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Understanding Zakat Reporting Practices in Malaysia: A case study of Shariah-compliant companies

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ABSTRACT

This paper aims to investigate the zakat disclosure practices in Shariah-compliant companies in Malaysia. The zakat information is important for stakeholders of Shariah-compliant companies to know whether the company is paying zakat on their behalf or otherwise. Disclosing such information is also necessary to eliminate the uncertainties within the Shariah principles and avoid doubt among the stakeholders. This information is crucial, particularly for investors who may have different accounts with different Shariah-compliant companies, as they must know who is the party that pays the zakat. The objective of this study is achieved through analysing fifteen Shariah-compliant annual reports for the year 2023. The study used a content analysis covering the material aspects, including presentation, method use, obligations for payment of zakat, and components of zakat information. The results indicate that zakat disclosure practices remain low among the Shariah-compliant companies in Malaysia. The sample companies show a limited amount of information about zakat, such as the method used, the amount of zakat, and the components of zakat information. Furthermore, the zakat disclosure of the sample selection, whether following MASB Tri-1 or otherwise, does not meet the standard as recommended by the technical release.

1. Introduction

Zakat is one of the five pillars in Islam. By literal definition, Zakat means increment or growth, purification, and blessings. Surah At-Taubah 9:103 mentions, “Of their goods, take zakat, so that you might purify and sanctify them” (Qur’an, 9:103). This verse says that every wealthy Muslim must give a certain

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amount to the needy. However, zakat should not be a burden; it is an obligation for those who possess wealth. The objective of zakat is to encourage social fairness and balance.

From a business perspective, zakat is levied on the company; however, if it fails to pay zakat on its trade, Muslim individuals (shareholders) are liable to pay zakat in proportion to their shareholding. Business zakat is obligatory on business assets encompassing various types of businesses. The most common method of calculation of zakat on business is based on assets entitled to it at the end of the year (haul). All business assets eligible for zakat must consist of liquid or circulating capital, which includes current assets reported in the financial statements. Nevertheless, business zakat in Malaysia is voluntary. Thus, the payment of zakat depends on the companies' reporting best practices.

Zakat disclosure measures companies' ethical reporting (Abojeib et al., 2025). In this regard, zakat is one of the mechanisms used for social financing to create fairness and balance wealth within a society. From an Islamic perspective, zakat is a means for businesses to practice corporate social responsibility, as they contribute to social reform. Zakat signifies a practice incorporating environmental, social, and governance (ESG) criteria. This means that companies that practice zakat disclosure in their reporting do so mainly voluntarily for social and sustainability reasons. Zakat practices can be crucial in supporting sustainable development goals due to the unique Shariah principles that help create social wealth and promote balance. This can be achieved by aligning the social sector with companies' wealth, which can lead to social impact, such as enhancing the productive capacities of the poor (Omar & Hajimin, 2023).

Issues regarding zakat disclosure and compliance have been highlighted by previous literature, such as Al-Sulaiti et al. (2018) in Qatar and Bahrain and Saad et al. (2020) in a developing country, including Malaysia. Among the issues discussed in zakat businesses are the disclosure of zakat computation practices and companies' disclosure of zakat payment or non-compliance with zakat requirements. These issues have led to asymmetric business zakat information between companies and Muslim shareholders. Additionally, information on business zakat falls beyond the scope of accounting reporting. This situation suggests that business zakat information remains limited, and consequently, zakat disclosure and computation are likely to be misaligned. Therefore, this study suggests that zakat computation and disclosure should be harmonised or converged with current reporting standards and guidelines to improve companies' accountability. Although Shariah-compliant companies are known to adhere to Shariah principles, it is not necessary for them to pay business zakat. According to the Islamic Fiqh Academy, Shariah companies must pay zakat when the practice is required by law or agreed upon by the company's shareholders (Abojeib et al., 2025). Hence, Shariah-compliant companies must disclose and inform the stakeholders about their zakat practices in annual reports. It is essential to note that zakat is an extension of social reporting, which provides a broader view and expectation of stakeholders regarding companies' role in the economy and from a religious perspective. Within corporate reporting, zakat is closely related to sustainability, guiding companies to consider social and corporate interests.

Based on the brief discussion earlier, this study aims to identify the zakat disclosure practices among different Shariah-compliant listed companies. Fifteen Shariah-compliant companies were selected to analyse the presentation and disclosure of zakat information following MASB TRi-1 Accounting for Zakat on Business (Malaysian Accounting Standards Board [MASB], 2006). This study reviews the accounting treatment for zakat in Shariah-compliant companies to determine the level of zakat disclosure for non-financial aspects. This study aims to examine the practices of these companies in terms of the zakat calculation method and their disclosure in the companies' annual reports, comparing them with the technical release proposed by MASB.

2. Literature review

Zakat is often described as an act of worship to Allah, requiring Muslims to purify their wealth, cleanse their soul and mind, and shape themselves as good Muslims (Abdul Razak, 2020). As one of the Islamic pillars, zakat is compulsory for Muslims to exercise once their wealth reaches the minimum assigned

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amount (nisab) every year. Those who have not reached the nisab do not have to pay zakat. Therefore, zakat is a personal responsibility for Muslims.

Zakat disclosure is imperative in a Shariah-compliant company. The Quran clearly emphasises the importance of information disclosure to underscore the imperative of transparency as a fundamental value in Islam. Lewis (2001) noted that six verses in the Quran refer to 'relevance,' which indicates the element of disclosure of all facts. Zakat, a financial item, is relevant from an Islamic perspective when it includes the attributes of truth, fairness, and accuracy. Furthermore, society has the right to know about the effects of companies' operations on their well-being and to be advised on how these requirements have been met within the framework of Shariah.

As one of the Islamic pillars, zakat is compulsory for Muslims to pay once their wealth reaches the minimum assigned amount (nisab) annually. Therefore, zakat is a personal responsibility for Muslims. Concerning zakat as a tool to eradicate poverty and promote the well-being of a balanced society, the zakat collector (amil) is responsible for distributing the money to eight eligible zakat recipients. The Quranic verse specifies that zakat recipients are among the poor, the needy, managers of zakat, reverts to Islam, captives, defaulting debtors for any reasonable cause in the name of Allah, and travelers (Qur'an, 9:60).

"Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise."

Since the 1990s, the need for zakat disclosure has been emphasised to meet Shariah requirements. Since zakat is a personal responsibility for all Muslims, the application of zakat also extends to the organisational level, known as business zakat, particularly to the business wealth of all Shariah-compliant organisations. This amount represents business zakat that is paid on the company's portion. Nevertheless, the information on business zakat payable is limited, and some explanatory notes are either absent or vague.

Shariah-compliant companies are expected to report and disclose business zakat management as part of Islamic reporting. In February 2018, the Central Bank (BNM) issued a policy document on Financial Reporting for Islamic Banking Institutions (IBIs) in Malaysia to ensure adequate disclosure by an Islamic financial institution in its financial statements. The policy applies to licensed Islamic banks, licensed banks, and licensed investment banks approved to carry out Islamic banking business and financial holding companies.

Furthermore, several regulatory bodies have taken plausible steps by developing accounting standards for business zakat assessments. Among them are the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (Al-Sulaiti et al., 2018) and the Malaysian Accounting Standard Board (MASB). Since zakat is compulsory for Muslim stakeholders, it is vital to have proper and fair accounting treatment and assessment of a business's zakat. In 2006, MASB introduced the technical release, MASB TRi-1 (Malaysian Accounting Standard, Technical Release Islamic – Number 1), which accounts for zakat on business and provides accounting guidelines for financial reporting issues related to corporate zakat (Malaysian Accounting Standards Board [MASB], 2006). The reasons for releasing MASB TRi-1 are to standardize the recognition, measurement, presentation, and disclosure of zakat on business.

In a study by Obaidullah (2016), FAS no. 9 described two possible situations for classification and recognition. One is when the company is obliged to pay zakat, and the other is when it is not. Companies that are obligated to pay zakat are subject to three situations, namely (a) the country regulation requires the organization to fulfil its zakat obligations, (b) there is a legal document that requires the organization to fulfil their zakat obligations, and (c) the organization shareholders require the zakat obligation unanimously. However, FAS no. 9 is intended for Islamic financial institutions, which may not be applicable to other types of entities (Al-Sulaiti et al., 2018; Saad et al., 2020). Meanwhile, MASB TRi-1 focuses on the accounting standard only for businesses that apply to any existing company in any industry.

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Regarding Shariah-compliant organizations, the disclosure guidelines have established several benchmarks (5% and 20%) for the tolerable level of mixed contributions from permissible and non-permissible activities, based on ijtihad, as a percentage of turnover and profit before tax. If the contribution from the non-permissible activities exceeds the benchmark, the company's securities will be classified as Shariah non-compliant.

Past studies, such as Al-Sulaiti et al. (2018) in Bahrain and Qatar, have found that the disclosure regarding zakat is low. Recently, a study by Abdullah et al. (2023) in Malaysia reveals that the extent of zakat disclosure in companies' annual reports from 2014 until 2018 by Shariah-compliant companies is poor. The study found that most companies did not disclose zakat information in their reporting. Thus, this shows that Malaysian Shariah-compliant companies have not practiced the concept of full disclosure and transparency (see also Che Azmi et al., 2016; Adam & Lode, 2015). These studies indicate that companies are still reluctant to inform their stakeholders regarding zakat and regard such disclosure as less important.

2.1 Zakat Disclosure and Reporting

The MASB defines Zakat as a mandatory assessment on certain types of assets (i.e., those that have satisfied specific Shariah conditions) for Muslims who own them (Malaysian Accounting Standards Board [MASB], 2006). The amount of zakat paid by these Muslims will then be channeled to specified categories of qualified beneficiaries. In a similar context, business zakat refers to an obligation of assessment based on the business's assets (i.e., those that have satisfied certain Shariah conditions) owned by the entity.

Part 3 of the MASB TRi–1 highlighted the condition of business zakat, which shall be recognized when the entity is obligated to (a) pay current business zakat and (b) when there is an economic benefit generated from the assets. The amount of zakat assessment shall be identified as an expense and included in the Statements of Profit or Loss and Other Comprehensive Income within the period in which it is incurred. Meanwhile, FAS no. 9 in its Appendix D reiterated that when the concept of nisab and haul is fully acknowledged, then it is commonly agreed that the recognition concept must be related to the nisab and haul. However, during the Prophet Muhammad's (S.A.W.) lifetime, salaries and wages were not considered a means of earnings, as there were no specific injunctions governing entitlement to zakat or otherwise in the Quran and Sunnah. There was only a general injunction in the Quran that indicated all wealth is subject to zakat (Qur'an, 2:265). Al-Qaraḍāwī (1999) maintained that salaries and wages are considered among the category of al-mal al-mustafad, and a hadith reported by Ibn Abbas supports it.

Within the zakat context, Islam influences accounting primarily at the level of disclosure, rather than measurement, in financial reports. Thus, from the Islamic perspective, the emphasis is more on proper disclosure than measurement. The disclosure of mujamalah and contract was addressed in the Qur'an (Al-Baqarah 2:282):

"*O ye who believe! When you deal with each other in transactions involving future obligations in a fixed period of time, reduce them to writing; let a scribe write down faithfully as between the parties: let not the scribe refuse to write as Allah has taught him, so let him write. Let him who incurs the liability dictate, but let him fear His Lord Allah and not diminish aught of what he owes. If the party liable is mentally deficient or weak, or unable to dictate Himself, let His guardian dictates faithfully and get two witnesses out of your own men, and if there are not two men, then a man and two women, such as you choose, for witnesses, so that if one of them errs, the other can remind her.*" (Qur'an, 2:282).

The verses refer to all kinds of transactions that occur in business activities and must be recorded appropriately, transparently, and witnessed. Thus, it indicates that making an appropriate recording for each transaction is essential to safeguard all parties involved in the business contract. Therefore, zakat reporting will provide a clear understanding to Muslim stakeholders, especially in fulfilling their zakat obligations for any income generated by the companies in which they have invested.

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In line with FAS no. 9 and MASB TRi-1, paragraphs 4 and 5, outline that zakat should be identified as an expense. Information about expenses should be disclosed in the financial year in which they occur. Furthermore, Para 16 of MASB TRi-1 provides guidelines on disclosing zakat information. This includes methods for zakat-based calculations and the components that fall within the category of business zakat for entitled companies. Moreover, the disclosure of zakat in financial statements was considered as maslahah mu'tabarah, which means a justification of a legislation, regulation, or lawgiver that should not be nullified. This implies that the disclosure of zakat in the financial statements is necessary for Shariah-compliant companies, as it provides the right to know how their investment has been spent and whether the religious obligation has been fulfilled accordingly.

2.2 Computation

Zakat is calculated by multiplying the zakat base by the zakat rate. In Malaysia, the zakat rate, as determined by the National Fatwa Council, is 2.5% of the zakat base. The Malaysian Islamic Development Department (JAKIM) in Panduan Zakat di Malaysia (2001) (Jabatan Kenajuan Islam Malaysia [JAKIM], 2001) has provided two recommendations for calculating business Zakat. First is Adjusted Working Capital (Shar'iyyah), which includes only the net current assets in the zakat calculation. Any other items that do not satisfy the Zakat assets and liabilities criteria will be excluded and adjusted accordingly. Second, there is Adjusted Growth Capital (Urfiyyah), which calculates the zakat based on the types of owners' equity and long-term liabilities (excluding property, plant, and equipment, as well as non-current assets, and any adjusted items that do not qualify as zakat assets and liabilities). In Malaysia, it is acknowledged that adjusting working capital is the common approach used by organisations (Tajuddin, 2022).

Accounting Standard, FAS no. 9 on Zakat by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) indicates that the presentation of zakat by companies that are obliged to pay zakat shall be accounted for as a non-operating expense and presented in the income statement (Accounting and Auditing Organization for Islamic Financial Institutions, 2020). On the other hand, for unpaid zakat, it will be recognised as a liability and presented in the liabilities section in the statement of financial position. Similarly, the MASB TRi-1 guidelines require that the amount of zakat for the current period be presented in the income statement.

2.3 Disclosures

Zakat disclosure demonstrates compliance with the rights and obligations to God, society, and the individual. Zakat disclosure in companies' annual reports is voluntary. In this regard, zakat reporting can be in the form of both financial and non-financial information. However, MASB TRi-1 outlines the financial disclosure requirements in points 16 and 17. The guidelines outline that the entity shall disclose the zakat information, such as (a) the method of business zakat computation, (b) the entity's responsibility towards payment of business zakat, and (c) the major components for business zakat. Furthermore, the guidelines require the company to disclose additional business zakat information, including its business zakat expenses, current business zakat payments, the entity's liability, and any other business zakat adjustments related to the prior period.

As for FAS no. 9, the standards outline eight rules about business zakat disclosure. Amongst others are (1) the methods for determining the business zakat base, (2) the Shariah supervisory board ruling on business zakat (i.e. matters that are not included in the standard (para 14), (3) the status of business zakat payment made by the holding company for its' subsidiaries, (4) the amount of zakat due from its shares (if the entity does not pay zakat), (5) amount of zakat due from equity investment account holders, (6) the status of the entity on zakat collections and pays on behalf of the investment accounts and/or related accounts holders, (7) matters related to restrictions imposed by the Shariah supervisory board in the process determining zakat, (8) entity is required to follow FAS no.1 for presentation and disclosure of financial statements (Wan Ismail et al., 2015). The importance of disclosure is emphasised in the Qur'an, where

Surah Al-Baqarah (2:282) highlights that "Every transaction in debt that occurs in business activity must be properly recorded and witnessed to regard the transaction." (Qur'an, 2:282). Hence, shariah-compliant companies must properly disclose zakat transactions on business.

Business zakat disclosure plays a vital role in demonstrating whether the companies have discharged their responsibilities towards society in accordance with Shariah law (i.e., within Maqasid al-Shariah). It is expected that all Shariah-compliant companies should fully disclose the Islamic value information. The zakat non-financial information disclosed can demonstrate the ethical attitude of the companies for distribution of wealth and financial interest as part of their objectives, which are in line with the Shariah law. Further, information on business zakat can reflect an integral part of companies' benevolence to their stakeholders, environment, and society in which they operate. A study by Md Zaini et al. (2019) reveals that some companies in Malaysia tend to provide Zakat disclosure in their annual reports in the form of non-financial information. Malaysian listed companies frequently disclose zakat, covering social responsibility activities. Much of the information is disclosed on the Zakat distribution and management, but not on business Zakat identification.

3. Method of Data Collection

This study utilized content analysis to gather information. Companies' annual reports were manually collected as primary data sources to achieve the study objective. The content analysis method enables this study to analyze textual information and systematically identify its properties. Since this study aims to identify the recognition, measurement, presentation, and disclosure of zakat expenses in business, the annual report content is a suitable method. Therefore, using a random sampling method, a sample of fifteen companies was identified. First, the identification of thirteen (13) companies was based on the list of Shariah-compliant companies provided by the Shariah Advisory Council of the Securities Commission Malaysia for the year 2022 (Shariah Advisory Council of the Securities Commission Malaysia, 2022). The financial banking, telecommunication, and media sectors are among the two industries in Malaysia that provide services to their stakeholders. Financial banking is a consumer-sensitive sector, while the telecommunications and media sector provides essential communication channels to the stakeholders. The plantation sector was identified due to its commercial agricultural investment by stakeholders. The plantation sector is crucial as it is analogous to the zakat levied on plantations and fruits, which constitute a different percentage of the zakat rate from the gross revenue. If the service provider has another source of funds or savings, then such a company should pay both types of zakat, namely, the zakat al-mal al-mustafad (the wealth that has been newly acquired), which is 5% to 10% of the received return, and 2.5% zakat of savings (Abojeib et al., 2019). Second, the analysis of business zakat includes CIMB Bank Islam Berhad and Affin Bank Berhad because both companies operate under Shariah-compliant standards in Malaysia.The practice of zakat business is voluntary in corporate reporting; hence, including the companies would contribute significant outcomes in this research area. The companies' annual reports were extracted from the Bursa Malaysia website. The Securities Commission issues the list of Shariah-compliant companies twice a year, in May and November. Thus, the status of being Shariah-compliant may change accordingly.

Using thematic analysis, this study examined the business zakat reporting information and disclosure from the companies' annual reports, which were published in 2023. The zakat information in the companies' annual reports was identified using a spreadsheet and coded using Atlas ti. software following business zakat information according to MASB TRi-1 (i.e., presentation, method use, and components). Table 1 presents the selected companies categorised by industry provided by the Securities Commission Malaysia.

Table 1. List of Shariah-compliant companies in Malaysia (2022)

Company's name	Industry category
Bank Islam Malaysia Berhad	Financial/Banking
CIMB Islamic Bank Berhad	Financial/Banking
AFFIN Bank Berhad	Financial/Banking
Takaful Malaysia	Financial/Banking
Bank Muamalat	Financial/Banking
Telekom	Telecommunication and media
Maxis	Telecommunication and media
Pelangi	Telecommunication and media
Axiata	Telecommunication and media
Digi	Telecommunication and media
FGV	Plantation
Batu Kawan	Plantation
Kuala Lumpur Kepong	Plantation
TH Plantation	Plantation
Sime Darby	Plantation

Source: Securities Commission Malaysia (2022)

3.1 Method of Data Analysis

A qualitative approach was utilised using content analysis. This study employed an unweighted technique (dichotomous scoring approach) to identify zakat disclosure in the companies' annual reports, which were published in 2023. Following the MASB TRi-1 guidelines for business zakat reporting, this study uses a keyword search to identify relevant information regarding business zakat. From the keyword, further identification and information extracted were based on the criteria stipulated in the MASB TRi-1. It assumes all information items are considered equally important to all user groups in a company's annual reports. A score of 1 is awarded for disclosing the zakat information; otherwise, 0. The primary reason for adopting this approach in this study is to mitigate the subjectivity inherent in using any weighted scoring method. Information that has been coded as one (1) was all categorised and organised in the Atlas.ti software for analysis. The goal is to ensure that the score of one is relevant to the business zakat information as stated in MASB TRi-1. Additionally, to improve the coding, a parameter was initiated in this study. To award 1 for business zakat reporting, the information disclosed has to be explained in one or more sentences to represent the practices of the zakat reporting.

In this study, the categories of the zakat disclosure information are divided into the following four aspects:

a. Presentation
b. Method used
c. Obligations for payment of zakat
d. Components

This study focuses on whether the companies disclose relevant information that is sufficient to provide the stakeholders with a clear and satisfactory understanding of their zakat obligations. Therefore, the scope of the analysis covers the reporting standards requirements in Malaysia. Consequently, the scoring approach is developed to evaluate the objectivity and clarity of information provided by the companies. The scoring of 1 and 0 is constructed as follows:

- *Presentation*: This includes the disclosure of the zakat amount in the financial statement of the companies' annual reports. Information regarding this zakat amount can be found in the statement of profit and loss, statement of cash flow, statement of financial position, and notes to the financial statements. A company that provides information on the zakat amount in its financial statement will be awarded a score of 1.

- *Method used*: The disclosure of the calculation method is important to determining the zakat amount. Companies that disclose this information can provide a clear understanding and a fair idea of the basis of zakat calculation. Companies might disclose the method name without further details about the calculation. Companies that provide the method name and specify the compliance requirement will be given a full score of 1.
- *Obligations for payment of zakat*: The capital providers of the capital, Muslims, who are also the investment account holders, are liable to pay zakat. Although Shariah-compliant companies in Malaysia do not follow the AAOIFI, the companies shall disclose the amount of zakat that is due on the investment account of the holders and whether the companies pay on behalf of them or not. If the companies disclose the party responsible for the payment, either with or without mentioning the amount, a score of 1 will be awarded.
- *Components*: The components covering the explanation of the zakat amount category, which are included in different segments. This includes the current zakat expense, zakat payment, zakat liability, and any adjustments. Information regarding the components is required under the MASB TRi-1, 1 July 2006. A company may not disclose the zakat information; however, it might mention the zakat amount under these components. Hence, a score of 1 will be awarded.

4. Results and analysis

The following illustrates zakat practice in the presentation and disclosure as outlined in the MASB TRi-1, Accounting for Zakat on Business (Malaysian Accounting Standards Board [MASB], 2006).

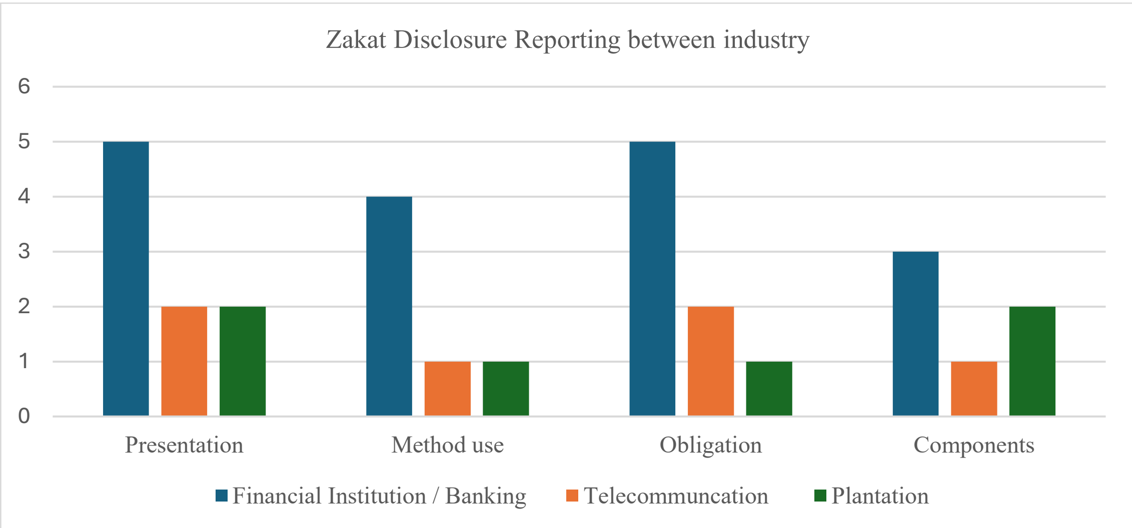

Figure 1: Zakat disclosure reporting between industry (Source: Authors' Calculation)

Figure 1 presents the frequency of disclosure between fifteen companies in three industries. Four areas of zakat disclosure reporting were observed, including the presentation of disclosure, the method used for zakat calculation, the obligation to pay, and the components of the disclosed information. Based on the content analysis, the majority of companies follow the guidelines outlined in the MASB Technical Release i-1, Accounting for Zakat on Business (Malaysian Accounting Standards Board [MASB], 2006).

Among all the fifteen companies selected in the sample, the observation shows that 60% of the companies presented the amount of zakat payable in their report. Nevertheless, only 33% of the companies disclosed their adopted zakat calculation method. The reports indicate that the disclosure of the zakat calculation method remains low and unclear. Much of the information about zakat is merely general without an in-depth explanation. This can be seen from the content analysis; these companies were not concerned about the zakat measurement and recognition disclosure. The findings show that Muslim shareholders disregarded the importance of business zakat unless they received necessary communication about the zakat payments they needed to make. Findings from this study reveal that the banking and financial industry is susceptible to disclosing its zakat amount under the MASB TRi-1. One reason for the exemption is that the industry is considered sensitive since the Malaysian Central Bank heavily regulates it.

On the other hand, the telecommunication and media, as well as plantation industries, are organisations that have the least disclosed zakat payable amount in their annual reports. The disclosed information is trivial and very limited, and the explanatory notes are absent. One reason for this is that the majority of the shareholders are non-Muslims, and the companies deem the practice of zakat payment not essential. Instead, the tax is sufficient to comply with Malaysian accounting standards for reporting. Within this context, organisations should consider the rights of minority shareholders, which may include Muslims, even if the number of shareholders is small. Companies must practice good governance to ensure the well-being of their shareholders. Hence, disclosure is one of the mechanisms for demonstrating best governance practices. Furthermore, although these companies are Shariah-compliant, the lack of zakat disclosure and explanatory notes for not practicing zakat payment could harm Muslim shareholders, as zakat is an obligation for them. Findings from this study are also consistent with a study by Abdullah et al. (2023), who found that the principle of full disclosure for zakat is low among the Shariah-compliant companies in Malaysia. The study sample was based on companies' annual reports from 2011. Given the ten-year gap in research, it can be argued that the trend of zakat disclosure remains low and limited.

Based on the analysis, the elements of presentations, method, and components of the zakat disclosure are at a minimal level. It can be argued that the effects of governance practices and religiosity dimensions on zakat and business income are minimal. The act of volunteerism appears to have a profound basis in the practice of zakat, a form of charitable giving. Hence, legal enforcement and the Zakat authority should emphasise activities that could increase the presentation and disclosure of Zakat payments in companies' annual reports. The importance of zakat practice and disclosure should be embedded in the organisational culture, as this is crucial for business and societal sustainability. Regarding the social aspect, accountability and transparency with the community are crucial for maintaining continuous support from stakeholders. In this context, the zakat reporting and disclosure commitment by Malaysian companies seems to have its limitations.

Furthermore, it is found that the disclosure requirements outlined in MASB TRi-1 are simpler than those set up in FAS no. 9. MASB TRi-1. For example, the entity shall disclose in the notes accompanying the financial statements the method used in the determination of the zakat base, its responsibility towards payment of zakat on business, and significant zakat components, as well as current zakat expense and payment liability, rather than FAS no. 9, which characterised the presentation of zakat in detail. The FAS no. 9 is a standard issued by an independent accounting body, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), which is mandatory for all Shariah-compliant companies in the Middle East to comply with. However, it presents a challenge for Shariah-compliant companies in Malaysia to calculate zakat due to two circumstances. First, the zakat payment is divided into two categories: short-term (traded shares) and long-term (non-traded shares). Zakat on short-term shares is based on the current value, which poses a challenging process for companies to calculate the amount of zakat and reflect it in the requirements of nisab and haul (Kadir et al., 2020). Second, the understanding of the zakat concept remains limited among shareholders, leading to a lack of knowledge and ignorance.

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From a regulatory perspective, the low zakat reporting is due to the lack of effort by Shariah-compliant companies in Malaysia to voluntarily enhance their information, as the regulatory penalties are lower compared to conventional taxes. These factors create contradictions to Shariah law, which emphasises the importance of transparency, accountability, and honesty in sharing information with society.

Nevertheless, at the firm level, it is interesting to highlight that findings from the companies' annual reports reveal that two of the companies have demonstrated good practices in Zakat reporting and disclosure. The information provided by the company enables it to demonstrate a degree of religious concern towards its shareholders, particularly Muslims. An example of Zakat disclosure that can serve as a beneficial practice for all Shariah-compliant companies is that of BIMB Holdings Berhad and FGV Berhad. Based on the company's annual report, details of the zakat information are found in (a) notes to the financial statements, which mention the recognition and obligation of zakat payment, and (b) the Zakat calculation method. However, BIMB Holdings does not disclose the components of the calculation, except for the amount paid and other relevant details. This information indicates that the companies have informed the shareholders about the details of the business zakat policy. It also shows that the zakat was paid for the business and not for the shareholders' return. Further, within the event, initiatives, and engagement activities section, FGV Berhad provides information on zakat for religious affairs and welfare purposes.

Additionally, findings from this study show that although they are under the Islamic businesses the compliance of business zakat information in the companies' annual reports remains low and subjective. One reason can be drawn from this analysis, which is due to a firm-specific factor, such as ownership type and firm age. The findings suggest that firm-specific factors heavily influence disclosure practices. Companies that are within government-linked companies, such as FGV Berhad and TH Plantation Berhad, demonstrate a positive commitment to adhering to MASB TRi-1 in the context of zakat amount and payment components. Unlike Telekom Berhad, the company merely discloses its business zakat information on a surface level, which only includes the amount and notes in the corporate reporting. Meanwhile, a multinational telecommunications and digital conglomerate company, Axiata Berhad, demonstrates good practice in the form of zakat presentation, payer obligation, zakat-related current expenses, and payments made.

In the context of the financial and banking sector, these companies are demonstrating good practice in zakat disclosure. Findings from these companies suggest that due to heavy regulation imposed on the industry, these companies are pressured to disclose more information to reduce information asymmetry between companies and investors. This procedure contributes to a stable and sound financial and banking system. Table 2 presents the zakat practice in the presentation and disclosure as stated in the MASB TR- i 1.

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Table 2: List of Zakat disclosure practices by the companies

Company ID	Presentation	Method use	Obligation	Components				Overall disclosure
				Cur. Exp.	Payment	Liability	Adjustment	
BIMB	1	0	1	1	1	0	0	√
CIMB	1	1	1	0	1	1	0	√
AFFIN	1	1	1	1	1	1	0	√
TAKAFUL	1	1	1	1	1	1	0	√
MUAMALAT	1	1	1	1	1	1	0	√
TELEKOM	1	0	1	0	0	0	0	√
MAXIS	0	0	0	0	0	0	0	x
PELANGI	0	0	0	0	0	0	0	x
AXIATA	1	0	1	1	1	0	0	√
DIGI	0	0	0	0	0	0	0	x
FGV	1	0	1	0	1	0	0	√
BATU KAWAN	0	0	0	0	0	0	0	x
KL KEPONG	0	0	0	0	0	0	0	x
TH PLANTATION	1	0	0	0	1	0	0	√
SIME DARBY	0	0	0	0	0	0	0	x

(Source: Authors' Calculation)

5. Conclusion

The main objective of this study is to examine the practice of zakat reporting and disclosure in Shariah-compliant companies in Malaysia for the year 2023. Based on the content analysis, it can be concluded that the zakat information reporting remains low and scarce, even though the concept of accountability and transparency under Islam is related to the principle of full disclosure. Despite Malaysia's status as an Islamic bloc, companies, including Islamic institutions, still view zakat reporting as trivial. Additionally, from an accounting and auditing perspective, the findings of this study revealed that shareholders and auditors pay less attention to zakat disclosure. Regulations by the securities commission or the Central Bank could have substantial implications for Shariah-compliant companies in terms of zakat computation, reporting, and disclosure. In line with the need for an appropriate regulatory framework for Islamic institutions, this study contends that zakat computation, reporting, and disclosure should be regularly highlighted and emphasised to alleviate and improve the economic cycle and promote social justice. Furthermore, the Shariah screening process for companies by the Malaysia Securities Commission (SC) should embed the ethical requirement on business zakat, which could carry a positive weight for the Shariah-compliant companies to improve their corporate reporting, particularly on business zakat. SC or Bursa Malaysia could consider providing appropriate guidance for those companies that wish to disclose their zakat information.

As stated beforehand, the Shariah principles require that all types of income derived from resources be identified and Shariah-compliant. Thus, when zakat is payable, the zakat measurement and recognition amount should be disclosed in the companies' financial statements. It can be argued that although Shariah advisors and Shariah committees were appointed, the competency of these personnel is vital to acknowledge and inform the company's management of the importance of the zakat source. The shareholders view the Shariah financing these companies offer as a means of generating wealth. Therefore, zakat measurement and recognition must be disclosed and presented in accordance with Shariah-compliant regulations. Such an absence can also indicate a high level of ignorance, as transparency through disclosure is fundamental to Shariah values in business dealings. These findings are consistent with those of Abbas et al. (2018) as well as Abd Samad et al. (2015), who confirmed that zakat disclosure is lacking and the information is inconsistent. These authors also argued that one reason for this matter is that organisations are not persons professing the religion of Islam. Additionally, companies should integrate awareness of zakat reporting, as it can enhance value for both companies and society. Companies should not see the zakat reporting as a risk; instead, it increases the price of the company. Similarly, stakeholders should consider corporate reporting as part of the social nexus that can improve ethics and governance within business activities. Therefore, it is crucial for both companies and society to shift their perspective from traditional Shariah-compliant business practices to a holistic approach that governs all aspects of business, trading activities, and reporting.

The adoption of artificial intelligence to capture data and integrate information should be a significant approach that large companies in Malaysia should consider. The way technology is being used can be an alternative for companies to grasp the opportunities and potential to improve their best practice in corporate reporting, such as the utilisation of big data to develop international recognition of their Shariah-compliant activities. The utilisation of technology can assist companies in focusing their efforts on the value of their investment and trading activities that comply with Shariah principles. It enables investors to determine whether the company they invest in aligns with Shariah principles.

Stakeholders, particularly Muslim investors, should emphasise the risk of not getting full information on zakat in the companies they invest in. All Muslims are obligated to pay zakat as an act of worship to God. Regardless of whether it is a small amount or a large one, once zakat is due to them, Muslim investors must comply with the Shariah requirements that a certain percentage of their wealth be distributed immediately in the correctly to the poor. So, these investors must be responsible for their obligations, as the consequences will be in the future.

Finally, the Board of Directors and top management of the companies also play vital roles. In the context of discharging their roles and responsibilities, being accountable to the company's stakeholders is a key feature of governance professionalism. It is essential for company leaders to consider their Muslim stakeholders when making decisions, as the company operates within a broader business ecosystem. Management must anticipate that greater openness in sharing information publicly can escalate stakeholders' expectations, allowing companies to adapt and respond appropriately.

The study's implications suggest that further investigation is necessary regarding the costs and benefits to companies in preparing zakat reports and how this information is presented in annual reports. This study has practical implications, as it helps managers in Shariah-compliant companies, regulators, and relevant Shariah authorities enhance zakat reporting practices by exploring the issues that constrain such practices. This study is limited to 15 Shariah-compliant companies. Therefore, the findings from this study cannot be generalised to other non-Islamic markets since this study was conducted in a multi-ethnic context in Malaysia. Nevertheless, the mixed samples of the sectors can provide a future avenue for researchers to explore further, such as in the plantation sector. This is because there is a need for zakat in the returns from agricultural and commercial investments. Future studies may address this limitation as the business environment in Malaysia continues to develop greater diversity in corporate reporting and governance matters. The research could be extended to other Muslim regions. Regulations and responsibilities could be a factor that binds organisational shared values in the zakat reporting context and could be an avenue for future research.

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Conflict of interest statement

The authors agree that this research was conducted in the absence of any self-benefits, commercial or financial conflicts and declare the absence of conflicting interests with the funders.

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Syeliya Md Zaini, who is the corresponding author, carried out the research, wrote and revised the article. Nurul Hidayana Mohd Noor conceptualised research design, review and editing. Noor Azlin Mohd Kasim analysed the data and wrote the analysis. Syeliya Md Zaini anchored the review, revisions and approved the article submission.