

Financial Awareness, Islamic Business Ethics, and Tax Compliance: Examining the Role of Mental Accounting among Halal SMEs

Fatati Nuryana ¹, Sri Handayani ², Mohammad Muhlis Anwar ³, Umami Kulsum ⁴

^{1,2,3,4} Faculty of Islamic Economics and Business, Universitas Islam Negeri Madura, Pamekasan, Indonesia

*Corresponding author: Fatati Nuryana

Corresponding email: fatati@iainmadura.ac.id

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ABSTRACT

This study examines the influence of financial awareness and Islamic business ethics on tax compliance and mental accounting among Halal Small and Medium Enterprises (SMEs). Drawing on behavioral finance and Islamic ethical perspectives, the study investigates whether mental accounting functions as a behavioral mechanism linking financial awareness and ethical orientation to tax compliance behavior. A quantitative approach was employed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with data collected from 100 owners and managers of Halal SMEs. The findings indicate that financial awareness has a positive and significant effect on mental accounting, suggesting that financially aware entrepreneurs tend to manage financial resources more systematically. Financial awareness also demonstrates a positive effect on tax compliance, although the relationship becomes weaker after model refinement. Islamic business ethics significantly influence tax compliance, indicating that ethical and religious values play an important role in encouraging voluntary tax compliance among Halal SMEs. However, Islamic business ethics do not significantly affect mental accounting. Furthermore, mental accounting shows a positive but statistically marginal effect on tax compliance and fails to mediate the relationships between financial awareness, Islamic business ethics, and tax compliance. These findings contribute to the behavioral taxation and Islamic business literature by highlighting that financial awareness and ethical orientation influence compliance behavior through different behavioral pathways. The study also provides practical implications for policymakers and SME development programs in strengthening financial discipline and voluntary tax compliance among Halal SMEs.

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1. Introduction

The growth of Halal Small and Medium Enterprises (SMEs) has accelerated alongside rising global demand for Halal products, positioning these firms as key contributors to inclusive economic development in Muslim-majority and emerging economies (Berampu et al., 2026; Sholehuddin et al., 2025). Operating under Islamic principles, Halal SMEs are expected to balance economic

objectives with ethical responsibility and compliance with Sharia norms, particularly in financial decision-making and regulatory obligations (Dharma et al., 2024). Financial awareness and Islamic business ethics are therefore fundamental in shaping how business owners perceive, allocate, and control financial resources, as well as how they internalize compliance-related behavior such as taxation (Alharbi et al., 2022). Understanding these determinants is increasingly important for strengthening the institutional credibility and long-term sustainability of Halal SMEs.

Tax compliance itself is not driven by enforcement alone; it is also shaped by psychological, social, and institutional factors that influence taxpayers' willingness to calculate, report, and pay taxes accurately (Boll, 2014; Kemuning et al., 2022). Despite Islam's strong ethical framework, many Halal SMEs still show inconsistencies in financial management and regulatory compliance. The selective application of ethical principles in accounting discipline, internal control, and financial reporting has been observed among SME owners and may weaken tax compliance and financial transparency (Oldham, 2024). Variation in financial awareness further limits owners' ability to categorize resources and separate personal and business finances systematically (Alharbi et al., 2022; Kountchou et al., 2025), suggesting ethical orientation alone cannot guarantee consistent compliance without adequate financial awareness.

Behavioral finance offers a useful lens for understanding this gap: financial decision-making is not solely driven by rational economic calculation but is also influenced by cognitive categorization and psychological framing mechanisms. This is consistent with prospect theory's account of reference-dependent judgment, in which individuals evaluate gains and losses relative to cognitive reference points rather than objective outcomes (Kahneman & Tversky, 1979). A central concept here is mental accounting—individuals' tendency to mentally classify, allocate, and monitor money by source or purpose rather than treating it as fungible. In SMEs, mental accounting may shape how owners separate operational funds, allocate income, and prepare for financial obligations, including taxation. In this study, behavioral finance—specifically mental accounting theory nested within the broader framework of prospect theory—is adopted as the primary theoretical lens for explaining tax compliance behavior. Islamic business ethics and the tax morale/religiosity literature are drawn upon as a complementary normative lens that accounts for the moral and religious determinants of compliance, operating alongside, rather than in competition with, the cognitive mechanisms addressed by mental accounting theory.

When tax funds are mentally segregated from disposable income, payments are less likely to be perceived as direct financial losses, which can reduce psychological resistance toward compliance (Olsen et al., 2019). Mental accounting may help explain how financial knowledge relates to tax compliance, as self-reported financial knowledge is positively associated with mental budgeting, which is itself positively associated with tax compliance (Antonides & de Groot, 2022). This positions mental accounting as a plausible, yet underexplored, mechanism worth testing empirically within the specific context of Halal SMEs, where financial and ethical considerations are expected to operate simultaneously.

Although Islamic business ethics and mental accounting originate from different theoretical traditions, a conceptual bridge can plausibly be proposed between them. Islamic ethical perspectives frame economic conduct through moral duties and accountability, including amanah (trust), responsibility, and concern for social welfare (Azmat & Subhan, 2022; Melis & Nawaz, 2024). These principles may shape how business owners interpret the purposes and appropriate uses of financial resources, providing a potential normative foundation for their mental categorization and allocation of money. Because mental accounting reflects the cognitive process of classifying and allocating money according to its perceived source, obligation, or purpose (Muehlbacher & Kirchler, 2019), internalized ethical norms may function as an additional classification criterion: funds owed to others, including tax obligations, may be mentally earmarked as a trust (*amanah*) rather than as personal income, distinct from resources over which the owner has full discretion. In this sense, Islamic business ethics may provide a normative basis for distinguishing resources available for personal use from those subject to obligations toward others, consistent with the Islamic emphasis

on amanah and accountability (Melis & Nawaz, 2024). This proposed mechanism concerns perceived entitlement and responsibility rather than financial competence, drawing on evidence that psychological ownership of money is distinct from financial literacy and planning propensity (Sharma et al., 2021). This conceptual link, while intuitive, has rarely been tested empirically, which is precisely the gap this study seeks to address.

Prior research has examined financial literacy and Islamic business ethics mainly as drivers of investment behavior, risk attitudes, and firm performance (Alharbi et al., 2022; Dharma et al., 2024). Studies have also shown that religiosity and ethical branding support SME performance when paired with financial capability and managerial discipline. Evidence from Indonesian SMEs suggests that religiosity is indirectly associated with business performance through financial behaviour, highlighting the importance of translating religious values into financial practices (Lestari et al., 2023). Research on tax morale likewise shows that religiosity and adherence to Islamic ethical values positively influence voluntary compliance among SMEs and self-employed taxpayers (Abodher et al., 2020; Rahman et al., 2024), with taxation sometimes framed in Islamic thought as a social contribution comparable to zakat (Fidiana, 2020).

Even so, this literature mostly treats financial awareness and ethics as direct predictors of economic or organizational outcomes, giving little attention to the cognitive mechanisms behind compliance decisions. Mental accounting, in particular, is rarely modeled as an intervening construct linking financial awareness and Islamic business ethics to tax compliance among Halal SMEs. This gap is reinforced by prior SME tax compliance studies, which have predominantly relied on direct-effect analytical models that offer limited explanation of the behavioral pathways through which financial cognition and ethical orientation influence compliance outcomes.

This gap defines the state of the art and novelty of the present study. Rather than treating financial awareness and Islamic business ethics as isolated predictors, this research positions mental accounting as a behavioral mechanism that may mediate their influence on tax compliance among Halal SMEs—a combination not yet jointly tested in behavioral taxation or Islamic business ethics research. By modeling financial awareness, Islamic business ethics, mental accounting, and tax compliance within one structural framework, the study moves beyond correlational designs toward an integrated compliance model specific to Halal SMEs, using Partial Least Squares Structural Equation Modeling (PLS-SEM), which suits exploratory, predictive models with complex latent relationships and moderate sample sizes (Hair et al., 2022).

Accordingly, this study examines the influence of financial awareness and Islamic business ethics on mental accounting and tax compliance among Halal SMEs, and specifically investigates whether mental accounting mediates the relationship between these factors and compliance behavior. Theoretically, the study is expected to contribute to behavioral finance and Islamic business ethics literature by embedding mental accounting within a behavioral taxation framework. Practically, the findings aim to inform policymakers and SME development programs in designing interventions that strengthen financial discipline, ethical consistency, and voluntary tax compliance among Halal SMEs.

2. Methods

This study employed a quantitative research design to examine the structural relationships among Financial Awareness, Islamic Business Ethics, Mental Accounting, and Tax Compliance within Halal Small and Medium Enterprises (SMEs). The research adopted an explanatory and predictive approach grounded in behavioral finance and Islamic business ethics perspectives, aiming to explain how cognitive financial awareness and ethical orientation shape tax compliance behavior through an internal behavioral mechanism. Four latent variables were examined in this study: Financial Awareness and Islamic Business Ethics as exogenous constructs, Mental Accounting as an intervening construct, and Tax Compliance as the endogenous outcome variable. Financial awareness and ethical orientation were expected to shape mental accounting practices, which in turn were expected to influence compliance behavior, either directly or through mental accounting

as a behavioral pathway connecting financial cognition, ethics, and fiscal responsibility among owners and managers of Halal SMEs.

The population of this study consisted of owners and managers of Halal SMEs directly involved in financial management and tax-related decision-making. For the purpose of this study, a Halal SME was defined as a micro, small, or medium enterprise that either holds an official Halal certificate from the relevant Halal certification authority or, in the absence of formal certification, self-declares its products or services as Halal in accordance with Islamic principles and is recognized as such within the Halal SME association or business directory used as the sampling frame. [AUTHOR TO CONFIRM/COMPLETE: state the actual sampling frame used, e.g., the name of the Halal SME association, local government registry, or business directory from which the respondent list was obtained]. Prospective respondents were approached [AUTHOR TO COMPLETE: describe contact method, e.g., in-person visits, online distribution, referral from association coordinators]. A total of [AUTHOR TO COMPLETE: number] questionnaires were distributed, of which [AUTHOR TO COMPLETE: number] were returned; [AUTHOR TO COMPLETE: number] responses were excluded during screening for incomplete answers or failure to meet the Halal SME criteria above, yielding a final usable sample of 100 respondents selected using purposive sampling, based on criteria including actively operating Halal SMEs, direct involvement in financial administration, and willingness to participate in the study. This sample size was considered adequate for Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis, as it exceeded the minimum requirement suggested by statistical power analysis and satisfied the commonly applied “10-times rule” in PLS-SEM research (Hair et al., 2024). Responses were recorded using a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5), allowing for consistent measurement across all constructs.

The research model was developed to capture both direct and indirect relationships among the four latent constructs. Financial Awareness and Islamic Business Ethics were positioned as predictors of Mental Accounting, reflecting the expectation that financially aware and ethically oriented business owners organize financial resources more systematically. Mental Accounting, in turn, was positioned as a predictor of Tax Compliance, reflecting the expectation that structured financial categorization encourages more disciplined fulfillment of fiscal obligations. Financial Awareness and Islamic Business Ethics were additionally modeled as direct predictors of Tax Compliance, allowing the model to distinguish direct effects from effects transmitted through Mental Accounting. This structure enabled the study to evaluate whether financial cognition and ethical orientation influence compliance behavior directly, indirectly through a behavioral mechanism, or through both pathways simultaneously.

All constructs were operationalized reflectively, as the observed indicators were assumed to represent manifestations of their respective underlying latent variables. Financial Awareness was measured using six indicators capturing respondents' awareness, understanding, and monitoring of financial conditions, budgeting behavior, and financial planning. Islamic Business Ethics was measured using five indicators reflecting honesty, accountability, fairness, transparency, and ethical responsibility grounded in Islamic business principles. Mental Accounting was originally operationalized using six indicators representing financial categorization, expenditure allocation, expenditure control, and separation of business and personal finances; two of these indicators (MA1 and MA4) were subsequently excluded during the measurement model evaluation due to outer loading values below the 0.60 threshold, retaining four indicators (MA2, MA3, MA5, MA6) in the final model (detailed in the Results section), while Tax Compliance was measured using five indicators reflecting awareness of tax obligations, accuracy of tax reporting, timely payment, and voluntary compliance behavior. The instrument was developed by adapting indicators from prior validated studies in behavioral finance, Islamic business ethics, and behavioral taxation literature, ensuring conceptual consistency with the constructs under investigation.

Data were analyzed using a variance-based Structural Equation Modeling approach through Partial Least Squares (PLS-SEM), selected for its suitability for predictive and exploratory research involving complex structural relationships, mediation effects, and latent constructs measured with multiple indicators. PLS-SEM was considered appropriate given the moderate sample size and the absence of strict multivariate normality assumptions, while also enabling simultaneous evaluation of the measurement and structural models. The analysis followed a two-stage procedure: the first stage assessed the measurement model through indicator reliability (outer loadings), internal consistency reliability (Cronbach's Alpha and Composite Reliability), convergent validity (Average Variance Extracted), and discriminant validity (Fornell–Larcker criterion), while the second stage evaluated the structural model through path coefficient analysis, the coefficient of determination (R^2), and bootstrapping procedures with 5,000 resamples to obtain t-statistics and p-values for both direct and indirect relationships. This procedure allowed the study to determine, in an integrated manner, whether financial awareness and Islamic business ethics influence tax compliance directly and whether this influence is transmitted through mental accounting as an intervening behavioral mechanism.

3. Results

The measurement model evaluation was conducted to assess indicator reliability, internal consistency reliability, convergent validity, and discriminant validity among the four latent constructs, following the recommended procedures in Partial Least Squares Structural Equation Modeling (PLS-SEM) studies (Hair et al., 2024).

Figure 1. PLS-SEM Structural Model Results

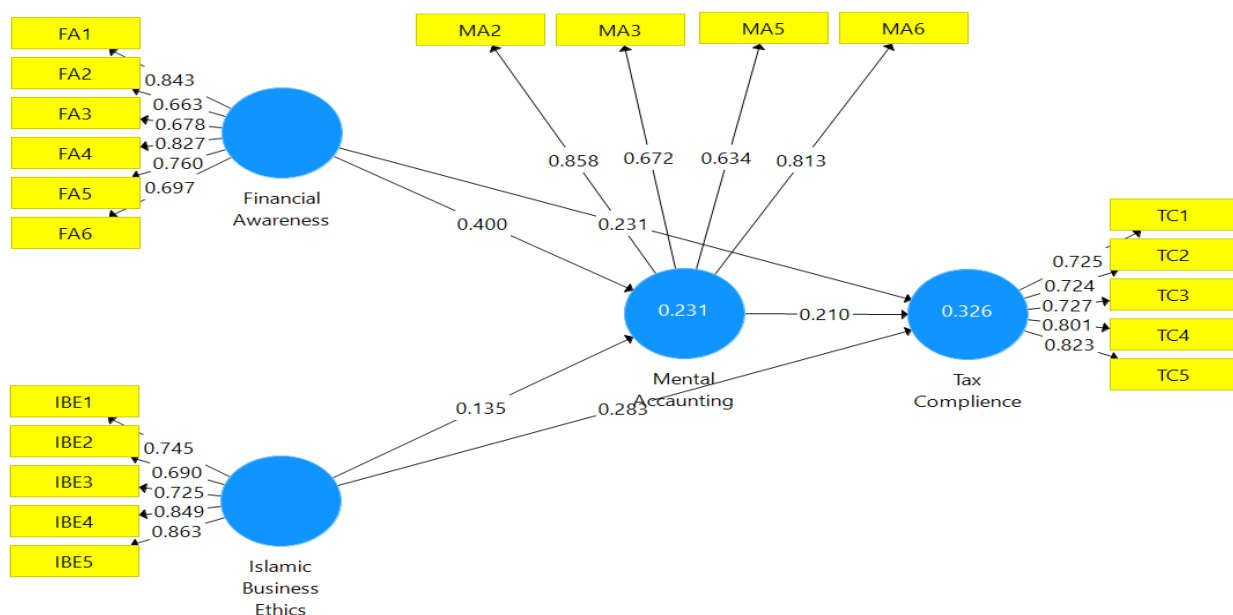


Table 1. Measurement Model Assessment

Construct	Indicator	Loading	Cronbach's Alpha	Composite Reliability	AVE
Financial Awareness	FA1	0.843	0.841	0.883	0.559
	FA2	0.663			
	FA3	0.678			
	FA4	0.827			
	FA5	0.760			
	FA6	0.697			
Islamic Business Ethics	IBE1	0.745	0.838	0.883	0.605
	IBE2	0.690			
	IBE3	0.725			
	IBE4	0.849			
	IBE5	0.863			
Mental Accounting	MA2	0.858	0.742	0.835	0.563
	MA3	0.672			
	MA5	0.634			
	MA6	0.813			
Tax Compliance	TC1	0.725	0.818	0.873	0.58
	TC2	0.724			
	TC3	0.727			
	TC4	0.801			
	TC5	0.823			

As presented in Table 1, all indicators demonstrated outer loading values above 0.60, indicating acceptable indicator reliability for exploratory behavioral research. Several indicators—FA2, FA3, IBE2, MA3, and MA5—showed loading values between 0.60 and 0.70; these were retained because their respective constructs satisfied the recommended thresholds for Composite Reliability and Average Variance Extracted (AVE), which is acceptable practice in exploratory PLS-SEM studies (Hair et al., 2024). Two indicators originally included in the Mental Accounting construct (MA1 and MA4) were removed from the final model because their outer loadings fell below the 0.60 threshold, leaving four indicators (MA2, MA3, MA5, MA6) that adequately represented the construct; no indicators were removed from the other three constructs. Internal consistency reliability was also satisfactory, as all Cronbach's Alpha and Composite Reliability values exceeded the recommended threshold of 0.70, with Financial Awareness recording a Composite Reliability of 0.883, Islamic Business Ethics 0.883, Mental Accounting 0.835, and Tax Compliance 0.873. Convergent validity was likewise confirmed, as all constructs achieved AVE values above 0.50, indicating that each construct adequately explained the variance of its own indicators.

Table 2. Discriminant Validity (Fornell–Larcker Criterion)

Construct	FA	IBE	MA	TC
Financial Awareness (FA)	0.748			
Islamic Business Ethics (IBE)	0.493	0.778		
Mental Accounting (MA)	0.466	0.332	0.750	
Tax Compliance (TC)	0.468	0.466	0.411	0.761

Discriminant validity was examined using the Fornell–Larcker criterion, which compares the square root of each construct's AVE (shown on the diagonal) with its correlations to other constructs. As shown in Table 2, the diagonal values for all four constructs exceeded their corresponding inter-construct correlations, confirming that each construct captured variance distinct from the others and satisfying the criteria for discriminant validity. Collinearity among indicators was further assessed through Variance Inflation Factor (VIF) values, which ranged from

1.308 to 3.116—well below the recommended threshold of 5.00 indicating the absence of multicollinearity problems within the measurement model.

Table 3. Coefficient of Determination (R^2)

Endogenous Construct	R^2	Adjusted R^2
Mental Accounting	0.231	0.215
Tax Compliance	0.326	0.305

The structural model assessment evaluated the predictive capability of the proposed model based on the estimation generated through SmartPLS, as illustrated in Figure 1. As presented in Table 3, Financial Awareness and Islamic Business Ethics jointly explained 23.1% of the variance in Mental Accounting ($R^2 = 0.231$), while Financial Awareness, Islamic Business Ethics, and Mental Accounting jointly explained 32.6% of the variance in Tax Compliance ($R^2 = 0.326$). These values indicate that the model possesses moderate predictive capability, meaning that a substantial portion of the variation in mental accounting practices and tax compliance behavior among owners and managers of Halal SMEs remains attributable to factors outside the current model, such as institutional enforcement, peer influence, or digital tax administration systems not captured in this study.

Table 4. Direct Effect Results (Hypothesis Testing)

Hypothesis	Relationship	β	t-Statistic	p-Value	Result
H1	Financial Awareness $\rightarrow$ Mental Accounting	0.400	3.873	0.000	Supported
H2	Islamic Business Ethics $\rightarrow$ Mental Accounting	0.135	1.228	0.220	Not Supported
H3	Mental Accounting $\rightarrow$ Tax Compliance	0.210	1.945	0.052	Marginal
H4	Financial Awareness $\rightarrow$ Tax Compliance	0.231	1.891	0.059	Marginal
H5	Islamic Business Ethics $\rightarrow$ Tax Compliance	0.283	2.499	0.013	Supported

Hypothesis testing was performed using bootstrapping procedures with 5,000 resamples, with significance assessed through path coefficients, t-statistics, and p-values. As shown in Table 4, Financial Awareness exerted a positive and significant effect on Mental Accounting ($\beta = 0.400$; $t = 3.873$; $p = 0.000$), indicating that owners and managers of Halal SMEs with higher financial awareness tend to categorize, allocate, and monitor their financial resources more systematically. In contrast, Islamic Business Ethics did not significantly influence Mental Accounting ($\beta = 0.135$; $t = 1.228$; $p = 0.220$). These results are interpreted further in the Discussion section.

Mental Accounting showed a positive but statistically marginal effect on Tax Compliance ($\beta = 0.210$; $t = 1.945$; $p = 0.052$), just above the conventional 5% significance threshold, indicating that structured financial categorization tends to support—but does not decisively determine—compliance behavior. Similarly, Financial Awareness demonstrated a positive but marginal direct effect on Tax Compliance ($\beta = 0.231$; $t = 1.891$; $p = 0.059$), suggesting that financial capability alone provides only limited direct influence on whether owners and managers of Halal SMEs fulfill their tax obligations. By contrast, Islamic Business Ethics exerted a positive and statistically significant effect on Tax Compliance ($\beta = 0.283$; $t = 2.499$; $p = 0.013$), the strongest and clearest direct relationship in the model. These results are interpreted further in the Discussion section.

Table 5. Indirect Effect Results (Mediation Analysis)

Hypothesis	Indirect Relationship	β	t-Statistic	p-Value	Result
H6	Financial Awareness $\rightarrow$ Mental Accounting $\rightarrow$ Tax Compliance	0.084	1.664	0.097	Not Supported
H7	Islamic Business Ethics $\rightarrow$ Mental Accounting $\rightarrow$ Tax Compliance	0.028	0.952	0.342	Not Supported

The mediation analysis, presented in Table 5, examined whether Mental Accounting functioned as an intervening behavioral mechanism linking Financial Awareness and Islamic Business Ethics with Tax Compliance. The results show that Mental Accounting did not significantly mediate the relationship between Financial Awareness and Tax Compliance ($\beta = 0.084$; $t = 1.664$; $p = 0.097$). Although Financial Awareness significantly shaped Mental Accounting, this structured financial categorization did not, in turn, translate into a statistically significant improvement in compliance behavior—indicating that Financial Awareness more likely influences Tax Compliance through a direct pathway rather than through cognitive financial categorization. Likewise, Mental Accounting did not significantly mediate the relationship between Islamic Business Ethics and Tax Compliance ($\beta = 0.028$; $t = 0.952$; $p = 0.342$), reinforcing the earlier finding that ethical orientation influences compliance through moral and normative considerations rather than through financial categorization behavior. Taken together, these results tentatively suggest that Financial Awareness and Islamic Business Ethics may affect Tax Compliance through two behaviorally distinct, though not necessarily mutually exclusive, routes—one predominantly cognitive and capability-driven, the other predominantly moral and value-driven—rather than through a shared indirect mechanism operating via mental accounting. This interpretation should be treated as exploratory, since the present design does not directly test the two pathways against each other.

4. Discussion

The association between financial awareness and mental accounting observed in this study is consistent with research showing that mental accounting involves the cognitive organization of financial outcomes into distinct categories and psychologically bounded accounts (Evers et al., 2022; Paul et al., 2023). For owners and managers of Halal SMEs, this finding suggests that financial awareness may be associated with how business income, expenditures, and obligations are mentally categorized and separated. This is particularly relevant to SME owners who must distinguish personal needs from business financial responsibilities. Research shows that psychological boundaries between roles influence whether funds earmarked for one purpose are used for another (Paul et al., 2023). The relationship observed in the present study suggests that financial capability interventions for Halal SMEs may produce benefits beyond bookkeeping accuracy. Consistent with experimental evidence that financial education can influence self-control, financial confidence, savings, and investment behaviour (Kaiser & Menkhoff, 2022), such interventions may also help owners organize and prioritize their financial responsibilities.

In contrast, the absence of a significant link between Islamic business ethics and mental accounting carries an important theoretical implication: moral and religious values, while powerful in shaping intention and normative commitment, do not automatically produce the cognitive structuring skills needed for systematic financial management. This distinction matters because it challenges an implicit assumption in much of the Islamic business ethics literature—that ethical orientation alone is sufficient to produce disciplined financial behavior (Jabbar et al., 2018). The findings instead suggest that ethics and financial cognition operate as separate psychological domains. An SME owner or manager may hold strong Islamic values around honesty and accountability without necessarily possessing the practical categorization skills to translate those values into structured financial practice. This distinction has direct relevance for SME capacity-building programs, which often bundle religious or ethical training with financial literacy under the assumption that one reinforces the other; the results here suggest these may need to be addressed as complementary but functionally distinct competencies.

The marginal effect of mental accounting on tax compliance is noteworthy not because it falls just short of conventional significance thresholds, but because of what it implies about the limits of cognitive explanations for compliance behavior. Mental accounting theory suggests that segregating tax obligations from disposable income should reduce the psychological sense of loss associated with paying taxes (Muehlbacher et al., 2017). That this mechanism appears only weakly present among owners and managers of Halal SMEs suggests that, in this population, compliance

may be governed more by external and normative pressures than by internal cognitive framing. This is a meaningful departure from findings in more formalized tax environments, where mental accounting has shown clearer compliance effects, and points to the possibility that informal or semi-formal SME settings require different behavioral levers than those effective for salaried or highly regulated taxpayers.

Similarly, financial awareness's limited direct influence on tax compliance is an important corrective to the common policy assumption that improving financial literacy will, by itself, meaningfully improve tax behavior. The results suggest that knowing how to manage money well does not necessarily translate into a stronger inclination to comply with fiscal obligations. This distinction is practically significant for SME development programs, which often treat financial education as a proxy for compliance improvement. The findings imply that financial capability may be a necessary but insufficient condition for compliance, and that programs relying on financial literacy alone may see smaller returns on tax compliance outcomes than anticipated.

The clear and significant influence of Islamic business ethics on tax compliance is arguably the most consequential finding of this study, as it affirms that moral and religious framing carries real behavioral weight in the fiscal domain among Halal SMEs. This aligns with the broader literature on tax morale, which shows that religiosity can function as an internalized form of accountability that operates independently of, and sometimes more powerfully than, formal enforcement mechanisms (Abodher et al., 2020; Rahman et al., 2024). The practical importance of this finding lies in what it suggests about compliance strategy: for Halal SMEs, appeals that frame taxation as a form of social and religious responsibility, echoing the redistributive logic of zakat, may be more effective than purely administrative or punitive compliance measures (Murtuza, 2008). This positions ethical and religious messaging as a legitimate and potentially underutilized policy lever, distinct from conventional financial-literacy-based interventions.

Taken together, the failure of mental accounting to mediate either relationship carries a broader theoretical significance: it suggests that financial awareness and Islamic business ethics may not funnel through a shared cognitive channel on their way to influencing compliance, but instead appear to operate along separate behavioral tracks—one rooted in financial capability, the other in moral conviction. This has important implications for how future research and policy conceptualize SME tax behavior. Rather than searching for a single unifying psychological mechanism linking cognition, ethics, and compliance, the findings suggest that effective interventions may need to be dual-pronged, addressing financial capability and ethical or religious motivation as parallel, non-substitutable pathways to strengthening voluntary tax compliance among Halal SMEs.

5. Conclusion

This study examined whether financial awareness and Islamic business ethics influence tax compliance among Halal SMEs directly or through mental accounting as an underlying behavioral mechanism. The findings show that financial awareness is a strong predictor of mental accounting, whereas Islamic business ethics is not; conversely, Islamic business ethics exerts a clear and significant direct effect on tax compliance, while mental accounting's effect on compliance is only marginal and does not significantly mediate either relationship. Taken together, these results tentatively suggest that financial capability and ethical or religious conviction may operate through two behaviorally distinct, though not necessarily mutually exclusive, routes toward compliance among owners and managers of Halal SMEs, rather than converging through a shared cognitive channel such as mental accounting.

Theoretically, this study contributes to the behavioral finance, Islamic business ethics, and behavioral taxation literature by empirically testing mental accounting as an intervening mechanism between financial and ethical antecedents and tax compliance, a combination rarely examined jointly in prior research. The non-significant mediation results suggest that models assuming ethical values must first be internalized through structured financial cognition before affecting compliance behavior may need to be reconsidered in the Halal SME context. Practically,

the findings suggest that programs aimed at strengthening tax compliance among Halal SMEs should not rely on financial literacy training alone but should also incorporate ethical and religious framing, since moral conviction appears to carry more direct behavioral weight than financial capability within this sample.

This study is subject to several limitations. First, its cross-sectional design restricts causal inference regarding the relationships tested. Second, the moderate sample size ($n = 100$), while adequate for PLS-SEM, limits the generalizability of the findings to the broader population of Halal SMEs. Third, data were collected through self-reported measures, which may be subject to social desirability bias, particularly for constructs related to ethical conduct and tax compliance. Future research is encouraged to employ longitudinal or experimental designs, larger and more geographically diverse samples, and to consider additional contextual moderators, such as firm size, digital tax administration, or regulatory enforcement intensity, that may further clarify the boundary conditions under which financial and ethical pathways to tax compliance operate.

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