

Tax professionals' perceptions on Malaysian HNWI's compliance behaviour

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Abstract

Documented evidence has shown that a significant number of high net worth individuals (HNWIs) whose contribution accounted for more than 11% of personal income tax collections have been caught in tax malfeasance over the period of 2009-2013 through IRBM tax audits. Therefore, this article examines the influence of probability of detection, perceived severity of punishment, political affiliation, role of tax professionals, conditional cooperation, and vertical fairness on HNWI's non-compliance behaviour. Survey questionnaires were administered among tax professionals, and data was analysed using PLS software. The results reveal that the probability of detection, severity of punishment, political affiliation and role of tax professionals have a significant influence on tax non-compliance behaviour among HNWIs.

Keywords: HNWIs; non-compliance; probability of detection; severity of punishment; political affiliation

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1. INTRODUCTION

Since 2009, when the Organisation for Economic Co-operation and Development (OECD) first published a report about the engagement of High Net Worth Individuals (HNWIs) on tax compliance, this category of taxpayers has become an important subject in tax research. While there is no universal definition of HNWIs, the most commonly applicable definition is that of OECD (2009) which defined HNWIs as individuals with a net worth of at least USD 1 million held either directly or indirectly through trusts and controlled entities. OECD (2009) clarified that there are four considerations for the recent focus on HNWIs among revenue authorities. The first is the complex nature of the transactions and businesses of HNWIs. Some are internationally mobile, making it difficult to establish their principal place of residence. They also have a variety of income sources and complex business arrangements. Secondly, they contribute a significant share of tax revenue. For instance, the OECD reported the top 0.5% of individual taxpayers in the United Kingdom as contributing 17% of the total income tax; in Germany, 8% of the income total tax, and similarly, in the United States, 40% of the total federal income tax collection (OECD, 2009, p. 13). In Malaysia, the top 0.32% contributed 11.95% of total individual tax collection in 2013 (Rosli, Ling & Embi, 2018). Thirdly, this large contribution occurs despite aggressive tax planning by HNWIs (OECD, 2009), as they have more opportunity of tax avoidance through aggressive tax planning. HNWIs are more likely to engage in aggressive tax planning due to the complexity of their businesses and variety of income sources to reduce their tax burden. This makes it possible for HNWIs to engage the services of a tax agent to assist them in aggressive tax planning (OECD, 2009). Lastly, though in reality HNWIs contribute a high proportion of tax, the public mostly perceives this category as paying the least amount of tax. Therefore, this brings forth the issue of integrity of the tax administration as the offences of HNWIs are more likely to attract public attention (OECD, 2009).

Based on the above considerations, studies have been undertaken regarding HNWIs in many countries around the world. For instance, the study of OECD (2009) covered 14 countries (Australia, Canada, Ireland, Germany, France, Japan, Mexico, the Netherlands, New Zealand, Norway, South Africa, Switzerland, United Kingdom and United States) and concluded among other things that HNWIs pose a significant challenge to tax administration where the channelling of resources to this segment of taxpayers can improve the level of tax compliance. In Uganda, a study undertaken by Kangave et al. (2016) concluded that Uganda can realise a modest increase in its tax revenue through taxing HNWIs, not necessarily through a tax rate increase, but proper administration of taxes which could be achieved through the development of a comprehensive framework governing the taxation of HNWIs. In Italy, Rossi (2022) reported that Italy has introduced a new tax regime for HNWIs in 2017 with the intent to convince both Italian and foreign HNWIs to transfer their residency status to the country and pay a fixed amount of EUR 100,000 in lieu of the Italian regular income tax on their foreign source income.

In Malaysia, Rosli et al. (2018) through the study of economic determinants of tax malfeasance practices of HNWIs found that a majority with a total income of MYR 1 million to MYR 3 million tend to engage in tax malfeasance. Specifically, the documented evidence has shown that a significant number of HNWIs whose contribution accounted for more than 11% of personal income tax collections have been caught in tax malfeasance over the period of 2009 to 2013 through Inland Revenue Board of Malaysia (IRBM) audits (Rosli et al., 2018). The available records showed

that of 511 HNWIs audited during the aforesaid period, 319 were found to engage in tax malfeasance, which represented about 62% of this important category of taxpayers. A bigger challenge is that the number of this category of taxpayers is growing. The number of HNWIs in Malaysia increased from about 990 in 2015 to 1,020 in 2016 (The Star, 2017). This growth may further challenge the tax administration as additional strategies should be required to reduce non-compliance practices, and/or to create a conducive tax climate for Malaysian HNWIs residing overseas to transfer their residence status to Malaysia in anticipation of a favourable tax treatment.

However, in Malaysia few attempts have been made to understand the compliance behaviour of individual taxpayers. The only available study relating to the compliance behaviour of HNWIs in Malaysia is Rosli et al. (2018). While the study has strategic utility value for understanding the tax malfeasance of HNWIs, it was limited to economic factors such as tax rate, income level, income sources and use of tax agent, which are mainly based on data readily available at IRBM. A major argument is that there could be other factors beyond economic ones that could only be perceived by the tax agents who mostly interact with HNWIs.

Rosli et al. (2018) concluded that, considering that the probability of detection or being selected for audit is very low in Malaysia (which is expected to happen once in every five years), it could be reasonable for HNWIs to perceive a low chance of detection. However, the influence of the probability of being audited and tax non-compliance of HNWIs in Malaysia has not been examined. Moreover, there is an argument in tax compliance literature that even when the probability of detection is high, individuals could still decide to evade by weighting the cost and benefit of evasion. This means that when the cost (punishment) is higher than the benefit (proceeds from evasion or underreporting), such an individual could still evade taxes (Allingham & Sandmo, 1972). Although this has long been established in tax compliance literature, to the best of the researchers' knowledge it has not been examined with regards to HNWIs' compliance.

In support of the influence of political affiliation on tax compliance, Fairfield (2013) stressed that in jurisdictions where elites have political and investment power, it could be difficult to achieve significant increases in direct tax, thus highlighting the possible impact of political affiliation on the tax compliance of HNWIs.

Additionally, the perceived role of tax professionals in aiding evasion is another suggested area of concern in HNWIs' tax non-compliance (Rosli et al., 2018). The nature of HNWIs' incomes which are generated from multiple and complex sources imply that they could have a high likelihood to receive sophisticated financial advice from tax professionals to aid them in aggressive tax planning (OECD, 2009). In Malaysia, the law provides that any person who assists or advises a taxpayer to under-report tax liability may be prosecuted and upon conviction be liable to a MYR 20,000 fine or even imprisonment of not more than three years; however, this has not to date been put into effect (Rosli et al., 2018). Moreover, OECD (2009) also suggested the exploration of cooperative strategies in relation to the tax compliance of HNWIs. Jahnke (2015) identified and examined two types of conditional cooperation. The first is the conditional cooperation through vertical reciprocity in which taxpayers comply based on the perceptions that members of their groups also comply. The second is horizontal reciprocity based on a conditional cooperation between taxpayers and the government. While OECD (2009) highlighted horizontal reciprocity based on the conditional cooperation between HNWIs and the government, it is also important to consider

vertical reciprocity based on conditional cooperation among HNWIs. Lastly, there is also the issue of fairness perception, especially with regards to the tax rate increase for the high income bracket from 25% to 28% in 2015 (The Star, 2015). This may passively create a new perception of fairness for high income earners including HNWIs, as this could create a question regarding vertical fairness (Saad, 2010). However, the perceptions of HNWIs regarding vertical fairness have not been examined in the literature.

In line with these highlighted matters, this article examines the influence of perceived determinants of HNWIs' non-compliance to address the gap left by the study of Rosli et al. (2018). In that study, the focus was limited to economic factors only, despite the fact that there could be other factors beyond economic ones that could only be perceived by the tax agents who mostly interact with HNWIs. Furthermore, the number of HNWIs in Malaysia has been gradually increasing over time since 2013. Specifically, the article investigates the perceived determinants of tax non-compliance of HNWIs in Malaysia covering probability of detection, perceived severity of punishment, political affiliation, role of tax professionals, conditional cooperation, and vertical fairness.

The article contributes to the literature on HNWIs' compliance behaviour as this literature is in its nascent stage with only few scholarly publications such as OECD (2009), Kangave et al. (2016, 2018), Rosli et al. (2018) and Rossi (2022). More importantly, with the exception of Rosli et al. (2018), none of these studies modelled the determinants of non-compliance behaviour of HNWIs, which is also limited to the use of audit data that neglect socio-psychological factors. Therefore, investigation into the perceived determinants of HNWIs' non-compliance will produce a complementary model for HNWIs' non-compliance. As a practical matter, the IRBM may also be interested to know the possible causes of this phenomenon to help develop policies and strategies to reduce HNWI non-compliance. Therefore, the outcome of this study will assist in developing these policies and strategies, especially to promote cooperation between the government and HNWIs to boost individual tax revenue collection in Malaysia. Giving the importance of HNWIs in contributing to the revenue base of their respective countries and their widely acclaimed aggressive tax planning, by implication the model produced from this study can be adapted in many countries around the world to address the non-compliance behaviour of HNWIs in their respective jurisdictions, thereby promoting international cooperation in addressing HNWIs' non-compliance challenges.

The remainder of this article is organised as follows: section 2 reviews the literature on non-compliance within and outside Malaysia and related variables. Hypotheses are developed based on the discussion. Section 3 explains the research method employed. Results from descriptive and regression analyses are presented in section 4. Finally, section 5 summarises and concludes the article.

2. LITERATURE REVIEW

This section provides a review on the different definitions of HNWIs and the literature on non-compliance of HNWIs around the globe. This is followed by a review of literature on the independent variables and hypotheses.

2.1 Understanding HNWIs

The most commonly applicable definition of HNWIs is that of OECD (2009), in which HNWIs are defined as individuals with a net worth totalling USD 1 million either directly or through trust and other controlled entities. Similarly, in Australia, HNWIs are considered those with net worth of USD 1 million, including their primary residence (Real Estate Conversation, 2020, citing Knight Frank Research, *Wealth Report 2020* (14th ed, 2020)), while in South Africa, HNWIs are defined based on gross income and/or gross wealth of ZAR 7 million and 75 million respectively (Kangave et al., 2016). In Uganda, three criteria are used in defining HNWIs (Kangave et al., 2018). The first is rental income or land and property transactions. This is considered due to the fact that Uganda is a real estate economy. In this, an individual is considered an HNWI if they generate a rental income of USD 142,000 annually or engage in the buying and selling of land for which the value exceeds USD 285,000 in a five-year period. Secondly, shareholding is also used as a criterion; in this, an investor in a private company whose annual turnover exceeds USD 14.3 million is considered an HNWI, and a shareholder of multiple companies with a turnover between USD 4.3 million and 14.3 million is considered an HNWI. Lastly, bank deposits are also classified as a useful indicator of wealth. A person is classified as an HNWI if they have a loan portfolio of over USD 1.5 million in a five-year period or have bank transactions of over USD 1 million annually. In Malaysia, Securities Commission Malaysia (2021) defined HNWIs in terms of both income and wealth. In terms of wealth, HNWIs are those whose total net assets or total net joint assets with a spouse exceed MYR 3 million or its equivalent in foreign currencies, excluding the value of the person's primary residence. In terms of income, consideration was given for individuals and joint annual incomes of MYR 300,000 or 400,000 or its equivalent in foreign currency (Securities Commission Malaysia, 2021). OECD (2013) classified HNWIs for some selected OECD member countries and OECD non-member countries, including Malaysia. For Malaysia, OECD (2013) classified HNWIs as individuals with a statutory income over MYR 1 million, assets over MYR 5 million, or both together over MYR 5 million.

For the purpose of this study, the definition of OECD (2013) was adopted for three reasons. First, the equivalent of USD 1 million proposed in the definition of HNWIs in OECD (2009) is closer to the MYR 5 million in assets contained in OECD (2013) compared to MYR 3 million suggested by Securities Commission Malaysia. Secondly, in relation to the definition contained in OECD (2009) which classified HNWIs as those having wealth over USD 1 million for tax purposes, this was arrived at after including South Africa, which is an upper middle-income country like Malaysia.¹ Lastly, the statutory income of MYR 1 million suggested by OECD (2013) is closer to reality. For instance, Uganda which is classified as a low income country² adopts an annual rental income of USD 142,000 as the measure which is equivalent to MYR 580,000. For the purpose of HNWI classification based on income, it could not be fair to classify an income of MYR 300,000 for individuals and MYR 400,000 for individuals and spouses as HNWIs for tax purposes in Malaysia based on the Securities Commission Malaysia

¹ World Bank Group, 'World Bank country and lending groups – country classification', <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups> (accessed 28 September 2019).

² Ibid.

classification as Malaysia is an upper middle-income country. Thus, this study considers a high amount of statutory income of MYR 1 million as suggested by OECD (2013).

2.2 Economic deterrence theory

Economic deterrence theory is said to originate from the Allingham and Sandmo (1972). The theory was developed based on the economics of crime approach. It assumed that the taxpayer earns a fixed amount income, and it left it as a matter for that taxpayer to decide the amount to under-report and to declare to the relevant tax authority as income. The theory postulates that tax compliance is primarily the function of three main deterrent variables consisting tax rate, tax audit and detection probability (Allingham & Sandmo, 1972). Although Allingham and Sandmo (1972) has set an important foundation to the economic deterrence theory, several scholars have made an effort to extend the theory by adding non-deterrence variables which also play a key role in explaining tax compliance (Alm, 1999; Torgler, 2002; Ya'u, Saad & Mas'ud, 2020). Nevertheless, no effort has so far been made in extending the deterrence theory within the context of HNWIs; hence, this study intends to bridge this gap by examining the factors responsible for tax non-compliance by HNWIs.

2.3 Tax non-compliance of HNWIs

Tax non-compliance of HNWIs is a major issue of concern for tax authorities globally (Rosli et al., 2018). Four important issues make the tax compliance of HNWIs an issue of concern among countries (OECD, 2009): (1) HNWIs have complex tax affairs; (2) their tax liabilities are a significant source of revenue; (3) they have more opportunity for aggressive tax planning through the assistance tax advisers, and (4) their behaviour affects the integrity of the tax system.

It is important to note that there are two main schools of thought in tax compliance. One is based on economic theory while the other is based on behavioural theory. The first school is an extension of Becker's (1968) economics of crime model in which the taxpayer's decision to evade depends on the risk involved in the evasion process. Allingham and Sandmo's (1972) economic deterrence theory extends Becker's (1968) economics of crime model through the consideration of probability of detection and penalties based on expected utility theory. Though economic deterrence has been prominent in tax compliance literature (Sapiei & Kasipillai, 2013), it has been argued that economic determinants alone cannot fully explain compliance behaviour, especially when detection probability is low. Eventually, the incorporation of behavioural factors, and more specifically sociological and psychological factors, was made (see Fischer, Wartick & Mark, 1992; Jackson & Milliron, 1986; Loo & Ho, 2005; Palil & Mustapha, 2011). A suggestion was made by Hasseldine and Bebbington (1991) and James and Alley (2002) that socio-psychological factors and fiscal psychological factors should be studied alongside economic deterrence variables.

Specifically, in the context of HNWIs there is a paucity of empirical evidence regarding the factors that explain tax non-compliance. For instance, the earlier studies such as OECD (2009), Kangave et al. (2016), Van Vuuren (2016), Rossi (2022), as well as Kangave et al. (2018) centred on tax administration issues of HNWIs in terms of complexity of identifying the sources and nature of their income, opportunity for non-compliance through aggressive tax planning aided by tax advisers, integrity of tax administration, audit approach, whistleblowing, offshore amnesty programs, and exchange of information programs. The only study that has focused on estimating the

determinants of tax non-compliance of HNWIs is Rosli et al. (2018). While the study has utility value, it focused mainly on economic determinants estimated through IRBM's audited data such as tax rate, income level, income source, and use of tax agent. However, observations have been made in the literature that economic factors alone cannot explain tax compliance and these need to be supported with socio-psychological factors and fiscal psychological factors (Hasseldine & Bebbington, 1991; James & Alley, 2002). Hence, this study aims to bridge the gap left by Rosli et al. (2018) by focusing on perceived economic, sociological, and psychological factors such as probability of detection, perceived severity of punishment, political affiliation, role of tax professionals, conditional cooperation, and vertical fairness that may affect HNWIs' non-compliance.

2.4 Probability of detection

Probability of detection is defined as the possibility of discovering non-compliance and rectification of deviance by tax authorities (Fischer et al., 1992). It emerged from the probability of being audited, which is considered as very narrow in detecting non-compliance, as audit is not perfect in detecting non-compliance. The two probabilities are not identical as the audit may fail to detect non-compliance by a taxpayer; however, probability of detection can represent a higher likelihood than probability of audit as detection efforts comprise several approaches such as using a computer to match third-party reports, computerised checks of tax return forms for the detection of obvious errors by taxpayers, as well as a well-rounded audit approach that touches entire levels of transactions. The probability of detection could be an important variable in the study of tax non-compliance of HNWIs because they mostly employ aggressive tax planning approaches to evade taxes (OECD, 2009); hence the need for authorities to institute various techniques that can enhance the probability of detection.

Studies have documented the influence of detection probability on tax compliance. Earlier studies such as Allingham and Sandmo (1972) and Fischer et al. (1992) reported that high probability of detection enhances tax compliance; this can be considered alongside recent evidence such as the findings of Alkhatib, Abdul-Jabbar, and Marimuthu (2018) which confirmed that high detection probability reduces evasion. Although evidence on the negative relationship between probability of detection and tax non-compliance is lacking with respect to HNWIs, the following hypothesis is developed.

H₁: *There is a negative relationship between probability of detection and tax non-compliance of HNWIs in Malaysia.*

2.5 Perceived severity of punishment

Severity of punishment has been defined by Earnhart and Friesen (2014) as the size of penalty imposed against offenders. Williams and Horodnic (2016) view severity of punishment as the sanctions imposed on taxpayers for non-compliance as classified into three categories: payment of the amount of tax due without penalty, payment of the amount due plus a fine, and payment of the amount due plus prison. In relation to HNWIs, the severity of punishment could be an important variable in their compliance behaviour since a significant number have been found to participate in tax malfeasance practices (Rosli et al., 2018) and there is a public belief that these categories of taxpayers are not meeting their tax obligations (OECD, 2009).

Severity of punishment has been analysed over a long period in the tax compliance literature. The earlier studies of Allingham and Sandmo (1972) and Fischer et al. (1992) reported that a high penalty leads to improvement in tax compliance. This has recently also been confirmed in the study of Alkhatib et al. (2018) in which penalty was found to negatively affect evasion due to strong fear of punishment by the taxpayers when caught in the act of non-compliance. Considering earlier literature on non-compliance (although lacking in respect of HNWIs), we propose the following hypothesis:

H₂: *There is a negative relationship between severity of punishment and tax non-compliance of HNWIs in Malaysia.*

2.6 Political affiliation

Political affiliation is defined in this study as membership of, or association with, a ruling political party. Literature relating to HNWIs indicates that those who are identified with a ruling party engage in evasion. For instance, in Uganda, Kangave et al. (2018) reported that analyses of tax compliance undertaken over the period of 2011-12 to 2013-14 for 71 top government officials revealed that the majority were not paying personal income tax even though they had stakes in commercial enterprises. Companies associated with these officials were also found not to comply with their tax obligations.

Extant literature documents a positive relationship between political affiliation and evasion. For instance, McGowan (2000) found that taxpayers who were identified with the Republican Party (right-leaning party) in the United States tend to be more opposed to taxes than those who either identified with the Democratic Party and Independents (left-leaning parties). Likewise, Hasseldine and Hite (2003) concluded that political party affiliation has a significant influence on taxpayers' behaviour, and taxpayers affiliated with the ruling party are more likely to be favourably treated by the tax authorities compared to other taxpayers affiliated to non-ruling parties. More recently, Palil, Zain and Faizal (2012) established a link between political affiliation and tax compliance in Malaysia. However, despite the link between political affiliation and tax compliance, evidence is lacking as to such effect with respect to HNWIs. Consequently, the following hypothesis is developed.

H₃: *There is a positive relationship between political affiliation and tax non-compliance of HNWIs in Malaysia.*

2.7 Role of tax professionals

The role of tax professionals refers to the influence of tax professionals in income tax reporting (Rosli et al., 2018). Tax professionals can be of varying specialisations such as tax advisers, tax preparers, tax agents, tax accountants, tax intermediaries and tax lawyers (Frecknall-Hughes & Moizer, 2015). Tax professionals play a significant role in tax compliance of HNWIs and their sophisticated application of aggressive tax planning to evade taxes. For instance, in the UK, about 70% of HNWIs employed the use of tax advisers (OECD, 2009), while 45.1% of HNWIs in Malaysia explicitly indicate that they hire tax professionals to handle their tax affairs (Rosli et al., 2018).

Studies have documented that HNWIs engage tax advisers for aggressive tax planning (OECD, 2009). In Australia, Sakurai and Braithwaite (2003) discovered that the majority of taxpayers believe that tax professionals are creative aggressive tax planners. Christensen (2015) noted that specific attention needs to be paid to the harm caused in relation to tax competition through tax powerbrokers such as 'Big 4' accounting firms

who have the ability to devise schemes for tax avoidance and evasion. Through audit data, Rosli et al. (2018) found a significant relationship between the influence of tax professionals and non-compliance; however, whether or not tax professionals aided aggressive tax planning that can result in tax non-compliance of HNWI's in Malaysia is an issue that needs further evidence. Therefore, the following hypothesis is developed:

H₄: *There is a positive relationship between the role of tax professionals in aggressive tax planning and tax non-compliance of HNWI's in Malaysia.*

2.8 Conditional cooperation

Conditional cooperation has been classified into two dimensions (Jahnke, 2015). The first dimension relates to taxpayers' compliance based on the behaviour of members of a group or society. This is regarded as horizontal reciprocity (Torgler, Schaffner & Macintyre, 2007). Specifically, horizontal reciprocity suggests that when a taxpayer believes that other members of the society that he/she belongs to are paying taxes, that taxpayer develops the motivation to pay; however, when an individual perceives that evasion is common in the society, such individual may be opportunistic in engaging in tax evasion behaviour. The second dimension is based on conditional cooperation between the taxpayer and tax authority through their interactions, such that taxpayers cooperate when the tax authority is also cooperative through information and support. This conditional cooperation is based on vertical reciprocity.

Literature on HNWI's indicates the possibility of horizontal and vertical reciprocity of conditional cooperation. For horizontal reciprocity, for instance, Kangave et al. (2016) posited that the perceptions regarding compliance of HNWI's is likely to have a bearing on the behaviour of other taxpayers. Thus, it can be deduced that when members within the HNWI group believe that others are under-reporting due to certain reasons such as aggressive tax planning or political affiliation, they could also develop a similar behaviour to evade taxes. In line with this argument, the following hypotheses are developed.

H_{5a}: *There is a negative relationship between conditional cooperation among HNWI's (horizontal reciprocity) and tax non-compliance of HNWI's in Malaysia.*

H_{5b}: *There is negative relationship between conditional cooperation between HNWI's and government (vertical reciprocity) and tax non-compliance of HNWI's in Malaysia.*

2.9 Vertical fairness

Vertical fairness in relation to taxation refers to the perception that taxpayers with different economic situations are taxed at different rates (Kirchler, Niemirowski & Wearing, 2006). This implies the need for higher income earners to pay tax at higher rates than low income earners. In relation to high income earners, which include HNWI's, Malaysia implemented an upward revision of tax rates from 25% to 28% in 2015 (The Star, 2015). This may create a new perception of fairness for high income earners, including HNWI's.

Literature has examined the influence of vertical fairness on tax compliance. In Malaysia, Saad (2010) investigated the influence of vertical fairness alongside other dimensions of fairness on voluntary compliance intention. The result revealed no significant relationship between vertical fairness and voluntary compliance intention, which implies that such perception is no motivation to either comply or not comply. In

relation to HNWIs, Rosli et al. (2018) examined the influence of tax rate on tax malfasance in Malaysia, and the result revealed an insignificant relationship. It was concluded that the majority of HNWIs will pay tax irrespective of the rate imposed. However, Rosli et al. (2018) cautioned that when the rate is high, there could be a likelihood for HNWIs to take the risk for aggressive tax planning by shifting their wealth or income to lower tax jurisdictions. In fact, they concluded that the study of tax rate alone could not be the only factor influencing HNWIs' decisions to evade tax. Consequently, in view of this gap, it is proposed that there needs to be an investigation on the perception regarding vertical fairness and whether HNWIs perceive that the rate is fair enough to encourage compliance. Consequently, the following hypothesis is developed:

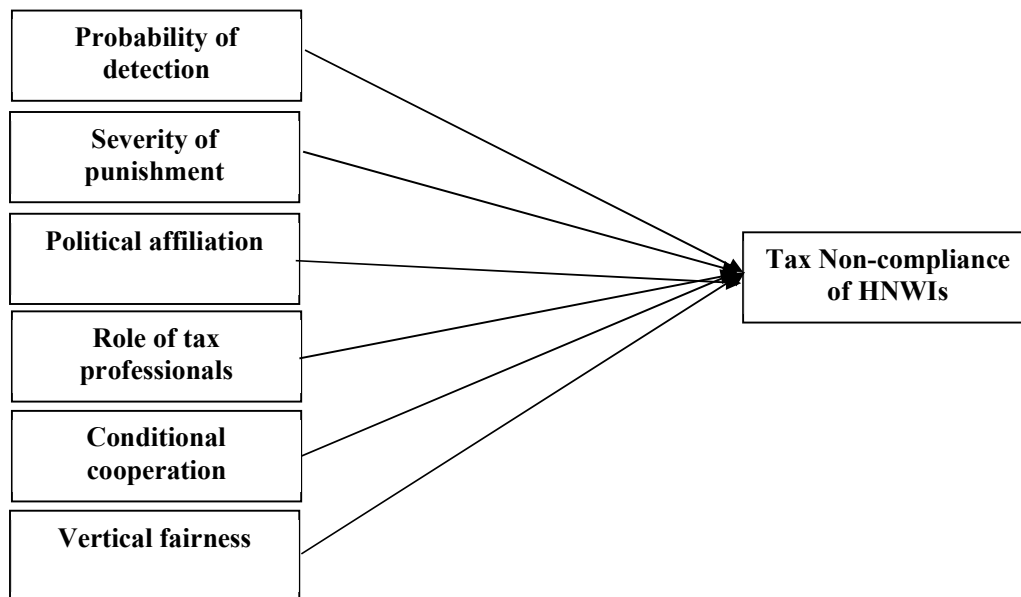
H₆: *There is a negative relationship between vertical fairness and tax non-compliance of HNWIs in Malaysia.*

3. RESEARCH METHOD

This section describes the research model, research design, population and sample selection and data collection method and data analysis techniques.

3.1 Research model

The research model in this study is supported by Allingham and Sandmo's (1972) economic deterrence theory as well as suggestions made by Hasseldine and Bebbington (1991) and James and Alley (2002) for integrating socio-psychological and fiscal psychological factors in developing a tax compliance model. Specifically, the model is designed to explore the extent of the relationship between the probability of detection, perceived severity of punishment, political affiliation, role of tax professionals, conditional cooperation, and vertical fairness as independent variables and tax non-compliance of HNWIs as the dependent variable. The presentation of the model through both schematic presentations is as depicted in Figure 1 and through multiple regression analysis as derived in Equation 1.

Fig. 1: Model of Perceived Determinants of HNWIs' Tax Non-Compliance

Based on the research model in Figure 1, the following multiple regression model is proposed to enable the test of the hypothesised relationships:

$$\text{Tax non-compliance} = \alpha + \beta_1 \text{ probability of detection} + \beta_2 \text{ severity of punishment} + \beta_3 \text{ political affiliation} + \beta_4 \text{ role of tax professionals} + \beta_5 \text{ conditional cooperation} + \beta_6 \text{ vertical fairness} + \varepsilon \quad (1)$$

where: α is the intercept, β is the multiple regression coefficient and ε is an error term.

3.2 Research design

A quantitative approach involving a survey was adopted to answer the objectives of the article. Survey instruments were developed from previous studies. The survey questionnaires that were distributed to tax professionals were divided into three main sections. The first section consisted of demographic information of the respondents, including their gender, age, highest qualification, designation, affiliation, years of service, and size of their firms. The second section comprised questions pertaining to respondents' non-compliance behaviour and the respective variables under study. For this section, the items used a 5-point Likert scale ranging from 'strongly disagree' to 'strongly agree'. The questionnaires were prepared in the English language. Tax professionals were informed on the definition of HNWIs in the cover page of the questionnaires.

3.3 Operational definitions and measurement

The following are the operational definitions of variables, based on the literature and research context.

3.3.1 Non-compliance behaviour

Generally, non-compliance refers to taxpayers' wrongdoings such as failure to report or not report tax charged, not submitting income tax return forms, not reporting the actual income, and no tax payment or late tax payment. For the purpose of this article, non-compliance is defined as non-conforming to the tax obligations in terms of under-reporting of incomes in filing tax returns. Three (3) items were utilised to measure non-compliance behaviour for under-reporting incomes. The items, which were adapted from Yankelovich, Skelly and White Inc. (1984) are listed below:

Variable	Item
Non-compliance Behaviour (Under-reporting incomes)	HNWIs may consider it permissible not to report an income in a tax return for business done among them.
	HNWIs may believe it is acceptable to report income without including extra income generated from other sources of income.
	HNWIs may perceive that it is permissible not to report cash being paid for a contract or services rendered.

3.3.2 Probability of detection

The literature defines probability of detection as the possibility of discovering non-compliance and rectification of deviance by tax authorities (Fischer et al., 1992). Consistently, this article defines the variable as the likelihood of being detected for non-compliance. Four (4) items were used to measure probability of detection.

Variable	Item
Probability of Detection	I think HNWI's believe that IRBM is capable of detecting underreporting of large amount of income
	I think HNWI's believe that IRBM is capable of detecting overstatement of large deductions
	I think HNWI's believe that IRBM has adequate mechanism to detect underreporting of small amount of tax liability
	I think HNWI's believe that IRBM has expertise that can easily detect overstatement of small deduction

3.3.3 *Severity of punishment*

Consistent with the literature, severity of punishment has been operationalised as the degree of penalty imposed against tax offenders (Earnhart & Friesen, 2014). Four (4) items were used to measure severity of punishment.

Variable	Item
Severity of Punishment	As far as I know HNWIs are aware that intentional tax evaders are severely punished for refusing to pay taxes.
	As far as I know HNWIs are aware that taxpayers who openly refuse to pay taxes are treated as criminals and will be punished according to the law.
	As far as I know HNWIs are aware that penalty imposed on them is severe enough to aid tax compliance.
	As far as I know HNWIs are aware that existing enforcement procedures impose on them are sufficient enough to improve compliance.

3.3.4 *Political affiliation*

This article adopts the definition by Palil et al. (2012) where political affiliation refers to a membership of, or association with, a ruling political party. Five (5) items were adapted from Abodher, Ariffin and Saad (2018) to measure political affiliation.

Variable	Item
Political Affiliation	I believe HNWIs who are affiliated with the ruling party are more encouraged to pay tax.
	I believe HNWIs who are confidence in the present government are more encouraged to pay tax.
	I believe most of the HNWIs I know consider that paying tax is a national duty which does not relate to any political affiliation.
	I believe HNWIs would more be likely to pay tax if one of the political leaders they have voted is in power.
	I believe HNWIs' political affiliation may not completely impact on paying taxes.

3.3.5 *Role of tax professionals*

Adopting the definition by Rosli et al. (2018), this article defines role of tax professionals as the influence of tax professionals in income tax reporting. Five (5) items were utilised to measure the role of tax professionals.

Variable	Item
Role of Tax Professionals	HNWIs believe that tax professionals are always around to assist them during their tax audit sessions.
	HNWIs believe that tax professionals provide assistance to them in discussions and negotiation a lot with the tax auditors on the audit's findings.
	To my knowledge HNWIs believe that they would have been in a very difficult situation without the intervention of tax professionals in their audits processes.
	To my knowledge HNWIs believe that tax professionals highly assist them in strategic tax planning.
	To my knowledge HNWIs believe tax professionals assist them to reduce their tax liability through legal and constitutional means.

3.3.6 *Horizontal reciprocity*

In this article, horizontal reciprocity is defined as taxpayers' compliance based on the behaviour of members of the group or society (Torgler et al., 2007). In other words, they will behave in a similar manner as their counterparts. This variable is measured by three (3) items which were adapted from Frey and Torgler (2007).

Variable	Item
Horizontal Reciprocity	I believe HNWIs would be more likely to pay tax if others within their income group are paying.
	I believe HNWIs would also feel obligated to contribute and pay their taxes if many citizens pay their taxes.
	To my understanding some HNWIs wish to fulfill the social norm of paying their taxes by just behaving according to society's rules.

3.3.7 *Vertical reciprocity*

This conditional cooperation is defined as the cooperation between taxpayer and government through their interactions with the tax authority or government in general (Kangave et al., 2016). Three (3) items are measured for this variable which were adapted from Jahnke (2015).

Variable	Item
Vertical Reciprocity	To my understanding HNWI's would agree to a tax increase if the extra money is used to finance the provision of better public goods and services.
	To my understanding HNWI's perceive IRBM has been a supportive institution in discharging their tax obligations.
	To my understanding HNWI's perceive the central government discharge its responsibilities.

3.3.8 *Vertical fairness*

Vertical fairness is operationalised as the perceptions of HNWI's on taxpayers with different economic situations that are being taxed at different rates, following the definition of Kirchler et al. (2006). Three (3) items are used to measure vertical fairness.

Variable	Item
Vertical Fairness	I believe HNWI's may think it is fair that they are taxed at a progressively higher tax rates than other income earners.
	I believe HNWI's may think it is fair that middle-income earners are taxed at a lower rate compared to them.
	I believe HNWI's may think that the share of the total income taxes paid by them is fair relative to their earnings.

3.4 Population and sample size

The population was taken from the list of 2,722 tax professionals registered with the IRBM. In order to meet the need for representative statistical sample in empirical

research, the table of sample size determination by Krejcie and Morgan (1970) was referred to. Based on the table, a population of 2,800 requires 338 samples. However, considering the response rate in Malaysia is within approximately 18%-30%, the sample size was increased by 50% (in addition to the sample size suggested by Krejcie and Morgan, 1970), where 500 tax professionals were systematically selected.

3.5 Data collection method

Data from tax professionals on the perceived determinants of HNWI's non-compliance were collected using a combination of postal, self-administered, and online surveys. A blend of approaches had to be adopted to increase the response rate. The data collected was analysed using SPSS (for demographic and descriptive analysis) and Partial Least Squares (PLS) Structural Equation Modelling (SEM) using SmartPLS version 3.0.

3.6 Response rate

As set out in Table 1, of 500 questionnaires which were distributed, 123 responses were collected. Of those, 23 responses stated that they did not handle HNWI clients, and were therefore dropped from this analysis.

Table 1: Summary of Survey Responses

Description	Number of Questionnaires	% Total
Questionnaires Distributed	500	100.0
Returned Questionnaires	123	24.6
Invalid Questionnaires	23	4.6
Usable Questionnaires	100	20.0

4. RESULTS AND DISCUSSION

4.1 Demographic information

Table 2 illustrates the demographic characteristics of the respondents. From 100 respondents, 56 were males (56%) and 43 were females (43%). With respect to the type of firms that they represented, 60 (60%) respondents were from small firms, followed by mid-sized firms with 32 respondents (32%) and only 6 respondents (6%) were from the 'Big 4'. The respondents were asked about their experience as tax professionals. The results indicate that the majority (65%) had experience of five years and above as tax professionals, while the remaining respondents (34%) had experience of less than five years.

Generally, 50% indicated that the majority of their clients were small companies, followed by mid-sized companies (36%) and individuals (4%). Irrespective of this, all the tax professionals admitted that they had HNWI clients. This is important to ensure that their perceptions reflect their experience in dealing with HNWIs.

Table 2: Demographic Information

Demographic Profile	Frequency	Percentage
Gender:		
Male	56	56%
Female	43	43%
Missing	1	1%
	100	100%
Size of the firms:		
Small Firm	60	60%
Mid-size Firm	32	32%
Big Four	6	6%
Missing	1	1%
	100	100%
Number of years as tax agent:		
Less than 5 years	34	34%
5-10 years	24	24%
More than 10 years	41	41%
Missing	1	1%
	100	100%
Type of clients (Majority):		
Individual	4	4%
Small companies	50	50%
Mid-size companies	36	36%
Large companies	7	7%
Missing	3	3%
	100	100%

4.2 Descriptive results

This section describes the descriptive results on every variable under study. As set out in Table 3, for under-reporting income, the mean value for every item is below 2.50 which indicates that tax professionals perceive that the HNWI's were not in favour of under-reporting their incomes. Overall, the mean score for the three items is 2.21 with a standard deviation of 0.84. In other words, the HNWI's considered that it is tax non-compliance if they did not report a certain income, exclude extra income, as well as hide some cash income generated from other sources of income, contract or services rendered.

Table 3: Descriptive Analysis for Non-Compliance Behaviour – Under-Reporting Incomes

Under-Reporting Incomes (UI)	n	Minimum	Maximum	Mean	SD
HNWIs may consider it permissible not to report an income in a tax return for business done among them (UI1).	100	1	5	2.05	1.01
HNWIs may believe it is acceptable to report income without including extra income generated from other sources of income (UI2).	100	1	5	2.22	0.99
HNWIs may perceive that it is permissible not to report cash being paid for a contract or services rendered (UI3).	100	1	4	2.37	1.02
Under-Reporting Incomes	100	1	5	2.21	0.84

Table 4 provides the descriptive results of probability of detection. With an overall mean value of 3.62 and standard deviation of 0.73, the results indicate that tax professionals are of the opinion that HNWIs believe that the probability of detection is high. In other words, the IRBM has the capability to detect any non-compliance behaviour.

Table 4: Descriptive Analysis for Probability of Detection

Probability of Detection	n	Minimum	Maximum	Mean	SD
I think HNWIs believe that IRBM is capable of detecting under-reporting of large amount of income.	100	1	5	4.06	0.81
I think HNWIs believe that IRBM is capable of detecting overstatement of large deductions.	100	1	5	3.94	0.83
I think HNWIs believe that IRBM has adequate mechanism to detect under-reporting of small amount of tax liability.	100	1	5	3.28	0.93
I think HNWIs believe that IRBM has expertise that can easily detect overstatement of small deduction.	100	1	5	3.20	1.07
Probability of Detection	100	1	5	3.62	0.73

With regard to severity of punishment, tax professionals perceive that HNWIs were aware of the level of punishment. This is based on the overall mean value of 3.76 and standard deviation of 0.73 as set out in Table 5. Overall, HNWIs felt that the existing punishments imposed are severe enough to improve compliance among HNWIs. This may explain why the non-compliance behaviour is moderately low.

Table 5: Descriptive Analysis for Severity of Punishment

Severity of Punishment	n	Minimum	Maximum	Mean	SD
As far as I know HNWIs are aware that intentional tax evaders are severely punished for refusing to pay taxes.	100	1	5	4.04	0.88
As far as I know HNWIs are aware that taxpayers who openly refuse to pay taxes are treated as criminals and will be punished according to the law.	100	1	5	3.89	0.93
As far as I know HNWIs are aware that penalty imposed on them is severe enough to aid tax compliance.	100	1	5	3.56	1.07
As far as I know HNWIs are aware that existing enforcement procedures impose on them are sufficient enough to improve compliance.	100	1	5	3.54	0.90
Severity of Punishment	100	1	5	3.76	0.73

Table 6 indicates that tax professionals perceive that HNWIs' decision whether or not to comply with tax obligations does not have anything to do with their political affiliation. This is based on the overall mean value of 2.61 with a standard deviation of 0.66 as set out in Table 6. Observation of individual items also indicates similar perceptions with mean values of less than 3.0.

Table 6: Descriptive Analysis for Political Affiliation

Political Affiliation	n	Minimum	Maximum	Mean	SD
I believe HNWIs who are affiliated with the ruling party are more encouraged to pay tax.	100	1	5	2.96	1.07
I believe HNWIs who are confidence in the present government are more encouraged to pay tax.	100	1	5	2.96	1.15
I believe most of the HNWIs I know consider that paying tax is a national duty which does not relate to any political affiliation*.	100	1	5	2.27	1.09
I believe HNWIs would more be likely to pay tax if one of the political leaders they have voted is in power.	100	1	5	2.48	1.04

I believe HNWI's political affiliation may not completely impact on paying taxes*.	100	1	5	2.38	0.99
Political Affiliation	100	1	5	2.61	0.66

*These items have been recoded

With regards to the role of tax professionals, the overall mean value is 3.92 and standard deviation of 0.56. Table 7 indicates that tax professionals perceive that HNWI's felt that tax professionals have been playing their roles efficiently during tax audit and tax planning. While this information is useful, it is also important to note that this is the perceptions of tax professionals on their own role in assisting their clients.

Table 7: Descriptive Analysis for Role of Tax Professionals

Role of Tax Professionals	n	Minimum	Maximum	Mean	SD
HNWI's believe that tax professionals are always around to assist them during their tax audit sessions.	100	2	5	3.98	.80
HNWI's believe that tax professionals provide assistance to them in discussions and negotiation a lot with the tax auditors on the audit's findings.	100	2	5	3.91	0.68
To my knowledge HNWI's believe that they would have been in a very difficult situation without the intervention of tax professionals in their audits processes.	100	1	5	3.96	.75
To my knowledge HNWI's believe that tax professionals highly assist them in strategic tax planning.	100	2	5	3.98	0.70
To my knowledge HNWI's believe tax professionals assist them to reduce their tax liability through legal and constitutional means.	100	1	5	3.76	0.71
Role of Tax Professionals	100	1	5	3.92	0.56

The descriptive results on horizontal reciprocity with an overall mean value of 3.81 and standard deviation of 0.71 are revealed in Table 8. It is clearly indicated that tax professionals perceive that HNWI's motivation to pay tax is also dependent on other HNWI's behaviours. This could be more visible if they are in a group of those who are obligated to contribute and pay tax.

Table 8: Descriptive Analysis for Horizontal Reciprocity

Horizontal Reciprocity	n	Minimum	Maximum	Mean	SD
I believe HNWI's would be more likely to pay tax if others within their income group are paying.	100	1	5	3.96	0.92
I believe HNWI's would also feel obligated to contribute and pay their taxes if many citizens pay their taxes.	100	1	5	3.94	0.86
To my understanding some HNWI's wish to fulfil the social norm of paying their taxes by just behaving according to society's rules.	100	2	5	3.53	0.73
Horizontal Reciprocity	100	1.00	5.00	3.81	0.71

In view of vertical reciprocity, the overall mean reported is 3.57 and standard deviation of 0.58. This means that tax professionals believe that the obligation of HNWI's to comply in paying tax is indirectly motivated based on the conditional cooperation with the government. Hence, willingness to contribute to tax would very much depend on taxpayers perceiving that the public would be benefited.

Table 9: Descriptive Analysis for Vertical Reciprocity

Vertical Reciprocity	n	Minimum	Maximum	Mean	SD
To my understanding HNWI's would agree to a tax increase if the extra money is used to finance the provision of better public goods and services.	100	1	5	3.64	1.11
To my understanding HNWI's perceive IRBM has been a supportive institution in discharging their tax obligations.	100	1	5	3.45	0.85
To my understanding HNWI's perceive the central government discharge its responsibilities.	100	1	5	3.63	0.86
Vertical Reciprocity	100	1	5	3.57	0.58

Generally, the tax professionals view the progressive tax rate threshold set for HNWI's, which is higher, as fair. This is supported by the mean score of overall vertical fairness perception of 3.49 and standard deviation of 0.68. In fact, with the comparison to middle-income earners, the high rates for HNWI's are believed to be fair and acceptable.

Table 10: Descriptive Analysis for Vertical Fairness

Vertical Fairness	n	Minimum	Maximum	Mean	SD
I believe HNWI's may think it is fair that they are taxed at a progressively higher tax rates than other income earners.	100	1	5	3.30	0.91
I believe HNWI's may think it is fair that middle-income earners are taxed at a lower rate compared to them.	100	1	5	3.69	0.91
I believe HNWI's may think that the share of the total income taxes paid by them is fair relative to their earnings.	100	1	5	3.48	0.85
Vertical Fairness	100	1	5	3.49	0.68

4.3 Partial least square (PLS-SEM) results

In accordance with the recommendation of Henseler, Ringle and Sinkovics (2009) and Hair, Ringle and Sarstedt (2013), the two-step data analysis process, namely measurement and structural model, was performed.

4.3.1 Measurement model

This section presents the measurement results of the under-reporting model which sets out the item loadings, composite reliability, and average variance extracted (AVE). As indicated earlier, the threshold for item loadings to be acceptable is ≥ 0.40 while the threshold for composite reliability and AVE is ≥ 0.70 and ≥ 0.50 , respectively. Based on Table 11, the criteria for item loadings have been met where all indicators (except SP1 and HR1) are above the minimum threshold point of ≥ 0.40 (Hair, Ringle & Sarstedt, 2011; Hair et al., 2012, 2013). Items SP1 and HR1 cannot be removed despite their low loadings as the remaining number of the items for the variables is only two. Furthermore, the items do reflect the variables that they represent. It is important to note that this is the revised measurement model after removing eight indicators (PD2, SP2, PA1, PA2, TP1, TP3, HR3 and VR3) due to their low loadings. Additionally, the internal consistency criteria which were measured using composite reliability have also been met with the values ranging from 0.66 to 0.83 (Hair et al., 2011, 2012, 2013). The convergent validity requirement which was measured using AVE was also met. The scores ranged from 0.52 to 0.63 which are above the minimum cut-off point of ≥ 0.50 (Hair et al., 2011; Henseler et al., 2009; Henseler, Ringle & Sarstedt, 2015).

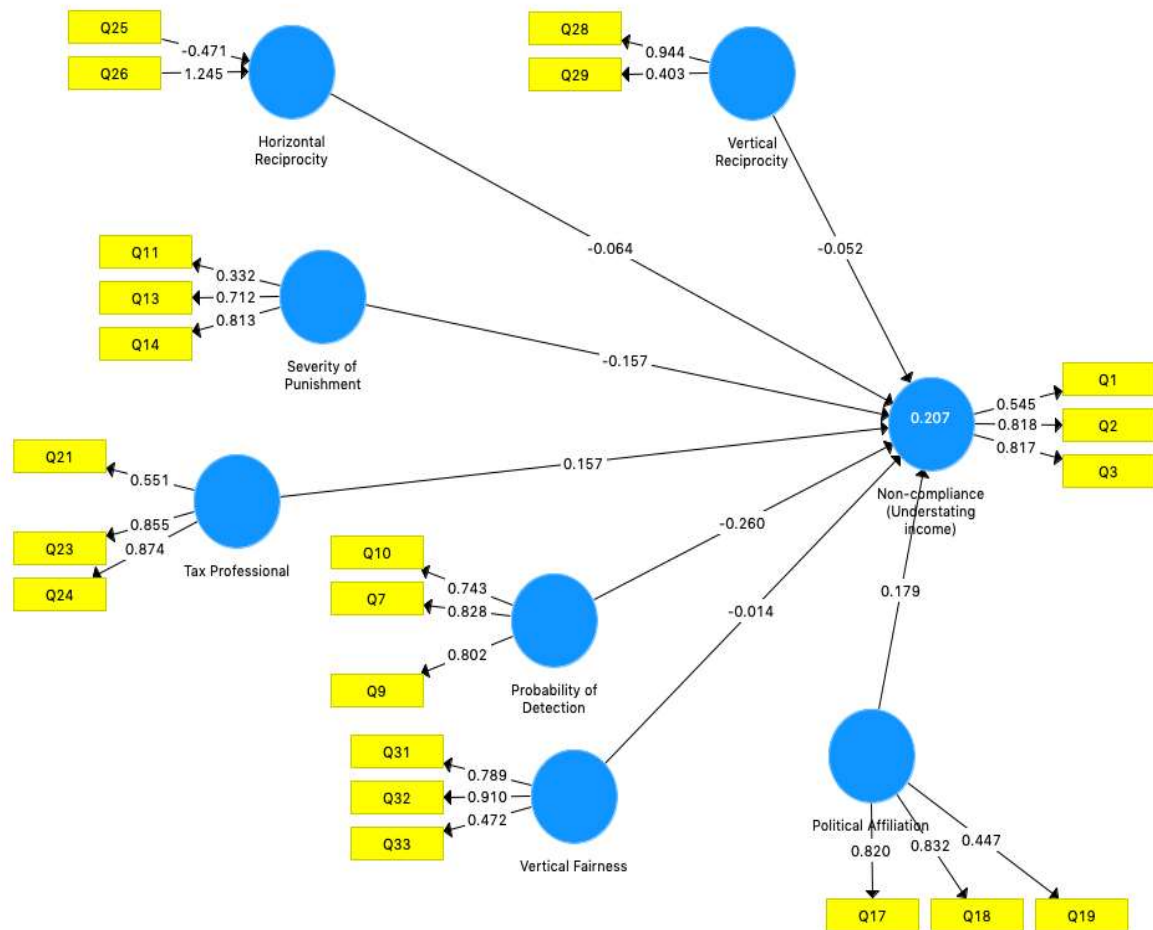
Table 11: Item Loadings, Composite Reliability and Average Variance Extracted (AVE)

Constructs	Items	Loadings	Composite Reliability	AVE
Under-Reporting Income (UI)	UI1	0.55	0.78	0.55
	UI2	0.82		
	UI3	0.82		
Probability of Detection (PD)	PD1	0.83	0.83	0.63
	PD3	0.80		
	PD4	0.74		
Severity of Punishment (SP)	SP1	0.33	0.67	0.53
	SP3	0.71		
	SP4	0.81		
Political Affiliation (PA)	PA3	0.82	0.75	0.52
	PA4	0.83		
	PA5	0.45		
Tax Professional (TP)	TP2	0.55	0.81	0.60
	TP4	0.85		
	TP5	0.88		
Horizontal Reciprocity (HR)	HR1	0.35	1.00	1.00
	HR2	0.94		
Vertical Reciprocity (VR)	VR1	0.944	0.657	0.53
	VR2	0.40		
Vertical Fairness (VF)	VF1	0.79	0.78	0.56
	VF2	0.91		
	VF3	0.47		

Discriminant validity is presented in Table 12 using HTMT where the requirement is fulfilled. The values of HTMT close to 1 show lack of discriminant validity. Though some researchers recommend a threshold of 0.85 (Kline, 2011), Gold, Malhotra and Segars (2001) recommend 0.90. Based on this threshold, we can conclude that all the constructs have achieved discriminant validity criterion. Consequently, having fulfilled the requirement for the measurement criteria which eventually confirmed the validity and reliability of the measures, the results of the proposed hypothesis are presented in the next section.

Table 12: Discriminant Validity Using Heterotrait-Monotrait Ratio (HTMT)

Constructs	UI	PD	SP	PA	TP	VR
Probability of Detection (PD)	0.55					
Severity of Punishment (SP)	0.31	0.47				
Political Affiliation (PA)	0.34	0.38	0.36			
Tax Professional (TP)	0.11	0.22	0.60	0.44		
Vertical Reciprocity (VR)	0.54	0.65	1.36	0.93	1.30	
Vertical Fairness (VF)	0.22	0.38	0.57	0.67	0.30	0.78

Fig. 2: Measurement Model of Under-Reporting of Incomes

4.3.2 Structural model result

The previous section presented the measurement model for under-reporting income which clearly showed that the data met the validity and reliability criteria which is a precondition for the structural model evaluations (Hair et al., 2014). There are four criteria for assessing the structural model result as pointed by Henseler et al. (2009) and Hair et al. (2011). These criteria are: (1) an assessment of path coefficient using 5,000 bootstrap sample; (2) an assessment of R^2 ; (3) the effects size (f^2) of all the independent variables to the dependent variable using 0.02, 0.13 and 0.35 as small, medium, and large, respectively (Cohen, 1988); and (4) the predictive relevance of the model using construct cross validated redundancy (Q^2) following Geisser (1974) and Stone (1974).

Table 13 presents the path coefficients between the independent variables and the dependent variable. The first hypothesis (H1) postulates that there is a negative relationship between the probability of detection and non-compliance of HNWIs. The result of $\beta = -0.26$, $t = 1.89$, and $p = 0.03$ implies that the hypothesis was supported. The result shows that the higher the probability of detection, the less the likelihood for HNWIs to engage in under-reporting of incomes. The result is consistent with previous studies by Allingham and Sandmo (1972), Fischer et al. (1992) and Alkhatib et al. (2018).

The second hypothesis (H2) postulates that there is a negative relationship between severity of punishment and non-compliance of HNWIs. The postulation was supported as indicated in Table 14 ($\beta = -0.16$, $t = 1.23$, $p = 0.11$). The result indicates that the severity of punishment will to a certain extent curb the under-reporting of income practices among HNWIs. The result provides support to previous studies by Allingham and Sandmo (1972), Fischer et al. (1992) and Alkhatib et al. (2018).

The third hypothesis (H3) postulates that there is a positive relationship between political affiliation and non-compliance of HNWIs. This hypothesis was supported with $\beta = 0.20$, $t = 1.25$, $p = 0.10$. The result indicates that HNWIs' affiliation with the ruling government may influence them to engage more in the under-reporting of incomes. This is due to their perceptions that they will be favourably treated by the tax authority and be able to escape audit detection and penalty. The result provides support to previous studies by Kangave et al. (2018), McGowan (2000) and Hasseldine and Hite (2003).

Hypothesis 4 (H4) on the relationship between the role of tax professionals and non-compliance is not supported. The hypothesis postulates that tax professionals will assist HNWIs to engage in under-reporting of incomes. However, the result as set out in Table 13 ($\beta = 0.09$, $t = 0.98$, $p = 0.16$) does not provide support to the hypothesis and contradicts the literature documented by OECD (2009), Sakurai and Braithwaite (2003), Christensen (2015), and Rosli et al. (2018). The potential explanation as to the findings could be the fact that tax professionals are aware of the severe penalty of assisting in non-compliance activities. Another possible explanation is self-reporting bias as this survey was answered by the tax professionals themselves.

The fifth hypothesis (H5a) relates to the relationship between horizontal reciprocity and non-compliance. The hypothesis that proposes a negative relationship between the variables is not supported with its β of -0.05 ; $t = 0.53$, $p = 0.30$. This is inconsistent with Kangave et al. (2016) who posited that HNWIs' compliance behaviour is likely to have a bearing on the behaviour of other HNWIs. In other words, the result suggests that HNWIs' decision whether or not to comply is not dependent on what HNWIs are doing.

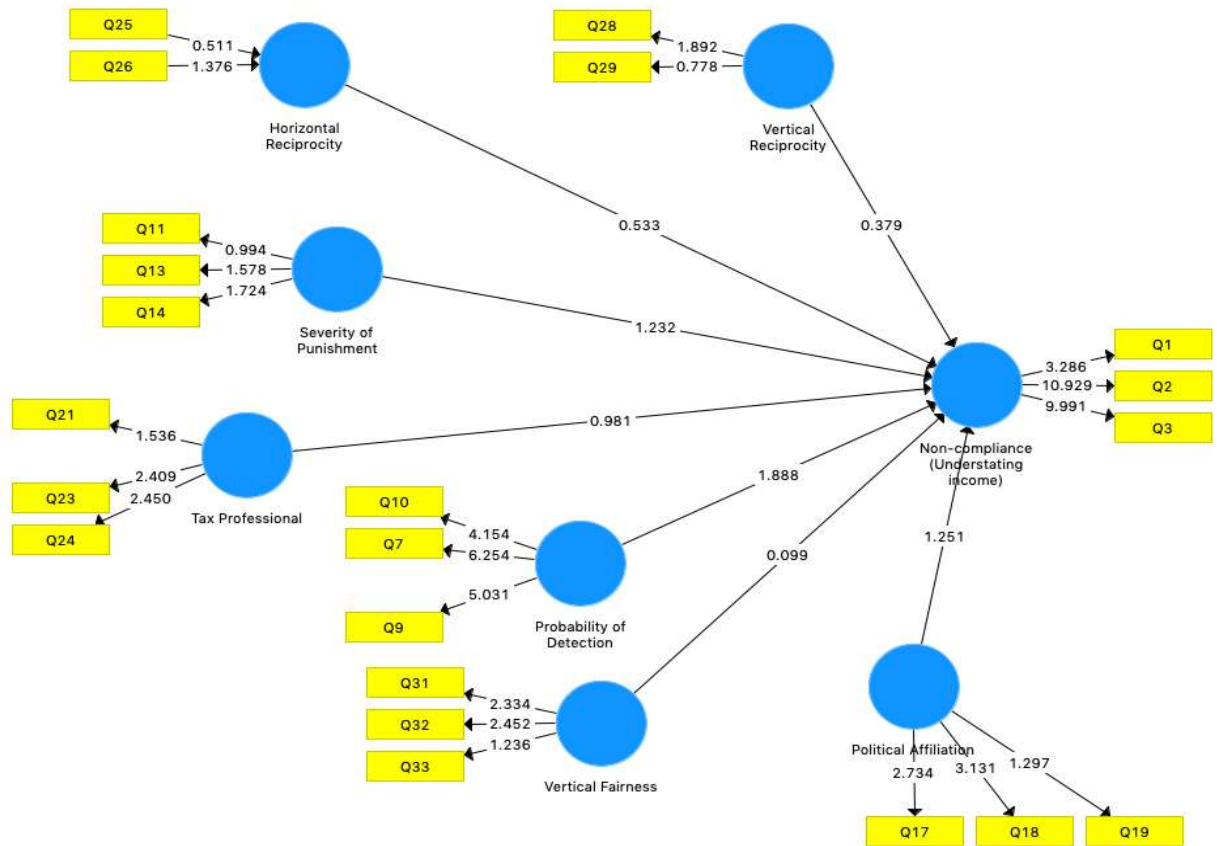
Rather, it is more a result of self-interest or on an individual basis. This is logical considering that under-reporting of income is an illegal act which should not be disclosed to others.

The next hypothesis, H5b, deals with the relationship between vertical reciprocity and non-compliance. In this instance, it is proposed that good reciprocal cooperation between the HNWI's and the government leads to less engagement in under-reporting of incomes. However, the result as indicated in Table 13 ($\beta = -0.03$, $t = 0.38$, $p = 0.35$) does not provide support to the postulation. Although the direction is consistent with the hypothesis, it is not significant. The potential explanation could be due to the fact that the respondents have different perceptions between their cooperation with the tax authority and government. They may have good perceptions with the government but not so with respect to IRBM as indicated in the descriptive results. To recap, the mean value for cooperation with the IRBM is 3.45, which is slightly lower than the mean values for cooperation with government which are 3.63 and 3.64.

Hypothesis 6 (H6) postulates that there is a negative relationship between vertical fairness and non-compliance of HNWI's. This hypothesis was not supported with $\beta = -0.03$, $t = 0.09$, $p = 0.46$. The result indicates that HNWI's perceptions on vertical fairness do not influence their decisions to under-report their incomes. This is consistent with Saad (2010) and Rosli et al. (2018). Notwithstanding this insignificant relationship, it is important to note that if the tax rate is high, there could be a likelihood for HNWI's to take a risk through aggressive tax planning by shifting their wealth or income to lower tax jurisdictions.

Table 13: Path Coefficient between Independent and Dependent Variables

Hypothesised Relationship	β	SE	t	p	Decision
Probability of Detection (PD)	-0.26	0.14	1.89	0.03	Supported
Severity of Punishment (SP)	-0.16	0.13	1.23	0.10	Supported
Political Affiliation (PA)	0.20	0.14	1.25	0.10	Supported
Tax Professional (TP)	0.09	0.16	0.98	0.16	Not supported
Horizontal Reciprocity (HR)	-0.05	0.12	0.53	0.30	Not supported
Vertical Reciprocity (VR)	-0.03	0.14	0.38	0.35	Not supported
Vertical Fairness (VF)	-0.03	0.14	0.09	0.46	Not supported

Fig. 3: Structural Model of Under-Reporting of Incomes

The result of the R^2 as indicated in Table 14 was determined using the recommendation of Hair et al. (2011). Hair et al. (2014) stated that the R^2 value should be at least 0.10 for a good model. Specifically, R^2 of 0.26 and above is considered substantial, 0.13 is considered moderate and 0.02 is considered weak (Cohen, 1988). Based on this evidence, we can deduce that the R^2 value of 20.7% of the current model is considered moderate because the value is greater than 13% but less than 26% as recommended by Hair et al. (2014). This highlights that the exogenous latent construct can only explain 20.7% of the variance in the current model, indicating that there are other constructs which explain the remaining 79.3% of the variance.

Table 14: Coefficient of R²

Dependent Variable	R-square
Tax Non-Compliance (Under-Reporting Income)	20.7%

In order to better understand the effect of the exogenous constructs on an endogenous latent variable, the effect size of the predictor constructs is reported in Table 15. According to Chin (1998) and Hair et al. (2011), the effect size could be referred to as the explicit changes in R² of a latent construct that resulted from the removal of another latent construct. It defines whether the removed latent exogenous construct has a significant influence on the value of the latent endogenous construct. Based on Chin (1998) and Cohen (1988), the effect size (f²) for multiple regressions is calculated as:

$$\text{effect size (f}^2\text{)} = (R^2 \text{ included} - R^2 \text{ excluded}) / (1 - R^2 \text{ included})$$

The effect sizes (f²) of 0.02, 0.13 and 0.35 represent weak, moderate, and strong effect (Cohen, 1988). Table 15 presents the f² of the predictor variables based on the R² of the dependent latent construct. As shown in Table 15, the effect size of probability of detection, severity of punishment, political affiliation, and tax professional are 0.07, 0.03, 0.03 and 0.02, respectively. Following Cohen's (1988) recommendation, the effect size of these latent constructs is small.

Table 15: Effect Size (f²)

Predictor Constructs	f²	Effects
Probability of Detection (PD)	0.07	Small
Severity of Punishment (SP)	0.03	Small
Political Affiliation (PA)	0.03	Small
Tax Professional (TP)	0.02	Small
Horizontal Reciprocity (HR)	0.01	None
Vertical Reciprocity (VR)	0.01	None
Vertical Fairness (VF)	0.00	None

Finally, the other analysis under a structural model is the predictive relevance of the current research model. The reason for this analysis is to examine the predictive capability of the model in the absence of missing cases because the model may not be able to accommodate all the constructs which could be able to explain tax non-compliance. The predictive relevance result is presented in Table 16 which shows a predictive value of 0.04. Geisser (1974) and Stone (1974) recommended that a model has predictive relevance if the Q² is above zero. Hence, the Q² of .04 indicates that the model has predictive relevance. In other words, the result shows that, even though not all constructs that explain tax non-compliance are included in the current model, the current constructs have the power to predict the non-compliance behaviour of HNWI's in Malaysia.

Table 16: Predictive Relevance (Q^2)

Endogenous Construct	SSO	SSE	1-SSE/SSO
Tax Non-Compliance (Under-Reporting Income)	300.00	288.670	0.04

5. CONCLUSION

This article investigates the influence of probability of detection, severity of punishment, political affiliation, role of tax professionals, conditional cooperation and vertical fairness on tax non-compliance of HNWIs, from the perspective of tax professionals. Results indicate that tax professionals believe that probability of detection, severity of punishment, political affiliation and role of tax professionals each had an effect on the non-compliance behaviour of HNWIs in Malaysia, while conditional cooperation and vertical fairness had no significant influence on their behaviours. The findings suggest that probability of detection may play an important role in curbing non-compliance among HNWIs. Undoubtedly, tax professionals believe that the IRBM is capable of detecting under-reporting of a large amount of income committed by HNWIs. This is because the IRBM is perceived to have adequate mechanisms to detect under-reporting of small amounts of tax liability and also has the expertise that could easily detect the overstatement of a small deduction. Hence, a more aggressive tax audit should be conducted on this group of taxpayers with the IRBM's capability and ability of detecting non-compliance.

Similarly, severity of punishment appears to have a significant relationship with HNWIs' non-compliance behaviour. Tax professionals believe that HNWIs are aware that intentional tax evaders are severely punished for refusing to pay taxes, and hence control their actions to hide income. In addition, being treated as criminals and punished in line with law and penalty could increase the urgency in meeting tax obligations and aid tax compliance. Hence, revision of penalties may be an option. However, it is not suggested that fines be imposed which are too high as the system would be perceived as unfair and taxpayers would use legal methods to avoid taxes. Meanwhile, an increase in tax rate would also not be advisable as sometimes with higher tax rates, it would pressure taxpayers to be less compliant. Therefore, better understanding on tax matters and related punishment is seen as an avenue to improve compliance among HNWIs.

Interestingly, political affiliation could be the indicator for audit selection since the findings indicate its positive relationship with non-compliance behaviour. However, it is important to note that utilising this factor as an indicator for audit selection may result in public misconception on the audit and investigation activities carried out by the IRBM. Nonetheless, the audit selection should be fairly done with no discrimination, in the favour of politically affiliated individuals. If this can be well-demonstrated to the public, their trust and confidence level will be improved. Undoubtedly, tax professionals play an important role in tax compliance decisions of HNWIs. Hence, cooperation between tax authority and tax professionals may assist in improving tax compliance of HNWIs. This is particularly true in the case of grey areas that may result in different interpretations.

This article is not without its limitations. First, the use of the self-reported survey from selected tax agents in Malaysia may create bias. Next is the low response rate of 20%.

However, this response rate is a generally acceptable rate in Malaysia for a survey. Notwithstanding its limitations, this research indirectly enhances and improves the body of knowledge on the non-compliance of HNWIs. However, there is still room for improvements and gaps to be covered in future research. For instance, conducting a comparison study between countries may provide interesting findings. Conducting interviews with HNWIs may also offer explanations as to their compliance behaviour decision-making.

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