ZAKAT COMPUTATION AND DISCLOSURE PRACTICE IN MALAYSIAN ISLAMIC BANKS

NORAINI MOHD ARIFFIN1, * AHMAD ZAMRI OSMAN1

Received: 19 March 2022 / Revised: 5 April 2022 / Accepted: 30 July 2022
© 2022 Faculty of Business and Accountancy, University of Malaya. All rights reserved.

ABSTRACT

Research aim: The paper aims to examine the current zakat practices of Islamic banking institutions in Malaysia focusing on zakat computation method and disclosure

Design/Methodology/Approach: The study initially employs content analysis of the annual report. This is later strengthened by semi-structured interviews with relevant bank officers to address the research question. The annual report of 16 Islamic banks and 6 development financial institutions for the year 2020 are used to analyse the current zakat computation method.

Research finding: The findings show that the Growth Method is most used in zakat computation. It is also found that some banks, disclosed more zakat information in the Shariah Committee report as well as in the Notes to the Financial Statements. The choice of method to a certain extent is influenced by the challenges facing these institutions. Five of those are deliberated here - window dressing, the implication of zakatable amount upon adhering to some of Bank Negara Malaysia requirements, the different applications and interpretations of the zakat rate, the shareholdings’ issues, and the different distribution practices.

Theoretical contribution/Originality: The study uses Maqasid Shariah as the lens to frame the zakat computation and disclosure issue. In addition, certain BNM requirement has unintended consequences on zakat practices.

Practitioner/Policy implication: Individual Islamic banks should have a clear internal zakat computation framework that is approved by its Shariah Committee to have an accurate zakat computation for Islamic banks.

Research limitation: The paper only focuses on the Malaysian setting.

Keywords: Zakat, Islamic Banks, Computation, Disclosure

Type of article: Research paper

JEL Classification: G21, M41, M49, N25

1. Introduction

Zakat is one of the pillars of Islam and Al Quran has mentioned zakat concurrently with pray (solat) for a quite number of times demonstrating that paying zakat is a significant obligation on Muslims (Ahmad, 2012). In the case of Malaysia, zakat funds are governed by the State Islamic Regional Council (SIRC) (Ahmad Razimi et al., 2016). Zakat is generally divided into two major categories which are zakat al-Fitr and zakat al-Mal (zakat on wealth) (Qaradawi et al., 2011). Zakat al-Fitr is compulsory for each Muslim and will be paid in the month of Ramadhan, while, zakat al-Mal is charged on wealth one it fulfilled the necessary conditions – among others minimum threshold, holding period, type of wealth (Qaradawi et al., 2011). This study focuses on zakat computation for zakat al-Mal paid by Islamic banking institution.
In Malaysia, Islamic bank normally pays its zakat upon recommendation by its Shariah Committee. The amount of zakat payable is calculated by relevant departments and disclosed publicly in the financial statements. Therefore, financial statement is seen as one of the conduits visibilising the zakat activity. In relation to zakat computation, generally the computation methods employed by an Islamic Bank is disclosed in the financial statements. Generally, there are two main approaches in computing zakat for corporation – the equity perspective and the asset perspective. From these two approaches, various methods are derived (Osman, n.d., forthcoming). Therefore, the study is to examine the current practice for zakat computation methods in the annual report of Islamic banks in Malaysia. It analyses the current disclosure practice of zakat in Islamic banks in Malaysia and also identify the challenges in zakat computation in Islamic banks in Malaysia. The analysis of annual reports is complemented with interviews with the managers in the bank responsible in zakat and its computation. By doing this, the study aims to emphasise and enhance accountability, transparency, and discharge justice to both zakat payers and zakat receivers. It hopes to boost motivation of the preparers of the financial statements to adopt maximum disclosures on zakat computation and information in the Annual Report. In that way, the Islamic banks can enhance the comparability, transparency, accountability, and reliability of financial statements as well as annual reports. The study also highlights several challenges in achieving the ideal zakat computation method including relevant adjustments for Islamic banks in Malaysia. Having an ideal computation method can facilitate the zakat computation system in Islamic banks and reduce the gaps between the zakat practices in Islamic banks. This study can be a starting point for the relevant authority to propose guidelines on adjustments to zakat computation that can be a source of reference in zakat computation.

The remainder of this paper is organised as follows. Section 2 explains the zakat on business entity. Section 3 reviews the zakat regulation and summarises the literature and publications in the field of zakat computation and zakat disclosure. Section 4 describes the theoretical framework for the study. Section 5 explains the methodology of the study. Section 6 provides findings and discussions of this study. Section 7 concludes the paper with a summary, limitations, implications and avenues for future research.

2. Zakat on Business Entity

Imposing zakat on a business entity, including Islamic bank, has been widely discussed. If the business entity is established as a sole-proprietorship, there is no debates on its zakatability as this is subsumed under zakat on trade inventory (urudh al-tijarah) (Qaradawi et al., 2011). However when it is incorporated as a joint-stock company, scholar’s opinion differs (Mahmood M.Sanusi, 2004; Zahid, 2013). Some scholars opined that the company assumes its own personality akin to conventional juridical legal personality, separate from its shareholders. Hence, this artificial person is obliged to pay zakat. Other opinions does not concede the legal personality and therefore the zakat is imposed on the owner-shareholder rather than the company (Hasan, 2018; Noor & Haron, 2013).
Table 1. List of Islamic banks and DFIs in Malaysia

<table>
<thead>
<tr>
<th>Islamic Banks</th>
<th>DFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Affin Islamic Bank Berhad</td>
<td>1. Bank Kerjasama Rakyat Malaysia Berhad</td>
</tr>
<tr>
<td>2. Al Rajhi Banking &amp; Investment Corporation (Malaysia) Berhad</td>
<td>2. SME Development Bank Malaysia Berhad</td>
</tr>
<tr>
<td>3. Alliance Islamic Bank Berhad</td>
<td>3. Bank Pertanian Malaysia (Agrobank)</td>
</tr>
<tr>
<td>5. Bank Islam Malaysia Berhad</td>
<td>5. Bank Simpanan Nasional</td>
</tr>
<tr>
<td>6. Bank Muamalat Malaysia Berhad</td>
<td>6. EXIM Bank of Malaysia Berhad</td>
</tr>
<tr>
<td>7. CIMB Islamic Bank Berhad</td>
<td></td>
</tr>
<tr>
<td>8. HSBC Amanah Malaysia Berhad</td>
<td></td>
</tr>
<tr>
<td>9. Hong Leong Islamic Bank Berhad</td>
<td></td>
</tr>
<tr>
<td>10. Kuwait Finance House (M’sia) Berhad</td>
<td></td>
</tr>
<tr>
<td>11. MBSB Bank Berhad</td>
<td></td>
</tr>
<tr>
<td>12. Maybank Islamic Berhad</td>
<td></td>
</tr>
<tr>
<td>13. OCBC Al-Amin Bank Berhad</td>
<td></td>
</tr>
<tr>
<td>14. Public Islamic Bank Berhad</td>
<td></td>
</tr>
<tr>
<td>15. RHB Islamic Bank Berhad</td>
<td></td>
</tr>
<tr>
<td>16. Standard Chartered Saadiq Berhad</td>
<td></td>
</tr>
</tbody>
</table>

The issue on legal personality - better known as *shakhisiyyah i’tibariyyah*, in discussion of zakat, centres on the notion of *khultah* (admixture of ownership) as in a shareholding company. Scholars who opine that zakat is payable by the corporation uses hadith\(^1\) on admixture of livestock as the basis for their argument. Meanwhile, those who opposes argue that the hadith is only applicable to livestock only, not to other types of wealth. A reconciling opinion however argues that zakat is imposed on individual shareholders, but a company can pay on behalf of its shareholder (see Hasan, 2018 and Noor & Haron, 2013 for further discussion). In Malaysia, Islamic banking institution fall under the definition legal entity per the Companies Act 2016. This is affirmed in Muzakarah of the National Fatwa Council in 1992 which stipulated that business zakat must be imposed on Shariah-compliant companies and owned by Muslims (Ahmad, 2012). Subsequently, in 2001, the National Fatwa Council has decided for companies jointly owned by Muslim and Non-Muslim, zakat will be imposed accordingly to Muslim shareholders (Ahmad, 2012). There are sixteen (16) Islamic banks six (6) development financial institutions (DFI) in Malaysia which are involved in Islamic banking activities in Table 1. The institutions are bound to pay zakat for its business operation. The presentation of the zakat item in the financial statement is however governed by standards. To this we now turn our discussion.

3. Guidelines on Zakat Computation

Several accounting standards related to zakat has been promulgated both within and outside Malaysia. These include (a) Bank Negara Malaysia’s (BNM) Financial Reporting for Islamic Banking Institutions (BNM, 2022); (b) Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) - Financial

\(^1\) “Separated assets should not be put together nor the combined assets should be separated to avoid zakat. Whatever belongs to two persons, must be settled in proportion to their ownership” (Narrated by al-Bukhari, Kitab al-Zakat, hadith no.1382)
3.1. BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions

Bank Negara Malaysia is a statutory body governed by the Central Bank of Malaysia Act 2009 is responsible to promote financial and monetary stability for the sustainable growth of the Malaysian economy (Bank Negara Malaysia, 2019). Policy document on Financial Reporting for Islamic Banking Institutions is regularly updated – the latest is issued in April 2022. The policy document sets out the specific requirements on the application of the MFRS, information to be disclosed in the financial statements including those arising from the Shariah contracts applied in Islamic banking transactions, application requirements for approval of dividend payment, and requirements on submission and publication of the financial statements. Relevant to our discussion is the requirement imposed on the disclosure of zakat item as stated in item 11.5(b):

“An Islamic financial institution shall disclose the recognition and measurement accounting policies on the following:

(a) …

(b) an Islamic financial institution’s obligation on zakat, which may alternatively be disclosed under the Director’s Report. An Islamic financial institution that does not pay zakat must also disclose a statement to that effect in the financial statements. An Islamic financial institution that pays zakat shall disclose additional information regarding:

(i) its responsibility towards zakat payment either on the business, and/or behalf of the shareholders;

(ii) method applied in the determination of zakat base e.g. growth method, working capital method; and

(iii) the beneficiaries of zakat fund e.g. Baitul Mal, the poor, etc;” (BNM, 2022)

The above guideline requires bank to disclose its obligation regarding zakat. This includes whether the bank pays its zakat or not (and the reason thereof, if not), the scope of zakat obligation (zakated on business or/and shareholder), the method employed, and the beneficiaries assisted. These can be disclosed in the annual report under either Shariah Committee Report, or/and Director’s Report or/and Notes to the Account. In addition, the policy document also provides an illustrative example of financial statements (Appendix 1) showing zakat-related items - specifically “Provision for zakat and taxation” in Statement of Financial Position (under Liabilities section), and “Zakat” in the Statement of Profit or Loss and Other Comprehensive Income (after Profit before zakat and taxation).

3.2. AAOIFI’s Accounting and Shariah Standard

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an Islamic international autonomous non-for-profit corporate body that was established in 1991 and based in Bahrain. The mission of this organisation
is to facilitate international Islamic finance practices and financial reporting to be in accordance with Shariah by issuing standards and guidelines on accounting, auditing, governance, ethics, and Shariah standards as references for industry players including Islamic banking institutions.

Two relevant standards on zakat are Financial Accounting Standard 39 “Financial Reporting for Zakah” (issued in December 2021) and Shariah Standard 35 “Zakah” (issued in November 2008). FAS 39 addresses the presentation and disclosure in the financial statements while SS 35 deals with the zakat computation.

FAS 39 caters for both institution obliged to pay zakat and institution not obliged to pay zakat. The presentation and disclosure requirement for institution not obliged to pay zakat is rather minimal – only disclosing (i) the zakat base and the amount of total zakat due on that base, and (ii) the zakat per share. Meanwhile for the institution obliged to pay zakat, the requirement is more extensive, as follows:

- a. the method used for determining the zakat base including the detailed items included in the computation;
- b. the relevant authoritative guidance (e.g., AAOIFI SS 35, or pronouncement by the individual institution’s shariah committee) used for determining such method;
- c. zakat per share and/or per unit for each pool or category of investments whether it is paid by the institution or otherwise;
- d. a reconciliation between the zakat liability and expenses presented in the consolidated financial statements and those presented in its subsidiaries;
- e. a statement as to whether or not the institution collects and pays zakat on behalf of participatory stakeholders and other accounts.

Item a-e above seems to be similar to that of BNM requirement discussed in the preceding section. FAS 39 however further extends the requirement catering for some specific circumstances as highlighted below.

- f. in circumstances where zakat paid to a single person/charitable institution is more than 5% of total zakat payable, the nature of such payment and details of the recipient;
- g. the difference between amount of zakat as required by law and zakat determined voluntarily, if any;
- h. the amount of Zakat that is due from the equity of participatory stakeholders;
- i. the amount of Zakat allocated or paid for on behalf of certain or all relevant stakeholders (In respect of off-balance-sheet assets under management, relevant disclosures shall be made separately);
- j. where the institution has agricultural produce etc., the accounting policy for determining Zakat base of such produce along with the amount of Zakat due on the produce;
- k. the Zakat due, transferred from the institution to the Zakat fund, and the amounts of Zakat received from other sources of funds; and

2 These two standards supersede FAS 9 “Zakat” issued in January 1999.
3 FAS 39 para BC4 states that certain jurisdictions have zakat as a legal requirement while in others, it is merely stakeholders that appoint the institution to act as its agent for zakat purposes.
Zakah Computation and Disclosure Practice in Malaysian Islamic Banks

1. any dispute between the institution and relevant Zakat authorities about the amount of Zakat payable, including the amount and period to which dispute belongs along with reasons of such dispute.

Meanwhile, Shariah Standard 35 highlights among others, the zakat computation method including the measurement. SS 35 has 12 paragraphs, of which 6 paragraphs are relevant for our discussion here – para 2, 4, 5, 6, 7 and para 8. Para 2 states that there are two methods for calculation of zakat base – net asset method, i.e., asset perspective, and net invested fund method, i.e., equity perspective. It also adds that the final amount of zakat payable will be the same regardless of the method (SS 35, para 2/1). In other words, even if the “formula” is different, the resulting amount will be the same. SS 35 however only provide the formula (and subsequently the detailed items discussed in para 4-8) pertains to net asset method, as follows:

\[
\text{Zakah base} = \text{Zakatable assets} - (\text{liabilities payable during the financial year as at the date of the balance sheet} + \text{all installments of liabilities of the financial year which will become due during the coming financial period} + \text{rights of the holders of non-restricted investment accounts} + \text{minority rights} + \text{sovereign rights} + \text{waqf rights} + \text{charitable rights} + \text{rights of non-profit-earning organizations that have no specific owner}).
\]

Source: Table 2: Zakat computation, net asset method (SS 35, para 2/1/1)

The detailed items making up the above formula are explained in the next five paragraphs. Para 4 explains the zakatability of fixed asset – better known as Plant, Property and Equipment (PPE) in accounting, including the discussion on financial asset. Para 5 highlights detailed items of zakatable asset conventionally appears in financial statement and para 6 is on deductibility of liability items per financial statement. Finally, Para 7 and 8 are on provision and reserve respectively.

3.3. JAWHAR’s Manual on Zakat Management for Islamic Bank

Department of Waqf, Zakat, and Hajj or Jabatan Wakaf, Zakat and Haji (JAWHAR) was established in 2004, governed under Prime Minister’s Department, and as a kickstart to strengthen the economies of Waqf, Zakat, and Haji in Malaysia. Until 2017, JAWHAR managed to publish twenty-two (22) manuals on management for Waqf, Zakat, and Hajj. One of the publications under JAWHAR is “Manual Pengurusan Zakat Perbankan” that provides guidelines for Islamic banking institutions to govern their zakat management (JAWHAR, 2010).

This manual was prepared and established to provide a practical application in computing zakat for banking industry. To achieve the practical purpose, five illustrative examples in the form of financial statements are provided. The zakat calculation is then illustrated by using the items listed in the Statement of Financial Position. This zakat computation shown in the manual is based on the now-superseded AAOFI FAS 9 (AAOIFI, 1998). Therefore, the methods shown in the manual are similar to AAOIFI, i.e., the net invested fund method and the net asset
method. The two methods are also referred to as the `urfiyyah method and the shar`iyyah method respectively.\(^4\) (Adwamwafa, 2006).

### 3.4. MASB Technical Release i-1: Accounting for Zakat on Business

In 1997, the Malaysian Accounting Standards Board (MASB) was established as an independent authority and governed under the Financial Reporting Act 1997. It is tasked to determine, monitor, and issue accounting standards for the preparation of financial statements that required to be prepared or lodged under any law administered by the Securities Commission Malaysia, Bank Negara Malaysia or the Registrar of Companies (MASB, 2019).

Technical Release i-1 (TRi-1) was released in 2006 by MASB with the objectives to provide guidance on accounting treatment for zakat on business. It highlights details on recognition, measurement, presentation, and disclosure of zakat on business. Relevant for our discussion here is on the method of computation and the disclosure requirement. TRi-1 highlights two methods of zakat computation namely the Adjusted Working Capital method and Adjusted Growth method (MASB, 2006). Essentially, this is the asset perspective and equity perspective respectively. As for the disclosure, para 16 of TRi-1 states that an entity should disclose in the Notes to the Account, as follows:

(a) method used in the determination of zakat base;
(b) its responsibility towards payment of zakat on business; and
(c) major components of zakat, i.e., zakat expense, zakat liability and any adjustment

Two points worth noting for our discussion here. Firstly, this is a technical release which means that it is a not a standard. Therefore, it does not have authoritative clout. Secondly, this is applicable to all business entity, not just for banking institution. Therefore, the guidelines is rather too general. Although there four (4) standards/guidelines were available and discussed details on zakat, there are several studies showing that there is room for improvements that need to be improved. It is believed that all zakat computation will lead to similar zakat payable, nevertheless, a variety of zakat computations have the risk of inconsistency and make the financial statement to be less comparable (Tajuddin et al., 2017). To sum up, this study is believed to enhance the zakat assessment method and computation and is suitable for the Malaysian business environment.

### 4. Zakat Computation and Disclosures

#### 4.1. Zakat Computation

Zakat computation method on business is produced under the purview of *ijtihad* (Hamat, 2007). Availability of various zakat computations leaves banks with options. This is decided upon deliberation and decision by the Shariah Committee of the banks – hence variation of method between banks. As the business

\(^4\) The consultant for JAWHAR’s manual (s stated in the acknowledgment section) is also the author for the article “Kajian Perbandingan Syarat-syarat Penaksiran Zakat Perniagaan dengan FAS 9 AAOFI” (Adwamwafa, 2006)
environment of Islamic banking institutions is naturally the same, there should not be any conflict to have an accounting method for zakat computation (Hamat, 2007; Tajuddin et al., 2017).

Zakat computation method on business is produced under the purview of *ijtihad* (Hamat, 2007). Availability of various zakat computations leaves banks to choose whichever available computation to be adopted that is believed to align with the opinion of the Shariah Committee of the banks that may be varied amongst banks. As the business environment of Islamic banking institutions is naturally the same, there should not be any conflict to have an accounting method for zakat computation (Hamat, 2007; Tajuddin et al., 2017).

Although different methods of zakat computation theoretically led to the identical zakat payable amount, the recognition of current assets which are zakatable and recognition of current liabilities that are deductible, not in agreement among the business entities. This runs the risk of inaccurate in zakat payable (Tajuddin et al., 2017). Badarulzaman, Azhar and Ismail (2016) argued that there is no standardisation in zakat computation. This results in variation in zakat computation and assessment methods. It is found that the resolutions/rulings made by their Shariah Committee contributes to this variation. Tajuddin et al., (2017) found that there are six business zakat accounting models frequently used in Malaysia. There are the Current Assets Method, Working Capital Method, Adjusted Working Capital Method, Working Capital Method plus Investment Income, Capital plus Profit Method, and Income or Profit Method. They observed that the Adjusted Working Capital Method, Adjusted Growth Capital Method, and Profit and Loss Method are among the prevalent models adopted by business entities in Malaysia. Meanwhile, according to Hamat (2007), there are three (3) methods being used by businesses in computing zakat; current assets method, working capital method, and adjusted growth method.

Meanwhile, Sarea & Hanefah refers to AAOIFI’s FAS 9 in recommending two methods – Net Assets and Net Invested Funds. Their discussion centres on the details of items recommended by AAOIFI. Ibrahim, Abdullah, Abdul Kadir and AdwamWafa (2012), however argue that the AAOIFI standard is not suitable in the Malaysian environment. They suggested the guidelines prepared by JAWHAR and MASB as more suitable for the Malaysian environment. In the guidelines, both authorities recommend the Adjusted Working Capital Method and the Adjusted Growth Method (Ibrahim et al., 2012). Their study however focuses on GLCs in Malaysia with reference to AAOIFI’s FAS 9 and MASB Tri-1.

While current asset and current liabilities are normally zakatable and deductible respectively, there several reasons why there still needs some adjustments. Firstly, asset that is not completely owned must be excluded from zakat computation. One example is asset or fund dedicated for welfare purpose (Adwamwafa, 2006), or pledged as collateral (Osman, forthcoming). Secondly, asset is meant for growing purpose. This necessitates all current asset is bound to be zakatable. This is comparable to the notion of *urudh al-tijarah* (trading inventory) based on a hadith reported by Abu Dawud⁵ and a well-known saying by Maymun

---

⁵ From Samrah bin Jundub “The Prophet (pbuh) used to order us to pay sadaqah (zakat) from what we have for sale”
ibn Mehran in Abu Ubayd’s Book of Revenue (Abu Ubayd al-Qasim & Nyazee, 2005). Due to the “growing” requirement, obsolete inventory and bad debt are excluded in the computation as these items do not possess growing characteristics. Thirdly, some current liabilities are not deductible especially if its incurrence are not related to trading intention (Adwamwafa, 2006) its incurrence are for a longer period – long-term liabilities. In addition, any impermissible wealth should also be excluded in the calculation (Qaradawi et al., 2011).

4.2. Zakat Disclosure

Islamic banks apply different disclosure practices partly due to the influence of variation in the guidelines adopted. Mohammad et al (2015) observe that the adoption level on the guidelines is minimal at best. The found that zakat information disclosed by Islamic banks in the financial statements is limited. It was also found that Islamic banks normally paid their zakat on a voluntary basis. Therefore, if Islamic banks decline to pay zakat, no action or sanction will be imposed upon them (Badarulzaman et al., 2016).

The authorities involved (AAOIFI, JAWHAR, MASB) have made a very good effort towards standardisation on zakat practices in Malaysia. However, studies have found that there are still room for improvement. For AAOIFI, Ibrahim et al (2012) argued that its standards are not applicable for the Malaysian environment. They also argued that the technical release by MASB is just guidelines which do not serve as standard. Therefore, Malaysian companies have a discretion to not follow the issued guidelines (Ibrahim et al., 2012). As for JAWHAR’s manual, it merely serves as a manual, akin to Standard Operating Procedure (SOP). Therefore, Badarulzaman et al. (2016) found that most Islamic banking institutions considers it as a mere general guide. Thus, it is not implemented wholly as it is not binding upon them.

There are various studies that elaborate on reporting and disclosure of banking institution from ethical, financial, social perspectives from all over the world. However, there is a scant discussion on zakat disclosure and practices especially in the Malaysian context. Abd Samad and Said (2016) is one of them, exploring social reporting disclosure which include zakat. They used Ethical Identity Index in examining 16 Islamic banks during the year 2014. They found out that 12 Islamic banks acknowledge that they are liable to pay zakat. Meanwhile Badarulzaman et al. (2016) employ interviews and document analysis to understand zakat practice in banking industry. Interviews were conducted with four officers in Jabatan Zakat in Kedah, CIMB Islamic Berhad, Bank Simpanan Nasional, and Maybank Islamic Berhad. The study which focuses on legal perspective suggest the need to enact a new law in Islamic banking focusing on zakat matters.

There are a few other disclosure studies in banking industry which tangentially relate to zakat information. Majority of the studies relates zakat with Corporate

6 “When zakat is due, calculate the amount of money, add to it the value of inventory and the amount of debt on customers that you expect to be paid, sum the total, deduct whatever debts you owe to others, and pay zakat on the net”.

7 For a detailed discussion on examples of zakatable and/or deductible items, see Adwamwafa, 2006; or Osman, forthcoming.
social responsibility (CSR). More specifically, zakat information forms part of the CSR index. Marsidi, Annuar, and Abdul Rahman (2018) examined a 4-year (2007-2011) annual reports of 12 Islamic banks in Malaysia using Islamic Financial and Social Reporting (IFSR) index. Zakat information is one of the index items. They found that 75% of the Islamic banks did disclose information on zakat. An earlier study by Mosaid and Boutti (2012) also arrived at a similar conclusion. Using CSR disclosure index, they reviewed annual reports of eight Islamic banks in several countries (UAE, Saudi Arabia, Qatar, Kuwait, Malaysia, Bahrain) for the years 2009 and 2010. Zakat information makes up one of the index items. They found that most banks mention zakat and the amount of zakat paid. However, the information provided is very minimal especially on sources of zakat and uses or beneficiaries of zakat. Similarly, Obid and Hajj (2011) examined 10 local Islamic banks in Malaysia for 2009. In the study, they found out that information pertaining to which party is liable for zakat was 100% disclosed by the banks. Meanwhile studies by Wan Jusoh and Ibrahim (2017) and Abu Bakar and Md Yusof (2020) employ a qualitative approach using a semi-structured interviews with banks officer. Both studies found that CSR which includes zakat in the studies has become integral for the bank.

Haniffa and Hudaib (2007) approaches the zakat information slightly differently in that it uses Ethical Identity Index instead of CSR index. They examined a 3-year (2002-2004) annual reports of seven Islamic banks from six countries. The zakat information in the index is more comprehensive compared to CSR index previously discussed. Among the zakat-related items are do the bank is liable to pay zakat, amount of zakat paid, sources and uses of zakat, the balance of zakat fund, the reason for balance, SSB attestation that sources and uses of zakat are according to Shariah, SSB attestation that zakat has been computed according to Shariah, and lastly the amount of zakat to be paid by individuals. They found that Bahrain Islamic Bank disclosed more information and Al-Rajhi Bank disclosed the least.

Zakat information is also studied in relation to the presence of Shariah Supervisory Board (SSB). Based on annual reports and websites of 23 Islamic banks in Malaysia and Indonesia for the year 2009, Wan Abdullah, Percy and Stewart (2013) examined the relationship between SSB and zakat information, using disclosure indices and content analysis. They examined whether the banks are liable to pay zakat, do they pay zakat, sources of zakat, policy on zakat, amount of zakat paid, zakat beneficiaries, the method used in zakat computation, and lastly SSB attestation regarding the computation of zakat according to the Shariah. The results indicate that SSB-related and zakat disclosures are still limited, with only four banks disclosing more than half of the SSB Index. Maali, Casson and Napier (2006) also conducted similar study. The disclosure index developed are based on items such as sources of zakat, uses of zakat, the balance of zakat fund, the reason for non-distribution, what is the amount due in shares and deposits if the bank is not liable to pay zakat, SSB attestation that sources and uses of zakat are according to Shariah, and lastly, SSB attestation that zakat has been computed according to Shariah. After examining twenty-nine full-fledged Islamic banks from sixteen countries for the year 2000, they concluded that the disclosure – including zakat information, is still
insufficient. It is noted that while zakat information is mentioned in such studies, it is however discussed only cursorily rather than as the focus of the study. Thus, this study offers an in-depth discussion on zakat computation and disclosure by Islamic banks in Malaysia.

5. Theoretical Framework

This section highlights the framework to be used to improve the understanding of the study. It attempts to provide the link between the proposed framework adopted and the content of study. In this study, Maqasid Shariah is employed as the lens to understand the study. Literally, ‘Maqsid’ (plural: Maqasid) brings meaning as a purpose, intent, objective, principle, goal, or end (Kasri, 2016). On the other hand, Maqasid Shariah is literally defined as objectives, purposes, or principles underlying in Shariah law or rulings (Kasri, 2016). Meanwhile, the fundamental principle of Maqasid Shariah is to promote people’s interest (maslalah) and prevent mischief (mafsadah) through the preservation of faith, soul, mind, wealth, and lineage (al-Qaradawi, 2011; Kasri, 2016).

Generally, the concept of benefit (maslalah) in Maqasid Shariah is divided into three (3) levels known as the essentials (daruriyyah), the needs (hajiyyah), and the embellishment (tahsiniyyah). Qaradawi (2011) stressed that Muslim scholars believed that the injunctions of Shariah are ordained for the benefit of mankind in their earthly living and upon their resurrection after death, whether these benefits are necessities, needed, or improvements. On the other hand, Ibn Taymiyah was presumably to be the first scholar that withdrew from the notion of restricting the Maqasid Shariah to a specific number and representation then proposed to broaden the scope of Maqasid Shariah into other areas such as law (Kasri, 2016). Meanwhile, Al-Shatibi, a scholar who consistently developed the Maqasid Shariah concepts embraced the same philosophy of Al-Ghazali recognized that Maqasid Shariah is encompassed with objectives of the lawgiver (Allah SWT) and of those accountable before the law (human objectives) (Kasri, 2016). Besides, Al Shatibi opined that Maqasid Shariah should be deemed as the fundamental of religion, basic theories of the law, and sets of belief to safeguard human purposes within the scope of Ihsan (Kasri, 2016).

Islamic banking institutions market is developing vastly in Malaysia and most investors, as well as users of Islamic banking, comprise Muslim and Shariah-compliant companies. As Islamic banking institutions are believed to uphold and practice Islamic principles, thus one of the important obligations of paying zakat is expected to be performed by Islamic banks. Therefore, zakat is not only associated with the label of worship but also viewed to be closer as a major transaction for Muslims involving a relationship between the state, zakat payers, and zakat recipients and part of a social system in Islam (al-Qaradawi, 2011). Surah Al-Anám verse 6 outlined that Muslims, individually are accountable for their deeds on the Day of Judgement. Bakar (2007) mentioned that Maqasid Shariah is emphasizing the achievement in understanding to grasp the concept of accountability. zakat payments made are viewed as to discharge a responsibility as Muslim and an act of accountability to the lawmaker (Allah SWT) and religion...
of Islam that are strongly aligned to the fundamental principles of Maqasid Shariah.

6. Research Methods

The study adopts a mixed method analysis where a quantitative research method using a content analysis of the annual reports is complemented with interviews with relevant bank’s officers. The annual reports of 16 Islamic banks and 6 development financial institutions for the financial year 2020 are used in this study. In order to have more insights on the issue, virtual interviews with the Heads of the Shariah department and Finance officers who have been involved in zakat computation in the banks are conducted. The selection of these respondents is based on their involvement in the zakat computation in their respective Islamic banks. The interview is conducted in March 2021 and each interview was conducted about one hour.

<table>
<thead>
<tr>
<th>No.</th>
<th>Items</th>
<th>Standards/Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank liable for zakat on business</td>
<td>BNM’s Guidelines: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AAOIFI’s FAS 39: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>JAWHAR’s Manual: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MASB TRi-3: √</td>
</tr>
<tr>
<td>2</td>
<td>Bank liable for zakat on behalf of shareholders</td>
<td>BNM’s Guidelines: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AAOIFI’s FAS 39: √</td>
</tr>
<tr>
<td>3</td>
<td>Beneficiaries of zakat</td>
<td>BNM’s Guidelines: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AAOIFI’s FAS 39: √</td>
</tr>
<tr>
<td>4</td>
<td>Method applied in the determination of zakat base</td>
<td>BNM’s Guidelines: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AAOIFI’s FAS 39: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>JAWHAR’S Manual: √</td>
</tr>
<tr>
<td>5</td>
<td>Amount paid for zakat</td>
<td>BNM’s Guidelines: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AAOIFI’s FAS 39: √</td>
</tr>
<tr>
<td>6</td>
<td>SSB or SC attestation that zakat has been computed according to Shariah</td>
<td>BNM’s Guidelines: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AAOIFI’s FAS 39: √</td>
</tr>
<tr>
<td>7</td>
<td>Rate used to compute zakat</td>
<td>BNM’s Guidelines: √</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AAOIFI’s FAS 39: √</td>
</tr>
</tbody>
</table>

The study analyses the zakat computation method, zakat rate, and zakat disclosures in the annual reports from the report of the Shariah Committee Report and Notes to the Financial Statements sections. Annual report of Islamic banking institutions and development financial institutions for the financial year ended 2020 are accessible online. The references in Table 2 are used for the Zakat Disclosure Checklist in this study. The first item which is the statement of whether the bank is liable for zakat on business is taken from BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions, AAOIFI’s FAS 39, and MASB TRi-1. The second, third, and sixth items are taken from BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions and AAOIFI’s FAS 39. The fourth item which is the method used in zakat computation was extracted from those four guidelines. The fifth and the last items were taken from BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions, AAOIFI’s FAS 39, JAWHAR’S Zakat Management Manual, and MASB TRi-1. This zakat disclosure checklist has been developed by Ghazali and Mohd Ariffin (2018).
The qualitative data in the annual reports of the individual Islamic banks was quantified and coded using content analysis in this study (Coe & Scacco, 2017). Content analysis is a research method that provides systematic procedures for making valid inferences from text utilising specified qualities (Krippendorff, 2018; Neuendorf, 2017; Weber, 1990). The unit of analysis, such as the number of sentences or words, must be stated as the technique to code the qualitative information in the annual report to do content analysis (Gray et al., 1995; Hackston & Milne, 1996; Ingram & Frazier, 1980; Milne & Adler, 1999; Unerman, 2000).

In this regard, the number of sentences is used as the unit of analysis in this study to examine the existing zakat disclosure practice in Islamic banks in Malaysia based on Shariah Committee Reports and Notes to the Financial Statement. According to Hackston and Milne (1996), the number of sentences is more reliable since it allows for less misinterpretation and accurately portrays the true meaning of the data revealed in the annual report. A sentence provided is counted as '1' for each disclosure item when performing the content analysis, regardless of its length. A score of '0' is assigned to items that are not revealed. The interview questionnaire with the Head of Shariah and Finance officer of selected Islamic banks will complement the results on the analysis of the annual reports and identify the issues and challenges in zakat computation in Islamic banks in Malaysia. The interview has been recorded and has been transcribed for the purpose of analysis.

7. Findings and Discussion
7.1 Method and the Rate used in Zakat Computation by Islamic Banks in Malaysia

Based on the analysis of 16 Islamic banks and 6 development financial institutions, only 13 Islamic banks and all 6 development financial institutions disclosed their zakat computation method in their annual reports. The remaining 3 Islamic banks, which all are foreign Islamic subsidiary banks, did not pay zakat, therefore is no information on zakat computation in the annual reports. There are 7 Islamic banks and all 6 development financial institutions that choose the Growth Method as their zakat computation method. The other two Islamic banks use the Working Capital Method respectively. One Islamic bank uses the Opening Reserve method, and two Islamic banks use the Profit method. There are only two methods that are preferred by JAWHAR and MASB which are Adjusted Growth and Working Capital methods, and this is what the 9 Islamic banks and 6 development financial institutions have been using. However, none of the standards and guidelines recommend the use of these two methods which are the Opening Reserve and Profit methods. The Shariah Committee of the respective banks should provide an explanation and justification why the basis is not as what has been proposed by the existing standards and guidelines.

For the zakat rate, from 13 Islamic banks and 6 development financial institutions that pay zakat, only 5 Islamic banks and 1 development financial institution do not disclose the zakat rate in the annual reports. Most of the Islamic banks and development financial institutions are using 2.5% for the zakat rate and
only 3 Islamic banks and 1 development financial institution are using 2.5775% for the zakat rate. This is because the rate of zakat on business, as determined by the National Fatwa Council in Malaysia is 2.5% of zakat base. However, according to AAOIFI FAS No. 9, the rate of 2.5775% is used if the zakatable rates are 2.5% (for Lunar or Hijrah, 354 days) and 2.5775% (for Solar or Masihi, 365 days). The difference in rates is simply to reconcile the 10 or 11 days of the year. Since the financial statements for all the banks are prepared in accordance with the Masihi year, then the zakat rate of 2.5775% is more appropriate to reflect the accurate amount of zakat.

7.2 Zakat Disclosure Practices in the Annual Reports on Islamic Banks and Development Financial Institutions in Malaysia

For Zakat Disclosure, the number of sentences as the unit of analysis to analyse the current disclosure practice of zakat in Islamic banks in Malaysia from the Shariah Committee Reports and Notes to the Financial Statement is computed. The highest number of sentences reported is seven sentences and the minimum is once sentence, which is disclosed in the Shariah Committee Report only. On average, the number of sentences is four sentences. It can be summarised that based on the analysis of 16 Islamic banks and 5 development financial institutions, the zakat information is disclosed by majority of the institutions in accordance with Zakat Disclosure Checklist. Most of the information disclosed is required by Bank Negara Malaysia and including the ones in AAOIFI and JAWHAR. The first item which is the statement of whether the bank is liable for zakat on business is taken from BNM’s Financial Reporting for Islamic Banking Institutions, AAOIFI’s FAS 39, and MASB TRi-1. The second, third, and sixth items are taken from BNM’s Financial Reporting for Islamic Banking Institutions and AAOIFI’s FAS 39. The fourth item which is the method used in zakat computation was extracted from those four guidelines. The fifth and the last items were taken from BNM’s Financial Reporting for Islamic Banking Institutions, AAOIFI’s FAS 39, JAWHAR’s Zakat Management Manual, and MASB TRi-1.

7.3. Challenges in Zakat Computation in Islamic Banking Institutions in Malaysia

Interviews are conducted mainly to support all objectives of the study, mainly the third objective. This is because interviews offer in-depth information rather than depending on the published annual reports. From the interview findings, it can be concluded that there are five main challenges in zakat computation: window dressing; statutory requirements by Bank Negara Malaysia; zakat rate issues; shareholdings; and distribution practices.

7.3.1. Window dressing

As zakat is paid on zakatable assets, any practice resulting in the increase and decrease of such assets – for example, cash, affects the zakat payable amount. One such practice is window dressing. Window dressing in banks refers to the act of “beautifying” the financial position – normally undertaken to reflect a better
performance in financial statements. It employs a short-term initiative in improving reporting figures (Allen & Saunders, 1992). Therefore, there is a difference between a reporting figure and the substance, i.e., the permanent level (of asset, liability, etc). This conventionally occurs at the year-end reporting date as the bank as the reporting entity is incentivised either by obtaining favourable treatment from authority or avoiding unfavourable consequences (Agarwal et al., 2014; Cai et al., 2019; Dechow & Shakespear, 2009; Griffiths & Winters, 2005). One of the incentives for the Islamic bank to get involved in window dressing is by offering a more attractive deposit rate towards the financial year-end. A bank officer noted that:

“Among the benefits of this window dressing is in terms of premium payment to PIDM. It will reduce our premium. It (the computation for premium payment) has the numerator and the denominator, so if our base is large, it reduces the payment to PIDM... This computation will contribute to the reduction in premium payments to PIDM”

PIDM\(^8\) is mandated to protect depositors’ money. It requires banks to pay insurance premiums. The amount of premium paid depends on - among others, the deposit amount reported in the financial statements. Generally, a higher deposit amount can result in a lower insurance premium paid to PIDM. Public and corporations may be enticed to deposit the money during this period. When the profit rate is revised to a lower rate after the reporting date, depositors tend to withdraw the money, especially corporation financial-savvy individuals who pay close attention to its cash management (Cai et al., 2019; Dechow & Shakespear, 2009). Therefore, the cash/asset figures per reporting date is not sustainable. It will return to a “permanent level” post-reporting date (Allen and Saunders, 1992). However, the initiatives which tend to increase funds consequently affect zakat payable amounts because zakat is paid on zakatable funds. The zakatable status of such a fund is questionable as the nature is transitory, at best. The zakatability condition of growth (an-nama) from the perspective of an Islamic bank is relatively remote – if not non-existent because it cannot fully benefit the fund due to the short “maturity” date. The probability that the depositor withdrawing the fund is highly likely after the reporting date.\(^9\) Due to the constraint in using the money, arguably the Islamic bank may not fully obtain complete ownership.\(^10\) Therefore, the zakatable amount charged on the Islamic bank should be lower as it should exclude the transitory cash amount.

---

\(^8\) Perbadanan Insurans Deposit Malaysia (PIDM) is a government agency established in 2005 under Malaysia Deposit Insurance Corporation Act (PIDM Act).

\(^9\) The actual decrease in profit rate is at the bank's discretion as Islamic banks are not allowed to promise any fixed rate in the first place, i.e., upon placement. However, an annual trend analysis may indicate the presence of such practice, i.e., higher deposit profit rate at the end of reporting date vis-à-vis lower rate after the date.

\(^10\) Full Shariah discussion is required here whether complete ownership is threatened. The cursory view indicates that such a scenario does not render incomplete ownership (Qaradawi, 2011). Islamic banks still possess sufficient ownership.
7.3.2 Statutory requirements by Bank Negara Malaysia

Computation of zakatable wealth is also impacted by Islamic banks’ consideration of several Bank Negara Malaysia’s requirements. Two of them are capital adequacy and statutory reserve.

a. Capital adequacy

The resilience of Islamic financial institutions depends on among others, on their capital. Bank Negara Malaysia regulates such capital maintenance through a capital adequacy framework. In general, IFI must maintain a certain ratio comprised of capital (as the numerator) and asset (as the denominator). Bank Negara Malaysia has issued separate policy documents for both items; capital adequacy framework - capital component (BNM, 2020) and capital adequacy – risk-weighted asset (BNM, 2019). Zakat is charged on wealth which fulfils the complete ownership. Therefore, zakatable wealth should only comprise an asset in which the Islamic bank has ownership and control. For an Islamic bank, normally the amount regarded as fulfilling complete ownership is the amount equivalent to the amount of shareholder equity.

“…in a bank, the absolute ownership generally refers to shareholder equity”
(Officer H, Bank A)

In addition to shareholder equity, an Islamic bank may include some other wealth considered possessing complete ownership characteristics. An officer from Bank A said:

“…we also include the Tier 1 capital (in computing zakatable wealth) …”
(Officer H, Bank A)

The above occurs when the recommendation is presented to and approved by the Shariah Committee of the bank. While the shareholder equity amount in the Statement of Financial Position is the figure normally taken for a zakat computation purpose11, the bank, i.e., the units responsible for zakat computation (Finance and Shariah department) there are some items that fulfil the condition of complete ownership. Therefore, the inclusion of additional items into zakat computation. Similarly, any asset which does not possess such characteristic is not zakatable. In relation to the capital adequacy requirement, the requirement to maintain an adequate amount of capital renders a certain amount to lose complete ownership characteristic. The affected amount should be excluded in calculating the final zakatable amount. An officer H, from Bank A, noted that:

“We need to put aside capital for regulatory requirement… and also for our operational purpose. (By doing this), we are able to maintain appropriate capital base (per Bank Negara requirement) …”

11 Per Adjusted Growth Method
Two officers from Bank A however allude that determining complete ownership is not a straightforward exercise for an Islamic bank. The receipt of cash from depositors and investors may be considered part of zakatable wealth. However, the fluidity and movement of such an amount pose challenges to banks. Zakat may be charged based on zakatable wealth including cash (i.e., depositor’s fund). However, these funds may be withdrawn after zakat is paid. Hence, determining the “real” ownership of such a fund is challenging.

“…(determining complete ownership in) banking business is a bit difficult because the main operation is cash. But the cash is customers’ (deposit) and goes back to customers (withdrawal). Therefore, a real actual complete ownership is equity amount. That’s why it is quite a challenge to identify the meaning of complete ownership from a practical standpoint…”

The officer seems to be in dilemma as to whether the final figure of cash per Statement of Financial Position should all be zakatable. The transitory nature of the cash seems to bother the officer’s consideration of the meaning of complete ownership. At present, the bank still takes the whole cash amount as zakatable. However, he felt that the transitory nature of such cash should be considered in accounting for complete ownership.

b. Statutory Deposit

Bank Negara Malaysia requires the bank to deposit a certain amount based on the bank’s total deposit. This Bank Negara Malaysia’s requirement on keeping a certain amount of deposit at Bank Negara also influences the notion of complete ownership. Officer H noted that:

“This fund is kept at Bank Negara. It will debit our account over there. So, we do not get any benefit or profit because this is a statutory amount for liquidity purposes. Yes, we do (zakat) adjustment for this…”

The bank must maintain a certain percentage based on the amount of deposit it receives from the depositor. While all-cash deposit amount received is zakatable (being part of asset item), some portions of these funds are remitted to by Bank Negara periodically – typically ranging between 2% and 4% of total deposit.

“That statutory (deposit) amount, yes, we have the way to compute…according to Bank Negara. Now it is 2% of the eligible liability on basically deposit products. There is a formula for it. It used to be 4%, then revised to 3%. Now because of the pandemic, it reduces further to 2%. So, yes, we’ll pay every 2 weeks…” (Officer H, Bank B)

This amount does not possess complete ownership. As the remittance may be made every fortnight (Officer A, Bank B), it affects the zakat computation in terms of how much deposit money fulfils complete ownership. The frequent change in the amount of deposit indicates the fluidity of the complete ownership amount.
7.3.3 Issues on zakat rate

The zakat rate in Malaysia is typically 2.5%. This can be seen from all websites of zakat authorities in Malaysia. AAOIFI however recommends the rate of 2.5775% as it is more appropriate for a Gregorian calendar having 365 days per year. Officer U, Bank B noted that:

“We use 2.5%. Because we decide to follow the Majlis Agama. They are an authority (in zakat matter). There is no requirement by the regulator (to follow which rate). So, we decide to follow Majlis Agama’s direction. Bank Negara is flexible on this matter…”

Meanwhile, an officer from another Bank decides to use 2.5775%, highlighting that,

“There is no issue at all whether to apply 2.5% or 2.5775%. But in our bank, we decide to be a bit rigid. Because there is that extra day and we use a normal calendar, so we use 2.5775%”

The decision on which zakat rate to use depends on the individual bank’s discretion. Bank Negara Malaysia does not dictate the rate nor on whether the bank should pay or not. The decision rests on the Shariah Committee of the individual banks as noted by Officer Z, Bank B:

“We, sort of self-regulate. Even if an Islamic bank does not pay zakat, Bank Negara is ok with that. There is an Islamic bank that does not pay zakat. The reason given; the shareholders are non-Muslim…”

Those using 2.5% argue that they are following the advice from each respective states’ Majlis Agama Islam because they are the authority on Islamic matters in Malaysia. The argument is that the difference of 10-11 days between the Hijrah year and Masihi year does not have a significant change in the financial statements.

Meanwhile, those using 2.5775% are similar to the rate recommended by AAOIFI. It is acceptable in Malaysia as the Shariah Committee considers this rate as a more accurate reflection of the contemporary use of the Gregorian calendar. Theoretically, it collects more because the rate is higher. In any case, Bank Negara Malaysia allows individual banks to decide on this matter.

7.3.4 Shareholdings

The flexibility in zakat payment also transpires when a bank is a subsidiary to a larger conglomerate or/and financial institution. The practices seem to vary. In some cases, the subsidiary computes its zakat and pays. Officer B, Bank A said:

“That is correct. Every one of our subsidiaries pays at their level…”

Meanwhile, there are other institutions in which the parent bank pays the zakat. This is normally applicable for foreign-based Islamic banks. In between these two approaches, there are several different practices. In some Islamic banks,
the subsidiary will pay at their level, but the actual computation is undertaken by an officer at the parent company.

“We did like this before; we compute for subsidiary”

On the other hand, there is also a practice where the computation is done by an officer at the subsidiary but reviewed by an officer at the parent company.

“Now, they (officer at the subsidiary), do the computation. We here will review their computation”

This indicates that the practice related to zakat, i.e., the payment and the computation responsibility, may vary between one Islamic bank and another. In addition to the above, the existence of shareholding by the parent company may also affect zakatability. Some Islamic bank decides not to pay zakat at all based on the argument that the shareholding is owned by non-Muslim.

“…there are possibly 3 banks that do not pay zakat either because of the parents pays or/and it is owned by non-Muslim…”

There is certainly a moral argument to require Islamic banks to pay zakat. Being an institution applying Islamic transaction contract (muamalah) in its business seems to be a good justification to equally compel such institution to pay zakat – itself is an important Islamic transaction. Therefore, it seems inconceivable for an Islamic institution such as an Islamic bank to choose not to pay zakat. However, the zakatability condition requires the payer to be a Muslim. Non-Muslim is not required to pay zakat (Qaradawi, 2011, p.49). Therefore, if the bank is owned by non-Muslim, they are not subject to zakatability. In such a scenario, zakat can only be legitimately imposed if the bank’s shareholders agree to such an effort, or the Bank Negara Malaysia make it a requirement.

8. Conclusion and Recommendations

The zakat issues for Islamic banks in Malaysia present an interesting area of study. The juxtapositional jurisdiction between Bank Negara Malaysia and MAIN, the flexibility of Bank Negara Malaysia on certain practices, and the different shareholding structures are among the reasons influencing the zakat computation and disclosure.

Based on the findings of this study, the Adjusted Growth Method (Capital Growth) is the commonly used method in zakat computation in which 12 Islamic banks are using this method from the total of 22 Islamic banks in this study. For the zakat disclosure, most of the information disclosed in the annual reports is required by Bank Negara Malaysia and including the ones in AAOIFI and JAWHAR. Most of the Islamic banks and development financial institutions are using 2.5% for the zakat rate and only 3 Islamic banks and 1 development financial institution are using 2.5775% for the zakat rate.

There are several observable challenges. The zakat computation is influenced by the practice of window dressing, the use of zakat rate, and the statutory
requirements by Bank Negara Malaysia on capital adequacy and statutory deposit. Meanwhile, the disclosure practices are impacted by the shareholding structure and the different distribution practices due to different approaches taken by respective zakat authorities.

It is recommended that in the absence of zakat standards for zakat computation, there must be comprehensive internal policy documents in the Islamic banks to ensure that zakat will be computed in a standardised manner that is fair to both zakat payers and zakat recipients. It is very important to ensure consistency in the zakat computation for each year to ease the Shariah Committee in approving the amount if zakat for the Islamic banks. In this way, the Islamic banks can enhance the comparability, transparency, accountability, and reliability of financial statements as well as annual reports. Having an ideal computation method can facilitate the zakat computation system in Islamic banks and reduce the gaps between the zakat practices in Islamic banks.

The current study is only focusing on Islamic banks in Malaysia. Future studies can be conducted on Takaful companies and non-financial institutions in Malaysia and outside Malaysia.

References


