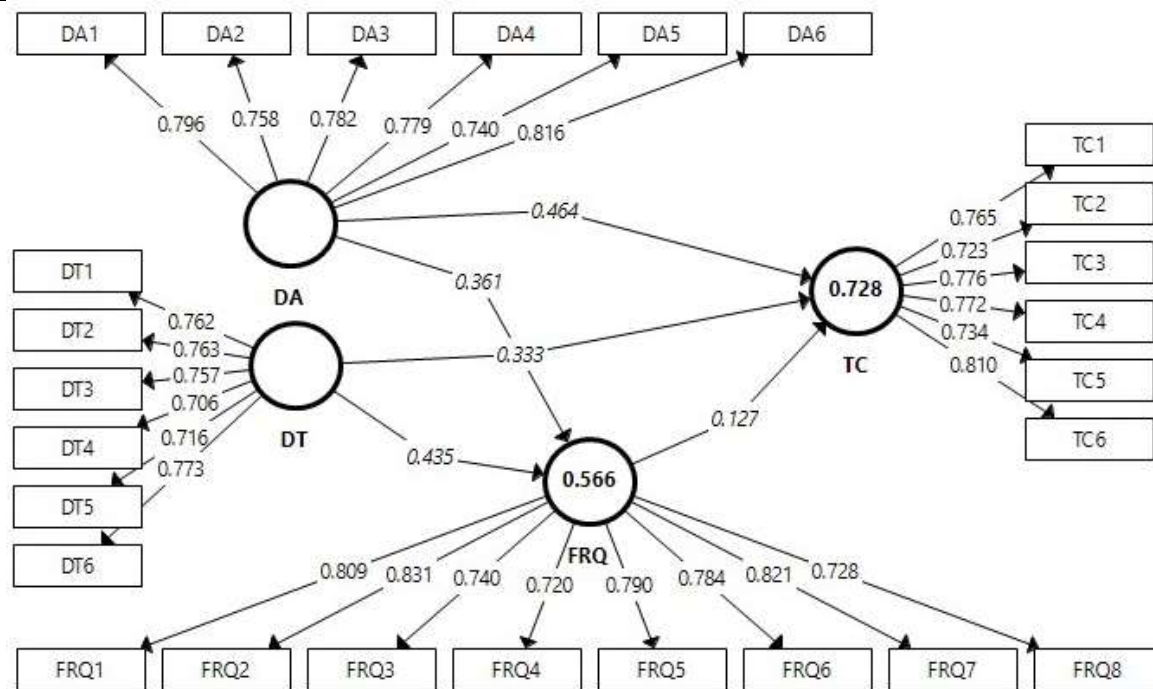


Figure 2. Structural Model Result

The structural model's findings reported in Table 3 indicated that it was effective and has strong predictive relevance. The R-squared value for FRQ, which was 0.566, and TC, which was 0.728, showed that the model predicts a large amount of variation in these concepts. The adjusted R-squared values further suggest low overfitting, and the model has strong explanatory power. The Q-squared values for FRQ (0.333) and TC (0.414) further affirm the model's predictive relevance, suggesting that it has substantial out-of-

sample predictive power. The f-squared values, which assess the effect size, indicated that both DA and DT contributed meaningfully to explaining the variance in FRQ and TC, ensuring that the constructs were not only statistically significant but also had a substantial impact. The Variance Inflation Factor readings are consistently beneath the widely accepted criterion of 5, indicating that multicollinearity does not undermine the accuracy of the model's estimates.

Table 2. Correlations and discriminant validity

Construct	DA	DT	FRQ	TC
DA	0.798	0.545	0.488	0.565
DT	0.745	0.788	0.499	0.547
FRQ	0.703	0.719	0.779	0.481
TC	0.716	0.747	0.692	0.764

Note: The AVE square roots are shown by diagonal and bold numbers

Finally, the adequacy of the model was assessed by calculating the Normed Fit Index and Standardized Root Mean Square Residual. Both of these metrics collectively highlight the structural model's robustness, suitability, and the significant

implications of digital tools in enhancing FRQ and TC among SMEs. This model not only supports the theoretical propositions but also provides a solid basis for practical applications and policy

implementations aimed at digital integration within financial systems.

Table 3. Structural model

Constructs	R ²	Adj. R ²	f ²	Q ²	VIF	SRMR	NFI
DA	-	-	0.116-0.272	-	2.908	-	-
DT	-	-	0.134-0.167	-	3.043	-	-
FRQ	0.566	0.562	0.026	0.333	2.307	0.052	0.854
TC	0.728	0.724	-	0.414	-	0.052	0.854

Table 4 of the Full Relationships Testing Results offers insights into the direct and indirect effects of DA, DT, FRQ, and TC as a constructed research model. The direct effects indicated a significant relationship where DA positively impacts FRQ with a p-value of 0.000 and coefficient (β) of 0.361, highlighting that DA practices robustly enhance the FRQ. Similarly, the p-value of 0.000 and coefficient of 0.435 indicated that DT had a significant positive impact on FRQ, suggesting that DT systems had an even greater influence on improving FRQ. The results emphasized the substantial influence of digital advancements in accounting and taxation on enhancing openness, accuracy, and the general quality of financial reporting. Moreover, the FRQ variable had an advantageous effect over the TC, as indicated by a coefficient of 0.127 and a p-value of 0.064. These values suggested a statistically significant but rather moderate effect. This has shown that higher quality financial reports contributed to improving TC, likely due to better transparency and reliability of financial information, which aids in accurate tax reporting and adherence.

Utilizing DA can significantly improve the effectiveness of TC, as indicated by a p-value of 0.000 and a

coefficient of 0.464. The results demonstrated a robust and direct relationship between DA practices and TC. The coefficient of 0.333 and p-value of 0.000 implied that DT had a substantial positive influence on TC. This suggests that DT systems increase TC by increasing efficiency and accuracy in tax processes.

The examination of indirect impacts through the mediating role of FRQ showed mixed results. The statistical study had shown that there was not enough evidence to support the pathway from DA through FRQ to TC, with a p-value of 0.159. This has suggested that the mediating role of FRQ did not significantly influence DA on TC. In contrast, the statistical analysis showed that the pathway from DT through FRQ to TC was supported with a significance level of 0.073, suggesting a marginally significant mediation effect. This finding suggested that the FRQ influences how DT affects TC, albeit this influence is not as direct as other pathways.

Each of these findings contributed distinctively to understanding the multifaceted impacts of digital tools on financial management and compliance in SMEs. The robust direct effects highlight the transformation potential of digital tools

independently. In contrast, the mixed indirect effects suggest complex interdependencies that warrant further

investigation to elucidate the dynamics at playfully.

Table 4. Full relationship testing result

Path	Coef. (β)	S.D.	95% BCa CI	P-Values	Concl.
DA -> FRQ	0.361	0.097	0.353, 0.131	0.000*	supported
DT -> FRQ	0.435	0.090	0.408, 0.206	0.000*	supported
FRQ -> TC	0.127	0.069	0.176, 0.021	0.064 **	supported
DA -> TC	0.464	0.080	0.399, 0.219	0.000*	supported
DT -> TC	0.333	0.090	0.339, 0.135	0.000*	supported
DA -> FRQ-> TC	0.046	0.033	0.113, 0.005	0.159 ^{ns}	not supported
DT -> FRQ-> TC	0.055	0.031	0.114, 0.009	0.073**	supported

*,** The results are significant at the 1% and 10% levels, correspondingly

The findings of this study provided an important enhancement to our comprehension of the influence of DA and DT systems on FRQ and TC in Indonesian SMEs. The finding revealed a strong and favorable correlation between DA and FRQ ($\beta = 0.361$, $p = 0.000$). This conclusion aligns with the results of (Yang et al., n.d.), who showed that DA systems enhance the accuracy and timeliness of financial reports. This corroborates the theoretical standpoint that the incorporation of technology in accounting results in improved management of data and production of reports, thus augmenting the quality of reports. Furthermore, the hypothesis that DT has a beneficial impact on FRQ ($\beta = 0.435$, $p = 0.000$) is also confirmed. This finding aligns with the research conducted by (Li & Shen, n.d.), who observed that DT systems enhance FRQ by promoting accuracy and reducing errors. The higher beta value compared to DA suggests that DT might have a slightly more substantial influence on FRQ among SMEs, possibly due to the direct role of taxation systems in financial data processing and reporting.

The positive influence of FRQ on TC ($\beta = 0.127$, $p = 0.064$), although significant, showed a smaller effect size.

This outcome corroborates the research by (Kasper & Rablen, n.d.), indicating that high-quality financial reports improve TC by providing more precise and reliable financial information that aids accurate tax filing. The direct relationship between DA and TC was strongly significant ($\beta = 0.464$, $p = 0.000$), suggesting that DA not only improves reporting quality but also directly enhances compliance. The study conducted by (Mascagni et al., n.d.) confirmed the notion that digital systems enhance compliance by improving reporting accuracy. The positive effect of DT on TC ($\beta = 0.333$, $p = 0.000$) confirms that digital tax systems directly facilitate better compliance, aligning with findings from (Shubailat, O. M., Al-Zaqeba, M. A. A., Madi, A., & Khairi, 2024), which emphasized the significance of digital tools in simplifying tax processes and improving compliance.

The analysis of Hypothesis 6 indicated that the involvement of FRQ as a mediator in the connection between DA and TC was not statistically significant ($p = 0.159$), indicating that DA influences TC directly rather than through improvements in FRQ. This finding is somewhat contrary to the

expectations based on previous research, such as the study by (Yang et al., n.d.), which suggested that improvements in FRQ due to DA systems would lead to better compliance. The lack of a mediating effect, in this case, might suggest that the direct enhancements in transparency and accuracy brought about by DA tools are sufficient to influence TC independently of the overall improvements in report quality.

Theoretically, this result challenges the assumption that the FRQ is the primary pathway through which DA impacts TC. It suggests that other mechanisms, possibly related to the direct accessibility and reliability of digital records or enhanced ease of compliance through digital systems, may play more critical roles. For practitioners, particularly in SMEs, this indicates that investments in DA technologies might yield direct compliance benefits without significant intermediate improvements in the FRQ. This could prioritize certain types of DA innovations—those focused on compliance features rather than those solely aimed at enhancing traditional reporting qualities.

In contrast, Hypothesis 7 was supported ($p = 0.073$), indicating that FRQ does mediate the relationship between DT and TC. These results support the conclusions of (Shubailat, O. M., Al-Zaqeba, M. A. A., Madi, A., & Khairi, 2024), who claimed that DT systems improve TC by enhancing the FRQ, resulting in more reliable and transparent reports, which in turn promote higher compliance. The mediation effect observed here underscores the importance of FRQ as a conduit through which DT affects TC.

This result reinforces the theoretical framework positing that the FRQ is a crucial intermediary in realizing the full benefits of DT systems on TC. It highlights the necessity of robust financial reporting systems to maximize the effectiveness of DT technologies. From a practical perspective, policymakers and business leaders should not only focus on implementing DT instruments but also on improving the systems that produce financial reports. Training and resources should be allocated to enhance the financial reporting processes to ensure that the benefits of DT are fully realized in terms of compliance.

CONCLUSION

This study demonstrates that DA and DT significantly enhance the FRQ and TC among Indonesian SMEs. The findings confirm the direct positive impacts of DA on both FRQ and TC, demonstrating the profound impact of digital tools in simplifying the accounting process and enhancing direct compliance. Furthermore, DT improves FRQ and, through improved report quality, enhances TC, underscoring the critical role of exemplary financial reporting as a mediator in the pathway from digital innovations to compliance outcomes. These results highlight the significant benefits that digital tools confer on the financial management processes within SMEs, emphasizing the importance of adopting such technologies to leverage their full potential in improving business operations and compliance.

The uniqueness of this research resides in its investigation of the dual pathways through which digital technologies impact TC in SMEs—directly through operational

enhancements and indirectly through improved financial reporting. This study contributes to the existing knowledge by providing empirical evidence of the specific benefits of integrating digital technology into accounting and taxation processes in SMEs, an area that requires more investigation. This study enhances theoretical understanding and provides practical insights for small and SMEs and regulators; it emphasizes the significance of customized digital strategies to improve financial transparency and regulatory compliance. Understanding this two-pronged approach is essential for creating focused interventions that maximize the advantages of digital technology in improving the effectiveness and reliability of financial and tax management processes in small and SMEs.

Further research in this area should explore additional mediators and moderators that could influence the relationship between DA and DT and their impacts on FRQ and TC. The current study highlights a direct impact of DA on TC and a mediated impact of DT on TC through FRQ, suggesting different pathways for how digital transformations influence tax behaviors. Future studies could examine other potential mediators, such as organizational culture, technological readiness, or external environmental factors like regulatory changes or

economic conditions, which affect how effectively these digital tools are implemented and their subsequent impact on business outcomes. Furthermore, investigating the influence of moderators such as the size of the organization, the kind of industry, or the geographic location could offer important insights into the contextual elements that either increase or limit the success of DA and DT systems in enhancing FRQ and TC.

Another promising avenue for further research involves longitudinal studies to assess the long-term effects of DA and taxation systems on SMEs. This approach would enable researchers to monitor and analyze changes occurring over some time, so offering a more dynamic perspective on the effects of digital transformation. It also helps in understanding whether the benefits of digital integration in accounting and taxation are sustained over the long term or if they diminish as the novelty wears off or as new challenges emerge. Moreover, comparative studies between different countries or different regulatory environments could shed light on how varying external conditions influence the effectiveness of digital systems. Such studies would not only broaden the understanding of digital tools in financial strategy but also guide international policy-making and strategy development for fostering digital transformations across different economic landscapes.

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