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Zakat on Employment Income: Awareness, Understanding & Compliance

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Purpose: The aim of this paper is to explore the understanding of zakat on income among a representative group of academic staff.

Approach: This paper is an exploratory study using a case study approach looking into awareness and perception of zakat on income.

Findings: The study found that while most of the respondents aware of the injunction, many have valid concerns as the role of zakat in current times. Comments revealed that some prefer to fulfill their obligation informally for various reasons.

Research Scope: This study was limited to a carefully filtered group of respondents selected based on some rigid yet justifiable criteria.

Practical Implications: The issues raised by the respondents are valuable to the local Baitulmal in improving their operational transparency. The information exchanged will also be advantageous to the respondents in clearing their misperception about zakat.

Originality: The current work is an initial attempt to probe into more complex matters pertaining to zakat on income among salaried Muslim employees.

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1.0 Introduction

Colonization has divided the Muslims into two groups as far as the understanding of zakat on income is concerned. One (unfortunately the bigger), which considers paying taxes as sufficient to cover their zakat obligation and the other consisting of those who fulfill their religious obligation as an addition to the compulsory taxes of the conventional fiscal policy.

The beginning of the 1980's witnessed a new approach to collecting zakah on regular basis namely in Muslim countries such as Sudan and Pakistan. In 1997, a consensus was reached in Malaysia amongst the contemporary Muslim scholars that it is lawful to pay the zakah on monthly income, i.e. salary. Malaysia is one of the countries that started the implementation through the participating in a scheme called the Salary Deduction Scheme.

The main purpose of this study is to explore the understanding of zakat on income as a part of the pillars of Islam amongst the academic staff of a selected faculty of a local public university. There is a strong expectation that a correct perception of zakat as a socioeconomic tool, especially amongst the learned will serve as the key push factor for remunerated Muslims to accept this religious obligations more enthusiastically.

Similar researches have been conducted nationwide at different times for possibly varying objectives (Nur Barizah, 2010 & Hairunnizam, Sanep and Mohd. Ali, 2011). Some were more interested in the factors that influence certain groups of respondents (Raedah, Noormala and Marziana, 2011 and Muhamad, Ainulashikin and Amir, 2006) while others were concerned about collection and distributional issues (Hairunnizam and Radiah, 2010). The following section offers a concise literature review of the relevant issues related to the current theme. Given the nature of the subject matter at hand, a general approach is deliberately taken to cater for the needs of Muslims to make way for a more inviting proposal instead of the common defensive strategies applied by some in promoting the zakah institution.

1.1 Preview to zakat

Zakat is one of the fourth pillar of Islam. Zakat is compulsory for every Muslim individual who has fulfilled the conditions as perfect title, and nisab haul. In the words of Allah (S.W.T): *"O ye who believe! Charity, part of the effort you good and part of what we remove from the earth for you."* (Surah Al-Baqarah: 267)

Zakat payment is to be made as soon as it arrives *"And is due (zakat) on the day of harvest."* (Surah Al-An'am: 141). This means that the payment of zakat cannot be postponed, and payment through the Scheme is always prompt and safe. In fact, a hadith narrated by Abu Daud Ali reports that Abbas asked permission from Allah to give zakat before the time, the Prophet allowed him to do so.

Islam has always been concerned about the easy things and do not want to embarrass people in daily affairs, especially in the conduct of religious affairs. The Prophet says: "Ease and not make difficult, but give glad tidings and do not give a troubled newspapers." (Hadith narrated by Al-Bukhari and Muslim). The Islamic law is simple for those who truly believe. *"Those who fear Allah, Allah will facilitate for him all things."* (Surah At-Tallaq: 4)

Although all Muslims are expected to be familiar with the requirement of zakat on income and wealth, there continues to be a tendency to evade this religious duty for a number of reasons. Zakat through the pay deduction scheme service has been available for more than a decade now under the E-Zakat known as the BERKAT Scheme. All government and a growing number of semi-government agencies are subscribed, with membership open free to the private sectors employers too. Sadly, the take up is found to be rather low due to the lack of effective communication between the Baitulmal and the employers and or the employees and their management.

The institution of Zakat is the cornerstone of the Islamic Economic system. The Quran emphasizes it as a critical component of socioeconomic justice. The institution works to ensure an equitable distribution of wealth and establishes a safety net for needy members of society.

Both the sources and disbursement categories of Zakat are explicitly specified in the Islamic doctrine. The Quran identifies eight categories of disbursement, each of which carrying clear-cut social benefit.

At the macro level, one positive economic effect of Zakat is an increase in the money supply and a consequent increase in the demand for goods and services. It also provides debt relief and enhances price stability. If accumulated in times of prosperity, Zakat funds can aid society through times of depression. Though Zakat has widely fallen out of use in modern times (except a ritual) it can have great economic impact if properly re- established. Akin to freedom from riba', Zakat is also an integral part of Islamic economic system derived from the Shari'ah. The following are some brief features of the economic impact of Zakat on the society within the framework of the Quranic perspective of economic justice.

1.2 Within the Framework of Quran and Hadith

The Quran unambiguously sheds light on the economic importance of Zakat. The commandment to establish Zakat is mentioned more than 100 times, usually in conjunction with prayer, as means of purification. God commands Muslims to pay Zakat on their total wealth in excess of nisab (minimum wealth), to the poor for benefit of the society's social and economic welfare. Some Quranic verses, emphasize that all resources belong to God and that these resources are thus a trust (Quran 57:7) that must be used to satisfy the basic needs of all those who, for no fault of their own, cannot afford the basic necessities of life in a humane and dignified manner. *“So that) wealth does not circulate only among your rich” (59:7) “And(would assign) in all their wealth and possessions a due share (zakat) unto such as might ask (for help) and such as might suffer privation” (51:19). The offerings (zakat) given for the sake of God are (meant) only for fuqara (poor) and the masakeen (needy) and ameleen-a-alaiha (those who are in charge thereof), and muallafatul- quloob (those whose hearts are to be won over), and for fir-riqaab (the freeing of human beings from bondage), and (for) al-gharimun those (who are over-burdened with debts), and fee-sabeelillah (for every struggle in God's cause, and ibn as-sabil (for) the wayfarer: (this is) an ordinance from God – and God is all knowing, wise” (9:60).*

Likewise we find from the sayings of the Prophet Muhammad (S.A.W), who once said, *“He is not a man of faith who eats his fill when his neighbour is hungry”* *“A locality where a person has to sleep hungry deprives itself of God’s protection”* Ali, the fourth Caliph, expanded on this idea in saying that: *“God has made it obligatory upon the rich to pay out of their wealth whatever is sufficient for the poor. If the poor starve, or go unclad, or suffer difficulties, it is because the rich have deprived them. Hence it is proper for God, the Almighty and the Exalted, to bring them to account and to punish them”*

1.3 Its Economic Impact

Zakat is a cornerstone of the values that govern Islamic economics. Being directional and normative, it defines the norms of economic activity and, through its effects on economic variables, determines the direction along which the economy should move. On the revenue side, it specifies the manner in which revenue (zakat) is to be raised and who pays it, and on the expenditure side, it sets forth the uses (recipients) of the revenue. Like any modern budget, it describes the economic order that it attempts to establish and expresses the ideals and aspirations of the society.

As a fiscal mechanism, zakat performs some of the major functions of modern public finance, which deals with social security entitlements, social assistance grants for childcare, food subsidy, education, health care, housing, and public transportation in a welfare state. It separates public welfare expenditures from other budgetary items and puts the burden of meeting the economic welfare needs of the society where it belongs. Unlike tax levied by the government for the services provided to tax payers on a quid pro quo basis, the Quran and Sunnah, irrespective of the economic conditions of the society, determine zakat and its heads of expenditure.

The income multiplier effect not only would benefit the economy several times the original investment in these enterprises, it would also enable the poor to eventually become self-sufficient and free themselves from economic slavery while contributing to the economic stability of the society. Due to a variety of eroding factors, the institution of zakat which, once provided for

economic safety net to the society, has lost its meaning and capacity to perform as economic redistributive mechanism.

1.4 Current Scenario

The issue at hand is on why of late, a group Muslims give the impression that the zakat referred by the revealed knowledge is limited to zakat fitrah. When exactly the relevance of zakat on specified forms of wealth faded remains unknown. However, the fact that many salaried workers are taking the responsibility to declare zakat on their income very lightly. Given the sensitive nature of the subject matter, most of us would prefer to avoid discussing it even with family and close friends. Nevertheless, it is important that we do tactfully. Usually, there are reasons for non-compliances as there are solutions to problems. Collective efforts are necessary in identifying them to bridge the gap between the ideal and reality of zakat management in Malaysia. Only when zakat is administered properly can it play its role in the socioeconomic development of the people.

Perhaps, the understanding of zakat has not reached its full potential in the modern era. Zakat on wealth was famous during the Middle Ages because it was accepted comprehensively due to fact that the major sources of income were in the forms crops, livestocks and also cash profits from trade. Today, circumstances are extremely different, with services sector taking the lead. Moreover, perception now plays a much influential role in human decisions than ever. People are inclined to react based on external influences as much as their inner needs and wants. From a marketing perspective, creating awareness is the initial step to introducing an idea. However, one has to be precautious of the pre-existing perceptions amongst the target audience. In our case, the contemporary Muslims have developed a set of perceptions related to their belief system. In order to tackle their lack of participation in zakat on income, we must learn about views concerning religious obligations. Then only can we embark into the journey of investigating the causes and challenges to the realizing this fardh’.

2.0 Literature Review

Al-Qaradhawi and Dr Hussein Shahatah (1999) defined that, zakat on salary and income is termed as 'Zakat al-Mal al Mustafad' that means zakat from the source of salary and professional income. It consists of all types of remuneration for services rendered or works done and any income as professionals earned during a lifetime, retirement or death.

Based on the research done by Zyadi and Mariani (1999) and Nor Ghani (2001) income is very important in influencing the Zakat payment. It is positively associated with the probability of paying zakat. Young people who are still single and earn a relatively low income are less aware of the significance of zakat on income. Apparently only attitude and perceived behavior control has a significant relationship with the intention to pay zakat (Raedah, Noormala & Marziana, 2011).

Ziaul Riyadh (n.d) in his article entitled, Zakat- A Solution for Muslim Poverty claims that there is so much wealth in the Muslim world that if all Muslims, on whom Zakat is due, pay their fair share and it is distributed honestly to the deserving than no Muslim will face extreme poverty and hunger as we see in so many countries these days. It will also eliminate the need for Western aid which usually comes with strings attached and sometimes for the purpose of spreading Christianity. He believes that Muslims around the world either do not pay Zakat, disburse it reluctantly or cut corners to minimize the due amount. Some Muslims living in high tax areas feel Zakat overburdens them after paying direct and indirect taxes as a result of their weakness in faith and little understanding of the principles of Zakat and what good it can do for the Muslim community.

Mohamad Nizam Jaafar (2011) using a logic binomial model to test the variables under control focused factors attributed to the non-participation among Muslim professionals in Selangor found that the awareness on the obligation to pay zakat income is marginal. The result showed that imam and religious education are the most significant factors to influence the payment of zakat on income.

Akhmad Akbar Susanto (2003) provided empirical evidences to the effect of commercial and industrial commodity zakah as deductible for taxable income as positive on aggregate consumption level and equilibrium national income. The average propensity to consume and marginal propensity to consume is higher with zakah relative to that without zakah. Although commercial and industrial commodity zakah lessens government's revenues from taxation, but the condition of economy as a whole is expected to be better.

Despite the many socio-economic paybacks of zakat as prescribed by Islam, many Muslims are fixated by misconstrued ideas and perceptions. They tend to departmentalize their commitment to the ruling based on their secular mindsets, which inevitably typifies any payment without a certain kind of receipt as a burden or wastage to be evaded at any cost. Of course there are also those, who justify their positions with a variety of reasons which may seem logical at a glance. The design of questions must take into account factors such as family and educational backgrounds of the respondents, for our frames of mind are largely influenced by the types of our learning and life experiences.

3.0 Methodology

In an attempt to get the insights to zakat on income via pay deduction scheme from the perspective of academic staff, I conducted up-close interviews with a group of purposefully selected professionals. Their willingness to be frank and cooperate, given the sensitive nature of the subject matter is indeed praiseworthy. We took between 30 to 45 minutes for each session and were able to unleash a number of pertinent concerns. They were all asked a series of questions, mostly open ended. Although the technique was highly informal, the feedback and the quality of the information gathered successfully met my research objectives.

As a matter of fact, they were all enthusiastic about the issue and my attempt to discover more from their point of views. This proves to show that primary data collection has its merits, particularly when the focus is on delicate issues requiring in depth personal understandings.

The summary list of questions

1. Are you aware that Muslims are required to pay zakat on their income?
2. When did you actually learn about this? (in theory & practice)
3. How did you come to know about the obligation? (Family/ friends/ media/etc)
4. Currently are you enlisted with the zakat through Pay Deduction scheme?
5. Either way, what are your reasons for your choice?
6. Do you think that zakat plays a significant economic role in our society?
7. Do you think it makes a difference to yourself in any material ways?
8. To your mind what holds one back from meeting this religious obligation?
9. What is your suggestion to those who refuse to pay zakat on their income?
10. Does the tax rebate available in Malaysia affect the willingness to pay zakat?
11. Do you expect any relationships between zakat and demographic factors?
12. What are concerns related to the management of zakat generally?
13. Should contributors concern themselves with the management of zakat?

4.0 Findings & Analysis

Below are examples of responses that facilitated in meeting the research objectives. In addition to finding out the reasons to the skepticism attached to zakat on income as stipulated by the Syariah, the respondents generously communicated their longstanding discontent and put forth some remarkable suggestions for the authorities to reflect on. Their voluntary engagement indicates a positive sign for the Baitulmal to capitalize on in the immediate future.

A. *“I see zakat on income as a voluntary act resulting from one’s personal belief. So, it should not be forced upon us.”*

B. *“I personally know of many who pay zakat on their wealth (such as gold) when they don’t even have enough money for their daily expenses. That does not make sense.”*

Only 50% of them were enrolled with the standing order service at the moment. When probed, these were their remarks.

C. *“I heard about it through colleagues some years ago, but have not had the time to actually get it done.”*

D. *“I prefer to do it directly, though it may not as regular as on a monthly basis or even accurate in the actual calculation.”*

When asked about their underlying motivation, they unanimously agreed that it was an important part of the faith system which is not open to negotiation. Except for the following:

E. *“The wage levels in Malaysia do not suit with our cost of living, so I will not continue to pay my zakat if there was no tax rebate available.”*

Fortunately, the majority of the respondents admitted to paying their dues although some are halfhearted about the use of the funds by the Baitulmal. The following remark expresses the common apprehension.

F. *“I doubt that zakat is able to achieve its stated goals because the local authorities fail to be visible about their functions and achievements.”*

As far as the socioeconomic implications to the contributors or the recipients, there were mix thoughts. Some who oblige claimed to ‘feel’ good knowing that they could contribute, whereas others admitted to be indifferent. The skeptical shared their lack of confidence in the actual use of the zakat funds. In particular, one respondent was rather bold about it.

G. *“I do not see any positive changes in the standards of living of nearest community, despite years of Baitumal’s effort to collect zakat of all sorts from the Muslims in my district.”*

H. *“I am quite suspicious of whether the funds collected are being disbursed as prescribed by the Quran. If so, I am yet to see any improvements in the economic wellbeing of my community.”*

Approximately 50% of the respondents maintained that zakat contributors should place their trust in the Baitulmal's ability to utilize the funds as commanded by the Qur'an instead of making that as a valid reason to excuse for themselves to evade the obligation. Some statements:

I. *"Since the Baitulmal is established by the government, we should leave the decision making to their discretion."*

J. *"It is important for that the contributors to be confident about the proper management of the funds, so as to be sincere when making the payments."*

5.0 Conclusion & Recommendation

Due to a variety of eroding factors, the institution of zakat, which once provided an economic safety net to society, has lost its intrinsic value. Today, it has an ad hoc and irregular function reduced to almost a ritual practiced individually by a small minority of Muslims. Many who pay zakat, unfortunately, do not even know how to accurately determine the amount, let alone its potential benefits to the society as a whole.

This effort has enabled us to identify the common misperceptions and concerns prevailing among the educated Muslims. There is validity to their uneasiness related to zakat as they knew of. In so far as the awareness is existent, and knowledge available about the expansion of the concept of zakat, we must work on the ways to improve the administrative system of zakat. It is crucial for Baitulmal to be transparent about its operation and achievements. There is an urgent need to publicize the accounts and reporting through the mass media and treat contributors as the rightful stakeholders in every aspect. In order to regain the confidence of all Muslims, Islamic economic institutions must gear up their visibility by reaching out to be heard and seen. At the moment, the access to their business news is infinitely limited to certain individuals only.

To restore the institution of zakat, it is essential that we first understand the importance of zakat in terms of its socioeconomic impact upon society. Also, in order to properly apply its rules and regulations to the many forms of wealth, we must recognize that there are new categories of wealth (such as intellectual property and other intangible assets) which did not exist in early

Muslim society, and for which we need to use appropriate evaluation methods (book value, replacement values, market value, present value of future earnings, etc.) in computing zakat.

Most of us are not experts in Islamic Economics, but are receptive to its development which affects us in one way or another. The constant change in technology and ways of doing things exposes us to being left out in the race of efficiency and effectiveness. Therefore, we hold a collective responsibility to inform, remind and guide our fellow Muslims about the innovative alternatives in meeting our religious goals as a community. Zakat on income being a mandatory ibadah deserves to be given its fair attention, albeit the lack of popularity and verification.

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