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**CHALLENGES IN ZAKAH COLLECTION: IN CASE OF BUSINESS**  
**ZAKAH PAYERS IN SELANGOR**

Norlaila Mazura Hj. Mohaiyadin (a)\*, Mohamad Ishak Mohamad Ibrahim (b), Izzatul Ussna  
Ridzwan (c) & Mohd Rizuan Abdul Kadir (d)  
\*Corresponding author

- (a) Faculty of Defence Studies & Management, National Defence University of Malaysia, Sungai Besi Camp, 57000 Kuala Lumpur, Malaysia, norlaila@upnm.edu.my  
(b) College of Business Management & Accounting, Sultan Haji Ahmad Shah Campus, Universiti Tenaga Nasional, 26700 Bandar Muadzam Shah, Pahang, Malaysia, ishak@uniten.edu.my  
(c) College of Business Management & Accounting, Sultan Haji Ahmad Shah Campus, Universiti Tenaga Nasional, 26700 Bandar Muadzam Shah, Pahang, Malaysia, Izzatul@uniten.edu.my  
(d) College of Business Management & Accounting, Sultan Haji Ahmad Shah Campus, Universiti Tenaga Nasional, 26700 Bandar Muadzam Shah, Pahang, Malaysia, MRizuan@uniten.edu.my

***Abstract***

This paper focuses mainly of business *zakah* and the persistent issues revolving around the collection of business *zakah* and the potential of collecting more of it in Malaysia. The overall business *zakah* collected is considered low and small as it encompasses only 19.4% of the total amount of *zakah* collected. This is far lower in comparison to business tax collected by the Inland Revenue Board (IRB) which makes up about 52.3% of the total tax collection. Until today, the imbalance in the collection of *zakah* from businesses has yet to be explained and this may affect the potential of the business *zakah* collection in the future. Hence, this study was carried out to identify the challenges of business *zakah* collection and recommendations to rectify this issue. The study was conducted through a Mini-Focus Group Discussion (M-FGD). This study identified three challenges; namely: (1) Business owners' knowledge on business *zakah*, (2) The relationship between business owners and authorised *zakah* institutions, and (3) Financial records of business. This study has concluded that the business *zakah* affairs in Malaysia have not reached a level that can be considered as complete and excellent.

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**Keywords:** Business *zakah*, *zakah* collection, *zakah* administration.



## 1. Introduction

*Zakah* in Islam is a mandated responsibility to those who are able and given the alms-giving for the justice and guaranteed social stability (Abdul Muhaimin, 2009). It has a significant role in developing the economy and society (Abdul Muhaimin, 2009). *Zakah* is not just a religious obligation, but also a financial obligation and as such, portrays one's relationship with their creator, and with the society (Abdul Muhaimin, 2009).

*Zakah* shall be issued by the eligible payer to the authorised *zakah* institutions to be distributed to the entitled recipients (Abdul Muhaimin, 2009). In Malaysia, formal institution responsible for managing and collecting *Zakah* is the State Islamic Religious Council (SIRC) (Azman, Mohammad, & Syed Mohd Najib, 2012; Sanep, Hairunnizam, & Adnan, 2006).

The national law provides that *zakah* should be paid to the SIRC, or to the *zakah* authority bodies that have been appointed (referred to as an '*Amil*') to receive the payment of *zakah* (Siti Mashitoh, 2007). Therefore, *zakah* payments to other parties are deemed contrary to the existing law, although direct payment of *zakah* to recipients by the payer is not contrary to the Islamic Law (Siti Mashitoh, 2007). In order to maximise the efficiency of *zakah* collection, the SIRC had established and privatised various institutions (Azman et al., 2012), which are fully mobilised to create awareness among *zakah* payers in Malaysia. In 1991, Kuala Lumpur Federal Territory *Zakah* Collection Centre became the first *zakah* collection institution to be privatised. Currently, it is known as '*Pusat Pungutan Zakat Wilayah Persekutuan (PPZ WP)*' (Abdul Halim, Rawi, & Sulaiman, 2011).

Consequently, the move to establish and privatise the *zakah* collection centres is gradually followed by other states in Malaysia. In 1994, the states of Selangor and Pulau Pinang established their *zakah* collection centres under the names '*Pusat Zakat Selangor (PZS)*' and '*Pusat Urus Zakat Pulau Pinang (PUZ PP)*', respectively. Pahang established their '*Pusat Kutipan Zakat Pahang (PKZP)*' in 1995, while '*Pusat Zakat Negeri Sembilan (PZNS)*' was established by the state of Negeri Sembilan three years later in 1998.

Currently, all states in Malaysia have institutionalised and privatised their collection centres. They are authorised bodies and subsidiaries of the SIRC (Azman et al. 2012). The establishment of the authorised *zakah* institutions showed a significant rise in the amount of *zakah* collected by the states in Malaysia (Sanep, Hairunnizam, & Adnan, 2006).

## 2. Problem Statement

The effectiveness of *zakah* collection by the authorised *zakah* institution is proven and recognised. According to Major General Dato Seri Khir bin Haji Baharom, a Minister in the Prime Minister Department, there was an increased awareness among Muslims in Malaysia towards the obligations of paying *zakah*. This was evidenced by the 26.71% increase in the *zakah* collection amount from RM1.2 billion in 2009 to RM1.5 billion in 2010. Of this figure, the state of Selangor recorded the highest number of business *zakah* payers in Malaysia (Norazlina & Abdul Rahim, 2011).

In the state of Selangor, the total *zakah* collection continued to increase. In 2015, Selangor recorded a total *zakah* collection amounting to RM626.6 million, from RM582.3 million in 2014. However, only about 19.4% of the total collection or RM117.2 million was derived from business *Zakah*. This amount is

considered low as compared to the total collection of *zakah* (Mohd Rahim, Ariffin, & Abd Samad, 2011; Ram Al Jaffri, 2010; Halizah, Kasumalinda, & Agoos Munalis, 2011).

The amount of business *zakah* collection was compared to the amount of business tax collected by the Inland Revenue Board (IRB). In 2014, IRB reported a total tax collection of RM133.7 billion, of which RM69.95 billion was collected from businesses, representing 52.3% of the total tax collection. This figure is considerably higher, compared to the proportion of business *zakah* of the total *zakah* collection, which only made up 19.4% of its total. This situation should not happen because the business *zakah* should be one of the main contributors to *zakah* collection (Mohd Rahim et al., 2011). Therefore, the authorised *zakah* institutions in Malaysia still need to work on improving the collection of business *zakah* (Halizah et al., 2011).

Mohd Rizuan (2015) has conducted a research on the issue of business *zakah* collection, the author found that the respondents (accountants or as *zakah* agents, business owners, management of *zakah* institutions and researchers in business *zakah*) agreed that the standard operating procedures for the business *zakah* payment is less flexible and less consistent as compared to the business tax and the respondents recommended for further improvement. This is due to business owners paying business *zakah* individually to take advantage of tax rebate. In addition, some companies established an internal committee to calculate and distribute *zakah* directly to *asnaf*, instead of making payments through the authorised institutions. The discussion, however, did not provide a solid conclusion as to the reasons for the gap occurred.

### **3. Research Questions**

- What are the challenges faced by the business *zakah* payers in Selangor?
- What are the suggestions to overcome such challenges by business *zakah* payers in Selangor?

### **4. Purpose of the Study**

This paper intends to identify the challenges against the potential of business *zakah* collection in Selangor, the state with the highest *zakah* payers in Malaysia. The formula to overcome the challenges from the perspective of business owners are drawn at the end of this study. This may indirectly help the authorised *zakah* institutions to revise the existing practices and may be utilised as a guide for further improvement.

### **5. Research Methods**

This study conducted a Mini-Focus Group Discussion (M-FGD) with four Muslim business owners' in Selangor. It intends to understand the issue from the perspective of the business owners, who are also the business *zakah* payers. Previous studies on *zakah* were less focused on this method in identifying the challenges for business *zakah*. However, Baker and Edwards (2012) stated that Focus Group Discussion is the correct approach in collecting information is very important in order to have sufficient data that is unique and cannot be compared with other cases but researchers found out M-FGD is more appropriate because the topic need to be explored in greater depth and where participants have long and substantial experiences to be shared with the group as stated by Anderson (1990).

In ensuring appropriate selection of the respondents, they must fulfil a list of criteria that was set and agreed upon, in which the participants must: (a) have experience in dealing with business for more than 10 years, (b) already have an established business, and (c) *zakah* payers and have knowledge in dealing with business *zakah*. In addition to the sharing experiences pertaining to the business *zakah* payments or transactions, participants were encouraged to provide comprehensive inputs that might be useful to the study.

## 6. Findings

The M-FGD was held on Saturday, January 9, 2016, at 10.00 a.m. at Bangi-Putrajaya Hotel, Putrajaya with four respondents. All four respondents have had business experiences ranging between 15 to 25 years. The respondents were also *zakah* payers and have extensive experiences in dealing with the payment of business *zakah*. The identity of the respondent and business background are kept confidential to protect the good name and privacy of the respondents. All the feedback received was recorded for analysis. Table 01 shows the background of respondents. Two respondents were involved in the services industry and another two were in the manufacturing industry. The business size for all respondents is medium. They have engaged in the business for more than 15 years and they were business *zakah* payers in Selangor.

**Table 01.** Background of respondents

Item	Respondent 1	Respondent 2	Respondent 3	Respondent 4
i. Business Owner	Yes	Yes	Yes	Yes
ii. Business Type	Service	Service	Manufacturing	Manufacturing
iii. Business Size	Medium	Medium	Medium	Medium
iv. Business Period (year)	18	20	25	15
v. Zakah Payer	Yes	Yes	Yes	Yes
vi. State	Selangor	Selangor	Selangor	Selangor

Various issues related to the collection and distribution of business *zakah* had also been raised in the discussion. A detailed analysis is presented in the form of three major factors: (1) business owners' knowledge of business *zakah*, (2) The relationship between business owners and the authorised *zakah* institutions, and (3) Financial records of businesses. Findings from the discussion highlighted specific recommendations that require action and cooperation from various parties to increase the number of business *zakah* payers in the future.

### 6.1. Business owners' knowledge of business *Zakah*.

#### 6.1.1. Situation

The business owners' lack of knowledge on business *zakah* is identified as one of the main factors for the low contribution of business *zakah* to overall *zakah* collection. Business owners face challenges in assessing the amount of *zakah* payment to be made, which potentially may affect the number of those paying business *zakah*. Payment of business *zakah* requires technical understanding in assessing the amount of business *zakah* to be paid. Not all businesses have the same detailed assessment due to the determination of the relevant details of the business that requires technical knowledge appropriate to the type of business.

Hence, it is very important to ensure that business owners are well-educated on this subject. Due to this situation, several recommendations have been identified through the M-FGD to tackle this issue and these are presented in the next paragraph.

### **6.1.2. Recommendations**

First: Authorised *zakah* institutions may conduct educational activities with various well-established business associations in Malaysia such as the Association of Millers, Fishermen, Construction, Exporters, Importers, Textile and many others. This is consistent with Abdul Muhaimin (2009) to state that *zakah* has a significant role in developing the economy and society and if authorised *zakah* institutions not giving the educational activities, development of Muslim economy and social will be failed.

Second: Business owners should be educated on the importance of purifying their property through the payment of *zakah*. This should be imparted at early stages of business. Payment of *zakah*, if it is done with good and sincere intentions, will bring blessing throughout the course of the running of business. If God's willing, this shall lead to a good business performance. As stated by Abdul Muhaimin (2009), *Zakah* portrays one's relationship with their creator, and with the society

Third: Business owners need to be trained on how to calculate business *zakah*. Authorised *zakah* institutions are responsible in providing guidance to businesses on the correct method to calculate business *zakah*. In order to maximise the efficiency of *zakah* collection, Authorised *zakah* institutions has to create awareness among *zakah* payers in Malaysia (Azman et al., 2012).

## **6.2. The relationship between business owners and the authorised Zakah institutions.**

### **Situation**

The relationship between business owners and the authorised *zakah* institutions is an important factor to boost the number of business *zakah* payers. When this relationship between the payer and the payee is not properly built, there is a probability that business owners will misunderstand the exact role of authorised *zakah* institutions in terms of collection and distribution as well as the legal requirements in the obligation to pay business *zakah*. The M-FGD has identified several recommendations to combat this problem.

### **6.2.1. Recommendations**

First: Through a good rapport, *zakah* institutions initiatives and related information can be channelled to business owners properly. Besides that, business owners are more likely to reciprocate positively to activities organised by the authorised *zakah* institutions, albeit for the purpose of enhancing relationship between both parties and gaining aids for the needy. This may lead to the increased in business *zakah* collections in the future and this is consistent with Abdul Muhaimin (2009), to state *Zakah* shall be issued by the eligible payer to the authorised *zakah* institutions and to be distributed to the entitled recipients.

Second: Appointing the business *zakah* payers themselves as agents for collecting business *zakah* may invite more *zakah* payers as they have extensive experience in dealing with *zakah* payment process

and influence in the world of business. However, this is only possible if the business *zakah* payers have strong relationship with the *zakah* institutions.

Third: Having good connection with audit firms may further expand the authorised *zakah* institutions' relationship with potential business *zakah* payers. Audit firms may extend their services to business owners, beyond auditing financial records, to include business *zakah* assessment. This added service by audit firms indirectly connects business owners to *zakah* institutions. However, this is only possible if such connection exists between authorised *zakah* institutions and audit firms.

### **6.3. Financial records of businesses.**

#### **6.3.1. Situation**

Incomplete business financial records will prompt some corrective actions to be taken by the management of the business itself. This includes complying with statutory requirement that obliges complete financial records for auditing purposes, bank loans applications and corporate tax assessment. Incomplete financial records may also create problem in assessing the business *zakah*. Due to this problem, several suggestions have been identified through the M-FGD to rectify the issue

#### **6.3.2. Recommendations**

First: Businesses should put in place a proper record of cash inflow and outflow at the very least. This shall be a minimum effort toward preparing financial statements in accordance with the Generally Accepted Accounting Principles (GAAP). With this record, all documents are traceable for business monitoring and appropriate business *zakah* computation.

Second: Business owners should be educated about the importance of complete financial records through discussion sessions, briefings, workshops and other channels that are available. In addition to learning on the positive impact of complete financial records, businesses are also in compliant with local regulatory requirements.

Researchers in opinion, through privatisation of Authorised *Zakah* Institutions will improve the effectiveness and efficiencies of *zakah* operation and it stated by Sanep et al., (2006), the establishment of the authorised *zakah* institutions showed a significant rise in the amount of *zakah* collected by the states in Malaysia.

## **7. Conclusion**

The issue on *zakah* is never-ending. This is the law of God and it should always be remembered as one of the missionary practices in Islam. Business *zakah* affairs in Malaysia have not yet reached a level that can be considered as complete and excellent. There are challenges that impede the collection of business *zakah*, which still occur in various states in Malaysia. Authorised *zakah* institutions may educate the business community to improve their understanding on the concept of blessing and the importance of business *zakah* so as to attract more businesses to come forward and pay business *zakah*. The transparency and effectiveness of the *zakah* distribution raise the confidence of business owners with the country's management of *zakah*, and solidify their intention of paying business *zakah*. Apart from that, complete financial records that are organised and up to date will lead to an increase in the collection of business

*zakah*. Therefore, the authorised *zakah* institutions shall look further into business *zakah* and be mindful of the factors that contribute to the increased in the level of readiness and comfort of business owners with respect to the manner and method of calculating the business *zakah*.

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