

Does Government Incentive Influence Compliance Behavior of Business Zakat among Owners of SMEs?: An Evidence Via Rasch Measurement Model

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Abstract

Government incentive is one of the significant factors that influence the compliance behavior of zakat. However, studies which have focused on government incentive such as zakat deduction and compliance behavior of zakat particularly in business zakat scenario is only next to inexistence. Therefore, this study aims to investigate whether the government incentives influence compliance behavior of business zakat among owners of SMEs. A total of 276 questionnaires collected from Small and Medium Entrepreneurs (SMEs) in Selangor and were analyzed using Rasch Measurement Model. The construct is found reliable with Cronbach Alpha of 0.60, person reliability index at 0.65 and item reliability index at 0.98. The statistical indicators such as mean square (MNSQ), Z-standardized (ZSTD), point measure correlation (PtMeaCorr) and Person Item Distribution Map (PIDM) revealed that out of the 247 respondents, 107 respondents (43.3%) who comply with business zakat payment were influenced by government incentives and 140 respondents (56.7%) who

did not comply with business zakat payment probably are not influenced by government incentives. The finding of his study implies the significance of Rasch Measurement Model in explaining the compliance behavior of zakat among SMEs. Specifically, this study finds that government incentive is not influence the decision of owners on SMEs community to comply with business zakat payment.

1. Introduction

Zakat is one of the pillars of Islam and part of the *ibadah* required upon all Muslims who satisfy necessary conditions. Its position as the third pillar after the *Syahadat* and *Solat*, illustrates its importance in *Islam*. Historically, the obligation to pay zakat, dates back to the second year of *Hijriyah* (624 C.E) (Jabatan Kemajuan Islam Malaysia (JAKIM), 2001; Mohd Zulkhairi & Noor Sharoja, 2005; Shamsul Hamri, Bil 6/2006). In the era of the Prophet Muhammad (*Pbuh*), zakat played a major role in the economic,

political and social development of the Muslim community (Ram Al-Jaffri, 2010a). Throughout the years, the concept of zakat has been revolutionized and it is now considered as one of the important sources of Islamic economic development, acting as a source of financial seed to jump-start the economy of the Muslim community (Anita, Wan Noor Hazlina, Norudin, & Kamaruzaman, 2011). As such, it is mandatory that every Muslim individual who satisfies the required conditions pays zakat, to ensure that zakat is able to fulfill its role in the development of the economic Muslim community. The Holy Qur'an devotes a number of verses to the obligation to pay zakat. For instance, the Al-Baqarah urges all Muslims (2:43):

“And be steadfast in prayer; practise regular charity; and bow down your heads with those who bow down (in worship)” and (2:261) expounds that,

“The parable of those who spend their sustenance in the way of Allah is that of a grain of corn: it groweth seven ears, and each ear Hath a hundred grains. Allah giveth manifold increase to whom He pleaseth: And Allah careth for all and He knoweth all things” respectively.

Both verses clearly describe zakat as an obligation which has untold benefits for Muslims who fulfil it, as promised by the Almighty. It also illustrates that zakat is a specific religious obligation that has a number of advantages, not just in the present world, but also, in the hereafter.

Even though the obligatory payment of zakat is clearly stated in the Holy Qur'an and other sources, some Muslims still lack awareness or are still confused about the subject of zakat obligation. Many assume the obligation is fulfilled when they pay zakat *al-fitr* which is paid once a year from at

any time from the beginning of the holy month of *Ramadhan* until the first of *Syawal* (Mohd Shah, 2011, December 28) and this may be one of the reasons why some Muslims do not undertake full payment of zakat. Thus, clear explanations about the subject of zakat should be disseminated among Muslims to educate them that the obligatory payment of zakat does not just involve paying zakat *al-fitr* but also includes the zakat on wealth which is further categorized into several types.

Basically, zakat *al-fitr* refers to the zakat required of every Muslim at a specific rate and at a specific time, i.e. collected annually during the month of *Ramadhan* (Mohamed et al., 1995) while zakat on wealth refers to the zakat which is categorized into several types, namely zakat on gold and silver, zakat on livestock, zakat on agriculture, zakat on savings, zakat on mineral deposits and business treasures, zakat on shares, zakat on income, zakat on the Employment Provident Fund savings and zakat on business.

Generally, Muslims pay a serious attention to the obligation to pay zakat *al-fitr* (Hasan & Sahnaz, 2004; Mohd Shah, 2011, December 28) and readily fulfill this obligation since it has long been associated with the traditional practices of *Ramadhan* (Mohamed et al., 1995).

However, the same cannot be said about paying zakat on wealth, especially for zakat on business as there are various issues which are still hotly debated among zakat practitioners (Ram Al-Jaffri, 2010a). Among the issues that need to be clarified include law enforcement of zakat payment, the company status or entity, the rules and regulations especially *fatwa* and other matters related to zakat on business.

While previous studies have focused largely on zakat on income, very few have emphasized business zakat in Malaysia (Ram Al-Jaffri, 2010a), especially issues

about how to increase the total collection and the total number of business zakat payers among Muslim entrepreneurs. This is because zakat institutions in Malaysia are still facing difficulties to raise the collection of business zakat (Halizah, Kasumalinda, & Agoos, 2011) compared to zakat on income. As a result, the total collection of business zakat is still lower than that of zakat on income (Halizah et al., 2011). There is also discrepancy between the small percentages of zakat payers among the Muslim business community compared to the total number of businesses registered with the Companies Commission of Malaysia.

Moreover, previous studies and reports also discussed the same predicament. According to Hasan and Sahnaz (2004), in the case of the state of Terengganu, the total zakat collection from 2000 until 2004 had increased but the increment in the small and medium entrepreneur community was still small. Similarly, there are about 3,964 companies and co-operatives in the Federal Territory that have the potential to contribute to zakat on business but unfortunately almost 60 percent or 2,652 of these companies failed to do so (Yusliza, 2010, March 19). Another report by Pusat Pungutan Zakat Wilayah Persekutuan also discovered more than 200,000 active Muslim business owners in Malaysia but less than 20,000 of these business owners were eligible to pay business zakat. However, out of these numbers, records showed that only 500 business owners had paid out business zakat (Pusat Pungutan Zakat (PPZ), 2001). The same seems to be happening in Selangor although the state showed the highest total zakat collection compared to other states in Malaysia. Based on the report from the Companies Commission of Malaysia, while there are more than 14,000 active Muslim entrepreneurs in Selangor, only 817 (5.83%) had paid their business zakat (Noormala,

Issue 3/2008). The implication is that even though total collection of business zakat has been on the rise from one year to another, the increase is inconsistent with the total number of zakat payers among Muslim entrepreneurs.

Based on these issues, the prevailing question that needs to be answered is why the Muslim business community appears to be resisting payment of business zakat. It also begets the question why this could happen in Malaysia as the obligation to abide by business zakat is explicitly stated in the Holy Qur'an (Halizah et al., 2011) and religious experts (*ulama'*) concord on the obligation. For instance, Ahmad Syafi'i (2005) explained *ulamasalaf* and *khalafand* reinforced the obligatory payment of business zakat and that those who satisfy necessary conditions and avoid paying business zakat, are recognised as infidels. In the Holy Qur'an the obligatory payment of business zakat is also clearly mentioned in the Al-Baqarah (2: 267):

"O ye who believe! Give of the good things which ye have (honourably) earned, and of the fruits of the earth which We have produced for you, and do not even aim at getting anything which is bad, in order that out of it ye may give away something, when ye yourselves would not receive it except with closed eyes. And know that Allah is Free of all wants, and worthy of all praise".

For that reason, zakat authorities have fortified the obligation to comply with business zakat (Syed Mohd Ghazali Wafa, 2004) as evidenced in the state of Kedah, which has decreed that payment of business zakat is mandatory for all Muslim business communities who satisfy the necessary conditions (Ram Al-Jaffri, 2010a).

Besides, in order to overcome the issue of non-payment, zakat institutions have developed a number of approaches to

attract the Muslim business community to pay business zakat such as introducing various methods of zakat payment, active marketing campaigns, organizing various workshops and conferences and others. Meanwhile, the government's initiatives such as allowing zakat deductions in corporate tax, act as incentives for the Muslim business community to pay business zakat. For example, in 2004, offshore companies in Labuan were given rebates for zakat on business according to Section 8A and 11 of the Labuan Tax Act 1990 (Mohamad Saladin, Arifin, & Abdul Ghafar, 2008). The government also provided tax deductions to companies that paid business zakat in the 2005 and 2007 budget on 10th September, 2004 and 1st September, 2006 respectively (Mohamad Saladin et al., 2008; Pusat Pungutan Zakat, 2004).

The above explanations reveal that the small number of zakat payers is largely attributed to the low level of compliance behavior among Muslim entrepreneurs on the obligatory payment of business zakat (Mohamad Alayuddin, 2008; Ram Al-Jaffri, 2010a). Mohamad Alayuddin (2008) also affirmed that some are not bothered about zakat compliance in the business environment. Additionally, Muhamad Muda, Ainulashikin, and Amir Shahrudin (2005) also suggested another reason for non-payment as the lack of motivation among the Muslim community to pay zakat.

As discussed earlier, there is a lack of literature and studies focusing on compliance behavior and business zakat, with prior studies mainly focusing on compliance behavior and zakat on income (Kamil, 2002, 2004, 2009; Raedah, Noormala, & Marziana, 2011; Sanep, Nor Ghani, & Zulkifli, 2011; Sanep & Zulkifli, 2010; Zainol & Kamil, 2008; Zainol, Kamil, & Faridahwati, 2009; Zulkifli, 2011). From the various studies regarding compliance behavior and zakat on income, it can be

concluded that several factors influence compliance behavior of zakat on income. These can be divided into three main categories i.e. psychological and sociological, economic and Islamic (Zulkifli, 2011). Due to that, it shows compliance issue is dependent upon and is influenced by a number of factors, there could be several hidden factors which are yet to be discovered (Chau & Leung, 2009; Fischer, Wartick, & Mark, 1992; Kamil, 2002; Ram Al-Jaffri, 2010a; Sanep & Zulkifli, 2010; Zulkifli, 2011).

Due to this gap in the literature, a study that identifies the antecedents of compliance behaviour of business zakat is much needed. As mentioned by Ram Al-Jaffri (2010a) the scenario of business zakat is different compared to income zakat since the business zakat environment is unique; involving several aspects such as the income sources, equity, and law enforcement and government incentives. Hence, this situation can be said as a different scenario on compliance behaviour among both types of zakat.

Besides the familiar factors frequency discussed in the scenario of zakat, this study try to describe the relationship between government incentives and zakat compliance behavior since lack of study focused either government incentives influence Muslim business community to comply pay business zakat. This is because the subject of government incentives in previous studies is usually related with tax rebates is given for zakat on income. According Ahmad Shahir and Adibah (2010) and Siti Mashitoh (2007) government incentives like tax rebates have significant influence on Muslim individuals to pay zakat on income. But, how the government incentives like zakat deduction on Owners of SMEs? Is there have significant or vice versa? So that, this study assumes government incentives like zakat

deduction also have a positive influence on compliance behavior of business zakat. Yet, the relationship has not been empirically investigated due to the scope of studies by previous researchers that mainly focused on zakat on income. Hence, the purpose of this study is to identify either government incentives through zakat deduction influence compliance behaviour of business zakat among owners of SMEs.

2. Government Incentives and Zakat Compliance Behavior

Government incentive is an inducement provided by the government to increase compliance in individuals. For zakat, government incentives include zakat deduction and tax rebates to encourage Muslim individuals and the Muslim business community to comply with zakat payment. Both of the incentives given by the government have different approaches as tax rebates only apply to individuals who pay zakat on income. This is clearly stated in the Income Tax Act 1967 section 63 (A) as follows:

“rebate shall be granted for a year of assessment for any zakat, fitrah or any other Islamic religious dues payment of which is obligatory and which are paid in the basis year for that year of assessment to, and evidenced by a receipt issued by, an appropriate religious authority established under any written law”(Income Tax Act 1967, 2006, p. 94).

Zakat deduction is different as it is an incentive given by the government to the Muslim business community. The approach aims to reduce costs faced by the Muslim business community. The actual deductions in corporate tax allowed for zakat on business payment should not exceed 2.5 percent of the aggregate income. As such,

corporate income tax still needs to be paid despite the given incentives. The approach is clearly described in Section 44 (11A), Income Tax Act 1967 which states:

“there shall be deducted pursuant to this subsection from the aggregate income of a company for the relevant year reduced by any deduction for that year in accordance with subsection (1) an amount equal to the payment of zakat perniagaan which is paid in the basis period for that relevant year to an appropriate religious authority established under any written law or any person authorized by such religious authority provided that:

- a. *The amount to be deducted pursuant to this subsection shall not exceed one-fortieth of the aggregate income of the company in the relevant year*
- b. *The company is not an offshore company* (Income Tax Act 1967, 2006, p. 151)

With such incentives in place, the level of compliance amongst members of the Muslim business community is expected to rise. According to Barjoyai (2001) this is because most Muslim businesses are compliant if they receive incentives such as rebates or deductions when zakat is paid on business. Thus, incentives factor in the decision-making of businesses to comply with zakat obligations as it also aids in maximizing utility.

Siti Mashitoh (2007) mentioned that incentives such as tax rebates given by the government can be utilized to reduce the total income tax paid by Muslim individuals. This means that Muslim individuals can use this incentive to reduce their financial burden in paying income tax as well as zakat. At the same time, this incentive influences more Muslim individuals to pay zakat, indirectly increasing the numbers of

zakat payers and also the zakat collection. Hence, government incentives factor greatly in the decision-making process of an individual to comply with zakat payments.

A number of discussions mentioned that government incentives such as tax rebates significantly influence the Muslim community's compliance with zakat payments. This is augmented by Ahmad Shahir and Adibah (2010) who suggested that government incentives such as tax rebates are an attractive inducement to the zakat payer. Tax rebates given by the government to individuals who pay zakat on income help in lightening their financial burdens. Moreover, Ram Al-Jaffri (2010a) also affirmed the relationship between government incentives and zakat compliance. The study explained that tax rebates, as a second order construct of perceived behavior control, have a positive relationship with the intention to comply with zakat payments on business in Kedah. The study is supported by Mohamad Saladin et al. (2008) who mentioned that giving full tax rebate to individuals who have paid zakat on income significantly influences their compliance with zakat obligations. Therefore, the discussions in both studies concords with the findings of Barjoyai (2001).

The relationship between incentives and human behavior in decision making is also evident in other areas such as taxation. Feld and Frey (2007) described incentives in taxation as the rewards that may determine the intrinsic motivation of the taxpayer to comply with taxation. It may include direct monetary gains such as rebates and tax deductions or non-monetary gains such as reductions in ticket prices in transportation services. The explanation is based on the perspectives of the crowding out theory.

According to Barjoyai (1987) government incentives is an approach to combat tax evasion and maximize tax

collection and positively influence tax compliance amongst taxpayers (Trivedi, Shehata, & Mestelman, 2005). The relationship between government incentives and tax compliance was also confirmed by Nor Aziah, Hasseldine, and Hodges (2005) through their study to determine compliance attitudes in Malaysian land owners. The study found that statistically, taxpayer compliance is heavily influenced by incentives.

In other fields such as information technology, government incentives also factor in the decision making of individuals using internet services. Choudrie and Lee (2004) through their study of the development of broadband in South Korea found that government incentives influenced the level of usage of broadband technology among middle income households. The government incentive in the above study was a monthly reduction in cost of broadband services. Although previous studies revealed a positive relationship between government incentives and human behavior, this factor did not produce the same result in a study by Diamond (2009) who investigated the influence of incentives on purchasing hybrid electrical vehicles. The study found that incentives like rebates could not influence individual decisions in purchasing hybrid electric vehicles. However, other incentives such as tax credits and fee waivers may be effective in influencing the usage of hybrid electric vehicles. This is especially true for tax waivers as incentives which are found to be more effective if compared to rebates and tax credits.

From previous studies, government incentives such tax rebates definitely influence Muslim individuals to pay zakat (Ram Al-Jaffri, 2010a). However, the relationship between tax deduction as an incentive and compliance of business zakat has yet to be clarified. This situation needs

further study to examine the relationship between government incentives like tax deductions from zakat on business because the implementation of this incentive on businesses differs from implementing it on individuals. It may yield different results if compared to previous studies. This is because, as mentioned by Ruziah (2007) tax deduction incentives given by the government to business zakat is still not able to reduce the financial burden facing the Muslim entrepreneur. They still need to comply with zakat payment on business as an Islamic obligation and pay corporate tax which is mandatory. As such, tax deduction incentives may have different effects on the Muslim business community. Therefore, this study will examine the relationship between government incentives and compliance behavior of business zakat among SMEs and aims to prove it as an important factor influencing the Muslim business community.

3. Methodology

In terms of research design, a quantitative approach was adopted for the process of data collected. These factors were measured through multi-item measurement using the five-point Likert rating scale adapted from previous studies. The population of this study consists of a group of small and medium business owners in Selangor registered with the Malaysian Selangor Malay Chamber of Commerce (DPMMNS) in nine territories and representing six major categories. The sampling technique applied in this study is the proportionate stratified random sampling technique which was conducted on the nine territories in Selangor. The population was divided into groups based on districts in Selangor. This technique was chosen due to the large numbers of small and medium entrepreneurs in Selangor and because they

were geographically dispersed. After the population had been stratified based on district, a sample of members of each district was selected based on simple random sampling. This is because in simple random sampling, all respondents in the population have a chance to be selected. In collecting data for this study, the instrument used was a set of questionnaires delivered to all selected respondents. A total of 600 questionnaires were distributed. The data was then analyzed using descriptive statistics and Rasch Measurement Model.

4. Findings

Data analysis in this study involved a two-stage process. The first stage of data analysis was conducted through descriptive statistics and the second stage through Rasch Measurement Model in order to fulfil the objective of this study. Based on the 600 sets of questionnaires distributed, 315 sets of questionnaires returned. 39 sets of questionnaires were rejected due to incomplete answers and unanswered questionnaires. As such, just 276 sets of questionnaires were analyzed.

4.1. Rasch Measurement Model

The process of data analysis in this study employed the Rasch Measurement Model. At this stage, the analysis only focused on several aspects to achieve the objectives of this study. These include analysis on the items and persons fit. The outcomes were projected in the form of summary statistics and Person Item Distribution Map (PIDM).

4.1.1 Summary statistics

The responses from the 276 respondents were tabulated and analyzed. The summary statistics as shown in Table 1

presents from 276 responses on the seven items analyzed. The Cronbach alpha (α) value was at 0.52 which is “low” index and acceptable since the sufficient value is at least 0.5 in measuring the consistency internal reliability (Churchill, 1979; George & Mallery, 2003; Helmstadter, 1966; Marino & Stuart, 2005; Nunnally, 1967). The person reliability was at 0.54 which is deemed ‘poor’ reliability (Fisher, 2007) and explains the stability of the person response. Item reliability was at 0.98 which denotes ‘excellent’ reliability and describes the assessment task as being able to discriminate the person ability and task difficulty for government incentives. Other than that, the person separation index was in a low index at 1.08 showing the spread of person along a range and item separation index was at 7.41 which denotes ‘excellent’ separation index, inferring a larger range of items than for persons, and a broader range of item difficulty.

Table 1: Summary Statistics for Government Incentives

	Before identifying misfit respondent
Cronbach Alpha	0.52
Person Reliability	0.54
Person Separation	1.08
Person Mean	0.42
Person SD	1.07
Person Max	5.64
Person Min	-1.23
Item Reliability	0.98
Item Separation	7.41
Item Mean	0.00
Item S.D	0.64
Item Max	1.07
Item Min	-0.85

4.1.2. Items Polarity and Misfit

Item polarity is an indicator used to show the items are in line with the construct measurement and it is also based on point measure correlation (PtMeaCorr). The

measurement with a positive index for all items shows correlation with the construct. Measurements with a negative index highlight the items that need to be re-examined for removal or rephrasing as it has elicited careless responses (Mohd Kashfi, 2011). In addition, the analysis to identify the misfit items, three indicators such as point measure correlation value (PtMeaCorr), mean square (MNSQ) and Z-standardized (ZSTD) are utilized. According to Azrilah (2011) there are three criteria to be considered in examining the outfit data. The item are considered to be misfit with the model if the point measure correlation (PtMeaCorr) is larger than 0.4 and less than 0.85 ($0.4 < \text{PtMeaCorr} < 0.85$), the outfit mean square (MNSQ) is larger than 0.5 and less than 1.5 ($0.5 < \text{MNSQ} < 1.5$) and the outfit Z-standard (ZSTD) is larger than -2 and less than +2. The three criteria must be fulfilled in identifying the outfit or outliers in the data. Hence, based on the item polarity and misfit as shown in table 2 revealed that all five items constructed with the positive value of point measure correlation coefficient (PtMeaCorr) indicating that all items measured were in the same direction in the development of the construct. For item misfit, none of the five items were identified as misfits as they did not fulfil the three criteria of misfit responses. This indicated that all the respondents’ responses fit with the Rasch Measurement Model.

Table 2: Item Polarity and Misfit for Government incentives

Entry number	Outfit		PtMeaCorr	Item
	MNSQ	ZSTD		
4	1.01	0.2	0.61	GI04
7	1.28	3.1	0.48	GI07
5	0.70	-3.8	0.69	GI05
2	0.56	-5.8	0.69	GI02
3	1.24	2.3	0.40	GI03
Mean	0.96	-0.8		
S.D	0.29	3.5		

4.1.3. Person Misfit

Person misfit was conducted to identify any respondents in misfit situations. This analysis to ensure that the 276 respondents were in fit conditions. Based on criteria for misfit respondents; point measure correlation (PtMeaCorr) is larger than 0.4 and less than 0.85 ($0.4 < \text{PtMeaCorr} < 0.85$), the outfit mean square (MNSQ) is larger than 0.5 and less than 1.5 ($0.5 < \text{MNSQ} < 1.5$) and the outfit Z-standard (ZSTD) is larger than -2 and less than +2 (Azrilah Abdul Aziz, 2011), the results on person misfit revealed 29 respondents as misfit respondents since they fulfilled the three indicators of misfit persons as shown in table 3. This meant that the 29 SMEs entrepreneurs could not have their perceptions precisely measured by the items used to measure government incentives and 247 responses fit with the Rasch Measurement Model.

Table 3: Person Misfit for Government Incentives

Entry Number	Outfit		PMC	Person
	MN SQ	ZSTD		
4	1.93	2.1	0.89	1221
21	3.41	3.03	0.91	3121
26	1.93	2.1	0.89	4124
29	1.85	2.4	0.87	1221
52	Maximum Measure			1121
69	2.37	2.1	-0.75	2224
117	0.22	-2.1	0.05	4122
129	Maximum Measure			1222
130	1.64	-3.0	-0.35	1211
135	0.26	-2.3	-0.13	3222
139	2.62	2.7	0.94	3222
142	Maximum Measure			3222
143	2.75	2.5	-0.39	3121
144	0.26	2.9	0.94	3222
147	0.33	-2.4	0.00	3222
149	0.33	-2.4	0.00	3222
152	0.22	-2.1	0.05	3222
156	1.68	-2.3	0.06	2123

164	1.80	2.1	0.85	1123
165	1.58	-2.7	0.03	3121
181	Maximum Measure			1221
190	Maximum Measure			1123
193	0.17	-2.9	0.01	1224
201	0.40	-2.5	0.14	2223
206	0.40	-2.5	0.14	3221
211	1.85	2.4	0.87	1123
260	1.68	-2.3	0.06	1121
261	1.85	2.4	0.87	1124
265	Maximum Measure			2121

After the misfit respondents' identification process, it was necessary to carry out an analysis to examine whether the indicators that need to be observed had acceptable values. As shown in table 4, the value of Cronbach alpha was at 0.60, higher than before identifying misfit respondents (0.58) and the value indicated acceptable reliability since it was at 0.6 as mentioned by previous studies. The person reliability index was given at 0.65 which is fair but acceptable value (Fisher, 2007) and item reliability index was at 0.99 which denotes excellent value reliability. Both indexes were higher than before identification of the misfit respondents. The item reliability index remained unchanged (0.98) and item separation index dropped from the 7.41 to 7.33 although it was still in the 'excellent' criteria of separation index.

Table 4: Final Analysis for Government Incentives

	After identifying Misfit respondent
Cronbach Alpha	0.60
Person Reliability	0.65
Person Separation	1.42
Person Mean	0.55
Person SD	1.03
Person Max	4.72
Person Min	-2.31
Item Reliability	0.98
Item Separation	7.33
Item Mean	0.00
Item S.D	0.69
Item Max	1.21
Item Min	-0.92

4.1.4. Person Item Distribution Map (PIDM)

Other than that, the response behavior among SME entrepreneurs on the government incentives influencing compliance behavior of business zakat was also analyzed through the Person Item Distribution Map (PIDM). Table 4 shows that the $Mean_{item}$ was at $+0.00logit$ and the $Mean_{person}$ was at $+0.55logit$. The table also provided a response on the assessment tool or otherwise also known as being person

shows person maximum value was at $+4.72logit$ and minimum value was $-2.31logit$ while item maximum value was $+1.21logit$ and minimum value was $-0.92logit$. The length of persons measurement became $+4.72logit - (-2.31logit) = +7.03logit$ and the scale for item at $+1.21logit - (-0.92logit) = +2.13logit$. It indicates that the scale of persons measurement was larger than scale of items measurement and the lack of scale person measurement for items measure was at $+7.03logit - 2.13logit = +4.90logit$. The $+7.03logit$ difference between maximum and minimum person over a standard deviation was at 1.03. The $logit$ value illustrates a huge spread of SMEs entrepreneurs being on target with expected compliance behavior. On the other hand, the $+2.13logit$ difference between maximum and minimum items was also over a standard deviation of 0.69. This shows the spread of items where some of the items were out of target. This denotes that none of the SME entrepreneurs

free. This can be shown through the person item distribution map as in Figure 1.

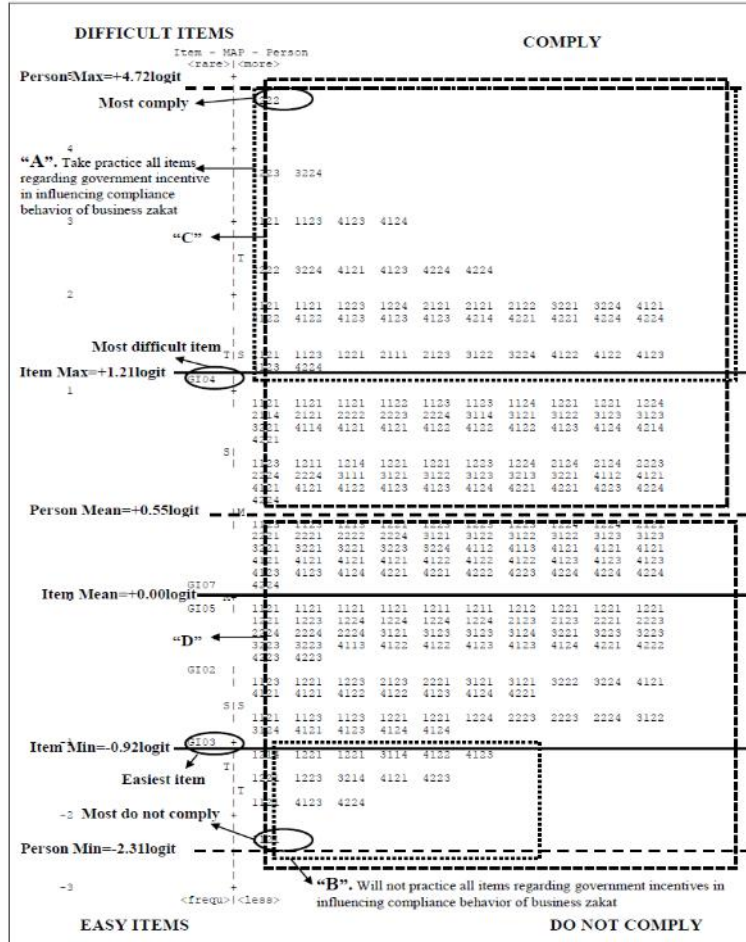


Figure 1: Person Item Distribution Map for Government Incentives

In the Person Item Distribution Map (PIDM) as shown in Figure 1, the SME entrepreneurs can be divided into two categories; those who comply and do not comply based on the *Person Mean*. SME entrepreneurs located above the *Person Mean* constitute the group that complies with paying business zakat influenced by government incentives (see group “C”). Meanwhile, SME entrepreneurs located below *Person Mean* constitute the group that does not comply with paying business zakat and were not influenced by government incentives in doing so (see group “D”). In group “C” comprising those complying with paying business zakat, there was one SME entrepreneur (207-4222) who was located at

the highest degree of agreement on the items used to measure government incentives with the person measure at +4.72logit (refer appendix 11), indicating a high level of compliance behavior. The respondent came from the Eastern area. Meanwhile, in group

“D” one SME entrepreneur (183-1121) who is from the Northern area (I) was located with low agreement on the items measuring government incentives with person measures at -2.31logit (refer appendix 11), indicating non-compliance with paying business zakat and probably not influenced by government incentives in doing so. Additionally, 43.3 percent (107/247 x 100) of SME entrepreneurs were located above *Mean Person*, (see group “C”) indicating that the

group comply with paying business zakat based on the person measures and difficulty *logit*. However, 56.7 percent ($140/247 \times 100$) of the SME entrepreneurs were located below the $Mean_{Person}$ (see group “D”) indicating that the group did not comply with paying business zakat based on the person measures and difficulty *logit*. This shows that more SMEs entrepreneurs do not comply with paying business zakat and they are not influenced by government incentives in their decision making.

Besides identification of person agreeability, the level of common practices on the items used to measure government incentives was also examined based on item endorsability as it represents the tendency for agreement among SME entrepreneurs on the measured items. Therefore, from the seven items used to measure government incentives, the items were divided by the two groups of difficulties. Items which were low item endorsability were located above the $Mean_{Item}$ and the easy items which are high item endorsability were located below the $Mean_{Item}$. From the five items, three items (**GI04**, **GI07**) were identified as the difficult items to agree with due to low item endorsability and located above the $Mean_{Item}$ (refer appendix 10). Based on the item *logit* measures, item **GI04** was identified as the most difficult item for agreement by the SME entrepreneurs at $+1.21logit$ measure with low item endorsability at 640. The remaining three items (**GI02**, **GI05**, **GI03**) were located as easy items for agreement as a result of high item endorsability and located below $Mean_{Item}$. Item **GI03** was at $-0.92logit$ and the easiest item for agreement among SME entrepreneurs with higher item endorsability at 927. Both the high and lack of ability group of SME entrepreneurs could respond accurately to the items which were easy to agree with. From the group of difficult tasks identified in measuring government incentives, one item (**GI07**) was

located in between $Item_{Mean}$ and $Person_{Mean}$. Items located in between the two are considered the common practice in measuring government incentives. This however depends on the ability of respective respondents. If their capability *logit* was above the *logit* difficulty of the items, they were able to respond to those items accurately. From the five items measuring government incentives, 17.8 percent ($44/247 \times 100$) SME entrepreneurs regularly practiced all the items regarding government incentives influencing compliance behavior of business zakat as shown in group “A” while 6.1 percent ($15/247 \times 100$) of the SME entrepreneurs did not practice all the items regarding government incentives as shown in group “B”. The group can be seen as not being influenced by government incentives at all in complying with paying business zakat.

In summary, verification on the construct was done and produced reliability with acceptable values for measuring government incentives. This is confirmed through the acceptable value of Cronbach α of 0.60, person reliability index at 0.65 and item reliability index at 0.98 which describe all assessment tasks as being reliable in measuring government incentives as one of the factors determining compliance behavior of business zakat among SMEs in Selangor. As such, from the 276 respondents, 247 respondents’ responses fit with the Rasch Measurement Model. Other than that, the person agreeability and item endorsability were identified as respondents who had different abilities in responding to the items measuring government incentives which were presented through the person item distribution map. The map illustrates that items used to measure government incentives can be classified into two groups; difficult and easy tasks based on the $Mean_{Item}$ measure. Two (**GI04**, **GI07**) items were categorized as difficult items as they

were placed above the $Mean_{Item}$ while three (**GI02, GI05, GI03**) items were identified as easy items, located below the $Mean_{Item}$. The person agreeability on the items was also categorized into two groups; those who comply and do not comply based on the value of $Mean_{Person}$. Accordingly, one respondent was identified with very high ability to agree and complying most with paying business zakat (**207-4222**) while another respondent was identified as lacking the ability to agree and did not comply most with paying business zakat (**183-1121**).

5. Results and Discussion

In fulfilling the objective, the Person Item Distribution Map (PIDM) was constructed to show the group of SME entrepreneurs and the items construct. The map gives an early indication of the group of respondents that need to be identified; whether they comply or did not comply with the business zakat payment. The result shows that more SMEs entrepreneurs do not comply with paying business zakat and they are not influenced by government incentives in their decision making. This is because the incentives like tax deduction is not much give benefit to the entrepreneurs since they still need to pay business tax as responsible citizens. Due to that, SME entrepreneurs face extra financial burdens due the Islamic obligation and government obligation. Both payments are compulsory but they are most inclined to pay tax due to the tight tax law enforcement compared to the rather law enforcement in zakat. As such, SMEs entrepreneurs will probably comply more if they get any incentives such as rebates from zakat payments.

This finding redundant with previous study in the scenario of zakat of income (Ram Al-Jaffri, 2010a) who mentioned tax rebates as a second order construct of perceived behavior control and has a

positive, significant correlation with compliance behavior. The reason why there have different result because the implementation between both zakat deduction and incentives is different.

Given this, the findings of this study are the first to provide valuable insight into and empirical evidence on the relationship between government incentives and compliance behaviour in business zakat. While these findings provide valuable implications, the limitations could be associated with the issue of generalizability. This is because the study was conducted only in Selangor and among small scale SMEs. Therefore, future study should endeavour to cover other business groups, specifically big scale organizations garnering high income business activities. From an organizational perspective, it would be interesting to compare the effects of the government incentives on zakat compliance behaviour of larger business groups. In addition, it is also useful to broaden the scope of the current study on other factors of compliance behaviour to produce more valuable findings and deepen our understanding on compliance behavior of business zakat among Muslim entrepreneurs throughout Malaysia and in other Islamic countries.

6. Conclusion

In general, this study can be concluded as that majority of SMEs do not comply with business zakat payment and government incentives is not one of the criteria of business zakat compliance behaviour. Based on Rasch Measurement Model, it provides information about how many respondents are stated as the misfitting, how many items measured what they are supposed to measure of the respondent's response patterns, through the Person Item Distribution Map (PIDM). All

the information shows how the government incentives are located in the area of low agreement level thus, indicating as factors that do not influence compliance behaviour of business zakat among SMEs.

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