

Exploring muslim taxpayers' intentions to reduce tax liability through zakat rebates

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Abstract

This study investigates the impact of Malaysia's zakat rebate system, introduced in 2001 as part of the individual tax framework, wherein Muslim taxpayers can reduce their tax obligations by claiming zakat payments as a deductible tax rebate. While this approach encourages increased zakat contributions, it poses a potential challenge by reducing overall tax revenue. The research aims to explore the intentional motivations of Muslim taxpayers in enhancing their zakat payments to decrease their tax liability concurrently. This study employed a quantitative methodology by distributing questionnaires to Muslim zakat contributors and taxpayers who claimed the zakat rebate. The findings highlight a common intention among respondents to intentionally increase zakat payments as a strategic means to lower their tax liability. The results shed light on the intricate relationship between religious obligations and fiscal incentives embedded within the tax system. The findings also contribute to the broader discussions on the social and economic implications of integrating religious principles into contemporary tax systems, opening avenues for further research and dialog in this interdisciplinary field.

Keywords: Zakat; tax rebate; zakat payment; individual tax; Malaysian tax

INTRODUCTION

Zakat, one of the fundamental pillars of Islam, serves as a mechanism to alleviate poverty, enhance human welfare, and reduce income inequality, thereby contributing to the establishment of social justice and a harmonious life. Al-Qaradhawi (2011) notes that zakat functions not only as a means of financial assistance but also serves to purify and cleanse the property and soul of a Muslim. Its significance within the Islamic economic system has grown substantially due to its notable impact on fostering social harmony and ensuring a dignified standard of living for segments of the Muslim community in need (Sawmar & Mohammed, 2021). Moreover, zakat is pivotal in national development, functioning as a tool to bridge the socioeconomic gap between the wealthy and the underprivileged (Saad et al., 2020).

In Malaysia, a predominantly Muslim country, taxation is an essential mechanism for national development, encompassing various purposes such as infrastructure development, public services, and economic growth. The Malaysian tax system comprises two primary categories: direct and indirect taxes. Specifically, under the direct tax regime, individual taxpayers in Malaysia are allowed to claim zakat, a form of Islamic almsgiving, as a tax rebate in accordance with section 6A(3) of the Income Tax Act (ITA) 1967. This provision allows Muslim taxpayers who have paid zakat to zakat authorities and retained the original receipt to claim a tax rebate, effectively reducing the amount of tax payable in the year of tax assessment. This strategic incorporation of zakat as a tax rebate mechanism prevents the occurrence of double payments to authorities from the same sources of income, ensuring a fair and equitable taxation system.

Nevertheless, it is crucial to acknowledge the distinct purposes of zakat and tax, each carrying unique responsibilities for Muslims. Opting to fulfil only the obligation of zakat may diminish the government's revenue, posing potential risks to the economy. Prior research in this domain has predominantly focused on public perceptions and attitudes toward the system, specifically concerning the claiming of zakat as a tax deduction or rebate (al-Mamun et al., 2020; Muhammad & Nor, 2021; Fikri

et al., 2021; Wijayanti et al., 2022). However, an unexplored aspect is whether taxpayers intentionally increase their zakat contributions to reduce their tax liabilities. Addressing this gap will contribute valuable insights to the existing literature on the intersection of religious obligations and fiscal practices..

LITERATUR REVIEW

Integrating zakat in tax calculations is a strategic measure to reduce the double burden on Muslims by preventing them from fulfilling zakat obligations and tax liabilities. This policy functions as an incentive mechanism with the potential to enhance the collection of zakat funds, simultaneously promoting tax payment compliance and strengthening Muslims' awareness of societal needs. An empirical investigation conducted by Wijayanti et al. (2022) supports the efficacy of this integrated system, demonstrating a significant positive impact on both zakat and tax compliance behaviours in Malaysia and Indonesia.

Previous research has predominantly concentrated on public perceptions of the zakat-tax integrated system, mainly on attitudes towards claiming zakat as a tax rebate. Al-Mamun et al. (2020) identified that the acceptability of zakat as a tax rebate among Muslims is influenced by factors such as religiosity, legal consciousness, and considerations of halal-haram aspects. In examining Muslim taxpayers claiming zakat as a tax rebate, Muhammad and Nor (2021) observed that attitude, subjective norms, perceived behavioural control, and knowledge influence behaviour. Fikri et al. (2021) expanded their investigation beyond Malaysia to include Indonesia, where zakat is allowed as a tax deduction in calculating individual tax liability. Their findings indicate that perceptions in both countries are shaped by factors such as knowledge of tax, religiosity, and satisfaction with zakat institutions.

Nevertheless, zakat cannot substitute for taxes due to differences in their foundational principles. Almsgiving is stipulated by specific levels and calculations outlined in the Qur'an and Sunnah. In contrast, taxes are determined based on governmental needs and policies, necessitating Muslims to fulfil both obligations. Zakat represents a form of obedience to Allah swt., while taxes signify compliance with governmental authority. Internal, non-published statistics obtained from the Inland Revenue Board of Malaysia (IRBM) by Samad et al. (2016) unveiled that individual taxpayers claimed a total of RM8.3 billion in tax rebates between 2015 and 2019. Notably, over 74% of the total individual zakat collection was offset as tax rebates from 2004 to 2014, raising concerns about the potential adverse impact on tax collection and the economy if this trend persists. This study aims to investigate whether taxpayers deliberately increase their zakat contributions with the intention of reducing their tax obligations.

RESEARCH METHODS

This study employed a quantitative research approach, utilising a questionnaire created with Google Forms as the primary data collection instrument. Respondents were categorised based on whether they identified as zakat payers only, taxpayers only, or both zakat and taxpayers. Respondents were queried about their agreement with intentionally paying more zakat to reduce their tax burden, using a 5-point Likert scale (1 = Strongly disagree, 5 = Strongly agree). The target population comprised Muslim citizens aged 18 years and above. The Google Form was distributed through widely used communication applications such as WhatsApp, Facebook Messenger, and Telegram. The data analysis was conducted using the Statistical Package for Social Sciences (SPSS) version 27 software.

RESULT

Out of the 252 completed questionnaires received, only respondents who reported paying both zakat and tax were selected, resulting in 203 datasets available for analysis. The demographic characteristics of the respondents are presented in Table 1.

The demographic analysis of the 203 respondents reveals a gender distribution with 134 females (66.0%) and 69 males (34.0%). In terms of age, the majority fall within the 41-50 years range (60.1%), followed by 31-40 years (17.2%), 51 years and above (15.8%), and 21-30 years (6.9%). Geographically, the respondents are primarily located in Selangor (34%), followed by Johor (26.1%) and Wilayah Persekutuan Kuala Lumpur (8.9%). The employment distribution indicates a majority in the government sector (66%), followed by the private sector (26.6%) and self-employed individuals (7.4%). Regarding

educational attainment, the highest proportion holds a Bachelor's degree (53.2%), followed by a Masters degree (19.2%), Diploma (9.9%), PhD (10.3%), Professional certificate (2.0%), and SPM and below (5.4%). In terms of monthly income, the largest segment earns RM8,001 and above (51.2%), followed by RM4,001 to RM6,000 (20.7%), RM6,001 to RM8,000 (19.7%), RM2,801 to RM4,000 (6.4%), and RM2,800 and below (2%).

Table 1. Demographic analysis

Demographic analysis (n=203)		Frequency	%
Gender	Male	69	34.0
	Female	134	66.0
Age	21 - 30 years	14	6.9
	31 - 40 years	35	17.2
	41 - 50 years	122	60.1
	51 years and above	32	15.8
Location	Johor	53	26.1
	Kedah	1	0.5
	Kelantan	12	5.9
	Melaka	7	3.4
	Negeri Sembilan	18	8.9
	Pahang	9	4.4
	Perak	2	1.0
	Pulau Pinang	1	0.5
	Sabah	1	0.5
	Selangor	69	34.0
	Terengganu	6	3.0
	WP Kuala Lumpur	18	8.9
	WP Labuan	1	0.5
	WP Putrajaya	5	2.5
Employment	Government sector	134	66.0
	Private sector	54	26.6
	Self-employed	15	7.4
Education	Bachelor's degree	108	53.2
	Diploma	20	9.9
	Masters degree	39	19.2
	PhD	21	10.3
	Professional certificate	4	2.0
	SPM and below	11	5.4
Income per month	RM2,800 and below	4	2.0
	RM2,801 to RM4,000	13	6.4
	RM4,001 to RM6,000	42	20.7
	RM6,001 to RM8,000	40	19.7
	RM8,001 and above	104	51.2

The analysis of respondents' attitudes towards intentionally paying more zakat to reduce tax liabilities reveals a substantial inclination towards agreement. Specifically, 84 respondents (41.4%) expressed a strong agreement, while an additional 30 respondents (14.8%) indicated a general agreement. On the contrary, 22 respondents (10.8%) disagreed, with 36 respondents (17.7%) strongly disagreeing. A moderate stance is reflected in 31 respondents (15.3%) who remained neutral. This distribution suggests a noteworthy level of agreement among the surveyed individuals regarding the intentional increase in zakat payments as a strategic means to lower their tax liability. The results of the analysis are shown in Figure 1.

The subsequent analytical examination aims to contrast demographic attributes among respondents categorised into two distinct groups: the 'Agree' group, comprising those who selected

'Strongly Agree' and 'Agree,' and the 'Disagree' group, encompassing individuals who chose 'Strongly Disagree' and 'Disagree.' The findings of this analysis are presented in Figure 2.

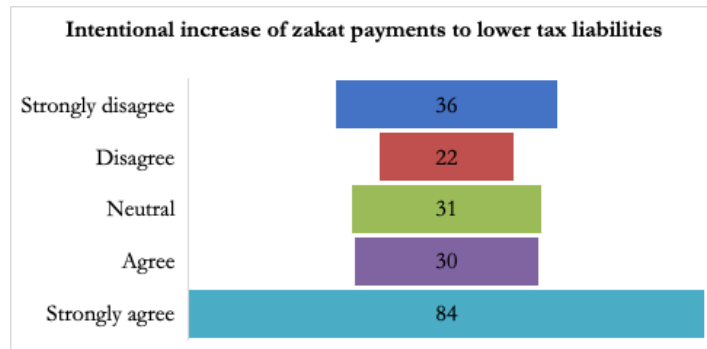


Figure 1: Respondents' agreement levels on the intentional increase of zakat payments to lower tax liabilities
Source: Self processed

The analysis reveals relatively consistent patterns within the 'Agree' and 'Disagree' groups. In total, 114 respondents fall into the 'Agree' group, whereas 57 respondents comprise the 'Disagree' group. Similar distribution trends emerge across various demographic variables, such as gender, age, employment, education, and income. Notably, both groups exhibit comparable compositions in age distribution, with the 41-50 age bracket being the most represented. Furthermore, the number of respondents employed in the government sector is notably consistent in both groups. While variations exist in specific categories, such as educational attainment and income distribution, the overall demographic trends within the 'Agree' and 'Disagree' groups appear reasonably similar, suggesting a degree of uniformity in the characteristics of respondents across the two agreement levels.

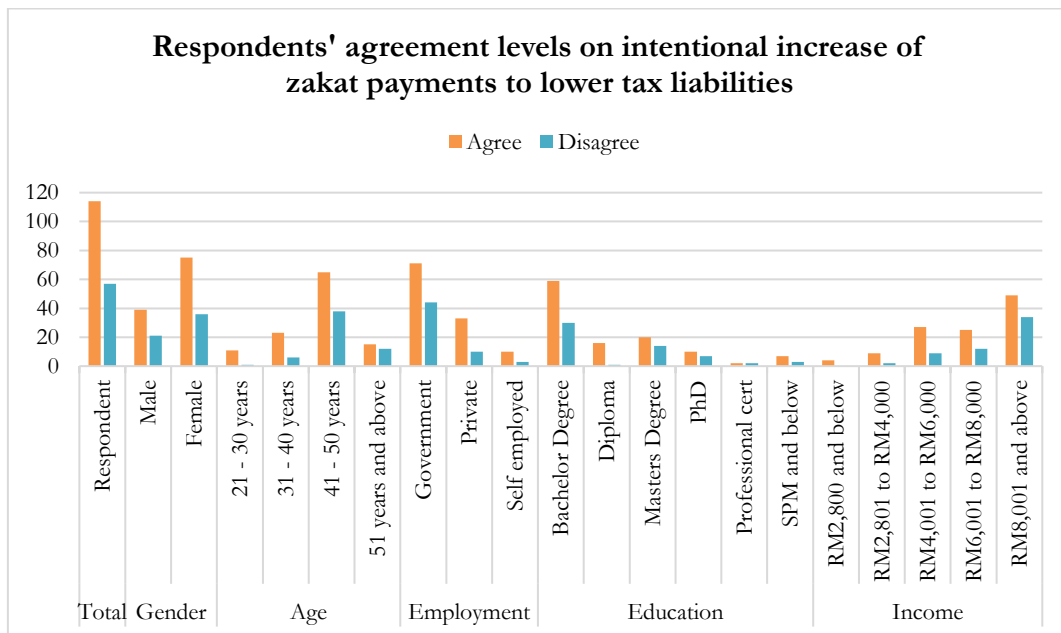


Figure 2: Demographic comparison of respondents' agreement levels on intentional increase of zakat payments to lower tax liabilities
Source: Self processed

CONCLUSION

This study makes a substantial contribution to the ongoing discourse on the integration of zakat and taxes by centring its focus on the intentional behaviours of taxpayers. Building upon and expanding previous research (al-Mamun et al., 2020; Muhammad and Nor, 2021; Fikri et al., 2021), the findings

provide a nuanced understanding of the intricate factors shaping attitudes toward zakat and tax obligations. Moreover, the study aligns with but significantly augments insights derived from internal statistics obtained from the Inland Revenue Board of Malaysia (IRBM) by Samad et al. (2016).

The substantial figure of RM8.3 billion claimed in tax rebates between 2015 and 2019, as indicated by the internal statistics and this study's findings, substantiates the enduring trend among taxpayers who strategically utilise zakat payments to mitigate their tax liabilities. This trend is further underscored by most respondents agreeing that they deliberately increase their zakat payments to lower their tax liabilities. The alignment between these findings reinforces the sustained impact of taxpayers leveraging zakat not only as a religious obligation but also as a strategic financial tool within the Malaysian tax system.

This understanding, essential for policymakers, facilitates formulating strategies that delicately balance the principles of religious compliance with the government's fiscal needs. Such a balanced approach aims to foster a harmonious and equitable socioeconomic landscape. While our study provides valuable insights into intentional zakat payments, it recognises the need for further qualitative exploration to illuminate the motivations behind these behaviours. These deeper insights are crucial for policymakers aiming to develop effective and equitable policies within the Malaysian tax framework, ensuring a well-informed and balanced approach to integrating religious and fiscal obligations.

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