Tax Noncompliance of High Net-Worth Individuals (HNWIS) in Malaysia: Perspectives of Tax Professionals

(Gelagat Ketidakpatuhan Cukai Individu Berpendapatan Tinggi di Malaysia: Perspektif Profesional Cukai)

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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 has been caught in tax malfeasance over the period of 2009-2013 through Inland Revenue Board of Malaysia (IRBM) tax audits. Notwithstanding this, very few attempts were made to understand the noncompliance behaviour of this group of taxpayers. 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 HNWIs' noncompliance behaviour. For this purpose, a survey was conducted on tax professionals who had been dealing with HNWIs on their tax matters. Regression analysis through Partial Least Square reveals that the probability of detection, political affiliation and role of tax professionals have a significant influence on tax noncompliance behaviour among HNWIs. It is expected that the results will be of immense benefit to IRBM in understanding the perceived determinants of HNWIs tax noncompliance in Malaysia to formulate relevant strategies.

Keywords: HNWIs; noncompliance; probability of detection; severity of punishment; political affiliation

ABSTRAK

Hasil kajian sebelum ini telah menunjukkan jumlah yang signifikan di kalangan golongan berpendapatan tinggi, yang sepatutnya merupakan penyumbang besar kepada 11% daripada kutipan cukai pendapatan individu, telah melakukan pelarian cukai sepanjang tempoh 2009-2013. Rekod ini adalah berdasarkan audit cukai yang dijalankan oleh Lembaga Hasil Dalam Negeri Malaysia (LHDNM). Walau bagaimanapun, hanya terdapat beberapa kajian yang dijalankan bagi memahami gelagat ketidakpatuhan cukai golongan ini. Justeru, artikel ini mengkaji kesan pembolehubah kebarangkalian pengesanan, tahap hukuman, afiliasi politik, peranan profesional cukai, kerjasama bersyarat dan kesaksamaan cukai ke atas ketidakpatuhan cukai di kalangan golongan berpendapatan tinggi. Bagi tujuan tersebut, kaji selidik telah dijalankan ke atas profesional cukai yang pernah mengendalikan urusan cukai golongan berpendapatan tinggi. Analisis regresi menggunakan Partial Least Square menunjukkan bahawa kebarangkalian pengesanan, afiliasi politik dan peranan profesional cukai mempunyai kesan yang signifikan ke atas ketidakpatuhan cukai di kalangan golongan berpendapatan tinggi. Adalah diharapkan agar dapatan ini dapat memberikan manfaat kepada pihak LHDNM untuk memahami faktor penentu ketidakpatuhan cukai di kalangan individu berpendapatan tinggi dalam usaha mengatur strategi yang berkaitan di Malaysia.

Kata kunci: Individu berpendapatan tinggi; ketidakpatuhan; kebarangkalian pengesanan; tahap hukuman; afiliasi politik

INTRODUCTION

Since 2009, when 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 those with a net worth of at least US$1 million (either held 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, and also

have complex business arrangements. Secondly, they pay a substantial share of tax revenue. For instance, the top 0.5% of individual taxpayers in the United Kingdom contribute 17% of the total income tax; in Germany, the top 0.1% of the taxpayers pay 8% of the income total tax, in the United States, the top 1% of the individuals contribute 40% of the total individual income tax (OECD 2009). In Malaysia, the top 0.32% contributes 11.95% of total individual tax collection in 2013 (Rosli et. al 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 due to the complexity of their businesses and variety of income sources. This makes it possible for HNWIs to engage 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 perceived 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 consideration, studies were undertaken regarding HNWIs in some countries around the world. For instance, the study of OECD (2009) covers 14 countries (Australia, Canada, Ireland, Germany, France Japan, Mexico, the Netherland, New Zealand, Norway, South Africa, United Kingdom and United States and Switzerland) and concludes among others 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 modest increase in its tax revenue through taxing HNWIs, not necessarily through tax rate increment, but proper administration of taxes. In Italy, Rossi (2018) 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 €100,000 on their foreign source income.

In line with the above backgrounds, the motivations of the study are fourfold. Firstly, only few attempts have been made in Malaysia with respect to HNWIs. In particular, only the study of Rosli et al. (2018) on economic determinants of tax malfeasance practices of HNWIs was found to concentrate on this important class of taxpayers, despite that their contribution accounted for more than 11% of personal income tax collections (Rosli et al. 2018), which is a significant figure that attract researchers' attention. Secondly, while the study of Rosli et al. (2018) has strategic utility values, 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. The 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. Thirdly,

there has been growing number of HNWIs in Malaysia, their number increased from about 990 in 2015 to 1,020 in 2016 (The Star 2017) and tax malfeasance practice has been uncovered among this category of taxpayers. Specifically, available records showed that out of 511 HNWIs audited during 2009-2013, 319 were found to engage in tax malfeasance, which represent about 62% of the total. This evidence signifies the need for further investigation in understanding the compliance behaviour of this category of taxpayers. Lastly, even at the global space only few attempts were made in understanding the compliance behaviour of this class of taxpayers, such as the OECD's (2009) study that focused on 14 countries, and none emerged from Southeast, and also that of Kangave et al. (2016) that concentrated on African countries. This indicates gap in literature from Southeast Asia and Malaysia in particular. This gap implies the need for additional evidence to aid global understanding of compliance behaviour of this category of taxpayers.

Accordingly, this article examines the influence of perceived determinants of HNWIs noncompliance to address the gap left by the study of Rosli et al. (2018). It also supports the effort of OECD (2009) and Kangave et al. (2016) in providing additional evidence for understanding tax issues related to this class of taxpayers. Specifically, the article investigates the perceived determinants of tax noncompliance of HNWIs in Malaysia covering probability of detection, perceived severity of punishment, political affiliation, role of tax professionals, conditional cooperation, and vertical fairness. This leads to an extended model of Allingham and Sandmo's (1972) economic deterrence theory with the integration of socio-psychological and fiscal psychological factors as suggested by Hasseldine and Bebbington (1991) and James and Alley (2002). Following this introduction, the second part of this paper presents the literature review while the third part deals with methodology. The fourth part sets out results and discussion while the last part discusses conclusion and implications.

LITERATURE REVIEW

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

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 USD1 million either directly or through trust and other controlled entities. In contrast, in Australia, HNWIs are considered as those who effectively control a net worth of A$30 million or more directly, or through their associate;

while in South Africa, HNWIs are defined based on gross income and/or gross wealth of 7 million Rand and 75 million Rand 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 transaction. This is considered the fact that Uganda is a real estate economy. In this, an individual is considered an HNWI if he/she generates a rental income of USD142,000 annually or engages in the buying and selling of land for which the value exceeds USD285,000 in a five-year period. Secondly, shareholding is also used as a criterion; whereby, an investor in a private company whose annual turnover exceeds USD14.3 million is considered as an HNWI, and a shareholder of multiple companies with a turnover between USD4.3 million and USD14.3 million is also considered as an HNWI. Lastly, bank deposit is also classified as useful indicator of wealth. A person is classified as an HNWI if he/she has a loan portfolio of over USD1.5 million in a five-year period or has bank transactions of over USD1 million annually. In Malaysia, *Permodalan Bank Simpanan Nasional* defined HNWIs in terms of both income and wealth. As for wealth, it refers to total net assets or total net joint assets with a spouse exceeding RM3 million or its equivalent in foreign currencies. This excludes the value of his or her primary residence. In terms of income, consideration was given for individuals and joint annual incomes of RM300,000 or RM400,000 or its equivalent in foreign currency. OECD (2013) classified HNWIs for some selected OECD member countries and OECD non-member countries, including Malaysia. In Malaysia, OECD (2013) classified HNWIs as individuals with a statutory income over RM1 million, assets over RM5 million, or both together over RM5 million.

The definition of OECD (2013) was adopted in this study for three reasons. First, the equivalent of USD1 million proposed in the definition of HNWIs in OECD (2009) is closer to the RM5 million contained in OECD (2013) compared to RM3 million suggested by *Permodalan Bank Simpanan Nasional.* Secondly, in arriving at the definition contained in OECD (2009) which classified HNWIs as those having wealth below USD1 million for tax purpose in Malaysia, this was arrived at after including South Africa, which is an upper middle-income country like Malaysia (World Bank Group 2019). Lastly, the statutory income of RM1 million suggested by OECD (2013) is closer to reality. For instance, Uganda which is classified as a low income country (World Bank Group 2019) adopts an annual rental income of USD142,000 which is equivalent of RM580,000. For the purpose HNWIs' classification based on income, it could not be fair to classify an income of RM300,000 for individual and RM400,000 for individual and spouse as HNWIs for tax purposes in Malaysia based on *Permodalan Bank Simpanan Nasional's* classification as Malaysia is a middle high-income country. Thus, this study considers a high amount of statutory income of RM1 million as suggested by OECD (2013).

TAX NONCOMPLIANCE OF HNWIS

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

Generally, tax noncompliance 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. In this study, tax noncompliance is defined as non-conforming to the tax obligations in terms of overstating expenses in filing tax returns. It is important to note that there are two main schools of thought in tax compliance. One is based on the economic theory while the other is based on the 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 extend Becker's (1968) economics of crime model through the consideration of probability of detection and penalties based on the expected utility theory. Though economic deterrence has been prominent in tax compliance literature (Sapiei & Kasipillai 2013), it was 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 et al. 1992; Jackson & Milliron 1986; Palil & Mustapha 2011). A suggestion was made by Hasseldine and Bebbington (1991) and James and Alley (2002) where 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 evidences regarding the factors that explain tax noncompliance. For instance, the earlier studies such as OECD (2009), Kangave et al. (2016), Rossi (2018), 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 noncompliance through aggressive tax planning aided by tax advisors, integrity to tax administration, audit approach, whistle blowing, offshore amnesty program, and exchange of information program. The only study that focused on estimating the determinants of tax noncompliance of HNWIs is Rosli et al. (2018). While the study has utility values, 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,

suggestions have been made in the literature where economic factors alone cannot explain tax compliance and 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' noncompliance.

PROBABILITY OF DETECTION

Probability of detection is defined in this study as the possibility of discovering noncompliance and rectification of deviance by tax authorities, following Fischer et al. (1992). It emerged from the probability of being audited, which is considered as very narrow in detecting noncompliance, as audit is not perfect to detect noncompliance. The probability of detection can be a higher likelihood for detection compared to audit probability as it employs several approaches such as using a computer to match the third-party reports, computerised checks of tax return forms, as well as a well-rounded audit approach that touch entire levels of transactions. The probability of detection could be an important variable in the study of tax noncompliance 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.

Literature documents the influence of detection probability of 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 is alongside recent evidence such as Alkhatib et al. (2018), and Bott et al. (2020) which confirmed that high detection probability reduces evasion. Although evidence on the negative relationship between probability of detection and tax noncompliance is lacking with respect to HNWIs, based on the discussion above, the following hypothesis is developed.

H_1 There is a negative relationship between probability of detection and tax noncompliance of HNWIs in Malaysia.

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 noncompliance which was classified into three: payment of the amount of tax due without penalty, payment of the amount due plus fine, and payment of the amount due plus prison. Consistent with Earnhart and Friesen (2014), severity of punishment has been defined in this study as the degree of penalty imposed against tax offenders. In relation to HNWIs, the severity of punishment could be an important variable in their compliance behaviour since a significant number was found in tax malfeasance practice (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 long been analysed in tax compliance literature. The earlier studies of Allingham and Sandmo (1972) and Fischer et al. (1992) reported that high penalty leads to improvement in tax compliance. This has been recently testified in the study of Alkhatib et al. (2018) and Christophe et. al (2019) in which penalty was found to negatively affect evasion due to strong fear of punishment by the taxpayers when caught in the act of noncompliance. Considering earlier literature on noncompliance, similar effect is thus expected with respect to HNWIs, that leads to the following proposed , hypothesis:

H_2 There is a negative relationship between severity of punishment and tax noncompliance of HNWIs in Malaysia.

POLITICAL AFFILIATION

Political affiliation is defined in this study as a membership or association with a ruling political party (Palil et al. 2012). 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 2011/2012 to 2013/2014 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 to not 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 Republicans were more likely to prefer flat rate and sale taxes compared to those who either identified with Democrats or are independent. Likewise, Hasseldine and Hite (2003) documented 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. More recently, Abodher et al. (2018) also concluded that political affiliation has a significant effect on noncompliance behaviour of self-employed Libyans. In the context of Malaysia, Palil et al. (2012) established a link between political affiliation and tax compliance, however, such link is lacking to such effect with respect to HNWIs. Consequently, the following hypothesis is developed.

H_3 There is a positive relationship between political affiliation and tax noncompliance of HNWIs in Malaysia.

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 to their sophisticated application of aggressive tax planning to evade taxes. For instance, in the UK, about 70% of HNWIs employed the use of tax advisors (OECD, 2009), while 45.1% explicitly indicate that they hire tax professionals to handle their tax affairs (Rosli et al. 2018).

Literature has documented that HNWIs engage tax advisors 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 tax competition through tax power brokers such as Big Four accounting firms who have the ability to devise schemes of tax avoidance and evasion. Through the audit data, Rosli et al. (2018) found a significant relationship between the influence of tax professionals and noncompliance. However, whether or not tax professionals aided aggressive tax planning that can result in tax noncompliance of HNWIs in Malaysia is an issue that needs further evidence. Therefore, the following hypothesis is developed:

H_4 There is a positive relationship between the role tax professionals in aggressive tax planning and tax noncompliance of HNWIs in Malaysia.

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 group or society. This is regarded as horizontal reciprocity (Torgler et al. 2007). Specifically, horizontal reciprocity suggests that when a taxpayer believes that other members of the society that he/she belongs to are paying taxes, he/she develops the motivation to pay; however, when an individual perceives that evasion is common in the society, such individual may be opportunistic to engage 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 HNWIs 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 HNWIs is likely to have a bearing on the behaviour of other taxpayers. Thus, it can be deduced that when members within HNWIs group believe that others are underreporting 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 HNWIs (horizontal reciprocity) and tax noncompliance of HNWIs in Malaysia.

H_{5b} There is negative relationship between conditional cooperation between HNWIs and government (vertical reciprocity) and tax noncompliance of HNWIs in Malaysia.

VERTICAL FAIRNESS

Vertical fairness in relation to taxation refers to the perception that taxpayers with different economic situations are taxed at different rates (Erich at al. 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 HNWIs, Malaysia experiences 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 HNWIs.

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) 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. Consequently, considering this gap, it is proposed that there needs to be an investigation on the perception regarding the vertical fairness and whether they perceived that the rate is fair enough to encourage compliance. Consequently, the following hypothesis is developed:

H_6 There is a negative relationship between vertical fairness and tax noncompliance of HNWIs in Malaysia.

METHODOLOGY

The objective of this study is to examine the perceived determinants of nonnompliance behaviour of HNWIs. As depicted in Fig. 1, the research 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 noncompliance of HNWIs as the dependent variable.

In order to answer this objective, a quantitative approach which involves a survey was employed. Survey instruments were adapted from previous studies as indicated in Table 1.

TABLE 1. Source of survey instruments

Variable	Source
Noncompliance behaviour	Yankelovich, Skelly & White (1984)
Probability of detection	Wenzel (2004)
Severity of punishment	Yankelovich et al. (1984)
Political affiliation	Abodher et al. (2018)
Role of tax professionals	Isa (2012)
Conditional cooperation	Frey & Torgler (2007); Jahnke (2015)
Vertical fairness	Saad (2010)

The survey questionnaires that were distributed to tax professionals were divided into three main sections. The first section consists 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 comprises questions pertaining to respondents' noncompliance 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'. Four (4) items each were used to measure probability of detection and severity of punishment. Political affiliation and the role of tax professionals were respectively measured by five (5) items. As for horizontal reciprocity, vertical reciprocity and vertical fairness, three (3) items each were utilized to measure the variables. Details of all items are presented in Appendix A.

The population was taken from the list of 2,722 tax professionals registered with the IRBM. Tax professionals were used as a proxy for HNWIs as data indicate that majority of HNWIs hire tax professionals to handle their tax matters (Rosli et al. 2018). Based on Krejcie and Morgan (1970), 2,800 population requires 338 samples. Considering the response rate in Malaysia is within approximately 18 to 30%, a sample of 500 tax professionals was systematically selected.

Data from tax professionals on the perceived determinants of HNWIs' noncompliance were collected using a combination of postal survey, self-administered, and online survey. A blend of approaches had to be adopted to increase the response rate. Out of 500 questionnaires which were distributed, 123 responses (24.6%) were returned. Out of that, 23 responses (4.6%) stated that they did not handle HNWIs clients, and were therefore dropped from this analysis. The final usable questionnaires were 100 (20%).

The data collected was analysed using SPSS (for demographic profile and descriptive analysis) and Partial Least Squares (PLS) to Structural Equation Modelling (SEM) using SmartPLS version 3.0 (for hypothesis testing).

RESULTS AND DISCUSSION

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
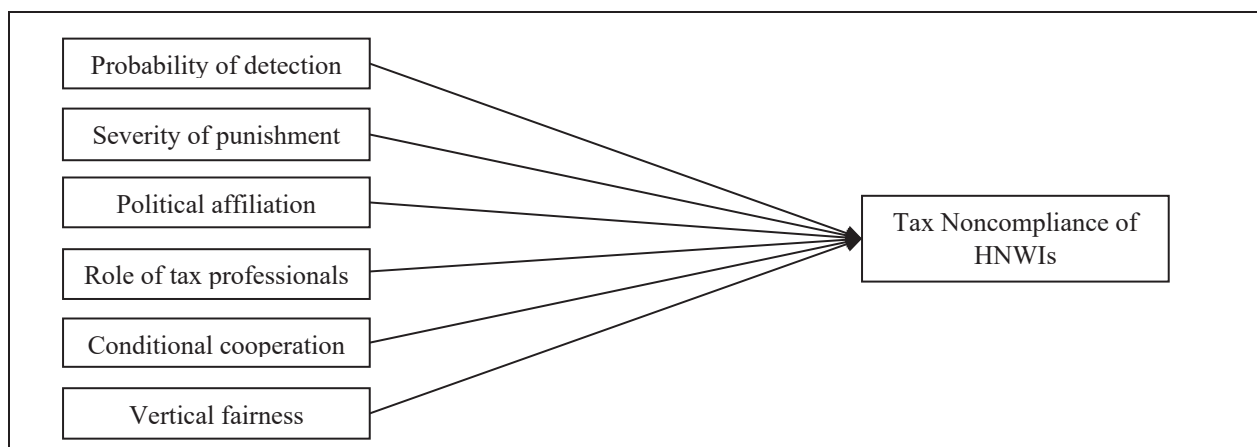

FIGURE 1. Research model of perceived determinants of HNWIs tax noncompliance

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 Four. The respondents were asked about their experience as tax professionals. The results indicate that the majority of them (65%) have 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 are small companies, followed by mid-sized companies (36%) and individuals (4%). Irrespective of this, all the tax professionals admitted that they have HNWIs 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

REGRESSION RESULTS

The observation on measurement model as in PLS two-step data analysis clearly shows that the data met the validity and reliability criteria which is a precondition for the structural model evaluations (Hair et al. 2014). The analysis includes item loadings, composite reliability, and average variance extracted (AVE). The threshold for item loadings to be acceptable is ≥.40 while the threshold for composite reliability and AVE is ≥.70 and ≥.50, respectively. Referring to Table 3, the criteria for item loadings have been met where all indicators (except OE3 and PD2) are above the minimum threshold point of ≥.40 (Hair et al. 2011). The items, however, cannot be removed despite their low loadings as the remaining number of the items for the variables are only two, if they are deleted. Furthermore, the items do reflect the variables that they are representing. It is important to note that this is the revised measurement model after removing nine indicators (PD4, SP1, SP2, PA3, TP1, TP2, TP3, HR3 and VR3) due to their low loadings. Additionally, the internal consistency criteria which was measured using composite reliability has also been met with the values ranging from 0.61 to 0.91 (Hair et al. 2011). The convergent validity requirement which was measured using AVE was also met. The score ranging from 0.46 to 0.83 fits the recommendation of Hair et al. (2011) and Henseler et al. (2009). Therefore, having satisfied the requirements of the measurement model, the structural model is analysed.

TABLE 3. Item loadings, composite reliability and average variance extracted (AVE)

Constructs	Items	Loadings	Composite Reliability	AVE
Overstating Expenses (OE)	OE1	0.82	0.75	0.53
	OE2	0.90		
	OE3	0.36		
Probability of Detection (PD)	PD1	0.87	0.61	0.46
	PD2	0.05		
	PD3	0.78		
Severity of Punishment (SP)	SP3	0.84	0.91	0.83
	SP4	0.98		
Political Affiliation (PA)	PA1	0.70	0.76	0.51
	PA2	0.71		
	PA4	0.73		
Tax Professional (TP)	TP4	0.95	0.84	0.73
	TP5	0.75		
Horizontal Reciprocity (HR)	HR1	0.53	0.76	0.63
	HR2	0.99		
Vertical Reciprocity (VR)	VR1	0.63	1.00	1.00
	VR2	0.67		
	VR3	-0.30		
Vertical Fairness (VF)	VF1	0.76	0.81	0.59
	VF2	0.88		
	VF3	0.63		

There are four criterions for assessing the structural model result as pointed by Henseler et al. (2009). These criterions are: 1) an assessment of R^2; 2) an assessment of path coefficient using 5000 bootstrap sample; 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).

For the assessment of R^2, it can be deduced that the value of 33.4% (set out in Table 4) of the current model is considered substantial as it is greater than 26% as recommended by Hair et al. (2014). This highlights that the exogenous latent construct could explain 33.4% of the variance in the overstating expenses model, indicating that there are other constructs which explain the remaining 66.6% of the unknown variance.

TABLE 4. Coefficient of R^2

Dependent Variable	R-square
Tax Noncompliance (Overstating Expenses)	33.4%

Table 5 presents the path coefficients between independent variables and dependent variable, which is overstating expenses. The first hypothesis (H_1) proposes that there is a negative relationship between probability of detection and noncompliance of HNWIs. The result of β = -0.40, t = 3.33, and p = 0.00 implied that the hypothesis was supported. The result shows that the higher the probability of detection, the lesser the likelihood for HNWIs to engage in overstating expenses. The result is consistent with the previous studies by Allingham and Sandmo (1972), Fischer et al. (1992) and Alkhatib et al. (2018).

The second hypothesis (H_2) claims that there is a negative relationship between severity of punishment and noncompliance of HNWIs. The postulation was not supported as indicated in Table 5 (β = -0.12, t = 1.61, p = 0.11). The result indicates that severity of punishment will not mitigate the overstating expenses practices among HNWIs. The results are not consistent with the findings of Allingham and Sandmo (1972), Fischer et al. (1992) and Alkhatib et al. (2018). This could be due to the fact that HNWIs did not feel that the current penalties imposed are financially harmful to them. Although there is provision in the Income Tax Act 1967 on imprisonment, there is no public information on the number of cases or tax evaders being imprisoned for tax evasion offences to date. Also, HNWIs may perceive that the benefits of non-complying outweigh the cost of non-complying with tax obligation which subsequently motivates them to engage in overstating of expenses.

The third hypothesis (H_3) suggests that there is a positive relationship between political affiliation and noncompliance of HNWIs. This hypothesis was supported with β of 0.18, t-value of 1.36 and p-value of 0.05). The result indicates that HNWIs' affiliation with the ruling government may influence them to engage more in overstating expenses. This is possibly due to their perceptions that they can get away from tax audit and penalty. The result is consistent with previous studies by Kangave et al. (2018), and Hasseldine and Hite (2003).

Hypothesis 4 (H_4) on the relationship between the role of tax professionals and noncompliance is supported. The hypothesis postulates that tax professionals will assist HNWIs to engage in overstating expenses. The result as set out in Table 5 (β = 0.20, t = 0.94, p = 0.05) provide support to the hypothesis and is consistent with previous studies conducted by OECD (2009), Sakurai and Braithwaite (2003), Christensen (2015) and Rosli et al. (2018).

The fifth hypothesis (H_{5a}) relates to the relationship between horizontal reciprocity and noncompliance. The hypothesis that proposes a negative relationship between the variables is not supported with its β of -0.10; t = 0.82, p = 0.13. This is inconsistent with Kangaye et al. (2016) who posited that HNWIs' compliance behaviour is likely to have 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 other HNWIs are doing. Rather, it is more of self-interest or on individual basis. This is logical considering overstating expenses is an illegal act which should not be disclosed to others.

Next hypothesis H_{5b} deals with the relationship between vertical reciprocity and noncompliance. In this instance, it is proposed that good reciprocal cooperation between HNWIs and government leads to less engagement in overstating expenses. However, the result as indicated in Table 5 (β = 0.13, t = 0.95, p = 0.17) does not provide support to the postulation. The potential explanation could be due the fact that the respondents have different perceptions between their cooperation with the tax authority and the government.

Hypothesis 6 (H_6) postulates that there is a negative relationship between vertical fairness and noncompliance of HNWIs. This hypothesis was not supported with β = -0.07, t = 0.56, p = 0.35). The result indicates that HNWIs' perceptions on vertical fairness do not influence their decisions to overstate expenses. 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 HNWIs to take risks for aggressive tax planning by shifting their wealth or income to lower tax jurisdictions.

The effect size (f^2) of 0.02, 0.13 and 0.35 represents weak, moderate, and strong effect (Cohen 1988). Table 6 presents the f^2 of the predictor variables based on the R^2 of the dependent latent construct. The f^2 value of 0.179 for probability of detection indicates the effect size of the variable as moderate (Cohen 1988). Meanwhile,

TABLE 5. Path coefficient between independent and dependent variables

| Hypothesised Relationship	β	SE	t	p	Decision
Probability of Detection -> Overstating Expenses	-0.40	0.10	3.33	0.00	Supported
Severity of Punishment -> Overstating Expenses	-0.12	0.10	1.61	0.11	Not Supported
Political Affiliation -> Overstating Expenses	0.18	0.12	1.36	0.05	Supported
Tax Professional -> Overstating Expenses	0.20	0.13	0.94	0.05	Supported
Horizontal Reciprocity -> Overstating Expenses	-0.10	0.11	0.82	0.13	Not supported
Vertical Reciprocity -> Overstating Expenses	0.13	0.19	0.95	0.17	Not supported
Vertical Fairness -> Overstating Expenses	-0.07	0.12	0.56	0.35	Not supported
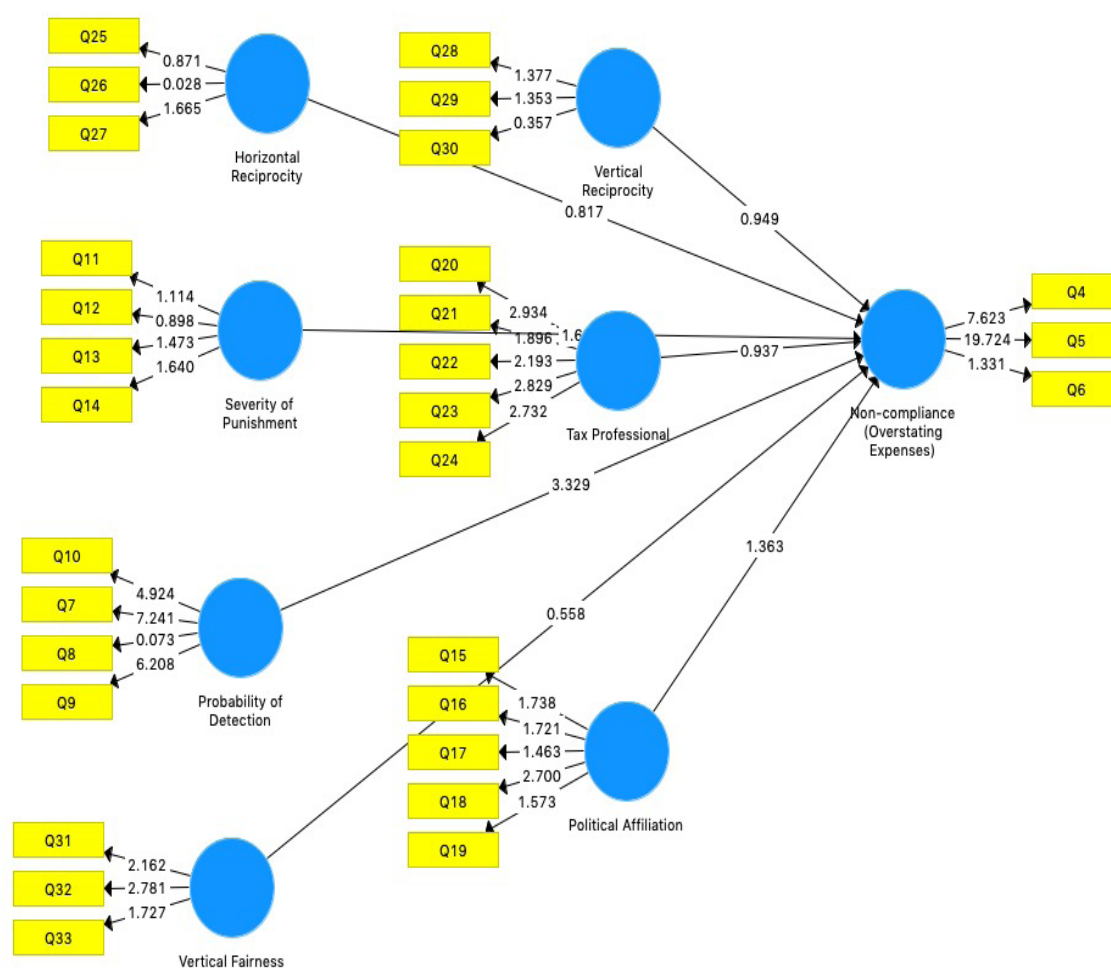
FIGURE 2. Structural model of overstating expenses

the f^2 values of 0.02, 0.05, 0.06, 0.02, and 0.04 are recorded for severity of punishment, political affiliation, tax professional, horizontal reciprocity, and vertical reciprocity. Following Cohen's (1988) recommendation, such values represent a small effect size of the latent constructs.

Finally, predictive relevance of the overstating expenses model is examined to predict the capability of the model in the absence of missing cases. This is performed as the model may not be able to accommodate all the constructs which could be able to explain tax noncompliance. Geisser (1974) and Stone (1974) recommended that a model has predictive relevance if the Q^2 is above zero. The predictive relevance result is presented in Table 7 with a value of 0.10. Hence, it can be concluded that the model has predictive relevance; in another words the current constructs have the power to predict the behaviour of HNWIs in Malaysia.

TABLE 6. Effect size (f²)

Predictor Constructs	f²	Effects
Probability of Detection (PD)	0.18	Moderate
Severity of Punishment (SP)	0.02	Small
Political Affiliation (PA)	0.05	Small
Tax Professional (TP)	0.06	Small
Horizontal Reciprocity (HR)	0.02	Small
Vertical Reciprocity (VR)	0.04	Small
Vertical Fairness (VF)	0.01	None

TABLE 7. Predictive relevance (Q²)

Endogenous Construct	SSO	SSE	1-SSE/SSO
Tax Noncompliance (Overstating Expenses)	300.00	296.016	0.10

CONCLUSION AND IMPLICATIONS

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 noncompliance of HNWIs. Results indicate that probability of detection, political affiliation and tax professional had effect on the noncompliance behaviour of HNWIs in Malaysia. While conditional cooperation and vertical fairness had no significant influence on their behaviours.

In a way to improve compliance, few strategies could be introduced such as improving the probability of detection, focusing on political affiliation in audit selection, emphasising on tax professional aggressiveness, increasing the severity of punishment, giving attention to conditional co-operations and vertical fairness, and providing tax education. Those strategies have advantages and drawbacks but need to be tackled in a very delicate way. For instance, the threat of punishment which consists of tax audits, tax penalties and tax rates could be less likely to be effective in deterring taxpayers who already have strong intentions to comply with tax laws. However, the delicate approach needs to be used as it could be more likely to reduce the negative intention. Thus, the tax authority i.e. IRBM is suggested to carefully plan for the strategy by using the target policy in disseminating information to the right group of taxpayers such as the HWNIs.

MANAGERIAL IMPLICATION

The findings suggest that probability of detection plays an important role in curbing noncompliance among HNWIs of which the effect size is moderate. Undoubtedly, HNWIs believe that IRBM is capable of detecting overstatement of a large deduction. This is because IRBM is perceived to have an adequate mechanism to detect underreporting of a small amount 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 noncompliance. This aggressive tax audit approach has been adopted in Thailand (KPMG 2016). It appears that specific tax audits, as opposed to random audits, seem to be more effective in improving tax compliance.

Interestingly, political affiliation could be the indicator for audit selection since the findings indicate its positive relationship with noncompliance behaviour. Even though the effect of this factor on tax compliance is small, it has some impact on tax payment. An explation to this could be that HNWIs consider that their complying (or non-complying) decision is actually related to political affiliation. In other words, close political affiliation does somehow encourage the HNWIs to pay tax. This is perhaps due to the confidence level in the present government and on the political leaders, especially those who have been voted are in power. This is not surprising, as in Uganda too, political affiliation is seen to play a big role as most of the HNWIs identified were politicians who wielded a lot of power, such that political affiliation influence on compliance behaviour in Uganda.

Tax professionals play an important role in tax compliance. The HNWIs perceived that the tax professionals assist them greatly in strategic tax planning as well as during tax audit sessions. Indeed, the HNWIs believed that it would be very difficult if the tax professional has no intervention in the audit processes. This is basically because the tax professional is observed as an assistant in discussing, negotiating, and finalising the tax liability during the audit's findings via legal and constitutional means. Undoubtedly, most HNWIs rely on the professionalism of the tax practitioners on the sophisticated schemes used by taxpayers in order to defer, reduce, or devise accordingly. Their facilitating role in aggressive tax planning is demonstrated in this study. However, this may occur in the case of ambiguity of the tax law. Generally, tax professionals would not breach the letter of the tax law when there is clear indication of equivalent penalty on tax preparer or anyone who facilitates the furnishing of false or misleading returns. Hence, more emphasis on minimising the opportunity of tax aggressiveness should be considered by IRBM. This can be done by having more simplified tax laws with appropriate guidelines and rulings.

FUTURE RESEARCH IMPLICATION

This article is not without its limitations. First, the use of self-reported survey from selected tax agents in Malaysia may create bias (Palil et al. 2013). Next is the

low response rate of 20%. However, this response rate is a generally acceptable rate in Malaysia for a survey. Future research should deploy workable strategies to enhance the response rate. Additionally, conducting interviews with HNWIs may also offer explanations to their compliance behaviour decision-making. Moreover, integrating moderating variables could provide further explanations to those hypotheses that did not support the postulation made in this study. Nevertheless, findings of the current study shall aid the understanding of compliance behaviour of HNWIs category of taxpayers. Specifically, it provides immense benefit to IRBM in understanding the perceived determinants of HNWIs tax noncompliance in Malaysia to formulate relevant strategies.

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APPENDIX A. Variables and Indicators

Variable	Code	Indicators
Noncompliance behaviour	OE1	HNWIs may believe that adding a little bit of what they actually spent when reporting in the business is permissible.
	OE2	HNWIs believe that when they are not really sure whether or not they deserve a tax deduction, it makes sense to take a chance and take a deduction anyway.
	OE3	HNWIs may consider it permissible to stretch allowable deductions by including non-allowable deductions.
Probability of detection	PD1	I think HNWIs believe that IRBM is capable of detecting underreporting of large amount of income
	PD2	I think HNWIs believe that IRBM is capable of detecting overstatement of large deductions
	PD3	I think HNWIs believe that IRBM has adequate mechanism to detect underreporting of small amount of tax liability
	PD4	I think HNWIs believe that IRBM has expertise that can easily detect overstatement of small deduction
Severity of punishment	SP1	As far as I know HNWIs are aware that intentional tax evaders are severely punished for refusing to pay taxes.
	SP2	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.
	SP3	As far as I know HNWIs are aware that penalty imposed on them is severe enough to aid tax compliance.
	SP4	As far as I know HNWIs are aware that existing enforcement procedures impose on them are sufficient enough to improve compliance.
Political affiliation	PA1	I believe HNWIs who are affiliated with the ruling party are more encouraged to pay tax.
	PA2	I believe HNWIs who are confidence in the present government are more encouraged to pay tax.
	PA3	I believe most of the HNWIs I know consider that paying tax is a national duty which does not relate to any political affiliation.
	PA4	I believe HNWIs would more be likely to pay tax if one of the political leaders they have voted is in power.
	PA5	I believe HNWIs' political affiliation may not completely impact on paying taxes.
Role of tax professionals	TP1	HNWIs believe that tax professionals are always around to assist them during their tax audit sessions.
	TP2	HNWIs believe that tax professionals provide assistance to them in discussions and negotiation a lot with the tax auditors on the audit's findings.
	TP3	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.
	TP4	To my knowledge HNWIs believe that tax professionals highly assist them in strategic tax planning.
	TP5	To my knowledge HNWIs believe tax professionals assist them to reduce their tax liability through legal and constitutional means.
Horizontal reciprocity	HR1	I believe HNWIs would be more likely to pay tax if others within their income group are paying.
	HR2	I believe HNWIs would also feel obligated to contribute and pay their taxes if many citizens pay their taxes.

cont.

cont.

	HR3	To my understanding some HNWIs wish to fulfill the social norm of paying their taxes by just behaving according to society's rules.
Vertical reciprocity	VR1	To my understanding HNWIs would agree to a tax increase if the extra money is used to finance the provision of better public goods and services.
	VR2	To my understanding HNWIs perceive IRBM has been a supportive institution in discharging their tax obligations.
	VR3	To my understanding HNWIs perceive the central government discharge its responsibilities.
Vertical fairness	VF1	I believe HNWIs may think it is fair that they are taxed at a progressively higher tax rates than other income earners.
	VF2	I believe HNWIs may think it is fair that middle-income earners are taxed at a lower rate compared to them.
	VF3	I believe HNWIs may think that the share of the total income taxes paid by them is fair relative to their earnings.