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**AN EMPIRICAL STUDY ON THE ZAKAT COLLECTION
OF THE FEDERAL TERRITORY BAITULMAL**

BY

ZURAI DAH YAACUB

ADVISOR

**DR. HAJI JAMIL HAJI OSMAN
DEPARTMENT OF ECONOMICS**

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This is certify that Bro./Sis ZURAIDAH YAACUB
has written the Master of Economics research paper entitled:
An Emphirical Study on the Zakat Collection of the Federal
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under my supervision. The relevant comments made on the paper during its presentation have been incorporated in the present version of the paper to my full satisfaction.

I have pleasure in recommending that the graduate committee may approve the paper in partial fulfilment of the requirements for the degree of Master of Economics.

Name of Supervisor: DR. HJ. JAMIL. HJ. OSMAN

Date : 7.7.1992


(Signature)

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**AN EMPIRICAL STUDY ON THE ZAKAT COLLECTION OF THE
FEDERAL TERRITORY BAITULMAL. (1981 - 1990)**

INTRODUCTION.

The purpose of this paper is to analyse the trend of the zakat collection of the Federal Territory Baitulmal and derive the factors that determine the trend of the zakat collection. The study will focus on total zakat, zakat on business and zakat on wealth collected from 1981 to 1991 in the Federal Territory, Kuala Lumpur.

The rest of the paper will be as follows: Section 1 briefly discuss the background of the Federal Territory Baitulmal. Section 2 is the objective and methodology. Section 3 discuss the trend of zakat collection from 1981 to 1991. Section 4 explain the sources of data and model justification. Section 5 is the estimates and findings. Section 6 is the summary and conclusion and section 7 is the recommendation.

1. BACKGROUND OF THE FEDERAL TERRITORY BAITULMAL

The Federal Territory Baitulmal was established in 1974 with the establishment of the Federal Territory Islamic Council. The establishment of the Baitulmal at the early stage focuses on the collection of zakat fitrah while zakat on business and wealth formed a minor collection. Other minor collection include faraid, sadaqah, wakaf and wasiat. To perform the function of collecting zakat, a collection and estimation unit was formed headed by a deputy director. Other units formed by the Federal Territory Baitulmal are distribution unit, administration and finance unit and development and investment unit.

On 9th. May 1980, a Baitulmal Rule known as 'Kaedah Baitulmal Wilayah Persekutuan (Perbelanjaan & Penggunaan)' was formulated followed by the formation of the Baitulmal Committee. With the formation of the committee, the Baitulmal has extended its activities to social and economic programs.

The above rule was later ammended in 1988 so as to provide a wider scope for the body to pursue its activities in development, investment and distribution (1).

The Baitulmal had been very active in the mid 1980's and had diversified its collection and distribution activities. The body does not only involved in welfare activities but was also involved in socio-economic programs including investment, in education, medicine and financial institution.

In education, the Federal Territory Baitulmal does not only provide scholarships for the children of related asnafs but is involved directly in providing skills with the establishment of the 'Baitulmal Skill Training Centre' which begin its operation on the 1st. April, 1991 and the Baitulmal Institute of Professional which had been set up recently.

The programmes of the Federal Territory Baitulmal could not be implemented without a large revenue. The committee and members of the body had put much effort to raise the volume of zakat collection. Many studies being carried out by

-
1. Mustapha A.R. 'Sistem Agihan wang zakat Baitulmal, Majlis Agama Islam Wilayah Persekutuan'. a paper presented at the 'Forum Zakat, Usahawan Melayu dan Perniagaan', Penthouse, Kuala Lumpur. 23rd May, 1991, p.3.

researchers and educationist, seminars and workshops being held in 1970's and 1980's. From the studies and seminars, many recommendations and proposals were being forwarded. Some were taken into consideration and implemented by the Federal Territory Baitulmal. This can be seen from the increased collection by 136 per cent within the period between 1983 to 1988 (2).

In order to raise the zakat collection, the Federal Territory Islamic Council incorporate the 'Zakat Collection Centre' (Pusat Pungutan Zakat - PPZ) which is responsible in the collection of zakat. Zakat fitrah and other general sources is still under the responsibility of the collection and estimation unit of the Federal Territory Baitulmal. PPZ work under a corporate basis using a complete computerised system. Upon the establishment, the zakat collection in 1991 had increased tremendously from \$7.3 million to \$13.3 million an increase of 110 per cent(Refer table 1).

-
2. Members of the Kulliyyah of Economics, International Islamic University, 'Zakat, A Case Study of Malaysia' a paper presented at the Third Zakat Conference, Kuala Lumpur, May 14-17, 1990, p.14.

2. OBJECTIVE AND METHODOLOGY.

The Federal Territory Baitulmal is the leading body of its kind that shows a positive trend in the zakat collection and distribution activities. There are many factors that determine the positive trend of zakat collection of the Federal Territory Baitulmal . The factors could be due to the increase in the income of muslims in the Federal Territory, good business opportunities and the awareness of the muslim on the responsibility on paying zakat as one of the pillar in Islam.

In relation to the above, the objective of the paper is to analyse the trend of zakat collection of the Federal Territory Baitulmal and to derive the factors that contribute to the zakat collection of this body. For the purpose of the study, we will divide zakat into 3 categories, namely total zakat collection, zakat on business and zakat on wealth(3). The study will focus on zakat collection from 1981 to 1991.

-
3. Total zakat collection consist of zakat on business, zakat on wealth and zakat fitrah. While, zakat on wealth include zakat on income, savings, gold and silver.

This study is based on 2 sources of information. The first is literature review of previous research on the Federal Territory Baitulmal and printed articles of the Federal Territory Baitulmal. The second is secondary data both published and unpublished. The main source of the secondary data are from the Federal Territory Baitulmal, PPZ, Permodalan National Berhad, Pilgrims Fund & Management Board (LUTH), Malay Chamber of Commerce and Industry Malaysia (MCCIM), Federal Territory Branch and economic reports of various issues. Empirical test is used to derive the correlation between zakat collection and the factors that determine the trend of zakat collection.

3. TREND OF ZAKAT COLLECTION (1981-1991).

Table 1: Total Zakat Collection

Year	Business \$'000	Wealth \$'000	Fitrah \$'000	Total \$'000
1981	201.8	290.1	514.7	1006.5
1982	312.2	877.2	553.3	1742.7
1983	448.1	1136.4	571.2	2155.7
1984	1061.9	1481.8	627.8	3171.5
1985	452.9	1425.9	647.0	2525.8
1986	729.3	1572.4	679.3	2981.0
1987	699.8	2192.0	923.1	3784.9
1988	925.6	3248.4	911.6	5085.6
1989	954.4	4449.2	885.1	6288.7
1990	1287.8	5865.4	1009.6	8162.8
1991	1600.0	11700.0	1136.3	14436.3

Source: Federal Territory Baitulmal (1981-1990) and PPZ (1991)

Table 1 above shows that the overall trend of total zakat collection had been rather uneven over the years. From 1981 to 1982, the total zakat collection increased from \$1006,500 to \$1742,700 that is an increase of 73.1 per cent. This was due to a large increase in the collection of zakat on wealth which increased by 202.5 per cent in 1982.

In 1985, the total zakat collection declined slightly by 25.6 per cent but from 1986 onwards there was an increasing trend of the total zakat collection. In 1991, total zakat

collection had increased to \$14.4 million, an increased of 77.3 per cent compared to the total collection of 1990. This was partly due to the recovery of the economy and the establishment of PPZ.

Zakat on business shows a rising trend. In 1984 there is an unusual increased in the collection of zakat on business (137 per cent). This increase is due to a more serious promotion on the part of the newly appointed officers who were more sensitive towards implementing Islamic injunctions. In this year, Federal Territory Baitulmal received zakat payment from companies and individuals by a relative large quantum.

Moreover, there was an expectation among these zakat payers that they are entitled to a corporate tax rebate but this was not materialized which result in a decline of zakat collection in the following year. The decline was also due to the economic recession where business sector was much affected.

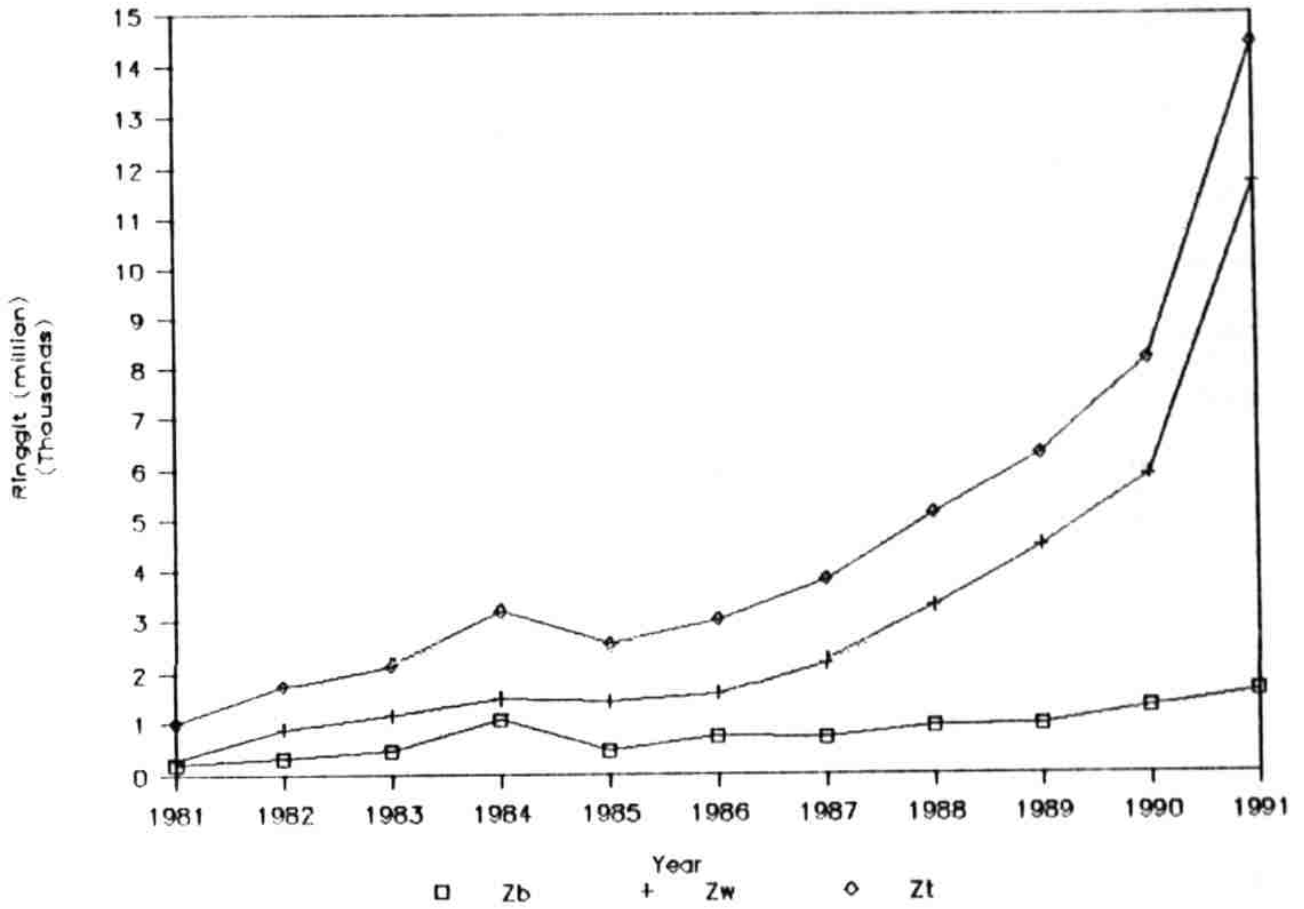
The collection of zakat on business was the highest in 1991 due to the recovery of the state economy and contribution of the big zakat payers such as LUTH, Bank Islam, Syarikat Takaful and Malay Officers Cooperative Credit Investment Society (MOCCIS).

Zakat on wealth shows a rising trend although it declined slightly by 3.9 per cent in 1985 due to the economic recession during this period. The collection of zakat on wealth has always been higher than the collection of zakat on business. This may be due to the increasing collection of zakat from the fixed income group who is entitled to claim for rebate from income tax on their zakat payment (4). The Baitulmal also received zakat from enterprenuers individually who paid zakat based on their personal wealth which is entitled to receive rebate for zakat on wealth.

The increasing trend of the collection of zakat on wealth is also due to the verdict put forward by the Federal Territory and Selangor Islamic Councils that salaried individuals and professionals have to pay zakat on their income. The trend of zakat collection is shown in figure 1.

4. Under Section 6A(1)of the Income Tax Act 1967, only individual can claim for rebate from income tax on their zakat payments. This ruling is not applicable to companies or corporate bodies. The rebate from income tax on zakat payment was first implemented in the year of assessment 1978.

Figure 1 : Trend of Zakat Collection



4. DATA SOURCES AND MODEL JUSTIFICATION

4.1 Data Sources

a. Zakat

In this study, zakat collection act as the dependent variable. Data of zakat collection of 1981 to 1990 were obtained from the Federal Territory Baitulmal while data on the zakat collection of 1991 were obtained from PPZ. For the purpose of the study, zakat is divided into 3 categories:

- i. total zakat collection
- ii. zakat on business
- iii. zakat on wealth

It is assumed that the zakat collection depends on the following:

- i. per capita income
- ii. advertising expenses
- iii. net investment in ASN/ASB (ASNB)
- iv. net savings with LUTH
- v. number of enterprenuer

b. Per Capita Income (Refer Table 2)

The per capita income is used as a proxy to represent the income of the Muslim community in the Federal Territory. It does not only represent the income of the corporate group but also the income of the fixed salaried group. Data on per capita income is obtained from the economic reports of various issues from 1981/1982 to 1991/1992. Figure 2 shows the trend of the per capita income where it was slightly stable in the early 80's but in 1987 and 1988, the per capita income decreases due to the economic situation of the country. When the economy recovers in 1990 and 1991, the per capita income increases to \$6,200 and \$6,800 respectively.

b. Advertising expenses (Refer Table 3)

To show the awareness of the Muslim community on the responsibility of paying zakat as one of the pillars in Islam, advertising expenses of the Federal Territory Baitulmal is used as a variable. The data on the advertising expenses were

Table 2: Y

Year	\$'000
1981	4.0
1982	4.1
1983	4.5
1984	4.9
1985	4.8
1986	5.0
1987	4.6
1988	4.8
1989	5.5
1990	6.2
1991	6.8

Figure 2: Trend of Per Capita Income(Y)

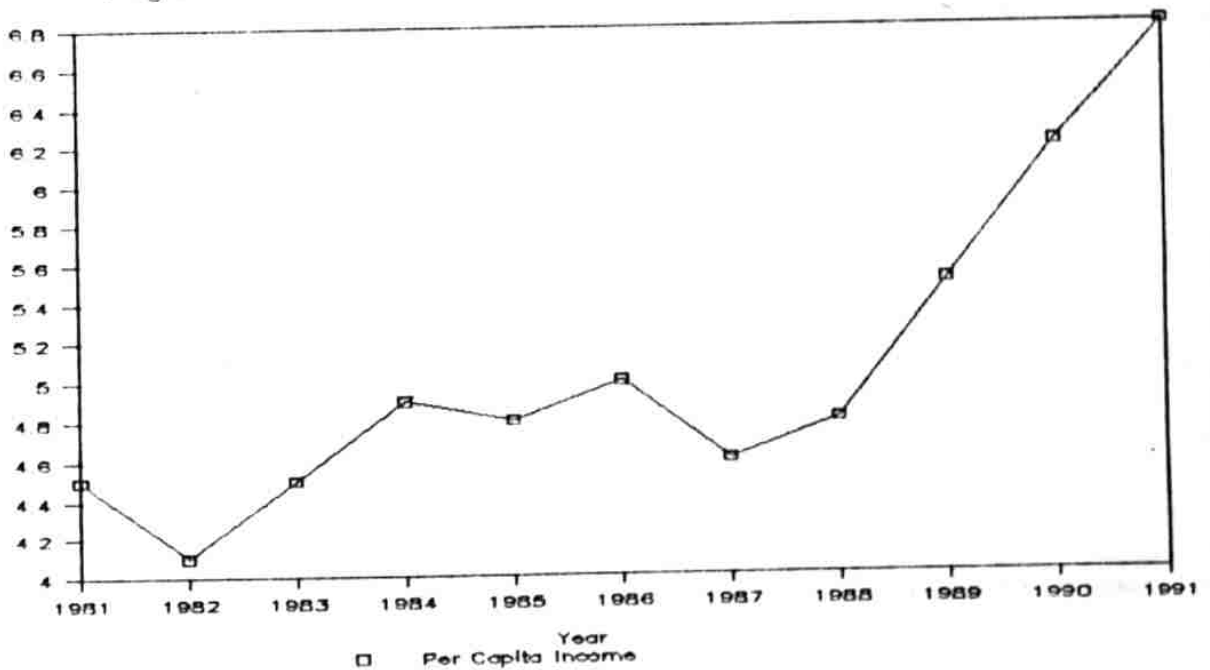
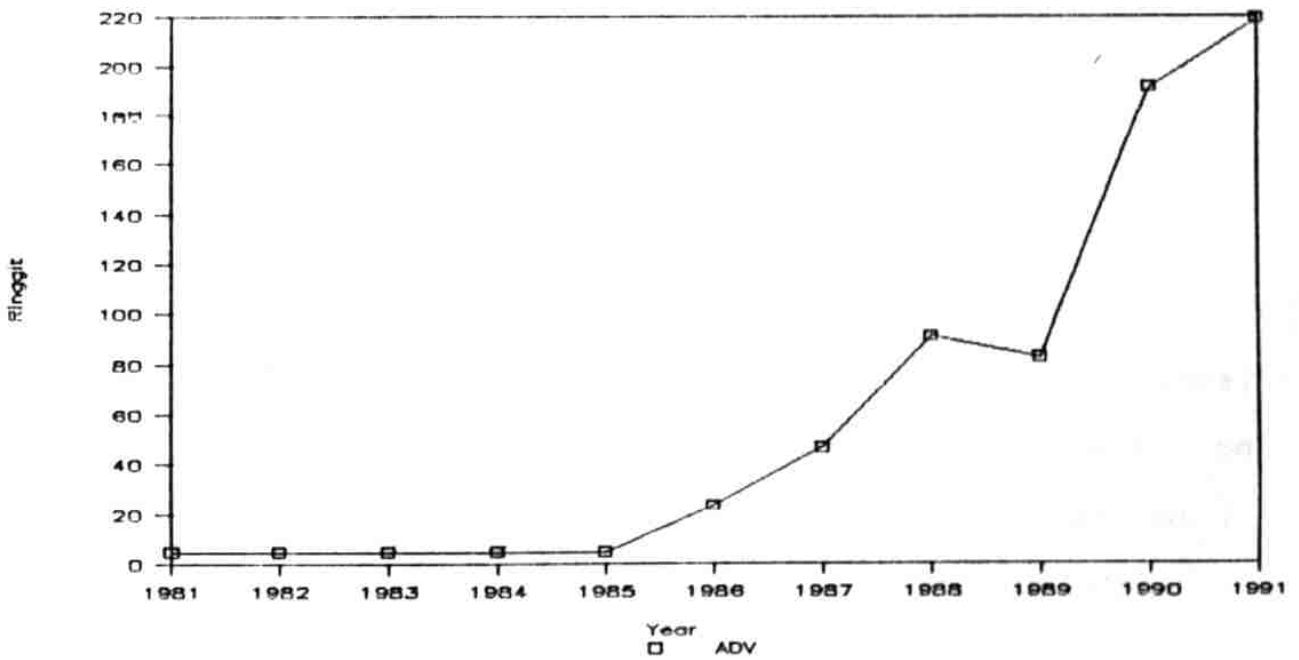


Table 3: ADV

Year	\$ '000
1981	5.0
1982	5.0
1983	5.0
1984	5.0
1985	5.0
1986	23.4
1987	46.8
1988	91.1
1989	82.9
1990	191.9
1991	219.1

Figure 3: Trend of ADV



obtained from the annual income and expenditure statements of the Federal Territory Baitulmal of 1986 to 1991. Since there was no proper record in the early 1980's data of 1981 to 1985 were estimated by the related officer of the Baitulmal.

Figure 3 shows the trend of advertising expenses by the Federal Territory Baitulmal. The expenses were stagnant from 1981 to 1985 and increased from 1986 onwards. The increased in the expenses was due to the increase in the activities especially in carrying out campaign not only through talks and seminars but also by producing pamphlets, calenders and published reports on the activities of Baitulmal. These are part of the promotion by the Baitulmal in order to increase its collection of zakat.

c. **ASNB** (Refer Table 4)

Net investment in ASNB by depositors in the Federal Territory will represent muslim savings in the Federal Territory. This variable is important because zakat on savings is part of zakat on wealth. Data on net investment in ASNB were obtained from the Department of Marketing, PNB.

Table 4: ASNB

Year	\$ '000
1981	79.679
1982	84.806
1983	138.477
1984	-12.938
1985	127.099
1986	352.953
1987	-10.942
1988	8.571
1989	809.889
1990	262.203
1991	490.461

Figure 4: ASNB

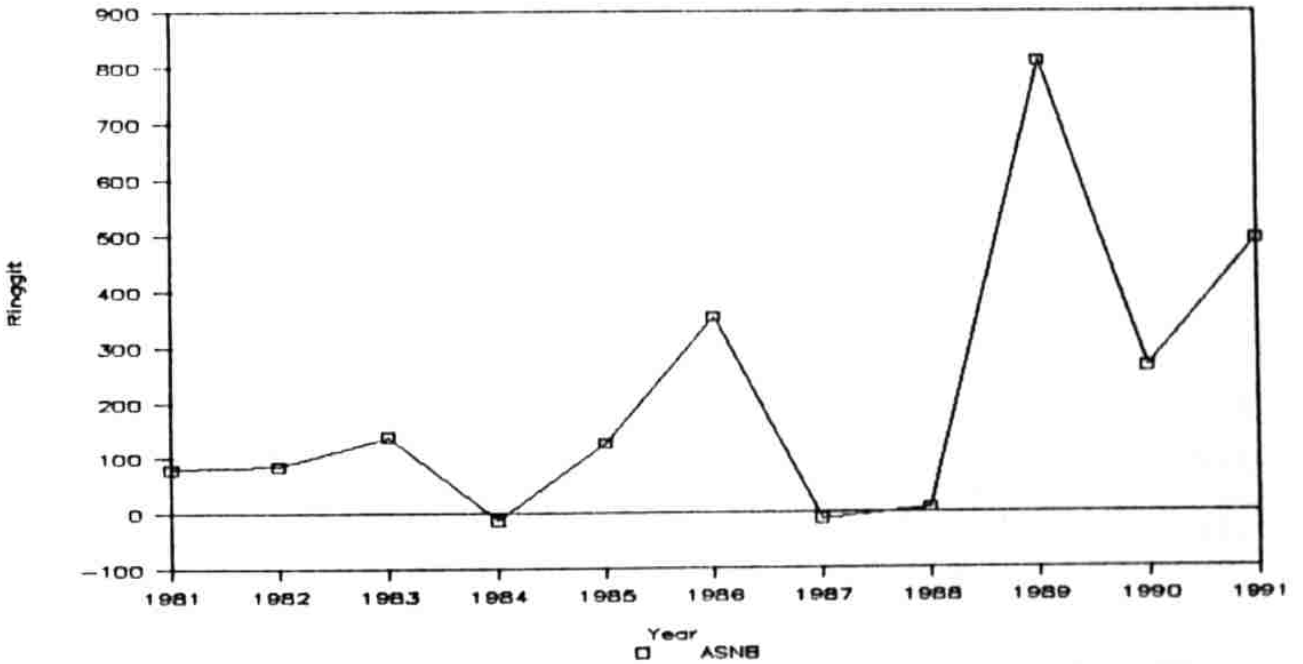


Table 4 shows the net investment of ASNB in the Federal Territory. The net investment was rather uneven over the years. There was negative investment in 1984 and 1987. This was due to heavy withdrawal from the investors. The withdrawals include redemption of certificates over \$2,000 which could not be withdrawn at the post office (4). The net investment was highest in 1989. This might be due to the increasing credit facilities offered by commercial banks for purchasing ASN shares. The trend of net investment in ASNB is shown in figure 4.

d. Luth (Refer Table 5)

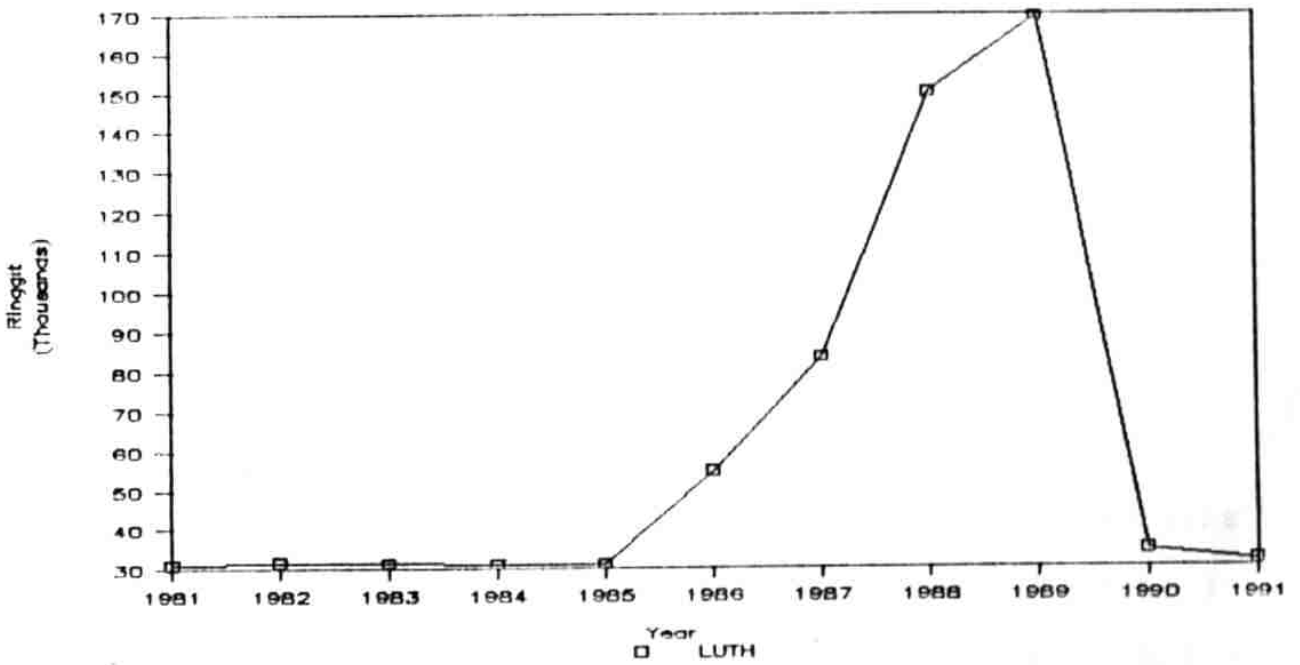
LUTH is one of the biggest business zakat payer in the Federal Territory. Therefore LUTH is expected to represent bumiputera equity in the business sector. Data on the net savings in LUTH were obtained from the annual reports of 1985 and 1990 and unpublished data 1992. Table 5 shows that there was an increasing trend of net saving in 1981 to 1988 but there was a drastic fall in the net savings in 1990 and 1991.

4. Redemption of certificates above \$2,000 from other states were transacted at the Head Quarters in the Federal Territory. All these transactions were included in the Federal Territory data-based.

Table 5: LUTH

Year	\$ '000
1981	31066.0
1982	31670.6
1983	31513.4
1984	31218.6
1985	31214.6
1986	54688.0
1987	83671.3
1988	150136.1
1989	169210.7
1990	34528.0
1991	31652.9

Figure 5: LUTH



Under Section 25, Pilgrims Fund & Management Board Act, depositors are allowed to withdraw their deposits for other purposes apart from performing haj. Withdrawals are allowed twice a year and each withdrawals will take 3 to 10 days. Due to this inconvenience, the withdrawal of deposits for other purposes apart from Haj was quite low.

In 1990, LUTH had extended its withdrawal service in cash term for withdrawals of \$1,000 and below immediately. Due to this facilities, the percentage of withdrawal increased to 93.8 per cent in 1990 compared to only 69.62 per cent in 1989(5). With the easy withdrawal, the propensity to consume of the depositors increases and thus this has reduce the net savings in LUTH. Figure 5 shows the trend of net savings in LUTH.

e. **Enterprenuer** (Refer Table 6)

The data on enterprenuer is another proxy representing bumiputera participation in the business sector. The data in table 6 shows the number of enterprenuer registered with the

5. Lembaga Urusan dan Tabung Haji, Laporan Tahunan 1990, p.73

Table 6: ENT

Year	No. of Ent
1981	33
1982	52
1983	63
1984	49
1985	37
1986	54
1987	59
1988	107
1989	89
1990	85
1991	447

Figure 6: Trend of ENT

