ZAKĀT COMPLIANCE BEHAVIOUR: A CASE OF
ZAKĀT ON EMPLOYMENT INCOME IN IIUM

BY

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ABSTRACT

Zakāt is an integral Islamic tool prescribed by Allah to the people in order to strike a balance in the socio-economic environment of a country. Zakāt on employment income is one crucial component of zakāt and in a Malaysian context, it represents the greatest amount of zakāt collection from year to year. Specifically, Lembaga Zakāt Selangor (LZS) has reported that the collection of zakāt on employment income has increased steadily from year 1994 to 2011. However, past studies have shown that the compliance level of zakāt on employment income is still low and it indicates that there are a great number of eligible zakāt payers who do not actually pay out their zakāt. This study aims to survey the factors that may influence the intention of zakāt compliance (IZC) among the staffs of the International Islamic University Malaysia (IIUM) in Gombak campus by using the determinants of the Theory of Planned Behaviour (TPB) which are attitude toward behaviour (ATB), subjective norms (SBN) and perceived behavioural control (PBC). Since the relationship between the zakāt payers and zakāt authority is based on mutual exchange of trust as promulgated by the Social Exchange Theory (SET), hence this study dichotomises the ATB into attitude toward zakāt compliance (AZC) and attitude toward zakāt authority (AZA). This study hypothesises that AZC, AZA, SBN and PBC have significant positive influences on the IZC. The findings of this study show that only AZC and AZA have significant positive influence on the IZC while SBN and PBC have positive and negative relationship respectively with the IZC but not significant. This study contributes to the enrichment of the literature in the intention of zakāt compliance and also to the betterment of the current administration of zakāt collection and distribution by the zakāt authority.

ملخّص البحث

الزكاة هي أداة إسلامية متأصلة في النصوص الموحى بها من قبل الله إلى الناس من أجل تحقيق التوازن في البيئة الاجتماعية والاقتصادية للبلد. إن الزكاة على الدخل هي واحدة من بين العناصر الأساسية التي تساهم في الوعاء الزكاتي في ماليزيا، لأنها تمثل أكبر نسبة من نصيب الزكاة من سنة إلى أخرى. وكدليل على ذلك هو الزيادة التي لوحضت في سيلانغور (LZS) في جمع الزكاة على الدخل من سنة 1994 الى 2011. هذا مع أن الدرسات السابقة أظهرت أن مستوى دفع الزكاة على الدخل لا يزال منخفضا وذلك يشير إلى أن هناك عددا كبيرا من دافعي الزكاة المستحقين الذين لا يدفعون فعلا الزكاة الخاصة بهم. وبناءا على ما ذكر فإن هذه الدراسة تهدف إلى استقصاء العوامل التي قد تؤثر على نية دافع الزكاة والتي تتمثل في الموظفين العاملين في الجامعة الإسلامية العالمية ماليزيا. وذلك بإستخدام نظرية التخطيط السلوكي وما يتعلق بها من محددات مثل: الموقف بجاه السلوك (ATB)، معايير شخصية (SBN) والسيطرة السلوكية المحسوسة (PBC). إن العلاقة بين دافعي الزكاة وهيئة الزكاة تستند على تبادل الثقة والصادرة عن نظرية التبادل الاجتماعي (SET) وعليه فإن هاته الدراسة تهدف إلى توسيع الموقف بجاه السلوك (ATB) إلى الموقف بجاه الامتثال إلى دفع الزكاة (AZC). إن نتائج هذه الدراسة تظهر أن AZC لها تأثير إيجابي كبير على IZC بينما SBN و PBC لديهما علاقة إيجابية وسلبية على التوالي مع IZCولكن ليس كبيرا. تساهم هذه الدراسة في إثراء الأبحاث المتعلقة في نية الامتثال للزكاة وأيضا في تحسين الإدارة الحالية لجمع الزكاة وتوزيعها من قبل السلطة للزكاة.

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 (Accounting).

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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.

Mohd Hisyam Ghazali @ Mohd Zain

Signature ……………………………   Date ……………………

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

DECLARATION OF COPYRIGHT AND AFFIRMATION OF FAIR USE OF UNPUBLISHED RESEARCH

This dissertation is dedicated to my beloved parents:
– Sabariah Manaf and Ghazali @ Mohd Zain Yaakob –
and to my beloved siblings:
– John Ferimee, Haslinda, Mohd Farizo, Mohd Zuhairi,
Noor Syawalizda, Nor Mawaddah and Mohd Shauti –

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LIST OF ABBREVIATIONS

ATB   Attitude Toward Behaviour
AZA   Attitude Toward Zakat Authority
ESOS   Employee Share Option Scheme
IHE   Institutes Of Higher Education
IIUM   International Islamic University Malaysia
ITA   Income Tax Act
IZC   Intention Of Zakat Compliance
JAKIM   Jabatan Kemajuan Islam Malaysia
LZS   Lembaga Zakāt Selangor
MAIS   Majlis Agama Islam Selangor
PA   Parallel Analysis
PBC   Perceived Behavioural Control
PBUH   Peace Be Upon Him
PCA   Principal Components Analysis
PZS   Pusat Zakāt Selangor
RQ   Research Question
SBN   Subjective Norm
SEM   Structural Equation Modelling
SET   Social Exchange Theory
SIRC   State Islamic Religious Council
SME   Small And Medium Enterprises
SWT   Subhanahu Wa Ta'ala (Praise Be To Allah And The Most High)
TPB   Theory Of Planned Behaviour
TRA   Theory Of Reasoned Action

CHAPTER ONE

INTRODUCTION

1.1   INTRODUCTION

This chapter introduces this study by commencing with a brief explanation of its background where the principles of zakāt with a focus on zakāt on employment income and its current practices in the Malaysian context are discussed. Then it continues with the problem statement related to the current practices of zakāt on employment income which leads to the objectives of this study. After that, this chapter explains briefly the research methodology adopted in this study before its contributions are discussed. Finally, this chapter presents the structure of the write-up of this dissertation.

1.2   BACKGROUND OF THE STUDY

Zakāt has been prescribed by Allah, Praise be to Allah and the Most High "subḥānahu wa taʿāla" (SWT), as one of the pillars of Islam. Zakāt which is sometimes used interchangeably with *ṣadaqat* is an Arabic term which literally means purification, addition and growth. Zakāt is put in place in order to purify the wealth of the rich people not only from the wealth which may be obtained from an illegal or dubious sources but also from the rights of the needy people over the wealth of the rich people. However, zakāt shall not be seen as a means of decreasing the wealth of the rich people because zakāt or any other wealth sacrificed in the path of Islam will be added and multiplied by Allah SWT. Other than that, more importantly, zakāt is made obligatory to ensure equitable balance and growth in the socioeconomic environments

of a nation by transferring the wealth of the rich people to the poor people (Anita, Wan Noor Hazlina, Norudin, & Kamaruzaman, 2011; Mahyuddin & Abdullah, 2011; Samad & Glenn, 2010).

From the technical point of view, zakāt is obligatory to all Muslims who meet the eligibility criteria; possession of wealth, *ḥawl* "one year period" and *niṣāb* "zakāt threshold" (Al-Qaradawi, 1999). Firstly, the wealth shall be possessed by a sovereign Muslim individual. Secondly, the wealth shall be outstanding for at least one *ḥawl* which is 354 days for the lunar year calendar or 365 days for the solar year calendar. Thirdly, the wealth shall exceed the *niṣāb* which prevails at each specific location and in each specific assessment year – whereby the value of *niṣāb* may slightly differ from one location to another and from one assessment year to another. The *niṣāb* is calculated based on the average value of 85 grams of pure gold or 196 grams of silver for a particular assessment year (Abdul Rahim, 2010).

Zakāt has many types; zakāt on gold, zakāt on silver, zakāt on agricultural produce, zakāt on animals, zakāt on business and zakāt on employment income. This study only examines zakāt on employment income which includes wages, salaries, overtime claims, bonuses, compensation, gratuities and pensions. Zakāt on employment income has been enforced from the Caliphates of ʿUmar and Muʿāwiyah (Al-Qaradawi, 1999). In the Malaysian context, zakāt on employment income is made obligatory in 1997 upon all eligible Muslims at the federal and national level through a fatwā issued by Malaysia Department of Islamic Development "Jabatan Kemajuan Islam Malaysia" (JAKIM).

In Malaysia, the administration of zakāt is under the jurisdiction of the state government (Nur Barizah & Abdul Rahim, 2007). At each state level, a State Islamic Religious Council (SIRC) is established to among others administer zakāt collection

and distribution for that particular state. In the state of Selangor, the responsible body to administer zakāt is Selangor Islamic Religious Council "Majlis Agama Islam Selangor" (MAIS) which is established in 1952. However, to facilitate MAIS in the matters related to zakāt collection and distribution, Selangor Zakāt Centre "Pusat Zakāt Selangor" (PZS) is established in 1994 where it is later known as Selangor Zakāt Board "Lembaga Zakāt Selangor" (LZS).

LZS has since shown tremendous efforts to alleviate the zakāt collection and distribution in Selangor, particularly on zakāt on employment income as it is made obligatory in 2002 upon all eligible working Muslims in Selangor through a fatwā named as Fatwā on Zakāt Pendapatan issued by MAIS. Many campaigns and outreach programmes have been done to increase awareness of the obligation to pay zakāt on employment income in the hopes of improving zakāt compliance among the eligible individuals throughout Selangor, whereby compliance is a measure of how many individuals who are eligible to pay zakāt on employment income do actually pay out their zakāt.

Furthermore, to facilitate and increase zakāt collection, LZS provides numerous methods for zakāt payment to the public which among others include salary deduction scheme, zakāt counters, bank agents through online banking facilities such as Maybank2u and CIMBclicks, post agents and zakāt collection assistants in several universities and colleges (LZS, 2010). As a result, LZS has shown steady increments in zakāt collection and thus zakāt distribution from year to year (LZS, 2009, 2010).

1.3   PROBLEM STATEMENT

Despite of the availability and enforceability of the fatwās both at federal and state levels, as well as the availability of various payment methods and the satisfactory

increments of zakāt collection reported by LZS from year to year, previous studies have reported a low level of zakāt compliance particularly on zakāt on employment income in Malaysia (Kamil, 2002; Kamil et al., 2006). Kamil (2002) states that the level of zakāt compliance among the federal government Muslim servants is low while Kamil et al. (2006) report that the level of compliance with the obligation to pay zakāt on employment income in all states in Malaysia is low in which Kelantan is said to show the lowest level of compliance.

In relation to a study which is done at the International Islamic University Malaysia (IIUM) in Selangor, Nur Barizah and Hafiz Majdi (2010) figure out that the level of compliance with the obligation to pay zakāt on employment income is recorded at 33 per cent which is considered low. Furthermore, Mohamad Nizam, Amirul Affif, Hardi Amri, and Che Nurul Sahezan (2011) claim that there are still many potential zakāt payers who have not paid zakāt yet.

1.4   OBJECTIVES OF THE STUDY

The aim of this study is to further examine the factors that may influence individuals' intentions to comply with the obligation to pay zakāt on employment income. It is hoped that the understanding and utilisation of those factors will increase the level of zakāt compliance and maximise the collection of zakāt on employment income. Consequently, more zakāt fund will be distributed to the zakāt beneficiaries in order to achieve an equitable balance in the socio-economic welfare of the Muslims.

Ajzen (1991) establishes the Theory of Planned Behaviour (TPB) which states that a performance of a certain behaviour, such as paying zakāt on employment income, may be influenced by the intention of performing such behaviour. He further asserts that the intention of performing a particular behaviour may be impacted by

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several determinants. As an extension to that, in a social relationship environment, such as the relationship between the zakāt payers and zakāt authorities, the intention of paying zakat on employment income may be further influenced by the extent of that relationship as suggested by Blau (1964) in his Social Exchange Theory (SET). In relation to that, this study has the following two objectives:

1. To examine the relationships between the determinants of the Theory of Planned Behaviour (TPB) and Intention of Zakāt Compliance (IZC).

2. To examine the relationship between Attitude toward Zakāt Authority (AZA) and Intention of Zakāt Compliance (IZC).

1.4.1   Relationships Between The Determinants of The TPB and IZC

This study aims to examine the influence of the determinants of the TPB on the IZC. The determinants of the TPB are the attitude toward behaviour, subjective norm and perceived behavioural control. For the purpose of this study, the attitude toward behaviour is termed as attitude toward zakāt compliance (AZC). Meanwhile, the subjective norm (SBN) and perceived behavioural control (PBC) are maintained as what they are.

1.4.2   Relationship Between AZA and IZC

This study also aims to examine the influence of attitude toward zakāt authority (AZA) on the intention of zakāt compliance (IZC). The AZA, which is based on the Social Exchange Theory (SET), reflects the zakāt payers' assessment of the trustworthiness of the zakāt authority in their trust-based social exchange relationship.

1.5   RESEARCH METHODOLOGY

This section explains briefly the research questions that this study aims to answer. It continues with the scope of the study in which the unit of analysis and the theories adopted are described. Then, the methods used to collect and analyse data for this study are explained.

1.5.1   Research Questions

Based on previous discussions on the research objectives, this study seeks to provide answers to the following research questions:

1. Is there any significant relationship between attitude toward zakat compliance (AZC) and intention of zakāt compliance (IZC)?

2. Is there any significant relationship between subjective norm (SBN) and intention of zakāt compliance (IZC)?

3. Is there any significant relationship between perceived behavioural control (PBC) and intention of zakāt compliance (IZC)?

4. Is there any significant relationship between attitude toward zakāt authority (AZA) and intention of zakāt compliance (IZC)?

1.5.2   Scope of The Study

This study is conducted among the local Muslim staffs of IIUM at Gombak campus in Selangor who are eligible to pay zakāt on employment income. This study includes both the staffs who work in the academic faculties "kulīyyah" and those in the administrative divisions as the research sample. This study is performed in 2012.

This study adopts two theories to develop its theoretical framework which are the Theory of Planned Behaviour (TPB) developed by Ajzen (1991) and the Social

Exchange Theory (SET) established by Blau (1964). The three determinants of behavioural intention in the TPB – attitude toward behaviour, subjective norm and perceived behavioural control – are adopted and tested against the intention of zakāt compliance. Meanwhile, the SET is used to extend the TPB in this study of the determinants of intention of zakāt compliance by further breaking the attitude toward behaviour into two separate factors which are attitude toward zakāt compliance (as adapted from the TPB) and attitude toward zakāt authority (as adapted from the SET). Hence, the theoretical framework for this study comprises of four independent variables (factors) – attitude toward zakāt compliance, attitude toward zakāt authority, subjective norm and perceived behavioural control – and one dependent variable (outcome) – intention of zakāt compliance.

1.5.3 Data Collection and Analysis

This study uses survey questionnaires to collect data from the targeted research sample. The survey questionnaire consists of three parts; Part A, Part B and Part C which are made of statements pertaining to the four independent factors, the dependent outcome and the demographic profiles of the respondents respectively. Part A is measured using five-point Likert scale from '1 for strongly disagree' to '5 for strongly agree'. On the other hand, Part B is measured using dichotomous scale of '1 for no' and '2 for yes', while Part C comprises of various categorical measurement scales. The self-administered survey questionnaires are delivered by hand to the targeted respondents who are selected through purposive sampling method.

This study conducts preliminary analyses on the data collected to understand their nature, characteristics and suitability for multiple regression analysis. The primary analyses include response rate, descriptive statistics, principal components

analysis and reliability test. On the other hand, standard multiple regression analysis is used to examine relationships between the independent factors and the dependent outcome. Apart from that, the findings from the standard multiple regression analysis are used to test the hypotheses proposed for this study.

1.6   CONTRIBUTIONS OF THE STUDY

There have been limited number of past studies that employs the TPB in examining factors that may influence individuals to comply with the obligation to pay zakāt on employment income (e.g. Maisarah Syazwani, 2011; Raedah, Noormala, & Marziana, 2011; Zainol & Kamil, 2009). Hence, from the theoretical point of view, this study enriches the usage of TPB in the zakāt compliance literature and goes a step further by breaking the factor of attitude toward behaviour of TPB into a dichotomy of attitude toward zakāt compliance (AZC) and attitude toward zakāt authority (AZA) based on the SET.

From the methodological perspective, this study manages to increase the response rate to the survey questionnaire from that of the previous study in similar research location. This study introduces its own unique design of the survey questionnaire and distinctive method of collecting the completed survey questionnaires.

Apart from that, even though the findings from this study may not be conclusive and generalisable to a greater population beyond the local Muslim staffs of IIUM in Gombak campus, but they may be indicative of the current level of zakāt compliance in a bigger population. Hence, from the practical point of view, the findings from this study may assist the zakāt authorities in Malaysia in general and the LZS in particular to improve the administration of zakāt collection and distribution in

order to enhance public confidence and trust in zakāt authority and encourage more individuals to comply with the obligation to pay zakāt on employment income.

1.7   STRUCTURE OF THE DISSERTATION

This dissertation comprises of five chapters which begins with this Chapter One on the introduction of this study. Chapter Two provides a thorough literature review on the subjects concerned in order to reveal the gap that this study aims to fill in. Chapter Two starts off with a review of the principles of zakāt in general before going into specific discussions on the principles of zakāt on employment income and its current practices in Malaysia. It continues with reviews of the principles and past studies on compliance behaviour, the TPB and the SET.

Chapter Three discusses the research methodology of this study. It begins with research objectives, research questions, research hypotheses and theoretical framework for this study. Then, this chapter explains the data collection which involves the sample selection and the method used to collect data for this study. Other than that, this chapter also discusses the development of research instrument and the methods used to analyse the data collected for this study.

Following Chapter Three is Chapter Four which provides the findings from the analyses conducted in this study. It begins with the findings from the preliminary analyses which are done to examine the nature and characteristics of the data obtained for this study apart from the suitability of the data for the multiple regression analysis. The preliminary analyses include response rate, descriptive statistics, principal components analysis and reliability test. After that, this chapter provides the findings from the multiple regression analysis which are then used to test the hypotheses proposed for this study. Then this chapter discusses thoroughly the findings of this

study in relation to those of past studies. Lastly, this dissertation is concluded in Chapter Five. This chapter commences with the contributions of this study from the theoretical, practical and methodological perspectives. It then provides the limitations of this study which need to be considered for the interpretation of the findings of this study. Finally, this chapter presents the suggestions for future research.