

# BUSINESS ZAKAT AS POVERTY ERADICATION MECHANISM

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## ABSTRACT

*Paying zakat is an obligation for every Muslim who is mukallaf - someone who meets all the conditions contained in the five pillars of Islam. Likewise, similar obligation needs to be fulfilled by a Muslim who is involved in a business activity. The Annual Report published by the Federal Territory Zakat Collection Centre (PPZMAIWP) for 2020 shows that there was an increase of 7.76 percent in total business zakat collection, amounting to RM112,947,206.23 in 2019, compared to only RM114,096,123.422020 in 2020. However, based on statistics by categories, zakat collection on businesses still could not surpass the total number of zakat income collection which amounted to RM471 million in 2019 and RM511 million in 2020, an increase of 8.34 percent. There was nonetheless a significant increase of 47.08 percent in 2020 of the total zakat payment on businesses in comparison to the 9.16 percent increase in the total zakat income payments recorded in the same year. The statistics published have led to the birth of various interpretations within the community on the role of business zakat as an economic catalyst for the ummah ("people" or "group" or "community"). Therefore, this study aims to gain an in-depth insight into the issues and challenges faced by business zakat payers in fulfilling their religious obligation. For the purpose of data collection, this study utilized focused group interviews on a selected group of Muslim entrepreneurs in the state of Kelantan. The results of the study exhibit a number of existing set of problems and challenges faced before, during and after the implementation of business zakat.*

**Keywords:** Business Zakat, Issues, Challenges, Economy, Ummah

## INTRODUCTION

A true economic development of the ummah is often associated with the government's ability to manage the financial resources, the possibilities for development as well as the amount of operating expenditures of their respective Muslim communities. For example, economic development is achieved when a particular country is able to generate their own financial resources through the collection of taxes and zakat (Shari & Lah, 2018). Zakat derived from the Arabic word "al-Zakat" which means holy, blessing, blessing, bloom, fertilize, grow and charity. In terms of the Islamic law, zakat refers to a payment obligation on selected types of properties owned by a Muslim which comes with a selected tax rate according to selected conditions, of which its funds are consequently to be distributed to selected groups of beneficiary. There are several categories of zakat; this includes business zakat (Berhane & Gardebroek, 2011; Fianto et al., 2019; Littlefield et al., 2003). From another perspective, zakat can also be viewed as a way

to purify a Muslim's belongings and ultimately, his or her soul. A purified wealth and soul entails one to have the ability to rid oneself of hatred, envy, selfishness and greed.

Contributions made from zakat payers are typically used to enhance education facilities, healthcare infrastructures and provide housing development for the poor and needy, contributing to the larger economic development of the ummah (Rahman, Zakaria, Shaari, Nawawi & Zain, 2019). Meanwhile, business zakat is a form of zakat that is required to be paid as a result of one owning a business property, regardless of whether it involves goods or services. Paying a business zakat is an obligation that must be fulfilled by Muslim entrepreneurs who meet the necessary conditions contained in the Holy Quran and those set by the Islamic Religious Council of respective states in Malaysia (Noor et al., 2017).

A Quranic proof for zakat is clearly stated by Allah SWT in Surah Al-Nur: "(The worship is performed by) those who are strong in faith, who are not neglected by business or trade from mentioning and remembering Allah, and establishing prayer and giving zakat; they fear a Day (of Resurrection) on which their hearts and eyes will be turned" [Surah Al-Nur (24)]. Meanwhile, the hadith (hadith derives from the Arabic root ḥ-d-th meaning "to happen" and so "to tell a happening," "to report," "to have, or give, as news," or "to speak of." It means tradition seen as narrative and record) of the Prophet PBUH on zakat is as follows: "Anas RA narrated that Abu Bakr RA prescribed for him what the Prophet PBUH required: And if a property is shared by two people, then both of them pay zakat fairly (according to their respective rates or shares)".

However, the role of business zakat in the larger objective of the development of the ummah is still hotly debated within the community. It is imperative that the issues surrounding business zakat be resolved in the best way possible to ensure that the socioeconomic condition of the ummah can thus be improved (Widyatama, Baso & Haq, 2020).

## Problem Statement

Paying zakat is considered one of the Islamic pillars of belief. Indeed, the act's significance to the expansion of the community and the country is undeniable. With respect to business zakat, the obligation to pay for it falls on the shoulders of every Muslim trader who meets the prescribed conditions set by the Islamic law. In fact, funds from business zakat that are well raised can allow an accelerated growth for the society and the country as a whole to be accomplished. Similarly in a country like Malaysia, zakat funds have undeniably made a significant contribution to the overall socioeconomic growth of the country's Muslim community (Saad, 2019). However, zakat compliance, which is still a major concern in many Muslim-majority nations, also affects Malaysia, where in particular there have been frequent reports of poor zakat collection among Muslim entrepreneurs who were actually eligible to pay zakat on their company profits but routinely failed to do so (Saad & Haniffa, 2014).

In some cases, it is also found that the obligation to pay business zakat is given less of a priority by Muslim entrepreneurs than their obligation to pay the annual income zakat. This is mainly attributed to a lack of knowledge among Muslim traders on their obligation to paying the business zakat. In addition, a bigger attention given to encourage individuals to comply with tax payments using mass media also contributes to the lack of knowledge and awareness among Muslim business owners in Malaysia on their business zakat obligation (Saad, 2010).

Indeed, the distribution of business zakat funds can improve the purchasing power of the community and boost the economy of the ummah. It is important that the benefits of zakat distribution are publicly disclosed so that the public can be educated about the benefits that zakat recipients can obtain from the fund. This means that more active efforts are needed to equip the public with an awareness on matters related to the Islamic pillar of zakat. Active efforts to raise public awareness on the topic can consequently increase the sensitivity of Muslim entrepreneurs towards the topic of business zakat and encourage them to be more

compliant in making the zakat payment for their businesses. Distribution of zakat funds, including those obtained from business zakat, is important as it is expected to reduce the problem of poverty in the community by disbursing zakat funds to the poorest group of beneficiaries or *asnaf* - a party that is eligible to receive zakat aid collected from Muslims (Saleh Mohamad, 2021).

It is without doubt that the lack of compliance in business zakat payments among Muslim traders is a very challenging issue to be resolved overnight. This is because collection of zakat largely depends on the awareness of Muslim traders in fulfilling that responsibility. If the level of awareness on the topic of business zakat is high among Muslim traders, the amount of zakat collected and the level of compliance to the zakat will also be equally high. However, if the level of awareness on the topic among the traders is relatively low, the amount of zakat collected and the level of compliance to the zakat will therefore also be relatively low. This means that the authorities need to mobilize more aggressive awareness campaigns in order to encourage more obedience from Muslim traders to comply in paying their business zakat (Mohamad Ishak Mohamad Ibrahim et al., 2016).

Nevertheless, the issues and challenges surrounding business zakat still need to be further academically explored and refined in order to find the best possible ways to increase the public's awareness, compliance and knowledge about the topic of business zakat and its significant contribution in the greater economic development of the ummah (Tajuddin et al., 2015). This study was therefore set out to gain a deeper perspective into the issues and challenges commonly faced by Muslim traders in meeting the obligation of making business zakat payments and subsequently offer relevant recommendations to solve the existing problems.

## LITERATURE REVIEW

Zakat is a tool of Islamic social development that seeks to provide economic stimulation in an integrated manner with the greater objective of improving Muslims' quality of life. Zakat has a great significance in the Islamic economic system, especially in its role of strengthening the socioeconomic and political institutions of a Muslim community. (Othman, Yusuff, Sauf & Hafsha, 2017).

It is an obligation for every Muslim entrepreneur to pay for business zakat on top of the taxes set by the government. Business zakat is a way to tax the hard-earned proceeds and the excellent performance made by a particular Muslim-owned business. Businesses that are required to pay zakat must not only be *halal* and shariah-compliant, but also play a role in helping to grow the economic development of the ummah. This means that those businesses not only need to benefit selected Muslim communities, but that they also help enhance the socioeconomic well-being of the entire ummah.

Business zakat can also assist the government in boosting the development of the ummah in a better and more integrated manner (Noor et al., 2017). This is because funds collected from business zakat can be integrated into the modern system of public finance to help reduce the poverty level in society. Furthermore, funds from business zakat can also help reduce the government's operating costs, which include fees associated with administrative purposes, civil servants' salary payment and provision of housing for the homeless as well as food, clothing and schooling for the economically-marginalised groups in the society. This means knowledge and awareness on the importance of business zakat and its compliance among Muslim traders are highly critical as cognizant and compliant Muslim traders can indirectly provide financial help to the *asnaf*, who greatly deserve zakat assistance, in turn help reduce the poverty level in the society. However, the main challenge lies in finding the best possible ways to spread awareness among Muslim traders on the myriad of importance and benefits of business zakat for not only

the zakat recipients, but the economic wellbeing of the ummah as well (Islamic Relief Worldwide, 2020).

Business zakat is one of the methods for the purification of property and soul among zakat payers. The distribution of funds gained from business zakat can be used to directly increase the purchasing power of the *asnaf*, helping them purchase the necessities in order to live comfortably, enhancing their and other recipients' economic situations. In addition, funds from business zakat can also be used to specifically financially assist *asnaf* who are carrying out entrepreneurial activities by increasing their working capital, help purchase their business equipment, increase their source of capital flow so that their businesses can be better managed. To achieve this, active efforts and campaigns to encourage more Muslim entrepreneurs to contribute to the payment of business zakat is a national agenda that needs to be reinforced from time to time (Saleh Mohamad, 2021).

## METHODOLOGY

In the context of this study, the qualitative research method was applied for the purpose of data collection. One advantage of using a qualitative research approach in exploratory research is that it allows participants to respond to interview questions in their own words rather than being requested to choose from predetermined responses, as found in the quantitative research method (John D. Anderson, 2006). The focus of this research was on the business zakat compliance of Muslim entrepreneurs in Kelantan, a state in the East Coast of Peninsular Malaysia. The study was carried out in the Kota Bharu district, the state capital of Kelantan. Data for the qualitative study were derived from semi-structured interviews conducted with the study's sample. The study's sample was made up of five Muslim informants who are active in the entrepreneurship activities in Kelantan. A total of five informants were chosen as the study heeded the recommendation made by Dworkin (2012) which asserts that the optimal sample size for qualitative research should be composed of five to fifty people.

## Issues and Challenges

Though it is undeniable that zakat administration in Malaysia has seen many improvements in terms of infrastructure, human capital, delivery system, and governance transparency; there are still nevertheless issues that need to be addressed to ensure that it is on the right track to eradicate poverty and raise people's living standards nationally and internationally. Several challenges must therefore be resolved in order to empower the Malaysian zakat institutions.

The study found that there is a higher preference among Muslim entrepreneurs to pay taxes set by the government instead of the business zakat as they have fully adopted the mind set of seeing the former as more legally superior than the latter. This is mostly attributed to Malaysia's legislation that strictly punishes those businesses or corporations which fail to pay their business taxes. However, the same legal ruling does not apply to businesses or firms who fail to pay zakat and there are no legal consequences associated for failing to comply with the particular religious obligation (Rahman et al., 2019). According to Shariah law and regulations, business zakat is compulsory for all Muslim entrepreneurs, especially for those who meet the conditions prescribed by Shariah laws. The laws have made it very clear that there is no exemption of zakat for Muslims as it is one of Islam's basic five pillars, making it obligatory for all Muslims to comply with.

Furthermore, business zakat awareness is required at the workplace as institutions must understand why they are required to pay the zakat. This is because indirectly, encouragement from third parties (non-government organization) can influence Muslim entrepreneurs to pay business zakat while at the same time help measure their level of knowledge on the Islamic

obligation of paying their business zakat. In reference to zakat, its top objectives are to alleviate hunger, protect the needy and the weak while at the same time balance the country's socioeconomic situation (Sulaiman, Rahman & Mat, 2019). In addition, apart from being one of the obligatory tools that can be used to cleanse a Muslim's wealth, zakat also teaches Muslims how to live a humble life and how to gain blessings from Allah SWT through giving back to others (Sulaiman et al., 2019). This means raising awareness on the importance of business zakat among Muslim entrepreneurs has never been a more critical task and hence needs to be urgently mobilized.

According to Saad (2019), it is necessary for one to have an understanding on business zakat in order for one to pay for it. The author assumes that the higher the entrepreneurs' understanding about zakat is, the higher their tendency to pay for the zakat. Notwithstanding its importance, several scholars highlight how the knowledge on business zakat is in fact low among many Muslim entrepreneurs, especially on the topic of zakat assessment (Saad, 2019). This situation reflects that the current mechanism for educating Muslim entrepreneurs about business zakat is largely ineffective. Therefore, it is the responsibility of zakat institutions to organize more effective zakat educational programmes for the Muslim business community on a continuous basis. This can include workshops on zakat assessment that are held on a regular basis to ensure that Muslim entrepreneurs are well exposed to the topic of business zakat.

Professionally managed zakat funds could indeed make a difference and extend its full benefits to all its recipients. Developing a competent structure of zakat collection and distribution procedures will help overcome the weaknesses of previously reported cases of mismanagement and mishandlings by the institutions such as overspending, manipulations in management cost and double payments from different institutions. On the other hand, since zakat is considered a religious public fund, its distribution activities must be made transparent in order to raise public confidence. To resolve this issue, the national government's anti-corruption agencies have been given the authority to audit any religious council's records and financial accounts at any time. Furthermore, it is highly recommended for zakat institutions to launch online access to the public for the zakat money collected and disbursed in order to build their trust towards the institutions. This will allow the public to keep track of and supervise the zakat collection and distribution procedures. Additionally, the existing annual reports mechanism also help explain in detail the related procedures of zakat, showing where and how the zakat funds collected are spent.

The study believes the way zakat funds are currently collected should be further improved as the existing approaches of opening zakat counters at mosques, or in public areas are largely ineffective to encourage people to pay zakat. New approaches are therefore needed to enhance the public awareness about zakat. Azman, et al., (2012) argue that the existing method of collecting zakat needs to be changed; from the zakat collector simply waiting for payers at the counter to a more proactive method such as by having zakat promoters organize regular visits to different organizations to raise awareness. A new strategy such as automatic deduction from staff's monthly salaries to pay for the zakat can also assist zakat institutions in zakat collection process by using the least amount of work. This method can also save time and cut down on the overall cost of previous zakat collection methods.

## CONCLUSION

In a nutshell, the findings of this study are relevant for a variety of interested parties and stakeholders who are seeking for ways to increase voluntary zakat payment and enhance zakat compliance among the public which consequently can help increase the overall national zakat collection. Every Muslim, regardless of their nationality, is required to pay zakat. Paying zakat is therefore part of one's responsibility as a Muslim, evidences of which can be found in many chapters of the Holy Quran. Zakat is important as it is first and foremost meant to financially

assist *asnaf* in their daily lives. Moreover, for Muslims, paying zakat is also a way to purify one's wealth and receive blessings from Allah SWT.

Any attempts to resolve the issue of lack of awareness on business zakat among Muslim traders should stress on the importance of assessing the level of knowledge and self-efficacy of individual Muslim entrepreneurs. Furthermore, aspects of interaction between B(a Muslim person or institution appointed by the Authority to carry out the obligations of collection and distribution of zakat) and Muslim business owners also need to be among areas for consideration in formulating policies on business income zakat compliance behaviour. Only once these aspects are addressed and strengthened can the willingness to pay zakat among the public as well as its collection be improved with more significant beneficial consequences to be derived for the community at large.

Indeed, zakat is a tool prescribed in Islam which seeks to eradicate poverty in Muslim communities and promote the ummah's socioeconomic development. State Islamic Religious Councils (SIRC) are approved bodies in Malaysia that manage zakat funds and work independently of respective state governments with the aim of ensuring that zakat administration and management are made more efficient and effective. Zakat institutions play a vital role in collecting zakat and subsequently distributing the funds to the poor and needy in society. Undeniably, there has been a lot of improvements in terms of efficiency and effectiveness of zakat institutions in Malaysia since their corporatization in the 1990s. However, this position is unsustainable in the long term since there have been a myriad of issues raised for a while now concerning the mismanagement and misallocation of collected zakat funds. These types of issue undoubtedly create a negative reputation for zakat institutions everywhere. This is because zakat institutions have progressed significantly and has undoubtedly aided Muslim entrepreneurs in terms of efficiency and effectiveness. Zakat institutions thus need to be constantly vigilant of future concerns that may arise surrounding all aspects of their operation. Hence, the study recommends zakat institutions to work alongside media companies and social influencers to constantly develop the awareness and improve the knowledge of the public on the topic of zakat. This can be done to ensure that no Muslim entrepreneurs, who meet all the prescribed qualities set by the Islamic law, end up not paying zakat in the future.

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