

IMPACT OF ZAKAT PAYMENT OFFSET SYSTEM ON INCOME TAX COLLECTION IN MALAYSIA

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Abstract: *The objective of this study is to conduct an analysis of the progress of Zakat offset system to establish its impact on income tax payments. Zakat, an obligatory annual payment voluntarily by Muslims, and paid by individual tax payers as well as some firms under a system of offset against the income tax obligations each year. A form of systematic management of zakat in Malaysia started back in pre-colonial era but there is no study of archival materials for periods earlier than 2001. This study is a preliminary exploration of the offset arrangement on income tax collection for the period 2004 to 2014, for which period data are available. Zakat payments are rebated in full as non-taxable amount when annual income tax return is turned in after the calendar year by individuals and corporations opting to do so. The payment of zakat is then offset against the assessed tax amount under the offset system in place. Individuals could offset any amount subject to the taxable amount (known as tax rebate) while corporations could offset to the amount limited to only 2.5% of the aggregate business income. This study of corporate and individual offset system hopes to contribute to the understanding of how zakat has progressed in the 11 years since data collection is available, although archival data exist for a longer period.*

Keywords: *Zakat collection, Zakat rebate, Income tax, Zakat management*

JEL Classification: *D60, H23*

1. INTRODUCTION OF ZAKAT

This paper aims to contribute to the understanding of how zakat payments affect the total revenue collection of the Inland Revenue Board of Malaysia, IRBM and it excludes the revenue reported by the Royal Malaysian Customs Department (RMCD). While zakat payments had existed for centuries in this country, given the voluntary nature of its collection and administration for a very long period, much of the primary data exists only in the archives. Hence, this paper examines the issue from the time the data are made available over recent years. Much of the paper is a description of the system with some basic analyses to answer the simple question on how the zakat offset system by the IRBM is affecting the total collection of tax revenue.

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1.1. The Islamic Law on Zakat

The Quranic verse is clear about the importance of Zakat (alms).

“Surely, the alms (zakat) are only for people faqir, and the poor, and Amil - amil to take care of it, and those whose hearts, and the servants are to be reconciled, and the people who are in debt, and the (spent) for the cause of Allah, and the wayfarer (a decision) on the way. (Ruling law that is) as a resolution (really) from Allah and (remember) Allah Knowing, the Wise.” (Quran 9: 60).

Distribution of one's earned incomes under the Islamic *Shariah* law of inheritance (*Faraid*) is done in three ways. Zakat is one of them paid to 8 classes of needy people in a community on a regular yearly basis either by the donor him or herself or by the organisation to which the donor pays the money voluntarily. The Malaysian secular law on tax matters provides that the amount paid to zakat can be offset against the assessed annual tax amount fully for individual taxpayers. For corporations, which elects voluntarily to pay zakat from gross income may also obtain offset up to 2.5 per cent of the assessed taxable income.

The other two are bequest (*waqf*) and donation (*sadaqah*). Zakat is basically a religious duty for a believer to assist to help any human being in basic need by extending a helping hand from what he has each year as wealth in his possession. It is considered an obligatory act of piety rather than a voluntary matter despite this action being left to be done voluntarily by individuals and (in modern times) organisation as exhorted by Islam's Prophet. On the other hand, the other two forms of distribution of one's income are considered to be purely voluntarily, though highly recommended: (Salehud-Din, 2013). So, there is no offset available for these contributions other than only those approved donations by the IRBM.

By definition, zakat also has other meaning to the believers as it also refers to zakat payments as both 'purification' and 'growth'. Zakat is almsgiving and is one pillar of Islam where social responsibility is considered part of one's service to God. Zakat prescribes payment of fixed proportions of a believer's *possessions* beyond a threshold as accounted for at the end of each year for computing payment for the welfare of the entire community, in particular for the neediest members. It is equal to 2.5% of an individual's total net worth, excluding other financial obligations and excluding family expenses.

Ahmad (1999) presented in his study a diagram that depicts The Islamic Fiscal System: see Figure 1. As mentioned in the figure, the function of zakat collection and contribution is a part of the Islamic Fiscal System. That is to say, zakat payment was accounted for as part of the fiscal revenue meant for the welfare aspects of a country. In a sense, this is targeted revenue collection, something that has been practiced long before targeted revenue collection rules were devised in the late 20-th Century. In modern society, the Western-based fiscal system treats zakat as *outside* the fiscal policy. Malaysia therefore treats zakat collection as being within the jurisdiction of the heads of the 14 states and the welfare organisations on official

register of the states. What is done in the central government is to offset the amount of zakat payment made to any organisations as a check-off to reduce the tax amount each year. In this sense, the amount of zakat is outside the revenue of the government in Malaysia.

Saleem (1997) acknowledges the institution of taxation as the most natural agency to run a state. Islam took away the right to impose taxes from man in control and divinely ordained the statutes of this distributive institution. It laid down in bold the principles of taxation because they were actually beyond the reach of human intellect: the above mentioned history of taxation clearly testify to this fact. Furthermore, Islam declared zakat, its institution of taxation, an obligatory act of worship, thereby completely transforming the attitude of the people towards it. Imagine a society without an effective government, it would still function with a welfare system. Instead of being considered as a burden, it became acknowledged as religious obligation. Figure 2 shows the differences between public revenues and public expenditure in terms of zakat revenues and distribution as well as non-zakat revenues and expenditure.

The other tax called as Jizya, (Arabic word) refers to the head or poll tax that early Islamic rulers demanded from their non-Muslim subjects. Islamic law made a distinction between two categories of non-Muslim subjects – Pagans and Dhimmis (“protected peoples,” or “peoples of the book” to refer to those peoples who base their religious beliefs on sacred texts, such as Christians, Jews, and Zoroastrians).

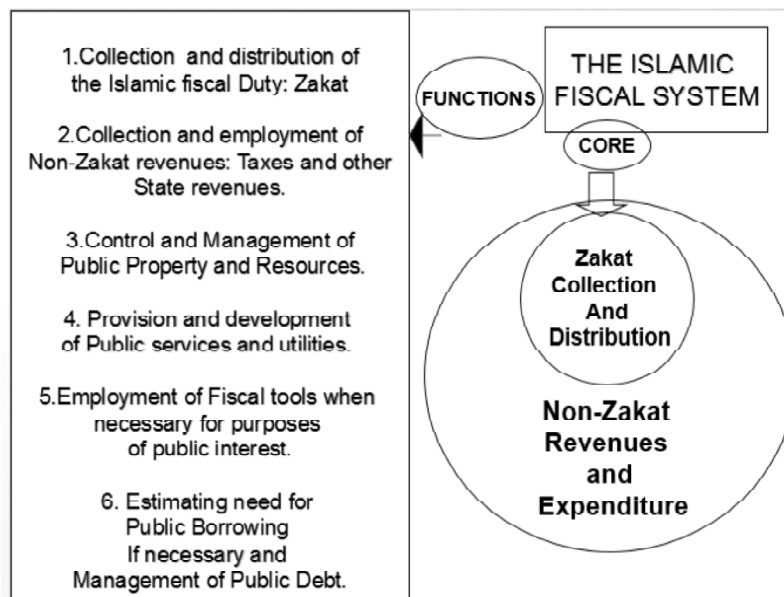


Figure 1: Distribution of Income under Islamic Finance System

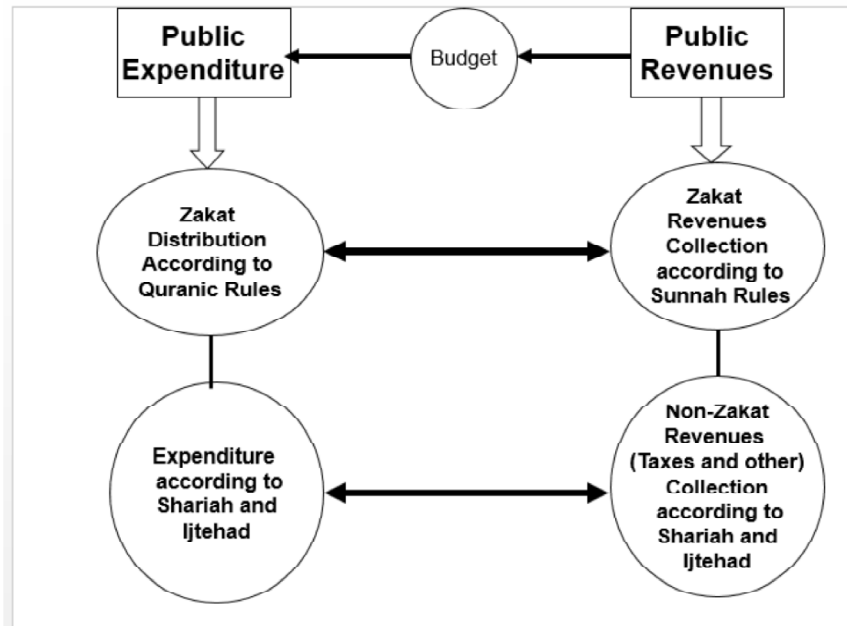


Figure 2: Summary of Basic Islamic Fiscal System

The Muslim rulers accommodated non-Muslim residents of a state (*dhimmi*) the rights of residence and allowed them to practice their religion freely but exempted them from military duties. In return for such treatment provided by the Muslim residents, who had to obey conscription laws, *dhimmi*s were required to pay a poll tax (*jizya*): source: <http://global.britannica.com/topic/jizya>) Encyclopedia Britannica.

Of the various rates of zakat are concerned, three distinct categories can be found in the Table 1. One of the earliest modern source for the Islamic taxation can be traced to Ibn Khaldun's theory of taxation, which is acknowledged as one of his important contribution to economic thoughts in the Middle Ages. In the *Muqaddimah*, he relates the theory of taxation with the government expenditure, and argued for low tax rate so that incentive to work is not discouraged and taxes are paid without fail by tax payers (Islahi, 2006).

The rest of the paper is about the offset system and the zakat as practised in Malaysia. The section 2 is meant to describe the structure for zakat collection and distribution as developed over the times. This is apart from the individuals and corporations paying the zakat voluntarily to anyone they wish to. In the Section 3, the reader will find a short research literature that have been published in recent years. The method of analysis is outlined along with a description of the data in section 4. The analyses are presented in sections 5. The paper ends with a conclusion in section 6.

Table 1
Three Distinct Categories of Zakat

<i>Zakat categories</i>	<i>Description and rates</i>
1. Wealth	After deducting the amount needed for a wealth-owner (<i>nisab</i>) and after taking into consideration other exemptions that includes family expenses, the wealth of a person, the residual wealth shall be taxed annually at the rate of 2%. Tax on trade capital shall also be levied at the same rate by considering this capital to be the sum of cash in hand and cash in trade.
2. Produces	Zakat on produce is set at the value at the time of produce and depending upon the various items. There are three rates, 5%; 10%; 20%:i) 5%: On items which are produced by the interaction of both labour and capital such as produce from irrigated lands and industrial produce from factories.ii) 10%: produce using major factor in producing it is either labour or capital, but not both. Examples of the former include an artist's creation such as a painting. Another is the work of a scholar/intellectual. Another example from the latter includes rented houses, and produce from irrigated lands.iii) 20%: Items which are produced neither as a result of labour or capital but are actually a gift of God, eg treasures found on land, etc.
3. Animals	Only those animals which are bred and reared for the purpose of trade are subject to zakat. The details of the rates of zakat on animals can be obtained from any book on Islamic law (<i>fiqh</i>).

2. LITERATURE REVIEW

Based on the growing literatures, many scholars claim that there is no other financial dues besides zakat. Zakat is the only financial levy that is approved in Islam. Saleem (1997). The Islamic concept of taxation mentioned that Zakat is the only tax an Islamic government can impose upon its Muslim citizens. It is not merely a charity fund but can be spent on the collective needs of the people as well. The zakat money can be used to pay the salaries of all government officials including that of the head of state, to build all works of public interest, to cater for defence requirements and to establish an Islamic system of Insurance. In short, the system of zakat envisaged by the Qurân and the way of the Prophet (Sunnah) totally meets the requirements of running a welfare state.

In addition, Yousri (1999) in his paper "The Role of Taxation, Expenditure and Debt in an Islamic Economy" revealed that only Zakat was collected from Muslims and no taxes were imposed on them in the early centuries of the Islamic State. Taxes were only imposed on non-Muslims because they were not committed to Zakat, nor were they compelled to serve in the army. Historical experience reveals that Zakat revenue was in some periods more than sufficient for covering public expenditure, and in other periods it became insufficient.

A study done by Sanep *et al.* (2011) aims to formulate a model of zakat compliance for formal zakat collection institutions based upon tax compliance model. The study further conducts an empirical examination of the application of the model developed utilizing a case study on the Province of Aceh. The study demonstrates that it is possible to construct a zakat compliance model based upon the tax compliance model. The case study of Aceh also suggests that individual zakat compliance was not significantly influenced by zakat law, but by factors of demography (gender and age), reference group, education, and the perception on the tax system.

Aidil and Hussin (2013) mention in their study that zakat is one of the branches is obligated upon every Muslim. There are some differences of opinion regarding zakat. It can be integrated as an instrument to keep the social assurance system sturdy and firm. Although, it has been obligated by *Majlis Fatwa Kebangsaan Malaysia* (The National Fatwa Council of Malaysia) in 1997, the state of Perak has gazetted the collection of zakat as non-obligatory in 2004. On the other hand, income tax is one of the country's revenue which is applied by the government that governs, is mandated..

Rohaya Md *et al.* (2011) revealed in their study that the aspects of transparency and clear in *muamalah* contracts are vital in any form of business activities complying with Shariah principles. The element of unknown and uncertainty are totally not permissible by the Shariah as it caused injustice to social economics. The Al-Quran has clearly forbidden business transactions that caused injustice to the society. Zakat which is based on the principle of *purifying and growth* is an important aspect in Islamic economics. Zakat on business income which is calculated based on growth or net working capital models is a compulsory obligation for Shariah companies. Further, the development of Islamic finance and capital market requires policymakers, practitioners and zakat scholars to look into the clear standards and policy on zakat to be imposed on the Shariah-compliant companies.

Mohammed (2011) stated in his study is to determine the impact of zakat spending and school enrolment on economic growth using panel data represented by the fourteen states of Malaysia. Zakat is collected and disbursed to the eight groups of eligible recipients by each state in Malaysia. Malaysia also has been one of the developing countries that has given a special attention on education to provide the man-power and skills needed by the various sectors of the economy. As a result, there has been a large increase in the enrolment of students in both primary and secondary schools as well as in tertiary education. The results of this study support the hypothesis that zakat spending and school enrolment are important determinants of economic growth in Malaysia. The zakat spending and student enrolment could significantly explain the variation in the growth of real output represented by the growth in real GDP. Therefore, it is suggested that all

Muslim countries must improve the efficiency of zakat collection and spend it prudently. A more serious effort has to be made to formulate better strategies, planning, and effective policy actions to provide the needed infrastructure and to increase the stock of human capital in accordance to the need of the nations to generate growth and sustain the development of Muslim society.

Hamat (2009) in his paper examines the relationship between business zakat accounting and taxation in Malaysia according to the Income Tax Act 1967. In Malaysia, there are two types of business zakat accounting methods which are commonly practiced. The adjusted working capital method and the adjusted growth capital method. It is argued that those methods demonstrate none relationship between business zakat accounting method and tax on business income due to the different sources of information usage. The findings show that entrepreneurs are allowed to use any methods that fit in with their types of businesses. They are also able to use business zakat accounting method which based on income in the process of assessing the business zakat respectively.

Mohd Rahim et.al (2011) discover that issue on compliance behaviour of business zakat payment has been the subject of much discussion among both academicians and practitioners especially using the economic approach. Lack of review of the literature in the zakat scenario explained the compliance issue based on economic approach. Most of the previous studies on this issue only focused on the behaviour approach. In contrast, to the study on the subject of tax compliance are numerous and used various approaches. This paper is to identify the factors influence compliance behaviour of zakat based on previous study and secondly to expose the economic approach as an alternative explanation in the issue of zakat compliance. The exposition is based on Expected Utility Theory and Utility Function Model as framework. The unit of study is among the small and medium industry in Malaysia.

3. OVERVIEW OF ZAKAT AND TAX STRUCTURE

3.1. The Zakat and Tax Structure and Organisation

Malaysian Zakat System has adopted The Islamic Fiscal System in a cursory manner because the taxation system in place is based on the Western idea of tax-based revenues from service tax collected on goods, corporate tax and individual tax until 2015, when the Goods and Sales Tax (GST) was implemented. The Federal Government revenue is classified into 4 main categories, namely Tax Revenue, Non-Tax Revenue, Non-Revenue Receipts and Revenue from Federal Territories. Tax Revenue is classified into Direct Tax Revenue under the Inland Revenue Board of Malaysia (IRBM) responsibility and Indirect Tax under the Royal Malaysia Customs' Department (RMCD) job's scope.

Direct Tax Revenue includes income tax (individual, company, petroleum, withholding and cooperative); Stamp duty, Real Property Gains Tax (RPGT); and Labuan business activity tax. On the other hand indirect tax includes revenue from Goods and Services Tax (GST), export duties, import duties, excise duties and levies. Meanwhile, sales tax and service tax are charged for the period of January to March 2015 before being replaced by the GST from 1st April 2015.

Based on the Treasury Memorandum on the federal government's revenue estimates for 2016 total collection is estimated at RM225.66 billion. The amount has not taken into account the tax measures announced in the 2016 Budget. Tax revenue in 2016 is estimated at RM183.55 billion or 81.3% of the Federal Government revenue. Direct tax collection is expected to contribute RM125.57 billion or 55.6% of total revenue, while indirect tax, RM57.99 billion or 25.7% of total revenue.

Payment of zakat by individuals and by willing corporations are voluntary in nature. Hence, the zakat is paid by them to whoever they wish to pay, which maybe unrecorded or recorded if the payment is to registered zakat receiving organisation. Zakat offset system only applies to IRBM, not the RMCD.

This way of administering the fiscal side of the revenue led over the years to the zakat offset system, where the zakat payers, if they had to pay tax, choose to offset the zakat against the amount of tax liability. Hence, the Malaysian fiscal procedure treats the zakat revenue (as well as alms (*fitra*)) as being outside the fiscal side of the government. As mentioned in an earlier section, the amount collected by registered organisations or the zakat agencies are supervised as to how the zakat is distributed by the authorities in the 13 state governments.

There are three main ways where zakat payment are collected. At the Federal level *Jabatan Wakaf Haji & Zakat or JAWHAR* (Wakaf, Haj & Zakat Department) plays an important role. The responsibility of the zakat collection centres that have been established and registered in every state level are the primary repository for collection and distribution of zakat. Zakat is also distributed by individuals or corporates on voluntarily basis to unofficial organisations, so this will not be known. There is no record of this unofficial payments and the belief is that this is actually the bulk of zakat in a Muslim community. There are also several institutions established to monitor zakat which includes *Majlis Agama Islam Negeri-Negeri (MAIN)* or The States Islamic Council, *Agensi-Agensi Memungut Zakat (AMZ)* or the Zakat Collection Agencies, *Institut Kajian Zakat Malaysia, UiTM (IKaZ)* or the Malaysia Institute of Zakat Research, *Koperasi Syariah ANGKASA(KOPSYA)*, *Bank Islam Malaysia Berhad (BIMB)* and *Bank Muamalat Malaysia Berhad*.

When zakat is paid through established centres, a mandatory terms and regulation of zakat is clearly stated: see Table 2.

Table 2
Mandatory Terms of Zakat in Malaysia

<i>Zakat terms</i>	<i>Explanations</i>
1. Zakat is only applicable to Muslims	For a partnership with non-Muslims, zakat is based on the percentage of Muslims equity that accounted for charity;
2. Non- Slavery Status	Slaves are not required to pay zakat but only subject to Fitrah zakat. However no question of slaves at present state, but the condition of independence is still retained as one of the conditions required in paying zakat;
3. Property Zakat Owner	Owned property must be perfect in one's power and not concerned with others. Owners also can treat and benefit from it;
4. Nisab requirement	<i>Nisab</i> is the minimum level required to determine whether or not a property is removed. <i>Nisab</i> is equal to the current value of 85 grams of gold. It worth approximately RM 10,300 (depending on the current price of gold);
5. Haul	Haul means the first anniversary of the treasures stored;
6. Business zakat	The only requirement for business zakat only for those having or own businesses.

This terms apply to all Muslims in making sure the minimum requirements to pay zakat. Generally, there are nine types of Zakat being collected which includes Zakat on personal income, business income zakat, zakat on savings, zakat on shares, zakat on fund, zakat on gold, zakat on silver, zakat on agriculture and zakat on livestock.

3.2. The function of the Department of Waqf, Haji & Zakat or JAWHAR

As a federal government agency, the Department of Waqaf, Zakat and Hajj, JAWHAR, holds a heavy responsibility to ensure that the *waqf*, *hajj* and the zakat can be built and adjusted accordingly to meet the expectations of stakeholders and the people, especially Muslims in Malaysia. JAWHAR saw its debut on March 27, 2004 (6 Safar 1425H) by former Prime Minister, when he announced it in the Cabinet Meeting of the Government of Malaysia. According to its main founding leader, Abdullah bin Md. Zin, a former minister in the Prime Minister's office, stated on 8 October 2004 that:

“Establishment of the Department of Waqaf, Zakat and Hajj (JAWHAR) is meant to ensure that the administration of *waqaf*, zakat and *hajj* affairs in the country are more structured, systematic and effective. It also intends to improve the effectiveness and efficiency of the delivery system to a higher level of excellence, glory and distinction”. Thus, JAWHAR on its website states in particular the following five functions as in Table 3:

Table 3
Main Functions of JAWHAR

<i>No.</i>	<i>Descriptions</i>
1.	Planning, implementing, monitor and coordinate the development of <i>Waqaf, Zakat, Mal</i> and <i>Haji/Umrah</i> in order to function more effectively in socio-economic development of the Community;
2.	Plan and coordinate the needs and uniformity of the legal system for the development of <i>Waqaf, Zakat, Mal</i> and <i>Haji/Umrah</i> ;
3.	To forge smart partnerships with government agencies and GLC or private sector in the development of <i>Waqaf, Zakat, Mal</i> and <i>Haji/Umrah</i> ;
4.	Conduct studies and research, publishing and coordination on issues and development programs treasures Muslims to be fully utilized by the community; and
5.	Assist and support services in human resources management, finance and ICT to Religious Authority states and relevant agencies

The role of this agency is to ensure that, apart from its oversight of other-than zakat matters, zakat affairs in the country are in accordance with the laws of the country and that the parties responsible for zakat are complying with the laws. The specific details are given in items 1, 2 and 3 in the table 3. For example this agency is to monitor zakat collection as stated therein.

3.3. Collection of Zakat through State Levels

The authority to collect and administer the zakat paid to the officially-registered organisation (if the payment goes to unregistered informal organisations/ individuals, this does not concern the authority) is given to the heads of each of the 13 states making up the country. Some states have privatized these zakat institutions: state of Selangor, the Federal Territory of Kuala Lumpur, Pahang, Penang, Melaka and Negeri Sembilan. Privatisation was to ensure that zakat management could improve the quality of services to maximize customer satisfaction by adopting modern professional approaches, for example, by using the latest technology (Sanep Ahmad et.al, 2006).

Zakat management institutions is a financial institution that is responsible for the receiving of zakat and alms (*fitrah*) as well as zakat on wealth. Zakat collection institutions are under the control of the Islamic Council in each state, whether the institutions are privatized or otherwise. Institutions or the zakat agencies have a number of roles:

- Collect and improve the collection of *zakat* and *fitrah*,
- Using the proceeds of the zakat/*fitra*, to advance charity,
- Spend zakat money through legal means to improve the economic status of Muslims,
- Strengthen the collection of zakat through computerized or ICT operation,

- To create awareness of the laws relating to zakat/fitra among the Muslims, and
- Improve services and provide access channels for Muslims to pay zakat.

The function of collection and distribution of zakat is mainly under the authorised zakat collection centres throughout the 13 states. The organisations responsible for zakat Affairs at the state levels are listed in Table 4.

Table 4
List of Institutions that responsible for Zakat Affairs

No.	Names of Zakat Collection Centres	States
1.	The Selangor Zakat Board	Selangor
2.	Sarawak <i>Baitulmal</i> Fund	Sarawak
3.	Zakat Collection Centre for Federal Islamic Religious Council	Federal Territory
4.	Johor Zakat Centre	Johor
5.	Kedah Zakat Department	Kedah
6.	Zakat Unit under Kelantan Malay Religious and Custom Council	Kelantan
7.	Melaka Zakat Centre	Melaka
8.	Negeri Sembilan Zakat Centre	Negeri Sembilan
9.	Pahang Zakat Centre	Pahang
10.	Pulau Pinang Zakat Centre	Pulau Pinang
11.	Perak Zakat Centre under Perak Islamic Religious Council	Perak
12.	Perlis Zakat Centre	Perlis
13.	Zakat Management Centre at Terengganu under Islamic Religious Council	Terengganu
14.	Sabah Zakat Centre	Sabah

Source: JAWHAR main website.

3.4. Zakat Distribution

To determine which recipients are eligible to receive zakat distribution in the Federal Territory, the Treasury has used the definition of recipients based on Islamic Law Committee of the Federal Territory as approved at its 51-st meeting in March 13, 1999. Table 5 describes the category of recipients.

Evidence of who should be the zakat recipients is stated clearly in the Quran that describe groups that are eligible to receive zakat:

“Indeed, it is only zakat - alms to poor people , poor people , managers charity, the mu'allaf that persuaded her to (freeing of slaves) , people owe , to the way of Allah and those who are in course, as a duty imposed by Allah , and Allah is Knower, Wise” (Quran 9: 60).

Interpretation of the verse clearly suggests there are eight classes of people entitled to receive zakat distributions. The category of people are vagabonds, the poor, the impoverished, new converts, who need to be supported, slave, the debtor, warriors fighting injustice, and travellers, who on way home needing help. Table 5 explain details descriptions of each category of the zakat recipients.

Table 5
Category of Recipients and Descriptions

<i>No. Asnaf/ Recipients</i>	<i>Description</i>
1. Warriors fighting injustice (<i>Fisabilillah</i>)	Any person or party engaged in an activity or activities vertically, maintain and propagate the Islamic religion and virtue. Those are needed for the purpose of jihad such as education purposes is part of this category.
2. The poor (<i>Masakin</i>)	A person who has a job or results of operations that only meet part of their human needs but not enough to meet the daily needs and also meet those obligations.
3. The collectors (<i>Amil</i>)	Those who are directly involved with the zakat institutions, whether individuals or organizations to manage and administer the affairs of the zakat, including the collection, distribution, finance and so on.
4. Impoverished (<i>Faqir</i>)	Someone who does not have any property or work or receive income from other sources that are not up to 50 percent of daily needs and the needs of dependents and less than 50 percent of spending one's life is a simple life and dependents
5. The debtor (<i>Al-Gharimin</i>)	Those who are in debt to meet basic needs for the benefit of themselves, their families or dependents of people who need an immediate solution and allowed by Islamic law.
6. New converts (<i>Muallaf</i>)	Those who tamed his or her tendency to expect them to accept Islam or converts to Islam (but not yet staunchly Islamic) it split into two, namely :a) Muslim:-New converts to IslamThe leaders of the Islamic good relations with leaders of non-Muslim counterparts or his equal.The leaders of the Muslims who are weak in faith but still adhered to by those under his leadership.The Muslims who live on the border near the enemy country.b) Non -MuslimsCan be persuaded to convert to Islam.Can be persuaded to not harmful to Muslims.
7. Slaves (<i>Al-Riqab</i>)	Liberate Muslims from the clutches of slavery and subjugation either in terms of physical or mental grip as the grip of ignorance and fettered under the control of certain people .
8. Vagabonds (<i>Ibnu Sabil</i>)	Any person traveling for the purposes approved by Islamic law of any state or country in need of help.

3.3. The Role of the Inland Revenue Board of Malaysia

Inland Revenue Board of Malaysia (IRBM) is one the government agency in the country that is responsible to collect tax revenue for the government. IRBM's main function is to administer the direct tax collection that includes income tax namely personal taxes, corporate taxes, petroleum taxes, withholding tax, cooperatives tax and others. Other direct tax such as real property gains taxes (RPGT), and stamp duties also apart of the direct tax collection.

Officially, IRBM has transformed over the years to become a board as it happened in 1996. Its main function is handling tax administration including audit, assessment, collection and enforcement of payment of income tax, petroleum revenue tax, property gains tax, stamp duty and any other related taxes as may be agreed between the government and the board.

Since IRBM was corporatized on March 1st, 1996, and in line with its new status as a statutory board, various changes have been made to ensure that IRBM meets its vision as 'A Leading Tax Administrator that Contributes to Nation Building'. IRBM plays an important role in nation building as the revenue collected is channel back into the development of the country especially in areas of infrastructure, the establishment of public hospitals and schools and provision of welfare to the poor and needy.

Among major success of the IRBM was the introduction of Income Tax Self-Assessment System (SAS) for corporates in the year 2004 and the individuals in the year 2006. Previously, Formal Assessment Tax System was being practised. With this new tax system, taxpayers are encouraged to be voluntarily comply and this will allow IRBM to conduct tax audit for duly submitted tax forms speedily. This is because under this new system, individuals and corporates are required to file and pay their tax within the specific time frame.

Since its corporatization, the amount of revenue collected increased dramatically every year. It is estimated that 50 to 60 per cent of the Government's revenue is derived from income tax collection (with oil-related companies contributing to 30 per cent of the total sum). IRBM achieved a major milestone in 2011 when the revenue collected exceeded more than RM100 billion (to be exact RM109.67 billion) 26.7 per cent increase from the RM86 billion collected in 2010. (source: Wave of Change IRBM 2.0)

3.4. The Role of the Royal Malaysian Customs Department

The Royal Malaysian Customs Department (RMCD) role is to spur economic growth and maintain security of the country as well as the welfare of the people through three main functions, namely to collect revenue in the form of Import Duty, Export Duty, Excise Duty, Goods and Services Tax (from April 1st, 2015),

Windfall Profit Levy, Levi Vehicles, Non-Tax Revenue and the State / Trust Fund. Generally RMCD main task is to collect the indirect tax components from the total government revenues.

Apart from that, the RMCD also provides tax consultancy in terms of tax exemption on raw materials and machinery, manufacturing facilities, pull back taxes and tax refund claims, facilities for the clearance of goods for export as well as import and passenger clearance and facilitation. RMCD's policy must also consistent with the current policy of the government.

Thirdly, RMCD main function is enforcing the Customs Act 1967, the Excise Act, 1976, the Free Zones Act 1990, Act Sales Tax Act 1972 (until 31 March 2015), the Service Tax Act 1975 (up March 31, 2015), Vehicle Levy Act 1983, Act 1998 and the Extraordinary Gains Act, Goods and Services Tax in 2014 and its subsidiary legislation administered and other laws enforced related to customs.

4. METHODOLOGY AND DATA

This study is using secondary data. Data sources are from the IRBM annual reports and Zakat Statistics from JAWHAR main website, Annual reports of zakat collection centres, Malaysia Statistics Department main website, newspaper articles, journals, books as well as reliable Google scholar information.

There are some variables that can be linked to the study as shown in Figure 2. In the Islamic finance scenario, zakat collection should be seen as the proxy for the zakat revenue at the state level collection institutions while the zakat distribution is the proxy for the welfare expenditure as zakat expenditure. Tax revenue is the source of fiscal budget of the central government of the country while zakat offset actually reduces the total tax revenue available to the fiscal of the central government. This is because the total collections of zakat/*fitra* are outside the access of the central government. This is unique to this country and about 13 other countries which have somewhat similar offset systems in place for zakat collection and distributions: two examples are Brunei and Singapore. Zakat collection and distribution data are taken from year 2004 to 2014 (11 years) for the purpose of this study.

From these sources, the total reported zakat amounts are summarised as statistics by years. Next, simple percentages are computed to show the different parts of the items for comparison purposes. Next some analysis is done by computing the GDP share of the tax, zakat, etc. to show how this sum of money is growing over the years in this case. No advanced analysis such as regression to find what are the sources of zakat payment, or profiling the typical zakat payer, etc. are not attempted in this paper. Hence, the methodology is to provide simple totals, averages, percentages, etc. to provide solid evidence of this description of the zakat system in place as at 2016 by using secondary data available from 2004 to 2014.

The next section will display statistics based on the use of secondary data that involves the collection of zakat, direct tax collection, the average zakat contribution based on household active Muslims population in the country and others. At the end of the chapter, some fundamental issues that can be a guide for future research could be developed.

5. FINDINGS

5.1. Zakat paid on voluntarily basis

Muslim in Malaysia currently have the tendency of paying zakat by themselves and do not pay zakat through zakat collection agency. Some Muslims in Malaysia make their own initiative to find zakat receivers (*Asnaf*) to make their distribution. This amount of zakat will not appear in any statistics of official zakat being collected at the federal levels as well at the states levels.

The establishment of the institution of zakat as a body which manages Zakat is not a requisite according to most schools of thought Islamic law (Zayas, F.G., 2003). Examples of the Hanafi school of thought believes itself authorized to distribute zakat on intangible (such as gold and silver) directly to recipients without going through the government as an intermediary. This is because the group stick with the practice in the reign of Caliph Uthman Affan r.a zakat payers who justified because feared the possibility of zakat collection fell into the hands of collectors Zakat is corrupt and deviant. However zakat can paid to the government in the form of real property (such as animals livestock) because the property is more difficult to distort. This is also supported by the Shafi'i school of thought which clearly state tax payers are allowed to practice regular charity all property types (real or not real property) without going through the government.

The role of zakat institution divided into two which are the collection of zakat and distributing the zakat. This role should be done by the government through authorized zakat officer. It should be noted that the role of managing zakat is necessary and must be submitted to the government as intermediaries. This aims to distinguish the role of government in collection because the role of taxation by the government to collect taxes is a requirement and must. This is because the collection of taxes to be paid directly to the government and the government shall implement its obligations from the proceeds tax to the people as a whole. Unlike the zakat as the government only as an intermediary to collect and distribute zakat for certain recipients rather than the general public overall. It should be understood there is no connection with the collection of zakat to the government revenue. (Zayas, F. G., 2003).

5.2. State level of Zakat collection

The progress of the institutions of zakat in Malaysia is particularly encouraging in terms of the collection of zakat. Collection amount of zakat in Malaysia has

increased drastically. The amount of zakat collection in each states is increasing from year to a year. Referring to Table 6.

The overall amount collected in 2006 has increased by 17.02 per cent to RM670.64 million from RM573.09 million in 2005. The highest increased in percentage in zakat collection was made is year 2008 that recorded 28.75%. The amount volume is seen increasing year by year. The possibility of a significant improvement caused by many factors, including easy payment methods, a more efficient management of zakat, zakat institutions and privatization.

If by states, Selangor contributes the highest zakat payment in total from year 2004 to 2014 which is RM3.413 billion. Second place is the Federal States of Kuala Lumpur collected in total of RM3.088 billion and thirdly, states of Johor total Zakat collected RM1.269 billion. This three states surpass RM1 billion in total of zakat collected. This is because Selangor, Kuala Lumpur and Johor are considered to be more developed and rapidly growing in economic sectors.

Table 6
Statistics on Total Zakat collection according to States from 2004 to 2014

No.	States	Collection of Zakat (RM)
1.	Selangor	3,413,260,566
2.	W.Persekutuan	3,088,316,815
3.	Johor	1,268,598,840
4.	Kelantan	797,240,963
5.	Kedah	789,215,969
6.	Perak	731,978,375
7.	P.Pinang	711,861,258
8.	Sarawak	660,362,495
9.	Pahang	620,440,421
10.	Terengganu	581,465,954
11.	Perlis	547,968,541
12.	N.Sembilan	513,818,055
13.	Melaka	358,402,028
14.	Sabah	307,807,527

Source: JAWHAR main website.

Note: Zakat collection inclusive of Zakat Fitrah and Wealth.

Sabah and Melaka are at the bottom two states with zakat collection amount is less than RM500 million from year 2004 to 2014. This is due to its size and the lowest number of Muslims population. Although the collection of zakat show an increase every year but an increase in the percentage of zakat collection of the highest recorded in the year 2008 of 29%. See Figure 3.

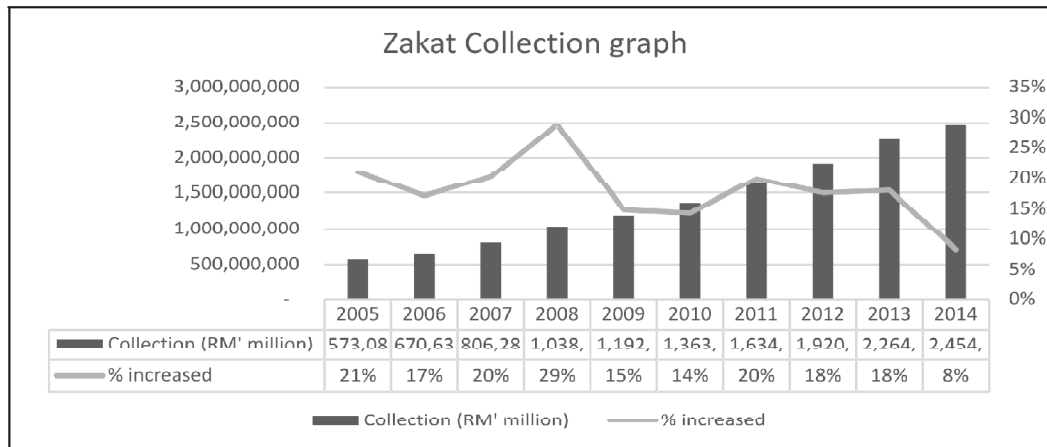


Figure 3: Zakat Collection Graph from year 2005 to 2014

5.3. Total Tax Collection

Figure 4 shows the graph between the collection of direct and indirect taxes. The collection of direct tax revenues showed tremendous and steady increase from 1970 until 2013. The success of IRBM in tax collection was attributable to many factors such as the economic growth, the efficient management in tax audit works, tax reforms through widening tax base and modernization of online tax service systems.

Table 7 shows the total direct tax collection increased from year to year. There is a significant increase in 2011 because this year made history in which the IRBM break through the RM100 billion in tax collection. The amount of tax collected for year 2011 was RM109.7 billion, increased in 27%. After 2011, total direct tax collection state no longer had the records under RM100 billion. This achievement may shove by the increase in GDP and GDP per capita as shows in Figure 5.

Table 7
IRBM Income Tax Collection Performance

Y/A	Total Tax Collection (RM billion)	% increased
2004	48,633.71	-
2005	56,854.56	17%
2006	65,738.28	16%
2007	74,703.21	14%
2008	90,650.91	21%
2009	88,402.11	-2%
2010	86,499.47	-2%
2011	109,609.86	27%
2012	124,891.96	14%
2013	128,932.69	3%
2014	133,700.11	4%

Note : Y/A Year Assessment (Source: IRBM)

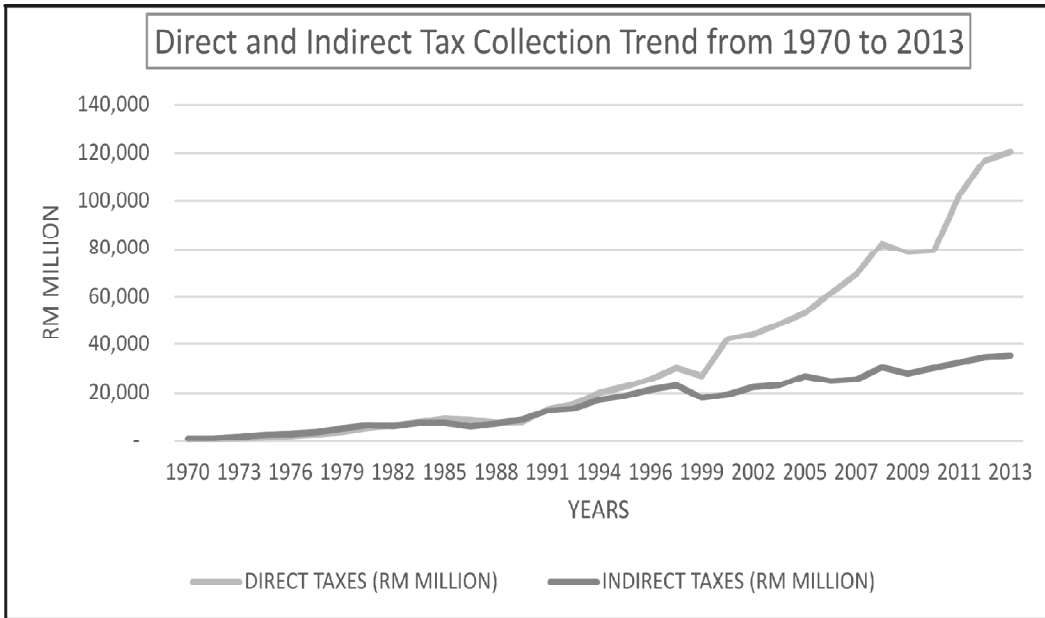


Figure 4: Direct and Indirect Tax Collection Trend from 1970 to 2013

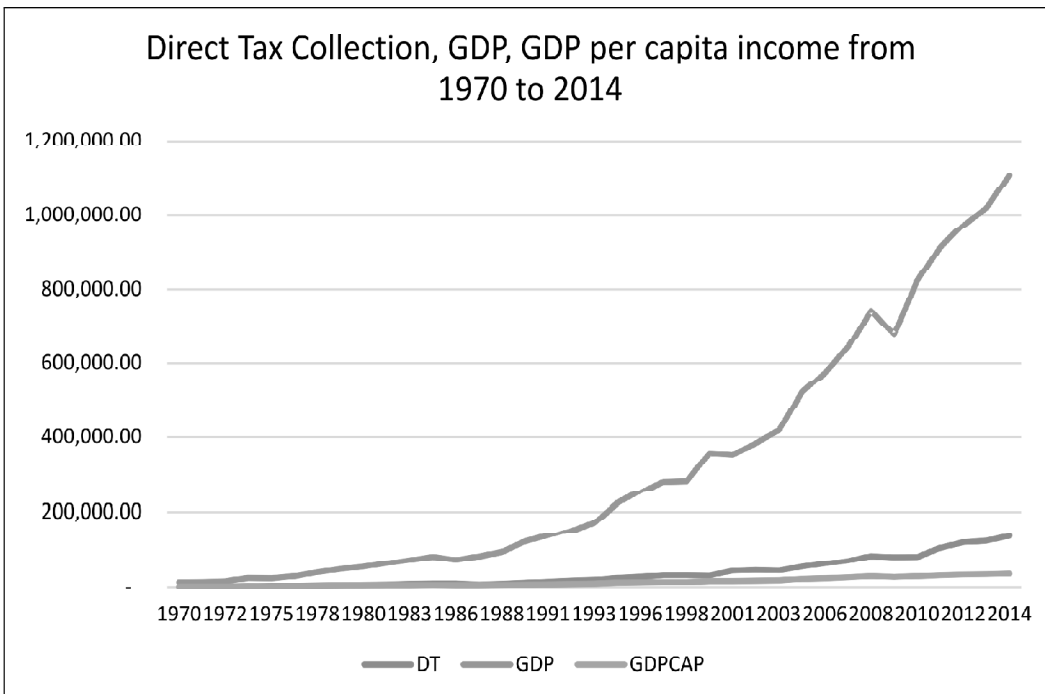


Figure 5: Direct Tax Collection, GDP, GDP per capita income from 1970 to 2014

5.3.1. Statistics on Zakat Rebate based on Income Tax File

There are three main tax payers file type namely OG refers to individual who runs a business, SG refers to salary group tax payers and C refers to corporate taxpayers. Table 8 refers to zakat rebates claimed based on the income tax file categories.

Table 8
Statistics on Zakat Rebate based on Income Tax File Categories

<u>STATISTICS ON ZAKAT REBATE BASED ON INCOME TAX FILE TYPES</u>					
YEAR	OG RM	C RM	SG RM	TOTAL (RM)	increase / (decrease) (%)
2009	79,057,509.97	95,207,968.00	612,879,530.77	787,145,008.74	20%
2010	88,662,556.58	118,043,684.00	735,936,723.80	942,642,964.38	21%
2011	93,082,506.94	151,356,248.00	892,140,045.60	1,136,578,800.54	21%
2012	115,339,620.60	184,230,974.00	1,078,131,741.00	1,377,702,335.60	19%
2013	117,515,672.30	230,351,430.00	1,285,063,934.00	1,632,931,036.30	12%
2014	122,287,746.80	203,101,870.00	1,503,335,205.00	1,828,724,821.80	12%
2015	24,761,627.72	46,560,469.00	1,585,733,827.00	1,657,055,923.72	-9%
TOTAL	640,707,240.91	1,028,852,643.00	7,693,221,007.17		

Based on Table 8, the highest file type that claim zakat rebate from year 2009 to 2015 is SG group or the salary group tax payers which recorded amount of RM7.693 billion. Second place is the corporate taxpayers with total amount RM1.029 billion and third is OG category of tax payers which recorded RM0.641 billion as zakat rebate. In Malaysia, the highest number of category tax payers comes from the SG group taxpayers. This is the reason why individual who earn salary in Malaysia is the largest contributor of Zakat among other categories of existing taxpayers.

5.4. Individual Offset Payments

Based on zakat collection figure from year 2004 until 2014, the percentage of zakat claimed as income tax rebate from individual taxpayers is increasing in percentage and amounts. For instance in year 2014 based on Table 9, total zakat collection recorded was RM2.45 billion and 74.5% of the amount was claimed as tax rebate (exemption income tax) amounting to RM1.83billion. The upward trend seen in the collection of zakat in a parallel for the income tax rebate claims. So, as presented in Table 9, it is recorded that more than 50% from the total zakat collection is being set-off as tax rebate/exemptions on average from year 2004 until 2014.

5.4.1. Statistics on Zakat Contribution based on Economic Active Types of People

Based on the statistics provided by the Department of Statistics Malaysia (based on the adjusted Population and Housing Census of Malaysia published for 2010), Malaysia is estimated to have a population of 29.6 million people in the 1st quarter

Table 9
Statistics on Zakat Collection Claimed as Income Tax Rebate

<i>Year</i>	<i>Total Zakat Collection</i>	<i>Total Zakat Distribution</i>	<i>Total Zakat Claims as Tax Rebate (IRBM)</i>	<i>Percentile of Zakat Rebate From Total Zakat Collection(%)</i>
	RM	RM	RM	RM
2004	473,269,094	304,948,650	291,010,509	61.49%
2005	573,088,306	401,481,344	373,425,591	65.16%
2006	670,636,173	479,610,914	522,813,215	77.96%
2007	806,284,072	603,841,880	469,783,609	58.27%
2008	1,038,092,893	749,368,330	584,940,912	56.35%
2009	1,192,609,110	969,588,486	787,145,009	66.00%
2010	1,363,772,681	1,177,141,662	942,642,964	69.12%
2011	1,634,109,912	1,372,742,534	1,136,578,801	69.55%
2012	1,920,173,173	1,511,142,370	1,377,702,336	71.75%
2013	2,264,136,551	1,842,694,917	1,632,931,036	72.12%
2014	2,454,565,844	2,231,051,184	1,828,724,822	74.50%

of 2013. Malaysia Statistics Department shows the real population in the year 2013 is 30.21 million. Among these, 50% are Malays or Muslims as tabulate in Table 10.

It is known that the highest number ethnicity in Malaysia is from the Malays. The fact that all Malays in Malaysia are all Muslims supported based on The Constitution of Malaysia 1957 Part XII – General and Miscellaneous – Article 160. It refers that “Malay” is a person who professes the religion of Islam, habitually speaks the Malay language, conforms to Malay custom and:

- (a) Was before Independence Day born in the Federation or in Singapore or born of parents one of whom was born in the Federation or in Singapore, or is on that day domiciled in the Federation or in Singapore; or
- (b) Is the issue of such person.

The Constitution of Malaysia also note in Part 1- The States, Religion and Law of the Federation – Article 3, that Islam is the religion of the Federation; but other religions may be practised in peace and harmony in any part of the Federation. Mode of analysis is using unit age in a range of 15 to 64 years old. The range of age considered to be people who are active in participating economic activities.

Average zakat contribution based on active economic people is determined by dividing the total amount of zakat contribution to the total number of active people in the economy.

As per Table 11, based on number of economic active persons in the country, zakat average contribution show an increase amount. In year 2004, the average zakat contribution from this group of Muslims only RM57.89 and its rise up to RM232.67 in year 2014. This shows some indicator that zakat payers are now earning

Table 10
Malaysia Population by Ethnicity in year 2013

<i>Ethnics</i>	<i>Population ('000)</i>	<i>%</i>	<i>% of Muslims</i>
Malay (Bumiputera)	15,106.9	50%	100%
Indigenous People (Bumiputera)	3,625.64	12%	NA
Chinese	6,647.01	22%	0.66
Indians	2,114.96	7%	4.13
Others	302.14	1%	NA
Non-Malaysian Citizens	2,417.10	8%	NA
Total	30,213.70		

Computation: (individual payments section).

Table 11
Average Zakat Contribution by Malay Muslims in Malaysia by years

<i>Year</i>	<i>Number of Active people</i>	<i>Malays Muslims - 50%</i>	<i>Non-Muslims & Others - 50%</i>	<i>Average contribution by Active Muslims (RM)</i>
2004	16,349,600	8,174,800	8,174,800	57.89
2005	16,836,000	8,418,000	8,418,000	68.08
2006	17,331,300	8,665,650	8,665,650	77.39
2007	17,838,700	8,919,350	8,919,350	90.40
2008	18,349,700	9,174,850	9,174,850	113.15
2009	18,854,600	9,427,300	9,427,300	126.51
2010	19,341,400	9,670,700	9,670,700	141.02
2011	19,779,100	9,889,550	9,889,550	165.24
2012	20,167,200	10,083,600	10,083,600	190.43
2013	20,780,300	10,390,150	10,390,150	217.91
2014	21,099,000	10,549,500	10,549,500	232.67

Source: Malaysian Statistics Department

higher incomes than ever before and the economic status has been improving remarkably. With the higher income could increase the ability among Muslims payers to pay their zakat not just on the minimum based amount (*nisab*) but more than that.

5.4.2. Statistics on Zakat Contribution based on Household

In general, there are four sources of income that can be received (accrued) by household namely, income from paid employment, self-employed, income from property & investments and current transfer received. A household can have more than one income recipient and the income received can be from various sources. In year 2014 mean household income average among Malaysia is recorded at RM 6,141. This shows an increase of 10.3 per cent per annum. Refer to Table 12.

Table 12
Malaysian Household Income Statistics

Area	Median Income (RM)			Mean Income (RM)		
	2012	2014	Compounded Annual Growth Rate (CAGR- %)	2012	2014	Compounded Annual Growth Rate (CAGR- %)
Malaysia	3,626	4,585	11.7	5,000	6,141	10.3
Urban	4,238	5,156	9.8	5,742	6,833	8.7
Rural	2,372	3,123	13.8	3,080	3,831	10.9

Source: Malaysia Statistics Department

Table 13 shows on the zakat contribution based on monthly average Malays (Muslims) household income which show an increase amount from RM174,574 in 2004 to RM507,996 in year 2013.

Table 13
Average Zakat contribution as per household average monthly income

Year	Household Income By Ethnic - Malay (Monthly):			
	Total Zakat Collection	Malays Household Monthly Income	Total Average contribution	
	RM	RM	RM	%
2004	473,269,094	2,711.00	174,573.62	0.04%
2005	573,088,306	2,711.00	211,393.69	0.04%
2006	670,636,173	2,711.00	247,375.94	0.04%
2007	806,284,072	3,156.00	255,476.58	0.03%
2008	1,038,092,893	3,156.00	328,926.77	0.03%
2009	1,192,609,110	3,624.00	329,086.40	0.03%
2010	1,363,772,681	3,624.00	376,316.96	0.03%
2011	1,634,109,912	3,624.00	450,913.33	0.03%
2012	1,920,173,173	4,457.00	430,821.89	0.02%
2013	2,264,136,551	4,457.00	507,995.64	0.02%
2014	2,454,565,844	5,548.00	442,423.55	0.02%

Data source: Malaysian Statistics Department

Data taken from Mean Monthly Gross Household Income by Ethnic Group, Strata and State, Malaysia, 1970-2014, Malaysia Statistics Department. The increase

in household income among the Malay Muslims in Malaysia have an impact on the increase in the payment of zakat collection in Malaysia as an overall. Taken as percentage, the total average zakat contribution as per Malay household monthly income decreasing from 0.04% in 2004 to only 0.02% in 2014.

5.5. Firms paying zakat on offset from corporate taxes

Figure 6 shows the total zakat payment based on income tax category from the year 2009 to 2015. It shows zakat rebate from company tax claiming the second highest amounting to RM1.028 billion (11 %) in total from year 2009 to 2015. The highest claim on zakat rebate still fall to individual (SG group) as these group of taxpayers are the highest recorded which 2,260,947 compared to only 349,800 companies in active.

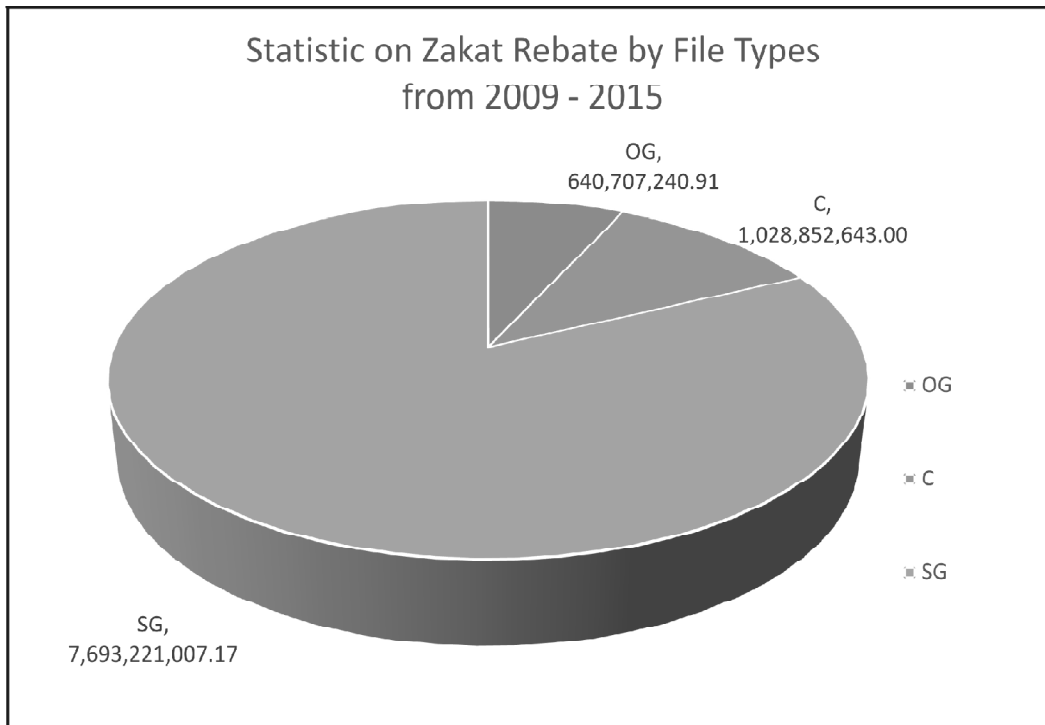


Figure 6: Statistics on Total Zakat Rebate based on Income Tax Category (RM)

5.6. Statistics on Zakat Distribution

The following figure 7 is a statistical distribution of Zakat for all states in Malaysia for 2004 to 2014. The graph shows the increase in the distribution of Zakat from 2004 to 2014. The increase in distribution due to the increase in the collection of Zakat every year. In addition, the increase in the number of the recipient(*Asnaf*)

also encouraged by the efforts undertaken by the zakat centres in managing the zakat distribution efficiently.

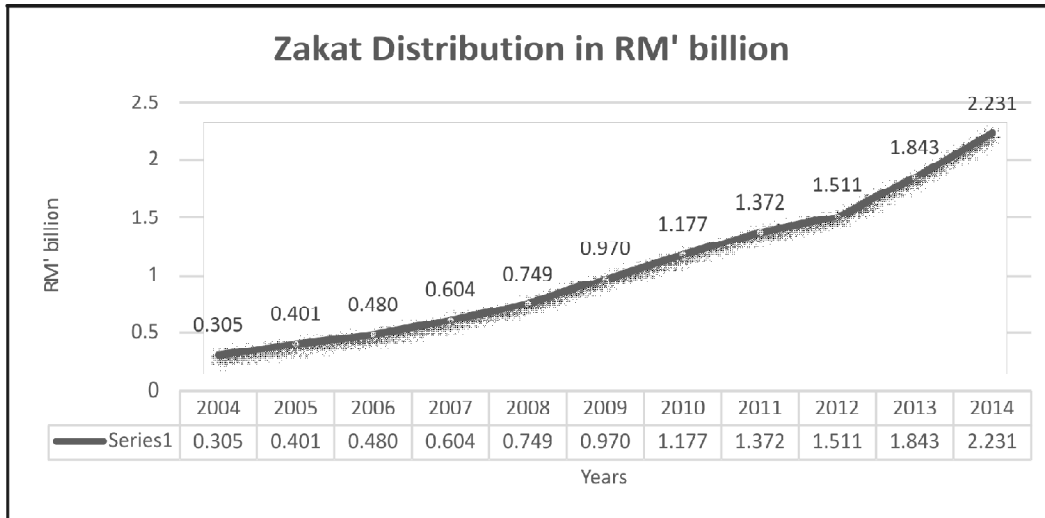


Figure 7: Zakat distribution for all states in Malaysia from 2004 to 2014

Based on figure8, the highest percent tile of zakat distribution made in 2014 which recorded 91 % from the zakat collections received.

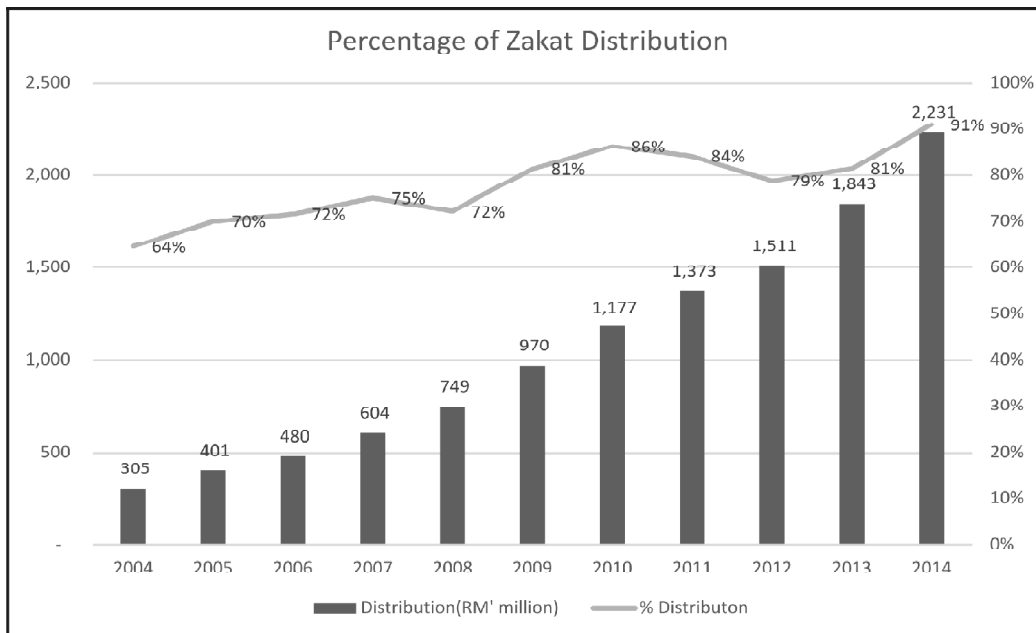


Figure 8: Percentage of Zakat Distribution

Taking into account the three highest state of collection and distribution of zakat, namely Selangor, Kuala Lumpur and Johor show that the recipients of zakat distribution to *fisabilillah* is the highest. Referring to table 14, the highest category of *asnaf* is the *fisabilillah* which accounted for 36.29%. Second place is the the Poor (*al-masakin*) given 24.15%.

Table 14
Total Zakat Distribution from 2008 to 2014

<i>Asnaf</i> Category:	JOHOR (RM)	WILAYAH PERSEKUTUAN	SELANGOR (RM)	TOTAL (RM)	%
al Fuqara	119,412,179	382,635,516	305,473,236	807,520,931	15.04%
al-Masakin	274,936,858	377,070,721	644,599,496	1,296,607,075	24.15%
Amil	103,558,078	223,187,372	349,455,523	676,200,973	12.59%
Muallaf	65,357,772	42,819,236	178,302,436	286,479,443	5.34%
Riqab	-	-	56,632,175	56,632,175	1.05%
Gharimin	12,445,635	22,287,751	247,463,152	282,196,537	5.26%
Fisabilillah	354,894,802	756,386,241	837,342,734	1,948,623,776	36.29%
Ibnu Sabil	1,552,044	5,085,829	8,742,695	15,380,567	0.29%
Total	932,157,367	1,809,472,665	2,628,011,447	5,369,641,479	100.00%

5. CONCLUSION AND SUMMARY

The importance in Zakat is currently not fully researched well. The main reason for this is the absence of standard time series data, especially from the multitudes of agencies that receive the zakat money. No central body is responsible for collection of the data and dissemination. There are reports about how much is collected by registered agencies, but no collation of data has been done to provide aggregate statistics. Though it is widely debated globally as well as in local research circles, zakat system is relegated to the people who study Islamic finance, instead of this being a part of the economic system of welfare and voluntary taxation. The Muslims must fulfil their pious obligations by fulfilling the religious duties, one of which is zakat payment if income is beyond a threshold. This study is a preliminary attempt, merely as a description of the issues with what little we have from the official records of the Inland Revenue Board.

Incentive to encourage people to pay zakat also has been implemented. Zakat has been granted as a tax rebate for individual Muslims, who has paid zakat to an approved zakat agencies. There is also an incentive for companies that paid zakat, although it is a partial rebate and considered very minimal (Bakar and Rahman, 2007). However, despite the incentives given, the contribution of zakat for public expenditure is still insignificant (Nienhaus, 2006). Table 15 shows in 2004, the zakat collected amounted for only 0.5 percent of government revenue. It has risen to 1.1% in 2014.

Table 15 shows the total zakat claims as tax rebate compared to the total income tax collection on average is only 0.916% though the amounts of rebate is increasing from RM0.291 billion in 2004 to RM1.829 billion in 2014. Total zakat collections amount to only 0.758% on average from the total government's revenue. As mentioned earlier, zakat collection is not counted as part of the fiscal government's revenue and this amount is only distributed to the development of Muslims.

Table 15
Statistics on Total Zakat Claims as Tax Rebate, Total Income Tax Collection, and Total Government's Revenue and percent tile

Year	Total Zakat Claims as Tax Rebate (IRBM)	Total Income Tax Collection	Percentile of Zakat Rebate From Total Income Tax Collection	Total Zakat Collection	Total Government Revenue	Percentile of Total Zakat Collection From Total Government's Revenue
	RM billion	RM billion	(%)	RM billion	RM billion	(%)
2004	0.291	48.634	0.598%	0.473	99.396	0.476%
2005	0.373	56.855	0.656%	0.573	106.305	0.539%
2006	0.522	65.738	0.794%	0.671	123.547	0.543%
2007	0.470	74.703	0.629%	0.806	139.885	0.576%
2008	0.585	90.651	0.645%	1.038	159.794	0.650%
2009	0.787	88.402	0.890%	1.193	158.639	0.752%
2010	0.943	86.499	1.090%	1.364	159.653	0.854%
2011	1.137	109.610	1.037%	1.634	185.419	0.881%
2012	1.378	124.892	1.103%	1.920	207.912	0.923%
2013	1.633	128.933	1.267%	2.264	220.420	1.027%
2014	1.829	133.700	1.368%	2.455	220.625	1.113%
		Average	0.916%			0.758%

The zakat collection amount is insignificant compared to the contribution of the total direct tax collection to total government's revenue. On average, the income tax collection contributes to 55.81% for total government's revenue, see table 16.

It clearly shows that taxation system then becomes an integral part of public funding, whereas zakat is a voluntary institution. Zakat is treated as a religious matter, separated from the government budget. There are no laws that regulate the obligation and enforcement of zakat. On the other hand, taxation is a highly regulated system enforced by the government. Penalties are imposed on anyone that refuse to pay or fail to comply with the tax regulation. Moreover, the fund collected from zakat is very small compare to other taxes because of its narrow base and small rate. Thus, it has no significant role in the economy of the state. Thus, citizens are more concerned with fulfilling their tax obligation than zakat (Dangkua, R., 2015).

Table 16
Statistics on Income Tax Collection contribute to the Government's
Total Revenue from 2004 to 2014

Year	Total Income Tax Collection	Total Government Revenue	Percentile of Total Income Tax Collection to Total Government's Revenue
	RM billion	RM billion	(%)
2004	48.634	99.396	48.93%
2005	56.855	106.305	53.48%
2006	65.738	123.547	53.21%
2007	74.703	139.885	53.40%
2008	90.651	159.794	56.73%
2009	88.402	158.639	55.73%
2010	86.499	159.653	54.18%
2011	109.610	185.419	59.11%
2012	124.892	207.912	60.07%
2013	128.933	220.420	58.49%
2014	133.700	220.625	60.60%
			55.81%

The Zakat agencies and IRBM should cooperate in order to formulate programs in the future to educate public on the importance for the Muslims in the country to pay zakat. They could also fully utilize the system (Zakat as tax rebate/exemptions) provided to them. There are 2 possible effects from this scenario; either the zakat payers pay zakat without declaring their yearly income to the IRBM, or they pay tax without using zakat as tax rebate. Above all, the public will appreciate more on the system provided by the IRBM (zakat as tax rebate) and at the same time fulfil their obligation as zakat will also help for the development of Muslim community in Malaysia.

Despite the fact zakat collection is increasing year after year, the most concern of Muslims is on the distribution of the zakat money. How people perceive the effectiveness of the distribution of zakat money will help more Muslims to trust the zakat agencies in administering zakat. With the existence of JAWHAR, it will help in the coordination of zakat system to be practiced uniformly throughout the whole country.

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