

## **The Comparison Between Zakat for Income and Income Tax: Perceptions of Academician in The State of Perak**

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**ABSTRACT:** *Zakat (Islamic concept of taxation) is one of the branches of wealth that is discrepancy and is obligated upon every Muslim. It can be integrated as an instrument to keep the social assurance system sturdy and firm. Although, it has been obligated by Majlis Fatwa Kebangsaan Malaysia (The National Fatwa Council of Malaysia) in 1997, the state of Perak has gazette the collection of zakat as nonobligatory in 2004. On the other hand, income tax is one of the country's revenue which is applied by the government that governs. The question here is, the awareness of the academician in the public higher learning institutions throughout the state of Perak on their responsibilities in paying zakat is unfortunately low. Therefore, the objective of this research is to look into the academician perceptions and understanding on zakat compared to income tax. This descriptive research will also show that majority of the respondents agreed zakat collecting system in Perak is lack of effectiveness, without action and resoluteness in the applied regulations and lack of effectiveness in dividing the zakat itself has affected the payment of zakat (income). Thus, several ideas have been discussed and suggested in this research, in order to improve zakat institution performance on collecting zakat in Perak.*

**KEYWORDS:** *academicians, economy, effectiveness, income tax, zakat*

### **I. INTRODUCTION**

Zakat is the Islamic law that was given attention from the government in the state statutory law since the first Islamic country, Madinah Al-Munawwarah that was established by the Prophet (p.b.u.h) as early as two years of hijrah. Zakat is an obligation, prescribed by Allah s.w.t with the ultimate goal as a form of social security, to develop balanced economic growth through redistribution of wealth in society, a form of purification and spiritual development (Patmawati Ibrahim, 2008). Furthermore, the function of zakat in stabilizing the economy must be examined in the macro context, not just to collect and distribute zakat funds conservatively.

Meanwhile, tax is consider one of the major income of a country. The tax system has the purpose of payment of tax externalities that is due to the government to cover the cost of restoration undertaken by the government (Sanep Ahmad dan Hairunnizam Wahid, 2005). In addition, the tax rules that applied in the conventional economic system had been emulated from the zakat (alms) institutions. Taxes collected was redistributed back to the country's development and financing the needs of the poor (Lokman Ismail, 2008).

## II. PROBLEM STATEMENT

Based on historical records, Imam Malik reported that the zakat on ncome was first time ever practiced during the reign of Muawiya bin Abi Suffian. During the reign of Caliph Umar Abdul Aziz, zakat deducted from salaries of his soldiers were incurred. Hence, the zakat on income is compulsory as the Islamic rulling or fatwa were issued by most muta'akhirin scholars including fatwas issued by Prof. Dr. Yusuf Qaradawi and Dr. Hussein Shahatah, and also by the National Fatwa Council of Malaysia. However, the National Fatwa Council has left the decision to the state fatwa councils to enforce it in their respective states.

On the other hand, as contradictory as it may seem in the Perak of Malaysia, the enforcement of zakat on income is not compulsory. The fatwa is mentioned in a schedule issued by Mufti Department of the State pursuant to subsection 34(1), in reference to the Perak Islamic Religious Administration Enactment 1992 that had been issued after consultation with Syariah Committee for State of Perak. This fatwa was gazetted on 16 February 2004, pursuant to subsection 34(2), stated: "That the salary or income, including the categories of obligatory zakat upon *nisab* and *haul* is a condition that has been prescribed by the *Jumhur Ulama* in all four mazhab. This condition does not apply to the salary or income and therefore is not obligatory for zakat ".

In addition, Malaysia is among the countries that offer dual-option payment on tax with income tax as compulsory, while the tax under the shariah or zakat has become optional. In reality, Muslims in Malaysia tend to adhere to pay income taxes to the Inland Revenue Board (IRB) or LHDN from abiding to pay zakat on income as prescribe by shariah. It is more worrying for some to be convicted under the Income Tax Act 1967 rather than to adhere and be faithful to the words of Al-Quran surah an-Nur:56, surah at-Taubah:103 and surah ad-Dzariyat:19. It had been asserted by Associate Prof Dr. Siti Mashitoh Mahamood (Senior Lecturer, Department of Shariah and Law) in the Muslim Millenia Magazine (March 2011) that most Muslims can be proud of the increase amount of zakat collected each year, but in reality the situation is not as idealistic as the nation's economic strength today. Furthermore, the level of education and understanding among Muslim's today on zakat is surprisingly low with most of them have minimal knowledge on the subject matter (Mahamad Naser Disa, 2011). There is like a paradox on the the behaviour of some Muslim men, those who pay income taxes do not necessarily pay zakat on income (Mohd Ali, Hairunnizam, Nor Ghani, 2004).

Therefore, based on the problem statement, this descriptive research was conducted. The purpose of this study is to determine the view of respondents especially Muslims academician in Perak regarding zakat on income over income tax. In addition, it is to review the factors that cause the lack of awareness to pay zakat on income. Zakat earnings in this study would be the zakat on income or salaries received by the respondents. Among the discussion and course of this study is the awareness to pay zakat on income or income tax, the priority to pay zakat on income over income tax, and the factors that cause lack of awareness and knowledge to pay zakat on income than to pay income tax.

## III. LITERATURE REVIEW

Among the prominent studies regarding tax compliance in Malaysia was conducted by Norsiah (2002), where her study found in depth aspects of record and book keeping, the understanding of allowable expenses and taxable income, filling out tax forms or filing a tax return and paying tax can have an affect on tax compliance. However, the result of too many procedures and bureaucratic red tape could lead to non-compliance and this must be observed. Tax fraud or tax evasion is a type of non-compliance which is done intentionally by the tax payers (Kasipillai and Shanmugam, 1997). Conincidentally, according to Steven (1989), the confidence level of tax payers towards the practised tax system is largely dependent on the taxpayer's perception.

Some initial studies were done on the question whether zakat on income should be implemented or not because there are various views on its importance. Studies like q(1991), Mahmood Zuhdi (1992), Muhammad Kamal (1995), Mujaini Tarimin (1995) and Zawawi (2002) are examples of studies on this dimension. There are also some ideas requesting the review of zakat nisab primarily on contemporary sources of zakat (Zakariah 2001). The study on the compliance towards the zakat law found a significant relationship between individual perceptions of the zakat law and the probability of payment on zakat (Kamil 2002). This is consistent with the cognitive theory that states that value and individual moral influence the behaviour on compliance.

There are also studies of comparisons between income tax and zakat on income. Examples of such studies was from Sidiqqi (1982), Umer Chapra (1992), Zulkarnain (1994) and Abdul Hamid (1998) which generally show that zakat on income is not the same as income tax. Compared to the tax rate that may be reduced or increased depending on a nation economic performance, zakat on income however will be continued to be collected with the same rate, even though the country has been developed with have wealthy people. Study by Abd Hamid (1988) showed that there are many similarities between income tax and zakat on income which in terms of *nisab* (the amount one's net worth must exceed for a Muslim to be obligated to give zakat) and its *haul* (the tax base year). This is also likely it could explain the reason why most tax payers consider that they have fulfilled their zakat on income obligation after paying income tax.

#### **IV. RESEARCH METHODOLOGY**

To achieve its objective, the research uses the quantitative research methods of research questionnaire. The questionnaire comprised two sections. Section A asked the demography of respondents such as age, gender, highest academic qualifications, experienced as academicians and others. Meanwhile, in section B, respondents were asked to indicate their degree of agreement or disagreement with each of the statements on a five-point Likert response scale that ranged from "strongly disagree" (scored as 1) to "strongly agree" (scored as 5).

In relation to this study, the population are comprised academicians in state of Perak, Malaysia namely from Universiti Pendidikan Sultan Idris (Sultan Idris Education University - UPSI) and Sultan Azlan Shah Islamic University College (KUISAS). A total of 100 questionnaires were distributed personally by email to all respondents. A total of 60 questionnaires were returned or responded, which made up a return rate 60%. The units of analysis in this study were individuals.

#### **V. FINDINGS AND DISCUSSION**

##### **(1) Paying of Income Tax and Zakat on Income**

Out of 60 respondents, only 21 respondents had paid zakat on income while the rest have not done so. Furthermore, the data collected from the same respondents also showed that 24 of them had not paid their income tax in 2010 and the remainder had done the otherwise. Most of the respondents that had not paid their income tax because they are not eligible to do so since their incomes are not chargeable as stipulated under Section 7 in the Income Tax Act 1967. Apart from that, this research studied the relationship between the obligations to pay zakat on income with the serving experience period in institution. Results showed 30% of the respondents with more than 3 years experienced had paid zakat on income in 2010 while 46.7% had not done so. On the other hand, 10% of the respondents who had less than 3 years experienced had paid their zakat on income in 2011 while 13.3% of them had not done it. These revealed that majority of the respondents who have long served had not paid zakat on income in 2010.

On the contrary, in term of priority in paying zakat on income over income tax, majority of the respondents which is 76.7% of them answered completely agree, 20% answered agree and 3.3% answered disagree. However, there are some respondents believed that paying income tax is similar to paying zakat on income. These findings are correspond with studied made by Abdul Hamid (1998) which mentioned that some of the individual believed that by paying income tax therefore they are release from the responsibility to pay zakat.

##### **(2) Factors Lack of Allegiance in Paying Zakat on Income**

Within this research, factors such as ineffective zakat collecting system, no affirmation and legal action as well as ineffectiveness in zakat distribution by the selected authority are among the variables engraved to get respondents' perceptions. Majority of the respondents answered completely agree and agree on the lack of allegiance in paying zakat on income because of ineffective zakat collecting system, no affirmation and legal action and ineffectiveness in zakat distribution by the selected authority. The result showed consistency with the

research made by Sanep and Hairunnizam (2004) and Sanep (2004) which mentioned, factor that lead to satisfaction on the management efficiency of zakat centre is when the agency is able to distribute the alms effectively since it is an importance factor that influenced the allegiance to pay zakat on income.

### **(3) Affirmation and Legal Action**

Finally, this research received respondents' responds on the allegiance to pay income tax since there are affirmation and legal action. Majority of the respondents which are 70% of them agree and 30% completely agree that income tax were paid because there are affirmation and legal action as stipulated by Inland Revenue Board of Malaysia (IRBM) through the Income Tax Act 1967. In the meantime, since Malaysia does not have laws that are precisely like the Income Tax Act 1967 enforce on zakat, hence this research had look upon respondents' opinions on the necessity in enforcing laws on zakat. It was found that minority of the respondents which is 13.3% disagree whereas 43.3% showed agree and completely agree. Thus, the implementation and the enforcement of laws are needed to determine the allegiance to pay zakat on income (Kamil, 2003).

## **VI. CONCLUSION**

Although there are some limitations of the study, findings however showed that it is in some way help to explain the problem and behavior of academicians in Perak towards the payment of zakat on income versus income tax. Clearly, the factors of zakat collection system, assertion and litigation as well as questions of zakat distribution system may some what affecting academicians and others to pay zakat on income rather income tax.

Therefore, a complete holistic effort must be planned and implemented in order to increase awareness and responsibility of the obligation to pay zakat on income. Similarly, the resolution from the The 5th National Conference on Zakat and Tax, 2011, the relevant authorities should take an active and responsive action. Among the contents of the resolution is to expedite the approval of a Zakat legislation (zakat act), increasing the research program to improve management efficiency and improve the innovation in the delivery system of zakat institutions. As a conclusion, a more accurate perception among Perak academician will be able to provide information to the zakat institutions to improve the efficiency and effectiveness of the management system thus increasing the credibility of zakat zakat institutions.

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