



**DETERMINING FACTORS OF MUSLIM CONSUMERS'
PERCEPTION TOWARDS INCOME TAX REBATE
OVER ZAKAT ON INCOME: MALAYSIAN
PERSPECTIVE**

BY

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ABSTRACT

Malaysia is a multi-racial but Muslim majority country. Malaysian tax authority has introduced a rebate system on tax for their customers who pay both zakat and tax taking it as religious obligation to the creator Allah SWT and compulsory duty to the government. This study has been designed to explore the variables that affect Muslim consumers' perception towards tax rebate through zakat system in Malaysia and to find out whether these variables play role positively or negatively; to check the conformity of Muslim consumers towards the government rules and religious obligations. In order to achieve the objectives, a conceptual research framework has been drawn based on the literature reviewed. In addition to this, a total number of 236 valid responses were collected through online survey from the Muslims residing in Malaysia. Statistical Package for Social Sciences (SPSS) and Analysis of Moment Structure (AMOS) have been applied to analyse the collected data. Six factors were extracted through principal component analysis and Structural Equation Modelling (SEM) was run to test the hypotheses. This research found that halal-haram aspect of Islamic Shariah is a very positive influential factor for the Muslim consumers' perception towards the system of tax rebate over zakat on income. On the other hand, legal consciousness and knowledge about tax are also considered as positively significant factors for growing perceptions towards the tax rebate through zakat system. As there are not enough researches in this area, therefore, this study will definitely play an important leading role for the countries or policy makers or concerned zakat or tax institutions all over the world in capitalizing the practices which is highly and positively perceived by the Muslim consumers. Moreover, this study significantly contributes to the methodological, theoretical, empirical and practical development in the area of marketing especially in the service marketing. In addition, the finding of this study will also help Malaysian government and tax & zakat authorities to improve this tax rebate system further to satisfy their consumers.

خلاصة البحث

ماليزيا بلد متعدد الأعراق، ولكن أغلبيتهم هم المسلمون. وقد أدخلت هيئة الضرائب الماليزية نظام التخفيض على الضرائب لعملائها الذين يدفعون كلاً الزكاة والضريبة آخذين بما كواجب ديني إلى الخالق -الله سبحانه وتعالى- وواجب إلزامي للحكومة. وقد تم تصميم هذه الدراسة لاستكشاف المتغيرات التي تؤثر على إدراك المستهلكين المسلمين تجاه التخفيض الضريبي من خلال نظام الزكاة في ماليزيا، ولمعرفة ما إذا كانت هذه المتغيرات تلعب دوراً إيجابياً أو سلبياً؛ للتحقق من مطابقة المستهلكين المسلمين تجاه القواعد الحكومية والالتزامات الدينية. ومن أجل تحقيق الأهداف، تم وضع هيكل البحوث النظرية معتمداً على الدراسات السابقة. وبالإضافة إلى ذلك، فقد تم جمع عدد 236 من الاستجابات الصحيحة من خلال استطلاع على الانترنت من سكان المسلمين في ماليزيا. وتم تطبيق الحزمة الإحصائية للعلوم الاجتماعية (SPSS) وتحليل لحظة الهيكل التنظيمي (AMOS) لتحليل البيانات التي تم جمعها. وقد تم استخراج ستة عوامل من خلال تحليل المكون والعنصر الرئيسي، وكذلك تشغيل النمذجة المعادلة الهيكلية (SEM) لاختبار الفرضيات. ووجد هذا البحث أن جانب الحلال والحرام في الشريعة الإسلامية هو عامل مؤثر إيجابي للغاية لإدراك المستهلكين المسلمين تجاه نظام التخفيض الضريبي على زكاة الكسب. ومن ناحية أخرى، تعتبر الوعي القانوني والمعرفة حول الضرائب أيضاً عوامل هامة إيجابية لنمو التصورات نحو خفض الضريبة من خلال نظام الزكاة. كما أن ليس هناك ما يكفي من الباحثين في هذا المجال، وبالتالي، فإن هذه الدراسة تلعب بالتأكيد دوراً هاماً قيادياً للبلدان أو صانعي الخطة أو المهتمين للزكاة أو المؤسسات للضريبة في جميع أنحاء العالم في الاستفادة من الممارسات العالية والإيجابية التي يراها المستهلكون المسلمون. وعلاوة على ذلك، فإن هذه الدراسة تساهم بشكل كبير في تطوير منهج النظرية، والتجريبية، والعملية في مجال التسويق وخصوصاً في مجال تسويق الخدمات. وإضافة إلى ذلك، فإن الاستنتاج من هذه الدراسة تساعد أيضاً الحكومة الماليزية، وهيئة الضرائب، والزكاة لتحسين النظام على إرضاء المستهلكين أيضاً.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Marketing.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Signature

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Abdullah-Al-Mamun

.....
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Date

*This dissertation is dedicated to my beloved grandmothers, Rahamennessa &
Shamsunnahar, and my youngest twin brothers, Hasan & Hossain*

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LIST OF ABBREVIATIONS

SPSS	Statistical Package for the Social Sciences
AMOS	Analysis of Moment Structure
EFA	Exploratory Factor Analysis
CFA	Confirmatory Factor Analysis
SEM	Structural Equation Modeling
P	Perception
R	Religiosity
HH	Halal Haram
LC	Legal Consciousness
KT	Knowledge related to Tax
KZ	Knowledge related to Zakat
MI	Modification Indices
AVE	Average Variance Extracted
CR	Construct Reliability
SE	Standard error of regression weight
C.R.	Critical ratio of regression weight
CFI	Comparative Fix Index
PCFI	Parsimonious Comparative Fit Index
RMSEA	Root Mean Square Error of Approximation
df	Degree of Freedom
GFI	Goodness-Of-Fit Indices
AGFI	Adjusted Goodness of Fit
PNFI	Parsimonious Normed Fit Index
i.e.	<i>(id est.)</i> : that is
et al.	<i>(et alia)</i> : and others
e.g.	<i>(exempligratia)</i> : for example

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Zakat was enacted more than 1400 years ago by Allah SWT to His creation mankind through His messenger Muhammad (PBUH) as a matter of removing poverty from the society to help the poor people so that the objectives of socio-economic growth can be attained. From this view, zakat is a right of the poor people. Other point of view, it is an obligatory financial duty of the rich people in the society (Kahf, 1997). It is quoted in the Surah At-Tawbah, “Take sadaqah from their amwal (wealth and income) in order to purify them, and sanctify them with it” (Al-Qur’an, 9:103). There is no other system in the world except Islam where it is clearly stated that the right of poor people is a duty of both individual and government through zakat (Shariff & Jusoh, 2011).

Zakah is “that portion of a man’s wealth which is designated for the poor” (Sabiq, 1991). It is also defined as: “a compulsory levy imposed on the Muslims so as to take surplus money or wealth from the comparatively well-to-do members of the Muslim Society and give it to the destitute and needy” (Zaim, 1989). On the other hand, tax is defined as “the process of raising money for the purpose of the government by means of contributions from individual persons” (Singh, 2001). Hanson (1972) narrates taxes are imposed solely to raise revenue in order to cover the operating and development expenditure of the state as cited in Nur Barizah and Abdul Rahman (2007) viewed tax as complementary.

The objective of zakat levy is extremely different from the objective of taxation; taxes could not be counted as zakat. The view was that since zakat is a financial act of worship, it is far from being similar to taxes. Although there are certain similarities between

taxation and zakat, the differences are much greater. Taxation and zakat differ in their respective legislative sources, in their theoretical foundation, their objectives, rates, exemptions, and in their expenditures (Nur Barizah and Abdul Rahim, 2007). Zakat is an Islamic religious “tax” charged on the rich and well-to-do members of the community for distribution to the poor and the needy as well as other beneficiaries based on certain established criteria according to the Qur’an. Zakat is to protect the socio-economic welfare of the poor and the needy”.

The amount of zakat collected in Malaysia is insignificant compared to tax in spite of having 61% Muslim in the country. For example, total collection of Zakat was only USD 0.4 billion in the year 2009 whereas total collected tax was USD 37.27 billion (Departments of Statistics Malaysia, 2011). A compact access is needed to secure the collection of zakat system in Malaysia’s socio-economic development. The government might need to pass a law to make zakat deduction compulsory on the incomes of all Muslims who are qualified for zakat which is just similar to tax deduction on salaries (Lubis, Yaacob, Omar and Dahlan, 2011). A changed mechanism may generate up to approximately USD 1.617 billion of zakat on income alone (Osman, 2011). Malaysia can be deemed one of the distinguished countries in the Muslim world because of its infrastructure of collection and distribution of zakat (Lubis et al., 2011). According to Bakar and Rashid (2010), zakat is still collected as voluntarily basis whereas tax is a compulsory duties and actionable due to non-payment. The total collection of zakat is still less in spite of having tax rebate on it (Kamil, 2005).

Table 1.1 Tax Rate for Non Resident

Types Of Income	Rate (%)
Business, trade or profession Employment Dividends Rents	26
Public Entertainer Interest	15
Royalty	10
Payments for services in connection with the use of property or installation, operation of any plant or machinery purchased from a non-resident	
Payments for technical advice, assistance or services rendered in connection with technical management or administration of any scientific, industrial or commercial undertaking, venture, project or scheme	
Rent or other payments for the use of any movable property	

Source: <http://www.hasil.org.my/goindex.php?kump=5&skum=1&posi=2&unit=1&sequ=1>

Table 1.2 Income Tax Rate for Malaysian Citizen: Assessment Year 2013 & 2014

Chargeable Income (RM)	Calculation Method (RM)	Rate %	Tax(RM)
0-2500	On the First 2,500	0	0
2,501-5,000	Next 2,500	0	0
5,001-10,000	On the First 5,000 Next 5,000	2	0 100
10,001-20,000	On the First 10,000 Next 10,000	2	100 200
20,001-35,000	On the First 20,000 Next 15,000	6	300 900
35,001-50,000	On the First 35,000 Next 15,000	11	1,200 1,650
50,001-70,000	On the First 50,000 Next 20,000	19	2,850 3,800
70,001-100,000	On the First 70,000 Next 30,000	24	6,650 7,200
Exceeding 100,000	On the First 100,000 Next RM	26	13,850

Source: <http://www.hasil.org.my/goindex.php?kump=5&skum=1&posi=2&unit=5000&sequ=11>

There is a debate whether zakat is a tax or not. According to the economists Kahf (1999), Kamali (1999) and Kuran (2006) zakat is a tax. Some others criticize it because tax is a mandatory duty while zakat is a statutory obligation. In addition to this tax rate is not fixed, it depends on the basis of fiscal policy whereas rate of zakat is always fixed. There is other view that zakat can only be spent for the eight specified recipients whereas tax can be used widely where development for the society is necessary. Zakat is not a tax but it is a compulsory payment like tax because the tax rate varies from time to time and it depends on the discretionary powers of the government (Naila, 2009). Since zakat is a religious duty, there will be a utility loss if this obligation is not met. According to social custom model developed in Myles and Naylor (1996) captures the idea that there is a loss of welfare if a desirable behaviour is not followed.

Allah's Apostle said, "Whoever is made wealthy by Allah and does not pay the Zakat of his wealth, then on the Day of Resurrection his wealth will be made like a bald-headed poisonous male snake with two black spots over the eyes. The snake will encircle his neck and bite his cheeks and will say, 'I am your wealth, I am your treasure'" (*2darulislam.info/Hadith Bukhari-index-action-viewcat-cat-24.html*). Islam has its self-directive mechanism to promote a balanced income and wealth system in the society through the zakat and sadaqah, banned of interest, laws of inheritance and bequest, prohibition of earnings through illegal means and prohibition of hoarding and speculation. According to Islam, all the wealth on the earth belongs to Allah SWT and is an amanah or trust with the human beings on behalf of Allah to manage His wealth. Zakat is the third of five pillars of Islam, is an obligatory religious tax imposed on various categories of assets, physical or financial, notably on income, savings and

financial investments, produce, inventory of goods, sellable crops and livestock and precious metals.

To enhance the socio-economic condition of the Muslim society in one state, proper practice in zakat has to be done (Hairunnizam and Radiah, 2010). Lubis et al., (2011) showed that problems occurred in zakat management critically in area of zakat distribution and reported that negative perceptions would impact on development of zakat institution if not addressed accordingly (Latif, 1998 and). To avoid that, they should assure to the society regarding the objective of the zakat and how it works according to shariah. The study tested the effectiveness of collection and distribution of zakat fund using performance indicator.

According to Qur'an, the people who give zakat clean and purify their assets and make souls peaceful. In Surah at-Taubah: 60, zakat funds should be distributed to the right beneficiaries that are qualified for the share as specified by Allah (Qardhawi, 1999). This can be derived from two meanings of Zakat which are "purify", the wealth of the person will be cleaned by paying Zakat, and "growth" which refers to making the poor to grow. Samad & Glenn (2010) and Norazlina & Abdul Rahim (2012) gave the legal meaning of Zakat as a transferring of specific property ownership to those who have right to receive it (Al-mustaqqin).

Malaysia is a multi-racial country that consists of various ethnic races mainly Malay, Chinese and Indian. However, according to the article 3 of the Malaysian constitution, Islam is the official religion. Malaysia is governed by mostly Muslim people and they are trying to follow the Islamic law for the satisfaction of Muslim people. Zakat is a mandatory duty of Muslims to pay a specific amount of their income (under some conditions) to the beneficiaries called al-mustahiqqin with the principal objective of the achievement of socio-economic balance (Muhammad,

1980). The collection and distribution of zakat should be maintained by the Muslim Government or Muslim supervisory body that has been assigned by that Government. In Malaysia, zakat management is under the supervision of state government (Lubis et al., 2011). Zakat which is just not a pillar of Islam for worshipping Allah SWT but is a right of the poor people of the society (Norulazidah & Myles, 2010). So, the government enforces the Muslim people to pay both zakat and tax. Even though, Malaysia is following the mixed economy but states are allowed to introduce rules related to the religion Islam. It means the state ruler or sultan has freedom about the religious matters beyond its federal government (Lubis et al., 2011).

In Malaysia, the institutions which are collecting and distributing zakat from the Muslims who are eligible to pay zakat is known as State Islamic Religious Councils (SIRC) (Wahab & Rahman, 2012). Kelantan which is known as Islamic state was the pioneer in establishing the Religious Council in Malaysia. They established it in 1915 which became the standard for all other states of the country (Yusuf & Derus, 2013). Even though, the purpose of zakat collection and distribution is same but methods applying to collect or manage the zakat varies from state to state. For example, Pulau Pinang and Sarawak have privatized their zakat management system. On the other hand, Kuala Lumpur Federal Territory, Negeri Sembilan, Melaka and Pahang privatized the collection of zakat only and distribution is the responsibility of SIRC. The rest of the states namely Kedah, Perlis, Sabah, Kelantan, Perak, Terengganu, Johor, Putrajaya and Labuan Federal Territory are maintained by their SIRC (Hairrunizam & Radiah, 2010). They also added that zakat institution becomes less important because of its lack of efficiency and transparency and found half of the respondents are not like to pay zakat through. It is found that in Malaysia and Indonesia, the people are eager to pay their zakat to body assigned for this but due to

higher degree of corruption and non-existence of proper managerial body of zakat collection in Bangladesh, the people are reluctant (Ali & Hatta, 2014).

Zakat is not an individual duty only. It is an organised and collective system and failure to accomplish it is considered to commit sin. If zakat is performed, it does not bring only spiritual elevation but also bring socio-economic balance in the community (Hassan, 1987). During the regime of messenger Muhammad (PBUH), he himself as the prime of the state used to collect the zakat by sending the people home to home (Kahf, 1999). The holy Qur'an allows us to pay zakat directly to the recipients or through the zakat management authority in the country (Mannan, 1986). There are many countries where zakat are not collected by the government authority. On the other hand, zakat is managed by the state authority in Malaysia (Kuran, 2006).

In Malaysia, zakat is collected and managed by State Islamic Religious Council (SIRC). Malaysia has thirteen states and they have their own SIRC's which are governed by each state's zakat law. Even though the ways of managing zakat varies from state to state but the aim is unique or same. Norazlina and Abdul Rahim, (2011) quoted Rahman (2007) in his article "A framework to analyse the efficiency and governance of zakat institutions":

Malaysian Constitution to take pro-active steps in developing an objective and fair measurement of zakat on business wealth in Malaysia because current business activities are very complex and the traditional methods of measurement may not reflect the true and fair amount of zakat due. For Islamic business entities, such as Bank Islam Malaysia Berhad, which is burdened with two charges, i.e. corporate tax and zakat on business wealth, the introduction of tax liability rebate may help ensure that such corporations are fairly treated. Also, standardized zakat accounting practices and proper performance management system are needed to satisfy the needs of stakeholders for zakat financial information, including the payers, the recipients and the zakat administrators.

As a public service, Zakat institutions have been criticized by public about its efficiency and effectiveness. In addition, Corporatization of SIRC is interested among public. However, there is a research show that corporatization does not affect its productivity and efficiency and that Malaysian Zakat institution can be grown by technology improvement (Noraliza and Abdul Rahim, 2012).

On economic aspect, zakat has positive effect on it. Firstly, Zakat increases aggregate demand due to higher propensity of the poor who will have more resource to spend. Secondly, Zakat increase capital stock because the rich will increase their saving which will be matched with level of investment and resulting in raising output. These two factors lead to economic growth of the country (Norulazidah and Myles, 2010). Researcher also added that there are 14 zakat institutions in Malaysia who are working for collecting the zakat from the rich people who are qualified for paying zakat as a religious obligatory duty towards the needy people of the society (Zakaria, 2014).

Zakat is not only a pure act of worship to our lord but also has the socio-economic objective of reducing inequality in the distribution of wealth (Ahmad, 1980). Distribution of Zakat uplifts economic growth because poor people receive zakat money and this money increases their purchasing power to improve their consumption. That is why it can be said that zakat redistributes money between the two groups of people who have money and who have not (Nur Barizah, 2007). Most of the Islamic economists expressed their opinions that zakat definitely has a positive effect on the economy. Zakat increase the aggregate demand, increase the capital stock, and raise economic growth. On the other way, zakat is a disposal of properties or wealth from the people who are rich to the people who are poor (Norulazidah & Myles, 2010).

1.2 BACKGROUND OF STUDY

Zakat on wealth was applied in the second year of Hijrah when prophet Muhammad (PBUH) reached in Medina. On the other hand, zakat al-fitri was also introduced in the second Hijrah but in the month of Ramadhan (Kahf, 1999). Racial and ethnic diversity in Malaysia made Malaysia a peaceful multicultural country. They also profess and practice different religions which are Islam, Christian, Hindu and Buddhist. However, Malaysia claims that Islam is the religion of the country. To apply Islamic culture in Malaysia, government built a State Islamic Religious Council (SIRC). SIRC enforces Muslim workers to practice the third pillar of Islam which is paying zakat. Government introduces Zakat institution in Malaysia to collect, manage and distribute the Zakat. This Zakat institution is different from tax system but it is somehow related to tax. Muslims in Malaysia have to pay some amount of Zakat and tax while non-Muslims pay tax only. Therefore in this study, researcher tried to investigate the factors that affect the perception of Muslim people towards Tax rebate over Zakat on income in Malaysia.

Zakat is taken from an Arabic word which means purify and foster (Mannan, 1986). According to Islamic law, Zakat is obligatory for Muslims and have to pay certain proportion of wealth annually. There are eight beneficiaries from Zakat which are the poor, the needy, the administrator of zakat, those whose heart are to be inclined (including new Muslim converts who lack economic support), the slaves, debtors (debts due to real needs), in the cause of Allah (Fi sabilillah), and the wayfarers (Ibnu sabil) (Muhammad, 1980). The objective of the Zakat is to gain the blessings of Almighty Allah by helping the poor and needy in term of financial assistance. Zakat has been treated as a vital source of finance to spark the socio-economic development

of the nation (Said and Yusuf, 2011). The payment of zakat is in a fix rates as in the Holy Quran and can be paid individually to the zakat institution.

Unlike zakat, which is religious duty, income tax is a national duty. Income tax is an obligation, enforce by government to all citizen who reach certain amount of income to pay to the state. It becomes compulsory for those who are able to pay and taxable by the Government. Taxable income and the rate are changing from time to time depends on the Government policy. There is almost no civilization without tax. Tax history started six thousand years ago with records on clay cones in Sumer (Adams, 1993). The main purpose of tax is to fulfil the expenditure of development and non-development of the society. Perception is an awareness and understanding of something through sensation. By paying zakat, a Muslim feel like a part of Muslim society irrespective to regional limits whereas tax makes the citizen feel of being a member of just single society.

Even though, zakat was charged on the gold, silver, animals, farm produce etc. in the ancient period, we have to consider bonds, shares, debentures, corporate profits, savings certificates etc. at present due to the rapid changes of financial world (Naila, 2009). As gold and silver were the main currencies during the period of the Prophet Mohammad (PBUH). That is why; liquid saving was mainly in the form of gold and silver. Thus, Zakat was levied on gold and silver. Any Muslim who had a savings of wealth over and above 85 gram of gold or its equivalent value was subject to pay Zakat at the rate 2.5 percent of that savings for the year (Samad & Glenn, 2010). Zakat on Income is 2.5% of the total annual net income means after deduction of the all actual basic needs expenses like food, clothing, accommodation, education, transportation and medical expenses (Mohsin, Lahsasna and Ezamshah, 2011).