AN INSIGHT INTO THE DETERMINANTS OF ZAKAT INCOME IN KEDAH

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Abstract: This paper explores the determinants influencing the amount of income zakat contributions in the state of Kedah. The data used are obtained from a literature review on past studies and interviews with Zakat Kedah Board (LZNK) officials. Income zakat compliance in Kedah is found to be influenced by the religiosity level, awareness and understanding on the importance of zakat, perception on zakat management, and the socio-economic status of the zakat payers. There are five factors which contributed positively towards the rise in income zakat collection in Kedah, which are the royal decree by KDYMM the Sultan of Kedah on obligatory salary deduction for income zakat, collaboration between LZNK and the state education sector, award of *muzakki* certificate and logo to appreciate zakat payers, varieties of zakat payment channels, and efficient mobile application to monitor zakat management system. Additional investigation into the number of income zakat payers and income zakat collection suggests that the increase in income zakat in 2021 is due to extensive margin while the increase in 2022 is due to intensive margin. Several strategic initiatives undertaken by LZNK to enhance income zakat compliance and improve zakat management system in the state are also discussed.

Keywords: Zakat, Income Zakat, Islamic Economics, Zakat Compliance, Zakat Management

INTRODUCTION

Zakat represents a fundamental obligation for financially capable Muslims to give a portion of their wealth to those in need. While zakat is primarily associated with wealth and assets, the concept of zakat on income is a controversial issue among Islamic scholars. There are different opinions within the Islamic tradition regarding whether zakat should be imposed on income, and the ruling may vary depending on the school of thought and the specific circumstances of the individual.

In the case of Malaysia, many states have adopted Al-Qaradawi's opinion and issued various fatwas where income from employment and other sources is subjected to zakat. (Abdullah, Wan Ahmad and Wan Hasan, 2014). The Kedah state fatwa committee has issued a fatwa that subjected income from salary and other sources to zakat on 2 January 1986, which was then gazetted on 10 April 1986 (Othman, 2020). Salary and wage are becoming the main

source of household income in Kedah as the state has been experiencing economic transformation from an agriculture-based economy to manufacturing and service-based economy. During this stage, income from employment has the potential to be a main contributor to the state zakat funds to reduce poverty and advance social justice. The amount of zakat collection from income may also serve as an indicator on the population's acceptance of the fatwa on zakat from income. Therefore, it is crucial to get an insight on the determinants of zakat on income compliance among the zakat payers in Kedah. The identification of factors that influence individuals' commitment to fulfilling their income zakat obligations will enable zakat institutions and policymakers in Kedah to enhance the zakat compliance rates and ensure the effective functioning of the zakat management system in the state. This paper aims to identify factors that influence the payment of zakat on income in the state of Kedah.

LITERATURE REVIEW

Zakat compliance is an important aspect in Islamic economics and finance since it serves as a catalyst for promoting social justice and economic well-being within the society. There have been several studies that have been undertaken to investigate factors that shape individuals' perceptions and conduct concerning zakat payment, with a specific focus on income zakat compliance drivers. In this section, we shall provide a review of the literature that provide valuable insights into the important determinants impacting income zakat compliance among zakat payers particularly in the state of Kedah.

Religiosity level emerges as a significant and consistent factor that influence zakat compliance among Malaysian Muslims in general (Abdullah & Sapiei, 2018; Mohd. Khalil et al., 2020) and Kedah in particular (Farah et al., 2017; Haji-Othman et al., 2018; Haji-Othman, Sheh Yusuff, & Abdullah, 2021; Mahmad et al., 2023). These studies demonstrate that those who practice their religion more fervently and with greater piety are more likely to perform their zakat duties. Since religiosity is seen as a powerful motivator, paying the zakat is a moral obligation and an essential part of their beliefs. Higher zakat compliance level may be promoted through strengthening religious practices and beliefs through community involvement, religious programs, and educational activities.

Abdullah and Sapiei (2018) found that targeted awareness campaigns and educational initiatives emphasizing zakat's significance and advantages might aid in closing the compliance gap between gender and different education levels among zakat payers in Kedah, although their impacts are not as prominent as those of religion.

Mahmad et al. (2023) discovered that despite the presence of misunderstandings about the computation and distribution of zakat money, Islamic education teachers in Kedah showed a strong awareness on zakat obligations and the forms of wealth that are subjected to zakat. Therefore, a thorough grasp of zakat legislation is essential for influencing compliance behavior. People are more likely to comply if they understand the ideas, computations, and categories of wealth entitled to zakat. The comprehension and observance of the zakat on income among the Kedah-based Islamic educators were found to be modest (Mahmad et al., 2023). Increased compliance may result from better public education and knowledge of zakat through a variety of sources, including the media and religious institutions.

Compliance is substantially impacted by perceptions of the fairness of zakat distribution and the difficulty of zakat computations (Abdul Rahman et al., 2022). People are more inclined to pay their zakat when they feel that the money are allocated properly and that

the zakat calculation procedure is simple. Greater compliance could result from addressing issues with distribution of the zakat's transparency and streamlining the payment procedure.

Digital technology has completely changed how zakat is collected, especially in difficult times like the COVID-19 pandemic, according to Muhamad Puad and Jalil (2021). Zakat payments in Kuala Muda, Kedah, have been made during the pandemic with the use of e-commerce platforms, online payment gateways, and mobile applications, increasing accessibility and ease.

According to Haji-Othman, Sheh Yusuff and Abd. Latib (2021), moral duty and self-efficacy also stand out as important drivers of income zakat compliance. People who feel strongly about upholding their moral obligations and have faith in themselves to do so are more likely to comply. Religious teachings can help people develop a better moral sense and sense of self, which may lead to more people paying zakat.

Wahid et al. (2022) found that the COVID-19 epidemic had a substantial influence on FELDA settlers' income zakat compliance. Zakat payments have decreased as a result of the pandemic's adverse economic effects. Zakat payment behaviour can be favourably impacted by ensuring the availability of collection centres and enhancing the legitimacy of Zakat organizations. Income level, religious convictions, and zakat knowledge all have a favourable impact on zakat payment behavior of FELDA settlers (Wahid et al., 2022). For entrepreneurs in Kedah, their desire to pay zakat is closely influenced by their knowledge about zakat, self-efficacy, perceived service quality of zakat institution and frequency of interaction with zakat officers (Saad et al., 2019).

Through the Theory of Planned Behavior (TPB) framework, taqwa (piety) and perceived behavioural control are crucial indicators of a person's intention to pay zakat in East Malaysia (Mohd Khalil et al., 2020). Similarly, taqwa also influences Muslims in Kedah's zakat compliance behaviour (Haji-Othman et al., 2018). At the same time, the intention to pay income zakat by Kedah employees is strongly influenced by their perception towards facility and service quality (Haji-Othman, Sheh Yusuff, & Cheumar, 2021) and perception towards promotional exposure and self-efficacy (Haji-Othman & Nayan, 2019). Islamic religiosity has a big impact on how people behave when it comes to paying zakat and it reinforces the link between income and zakat compliance. Obstacles to implementing zakat on income in Malaysia also include a lack of public understanding, a lack of resources, and inadequate infrastructure (Paizin, 2022).

Zakat institutions and policymakers in Kedah can benefit greatly from having a better understanding of the factors that influence income zakat compliance. From this literature review, several variables have been identified to have a significant effect to people's attitudes and behaviors towards paying zakat. These factors are religiosity, gender, education level, knowledge of the rules, perceptions of fairness and complexity, digital technologies, moral obligation, self-efficacy, and external event such as the COVID-19 pandemic. This information can be used by policymakers and zakat institutions in Kedah to develop focused strategies and activities to improve income zakat compliance rate and therefore enhance zakat's successful contribution to social welfare.

RESEARCH METHODOLOGY

This paper employs two approaches in order to identify the determinants of income zakat payments in Kedah. Firstly, the data obtained from various research carried out between 2018 and 2023 in Kedah, Malaysia, are reviewed and analyzed. This includes research papers

published in scholarly journals and conference proceedings. Secondly, semi-structured interviews are conducted with officers from Zakat Kedah Board (LZNK) to validate and enhance the information collected from the literature review. More specifically, officers from Zakat Kedah International Research Centre and Zakat Kedah Board Kuala Muda District from LZNK were involved in the interview. These interviews also investigate certain issues that affect how often people pay their zakat contributions, such as socioeconomic background, religiosity level, and how people perceive and comprehend zakat as managed by LZNK. Critical analysis of the data from these investigations revealed recurring themes and tendencies that explain income zakat behavior among zakat payers in Kedah.

RESULT AND DISCUSSION

The findings from past research provide valuable insights into the determinants of income zakat compliance in Kedah, Malaysia. Numerous important variables that affect people's desire to carry out their zakat commitments have been revealed by the research. These variables include both personal traits and environmental influences that influence compliance behavior. In order to improve compliance rates and guarantee the successful implementation of income zakat in Kedah, policymakers, zakat organizations, and scholars must fully understand these drivers.

Determinants of Income Zakat Compliance Based on Past Studies

Religiosity and perception of zakat emerge as significant determinants of income zakat compliance in Kedah. Both factors are intrinsically linked, as individuals with higher levels of religiosity tend to have more positive perceptions of zakat (Abdullah & Sapiei, 2018; Haji-Othman et al., 2018). Religiosity serves as a strong motivating factor for individuals to fulfil their income zakat obligations, driven by their religious beliefs and the desire to contribute to the welfare of their community (Haji-Othman, Sheh Yusuff, & Abd, Latib, 2021). Positive perceptions of zakat, including its transparency, effectiveness, and equitable distribution, further enhance compliance rates by instilling trust and confidence in the zakat system (Haji-Othman, Sheh Yusuff, & Abdullah, 2021).

The ability to recognize and comprehend income zakat needs and processes is essential to adhering to compliance behavior. People are more likely to uphold their commitments if they are informed and aware of income zakat (Sheikh Mokhtar et al., 2018). This demonstrates how crucial education and public awareness initiatives are in boosting compliance rates by giving people a clear grasp of the rationale behind and operational details around zakat payment (Haji-Othman et al., 2018).

Income zakat compliance is also influenced by the people's attitudes toward zakat. Positive views towards zakat and a conviction in its advantages make people more likely to carry out their zakat duties (Haji-Othman, Sheh Yusuff, & Cheumar, 2021; Abdul Rahman et al., 2022). This optimistic outlook results from the perception that zakat may be used to solve social and economic inequalities, advance social justice, and improve the society.

Socioeconomic factors of the zakat payers such as income and financial security have a strong effect on income zakat compliance rate. According to Wahid et al. (2022), those with better earnings or more stable financial situations frequently have higher compliance rate. This implies that a person's decision to complete income zakat requirements is influenced by their financial situation and wealth.

The perceived fairness and effectiveness of zakat institutions are two institutional elements that affect compliance behavior. People are more likely to fulfil their zakat requirements when they have faith in the zakat institutions' administration and distribution of funds (Haji-Othman, Sheh Yusuff, & Badrolhisham, 2020; Haji-Othman, Sheh Yusuff, & Nayan, 2020). Higher compliance rates are a result of zakat organizations that are open, accountable, and transparent. These factors have been contributing positively towards the steady increase in zakat collection from 2018 to 2022 as displayed in Table 1 below.

Table 1: Zakat on income and total zakat collection in Kedah from 2018 to 2022

Year	2018	2019	2020	2021	2022
Zakat on Income (RM, million)	109.989	118.750	129.635	135.557	149.834
Total Zakat Collection (RM, million)	182.745	207.214	228.109	242.189	252.042

Note: Taken from the zakat statistics as reported on LZNK website.

Table 1 shows that in the last five years, the amount of zakat collection in Kedah has been increasing on average by 8.43% per year, where the lowest increase is by 4.07% in 2022 while the highest increase is by 13.39% in 2019. In all five years, zakat on income is the major source of zakat collection which contributes between 56% to 60% of total zakat collection in Kedah. Furthermore, zakat on income has been increasing steadily by 8.06% on average per year during that period. The lowest increase in income zakat is by 4.57% while the highest is by 10.53% in 2022. This indicates that Muslims in Kedah are willing to embrace the fatwa issued in 1986 which have made income from employment subject to zakat.

Factors of Income Zakat Payment from Interviews with LZNK Officials

From the interviews conducted with LZNK officials, specific factors that contribute towards income zakat payments have been identified. The consistent rise in income zakat payment is ascribed to the royal decree by KDYMM the Sultan of Kedah on the mandatory salary deductions for zakat in 2020. Based on this decree, the managements of both public and private sectors are instructed to implement salary deduction schemes for income zakat payment of all employees under their responsibilities (Othman, 2020). The royal decree has a big impact on increasing zakat collection every year.

The second factor is appointment of certain education institution managements as LZNK agents for zakat collection using the *wakalah* system. There are currently 752 schools in the state that employ 30,193 teachers and 4580 admin staff (Jabatan Pendidikan Negeri Kedah, 2023); and three universities in the state: Universiti Utara Malaysia (UUM), Universiti Islam Antarabangsa Sultan Abdul Halim Mu'adzam Shah (UniSHAMS), and Universiti Teknologi Mara (UiTM) Cawangan Merbok. Hence, the education sector is a major employment sector in Kedah. Schools and universities that are appointed as LZNK agents are responsible to educate people to pay zakat since the majority of zakat contributors are from schools and universities.

The third factor is the award of LZNK *muzakki* certificate and logo as an appreciation to businesses that pay income zakat to LZNK. It indirectly encourages business owners to perform their income zakat obligations. The fourth factor is the presence of various zakat

payment channels such as salary deduction scheme, walk-in counter, online transfer, and via agent. Based on the interviews, salary deduction scheme has proven to be the highest contributor to income zakat collection in Kedah due to the convenience it gives to the employees. The fifth factor that led to increase in income zakat is the is efficient system used to monitor zakat collection and distribution. The new zakat management system is implemented through a new mobile application called as Zakat on Touch (ZOT). ZOT provides real time data of zakat collection and distribution to the public, and this helps to promote the transparency and integrity of LZNK in managing zakat. It also allows individuals to report *asnaf* who are in need of zakat immediately.

Intensive and Extensive Margins of Zakat on Income
We also obtained additional data on the number of income zakat payers from the interview with Zakat Kedah International Research Centre, which is shown in Table 2 below.

Table 2. Number of Income Zakat Payers and Collection from 2020 to 2022

Year	2020	2021	2022
Number of income zakat payers	94,224	95,549	95,676
Amount collected (RM)	129,634,647.03	135,556,694.76	149,834,050.38

Note: Information obtained from the Zakat Revenue System of Zakat Kedah International Research Centre.

From 2020 to 2021, the number of income zakat payers has increased by 1.41%, while the amount of income zakat collected has increased by 4.57%. In the following period, income zakat payers have increased by only 0.13% while the amount of collected has increased by 10.53%. In this case, we can see that the increase in income zakat collection in 2021 is most probably caused by extensive margin, where there are 1,325 new income zakat payers compared to 2020. The economic benefits may have become widespread and allow more employees to qualify as zakat payers. However, in 2022, the big increase in income zakat collection of 10.53% is most likely caused by intensive margin, where many of the existing zakat payers have paid more income zakat compared to 2021.

Initiatives by LZNK to Increase Income Zakat Compliance
From the interviews, LZNK has been taking several initiatives to increase the income zakat compliance among the public in the state. It is important for LZNK to apply proper public fund management when dealing with zakat funds in order to nurture good perceptions among the zakat payers. LZNK has established one-stop zakat centers that are attached with 589 mosques throughout the 12 districts in the state to enhance the efficiency of zakat collection from the payers and distribution to the recipients. School teachers and mosque officials have been appointed as assistant *'amil* of LZNK to educate and increase the awareness on the importance of zakat among the students and the public in general. Zakat collections are also channelled to food bank at 589 mosques in the state, where the poor can get basic food items like rice, sardine, sugar, and tea directly from the assistant *'amil* at the mosque. Furthermore, any incidents of poor household or reports pertaining to zakat can be easily reported to LZNK using the ZOT mobile application. These initiatives are taken by LZNK in their effort to manage public funds effectively and ensure that they command the trust from the public.

CONCLUSION

Building a strong and efficient zakat system in Kedah, Malaysia, requires an awareness of the factors that influence income zakat compliance. A wide range of elements, including religiosity, perception on zakat management system, awareness and comprehension on zakat, attitude towards zakat, and socioeconomic circumstances, are recognized as significant determinants of income zakat compliance among Muslims. Despite the religious and societal importance of earning zakat, individual compliance rates vary, making a study of the underlying factors necessary.

This study managed to identify five factors that contribute to the increase of income zakat collection in Kedah. Firstly, the royal decree issued by KDYMM the Sultan of Kedah on the mandatory salary deduction for all Muslim employees in Kedah for income zakat payment. Secondly, the large education sector in the state provides stable source of income to many employees which enable them to pay income zakat. Furthermore, the collaboration between LZNK and the education sector in the form of zakat agents under the *wakalah* contract make it easy for employees to pay zakat. Another factor is the award of *muzakki* certificate and logo by LZNK to zakat payers in order to encourage more people to pay zakat. Lastly, the efficient ZOT mobile application in terms of reporting real time zakat data for the public and ease of reporting any zakat issues to LZNK. Zakat policymakers and institutions in Kedah may promote a culture of income zakat compliance and guarantee a fair distribution of wealth for the advancement of society by addressing these drivers and creating specific initiatives.

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