Modelling zakat as tax deduction: A comparison study in Indonesia and Malaysia

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Abstract

Purpose - This study aims to analyze the differences in compliance and implementation of paying zakat and taxes with zakat regulatory antecedents such as tax deduction.

Method - 129 respondents from academicians and managers in Indonesia and Malaysia were taken by convenience sampling method and analyzed using the Mann-Whitney test and linear regression.

Result - The result shows that there are differences in zakat payment compliance between Indonesia and Malaysia. The implementation of zakat as tax deduction regulation has a significant effect on zakat and tax compliance behavior in both countries. Meanwhile, zakat as a tax deduction regulation executed in Malaysia makes tax compliance behavior higher than in Indonesia.

Implication - Socialization from both the tax officials and zakat officials that zakat can be used to reduce taxable income is needed. It is suggested to apply zakat as a tax deduction for Indonesia as well as Malaysia.

Originality - This research contributes to the Indonesian government in exploring the potential of Indonesian Muslims in paying zakat and taxes.

Keywords: zakat; tax deduction regulation; tax compliance behavior

Introduction

Zakat and taxes are two important sources of income for the Muslim majority countries which collect *zakat* and taxes separately. *Zakat* payment does not automatically become a deduction from the owed taxes, such as in Indonesia. The tax ratio for Indonesia is 10.8% which is lower in the Southeast Asian region compared to Malaysia (14.4%), the Philippines (13.67%), Singapore (14.29%), and Cambodia (15.3%). This condition is not in line with Indonesia's position as the highest gross domestic product (GDP) in the ASEAN region, number 5 in Asia, and 15 in the world. Indonesia's tax ratio is still lower than the average value of the world tax revenue to GDP ratio which is 15.06% (World Bank, 2016). Ideally, the tax ratio should be linear with the economic progress of a country. This reality is a challenge for the government of Indonesia to increase the ideal tax ratio, which is close to the state budget of around 15-16% of total GDP so that it can guarantee fiscal sustainability and deficits that are under control.

Tax revenues from various sectors are still low causing the Indonesian government to explore the potential sources of tax revenues from the biggest tax subjects, namely Muslims, which make up to 75% of the total population of Indonesia. Based on Global Religious Future data, Indonesia's Muslim population is estimated to reach 229.62 million people in 2020 and could potentially receive the largest *zakat* in the world with 280 trillion rupiahs according to BAZNAS (Susanti & Ika, 2019). According to the Ministry of Religion, the potential of *zakat* in Indonesia is still very low at 0.2% of the target in 2018.

The potential of receiving *zakat* can indicate the level of welfare of the community, especially in countries with a majority of the Muslim population, but the potential of receiving *zakat* has not yet reached the target due to the lack of understanding that *zakat* can improve society's welfare (Kusuma & Ryandono, 2016). In addition, low trust in *amil zakat* (LAZIS or BAZ) in distributing *zakat* also makes *muzakki* (*zakat* payer) prefer to pay *zakat* to *mustahik* (*zakat* recipient) directly. Thus, the collection and distribution

processes of zakat cannot be optimal (Barizah & Rahim, 2007; Zakiyah, 2011). Previous studies mentioned that the role of *zakat* could be optimal if the government and *zakat* institutions cooperate to collect and distribute them systematically (Daud & Audu, 2011; Samad & Glenn, 2010; Sari et al., 2013). Therefore, the government is trying to harmonize *zakat* and taxation by making *zakat* one of the tax reliefs in collecting income tax (PPh) in Indonesia (Ghaffari, 2017).

According to Nurhayati & Siswantoro (2015), society's awareness of tax deduction is still low even though it is regulated by the law. This is due to the situation where *zakat* is not considered an overpaid tax; the approved laws/regulations are not yet known by local Islamic law, and the society's education, particularly in undergraduate grade, assumes the complexity of *zakat* as a tax deduction and also there is no record of *zakat* payment. It is also caused by motivation where people do not want to be known that they have paid *zakat* and public trust in *zakat* management institutions.

The Indonesian government has made the rules as a solution to the dual obligations of Muslims, namely in paying zakat and taxes. These rules are stated in Article 22 of Law No. 23 of 2011 on "*Zakat* that has been paid to *amil zakat* bodies or *amil zakat* institutions is deducted from the taxable profit/residual income of the relevant taxpayers by the applicable laws and regulations". However, the practice of *zakat* as a tax deduction in Indonesia is very small and there are still many Muslim communities who do not know that the *zakat* they pay can reduce the value of taxes that must be paid (Soimah, 2016). Djatmiko (2019)'s research added that the reformulation of *zakat* as a tax reduction is expected to increase the number of taxpayers and *zakat* payers, therefore when *zakat* becomes a deduction from income tax, there will be a greater economic influence.

In contrast to Indonesia, the implementation of the integration of *zakat* and tax in Malaysia is done by giving tax deductions on *zakat* that have been paid by Muslims. Malaysia is one of the countries where *zakat* contribution is voluntarily paid and Malaysians who pay *zakat* to a *zakat* institution will get tax rebates. The resolution made by the government provides relief for

Muslim taxpayers from being burdened by double taxation. No matter how much *zakat* is paid, it will be deducted from the tax that should be paid on the condition that the *zakat* is paid in the same estimated year and there is proof/receipt from the State's Islamic Religious Council in Malaysia (Suprayitno et al., 2013). This *zakat* rebate on individual income tax is granted when Muslims in Malaysia make their *zakat* payments to any *zakat* institutions. However, if they pay their *zakat* directly to *Asnaf*, there is no rebate entitled to them. Therefore, the rebate reduces the income tax on the chargeable income. The *zakat* rebate is to be charged based on the data *zakat* was paid in the year of income tax assessment. *Zakat* in Malaysia is managed by every state with full rights and authority. Therefore, *zakat* is not collected and distributed centrally, each state has its *zakat* center and the distribution of *zakat* in each state will also be assisted by the *baitul mal*.

Zakat has a different concept from tax. *Zakat* is purely intended for social and spiritual purposes and will provide benefits such as poverty alleviation, and wealth distribution, as well as being a medium to cleanse wealth and hearts. There are no material benefits directly felt by the payer. A study by Fidiana (2014) has revealed the fact that paying taxes and *zakat* involves the concept of dualism which is obedience and compliance. The study shows that *zakat* payers are willing to pay the *zakat* and they are honest and do not dare to cheat or manipulate in paying *zakat*. It is different from the tax concept that has been so rigid with various rules that have an impact on fines, criminal sanctions, potential audits, and so on, but there are still many avoidances and evasion of taxes. This difference, in reality, is an interesting thing to study more thoroughly.

Both Indonesia and Malaysia have the greatest tax subject equality from the majority of the Muslim population and the existence of zakat regulations as a tax deduction even though the execution of tax deduction is slightly different. Therefore, the researchers are interested in conducting a comparative study related to the willingness to pay tax with zakat.

Literature Review

Compliance is an action to fulfill the needs/desires or requests of other parties (Taylor, 2006). The subject of obedience includes two or more interacting parties, namely the governing party and the governed party. As a result of this interaction is compliance or non-compliance. Compliance theory in the organizational structure is an approach to internal or organizational structure that integrates ideas from the classical model and management participation. Pressure or demand from other parties requires the organization to do something according to the criteria in the form of management participation in meeting compliance (Lunenburg, 2012).

Compliance from the internal side of a company can be formed from six factors (Taylor, 2006) including information, rewards, trust, power, legitimate authority, and coercion. Related to this research variable, the regulation of *zakat* as a tax deduction is included in the factor of reward and legal authority.

Zakat is the command of Allah Almighty which in many verses of the Qur'an is mentioned in unison with the command of prayer. Both of these commands contain very deep meaning. The order of prayer is intended to strengthen the Islamic identity of humans on the personal dimension of spirituality, while the command of *zakat* is intended for the actualization of the Islamic identity of the man on the dimension of ethical awareness and morality on the social dimension (Mas'udi, 2019). Zakat is not institutional teaching, but spiritual and moral teaching about the responsibility of the state and people with more wealth to uphold the benefit and justice of the universe that is prioritized for the helpless. Meanwhile, tax is the technical language of the institutional concept which is the body of *zakat* (Mas'udi, 2019).

However, *zakat* cannot replace taxes, given the foundation used. Alms have been determined by the levels and calculations in the Qur'an and Sunnah. Different from the tax, the calculation depends on the needs and policies implemented by the government, so a Muslim is asked to fulfill both. *Zakat* is a form of obedience to the Creator while tax is a form of obedience to

the state. Payment of taxes by *Muzakki* (*zakat* payer) is considered the perfection of worship (Bayinah & Simatur, 2015). Tax and *zakat* are inseparable from compliance in living the life of a state and religion. Both tax and *zakat* aimed at increasing the welfare and prosperity of the people (Permana, 2020).

Zakat in terms of *fiqh* is a certain amount of wealth or wealth that is required by Allah Almighty to be submitted to the right party. The amount issued will make it more meaningful and protect wealth from destruction. According to Ibn Taimiah, "The soul of the tithe will be clean and his wealth will be clean too: clean and increase in meaning" (Aziz, 2015). However, in terms of the terminology, the basic meaning of the word *zakat* has a sacred meaning, which is growing, blessing, and commendable (Qardawi, 1999). The meaning of growth and holiness is not only intended for wealth, but also for the souls of those who pay alms. *Zakat* generates material and spiritual growth for the poor and develops the zakat *fitrah* (soul) and zakat *maal* (wealth) of the rich (Santoso & Agustino, 2017).

Two types of *zakat* are required of Muslims, namely *zakat fitrah* and *zakat maal*. *Zakat fitrah* is a small levy that all Muslims must pay without fail, regardless of age, gender or wealth. *Zakat fitrah* is *zakat* paid by Muslims ahead of *Eidul Fitri*, which is equivalent to the type of food consumed daily as much as 3.5 liters or 2.7 kg (Aziz, 2015), while *zakat maal* (*zakat* assets) are income and services, agricultural products, livestock, gold or silver that has reached the *haul* (time) or has reached the size of one *nisab* (the minimum limitation amount of assets subjected to *zakat* for Muslim which is equal to 85 grams of gold). The calculation of *zakat maal* is different according to the type of income and it can be owned by individuals or business entities (Firdaus et al., 2012). In Malaysia, each state declares the *zakat* rate for the year based on the current market price of its local rice.

In this paper, the focus is mainly on *zakat maal* (especially *zakat* on income or profession), which has experienced development in the modern economy. *Zakat* on income or profession is *zakat* issued on professional income (professional results) when it reaches *nisab*. These professions are for

example public or private employees, consultants, doctors, notaries, accountants, artists, and entrepreneurs. Professional income is in the form of money. From this point of view, it is different from plants, and closer to gold and silver. Therefore, the professional *zakat* level, which is pronounced with gold and silver alms, is 2.5% of all gross income. The hadith which states the levels of *zakat* of gold and silver is: "If you have 20 gold dinars, and have reached one year, then the *zakat* is half a dinar (2.5%)" (HR. Ahmad, Abu Dawud and Al-Baihaqi, *kitab Az-Zakah* in chapter *Fi Zakah As-Sa'imah* (1573) volume II, page 102-103 and briefly in chapter *La Zakah fi Malin Hatta Yahul 'Alayhi Al-Hawl* (7273) volume IV, page 160 (Sabiq, 1973)).

So that Muslims are not exposed to the double burden of paying *zakat* and taxes, and to encourage concern for others and increase religious observance, the government has determined *zakat* as a deduction for taxable income (PKP). The basis for the stipulation is regulated in Law No. 36 of 2008 on Income Tax which states that compulsory *zakat* can be deducted from gross income on the condition that it is paid through *zakat* recipient bodies/institutions established and approved by the government. Government Regulation (PP) No. 60 of 2010 (Republik Indonesia, 2001) on *zakat* or religious donations which are mandatory and that can be deducted from gross income also stipulates that *zakat* can reduce taxable income. Law No. 23 of 2011 on Management of *Zakat* in article 22 and Article 23 paragraphs 1-2 also regulate the same thing, namely: *Zakat* paid by *muzakki* to the National Amil Zakat Agency (BAZNAS) and the Amil Zakat Institution (LAZ) deducted from taxable income (article 22) and Baznas or LAZ is required to provide proof of *zakat* payment to each *muzakki* (*zakat* provider), and the evidence is used as a deduction for taxable income (Article 23).

Nowadays, the wrong assumption is circulating among Muslims, that paying *zakat* can directly reduce the tax to be paid. The truth is as stated in Law No. 38/1999 that the zakat which has been paid to the official BAZ or LAZ will be deducted from the profit/taxable residual income of the taxpayer concerned. Law No. 17/2000 also stipulates that *zakat* on income that is paid officially by an Islamic taxpayer or a domestic corporate-owned by Muslim

taxpayers can be deducted from taxable income. Decree of the General Director of Taxes No. Kep. 542/PJ/2001 states that *zakat* on income can be deducted from the net income (Muktiyanto & Hendrian, 2006).

Act Number 7 of 1983 on Income Tax, which was last amended by Act Number 36 of 2008, states that *zakat* or religious donations that are obligatory can be deducted from gross income provided that they are paid through *zakat* recipient bodies/institutions or religious donations which are mandatory formed or authorized by the government.

This provision applies both to individual taxpayers and corporate taxpayers owned by Muslims. To be deducted from taxable income, a person or business entity that pays *zakat* has the right to request proof of *zakat* deposit. The amount of *zakat* paid is stated in the column below gross income and attaching evidence of *zakat* deposit from the designated institutions. Appointed bodies/institutions are regulated in Director General of Taxes Regulation Number PER- 11/PJ/2018, some of which are the National Amil Zakat Agency (BAZNAS), Amil Zakat Institution (LAZ) on a national scale, and Amil Zakat Infaq and Shodaqoh Institutions (LAZIS).

Compliance for paying *zakat* in Indonesia is still relatively low. It can be seen from the large gap between the potential for receiving *zakat* and the value of *zakat*. The gap indicates that some Muslims are less motivated to pay *zakat* (Mukhlis & Beik, 2013). Another factor of the low acceptance of zakat in Indonesia is that zakat payments are paid directly to *mustahiq* without going through *amil zakat* institutions, so the realization of *zakat* values is not recorded. Another cause is the assumption that taxes are more important than *zakat* (Mujaddid & Ramadan, 2019).

Zakat in Malaysia is managed by every state with full rights and authority. So, *zakat* is not collected and distributed centrally, each state has a *zakat* organization in the form of a private company managing *zakat* and *baitul mal* or *zakat* power department under the authority of the State Islamic Religious Council with their respective basis, goals, and functions. In several states, the collection and distribution of *zakat* are carried out by these two institutions.

The collection of *zakat* is carried out by a private company under the Ministry of Islam, while the distribution is done by *baitul mal* (Suprayitno et al., 2013).

Hypothesis Development

Previous research states that the factors that influence adherence to paying *zakat* are religious factors such as faith, religious understanding, and reciprocity, as well as social care, self-satisfaction, and organizational factors. The professionalism of the Zakat Management Organization (OPZ) also influences the observance of paying *zakat* (Mukhlis & Beik, 2013). Mujaddid & Ramadan (2019) report that religiosity can explain the willingness to pay tax and *zakat*. The dimensions of the importance of religion and the intensity of prayer have a negative effect, while the dimensions of religious value considerations have a positive effect on the willingness to pay taxes and *zakat*. Willingness to pay tax and *zakat* does not show significant differences both at high and low levels of religiosity. The factors that influence *muzakki* to pay *zakat* as a tax deduction are a knowledge, halal and haram aspects, legal awareness, and religiosity, especially the halal and haram aspects which is a very significant factor in the perception of Muslim consumers about *zakat* as a tax deduction in Malaysia (Al-Mamun & Haque, 2015). Sahaluddin & Mokhtar (2019) through their study found that some factors such as age, marital status, and income are major significant factors and may influence the payment of *zakat* as well as the *zakat* payment mechanism through salary deductions. Therefore, the first hypothesis can be formulated as follows:

> *H₁: There is a difference in compliance of paying zakat in Indonesia and Malaysia*

Demographic and policy factors between Indonesia and Malaysia can also be the cause of differences in tax compliance behavior in the two countries. This is consistent with the theory stated by Lunenburg (2012) that compliance theory is an approach to organizational structure that integrates several ideas from classical and participatory management models. In the theory, organizations can be classified based on the type of power they use to

direct the behavior and involvement of members. In most organizations, the types of power and involvement are related in three predictable combinations: coercive-alternative, utilitarian-calculative, and normative-moral. Organizations can combine two or even all three types of power; for example, using utilitarian and normative power to obtain compliance. The use of power that is incompatible with environmental conditions can reduce organizational effectiveness.

Taxpayers in Malaysia will face law enforcement. Malaysia has also placed tax authorities directly under the Prime Minister, while tax management in Indonesia is under the authority of the Ministry of Finance which limits the movement of the Directorate General of Taxes (DGT) steps in optimizing tax achievement targets (Darussalam, 2019).

In terms of demographic factors, tax compliance behavior in Indonesia is related to education level, type of work, and income level. Higher educated taxpayers are more aware of tax regulations and fiscal policy and know about the ways to avoid tax (tax avoidance) and smuggling tax (tax evasion). Taxpayers who work as civil servants are more obedient compared to entrepreneurs because the income received by employees is routinely deducted by the employer, while entrepreneurs have more opportunities to carry out tax evasion. In addition, employers generally require ownership of a Taxpayer Identification Number (NPWP) as a condition of a job application. Some employers, especially government agencies require employees to submit annual tax returns on time. Based on income level, the higher a person's income, the lower their tax compliance behavior (Pasaribu & Tjen, 2016). In Malaysia, demographic factors related to tax compliance behavior are ethnic factors, academic qualifications, and behavior towards tax compliance (Al-Mamun & Haque, 2015). Kusuma (2017) states that the level of taxpayer compliance in Indonesia is still far lower compared to Malaysia.

Based on the differences in tax obligations and influencing factors in Indonesia and Malaysia as well as the findings of previous studies, thus second hypothesis is formulated as follows:

H₂: There are differences in compliance of paying taxes in Indonesia and Malaysia

Zakat regulation as a tax deduction in Indonesia and Malaysia is intended to ease the double burden on Muslims in paying *zakat* and taxes. In relation to this relief, it is expected that compliance of paying *zakat* and taxes can increase. This is consistent with the theory which states that tax relief in taxation can be done to increase tax revenue in the short term and tax compliance behavior in the long term (Darussalam, 2014).

The implementation of *zakat* regulations as a tax deduction in Indonesia is also intended to reduce the double burden on Muslims in paying *zakat* and taxes and to create justice for Muslims (Handayani, 2018; Logawali et al., 2018; Setianingrum et al., 2016). This implementation is expected to recruit only taxpayers or *zakat* payers to become one more part of *zakat* payers and taxes (Setianingrum et al., 2016).

The study of *zakat* as a tax deduction for Muslims in Malaysia found that the halal-haram aspects of Islamic Sharia have a very positive influence on the perceptions of Muslim consumers regarding the tax reduction system (Al-Mamun & Haque, 2015). Another study found that in addition to the halal-haram aspects of Islamic Sharia and legal awareness, Muslim consumer religiosity is also a positive contributor to fostering perceptions about tax rebates on *zakat maal* (*zakat* on income) in Malaysia (Al-Mamun et al., 2020). The tax structure, consisting of a tax rate, an audit rate, and a penalty rate, are influential factors in taxpayers' compliance behaviors. Even, a study by Loo (2006) found that the penalty rate appeared to be the most influential determinant of tax compliance behavior. Despite the tax structure being evident to deter the non-compliance behavior of taxpayers, the enforcement of the rules was viewed to be rather loose which may reduce the integrity. He also concludes the threat of punishment remains significant in deterring the negative intentions or behavior of taxpayers.

In Malaysia, Muslims are more focusing on *zakat fitrah* (*zakat* for soul) and *zakat maal* (zakat on income). Management of *zakat* collection and

distribution throughout the states in Malaysia showed a positive increase in the *zakat* collection. According to Wahab & TamkinBorhan (2015), *zakat* collection in Malaysia increased from RM423.8 to RM1.936 billion in 2012 compared to 2003 with an increase of 356.3 percent in 10 years.

In general, many of the previous studies tested the demographic factors which are anticipated as affecting payment behavior. They also tried to logically reason out and justify why the significant (and non-significant) factors influence the total *zakat* collection. Some previous studies tested the relationship between Muslim's perception and belief on certain *zakat* issues with their payment behavior will also be considered in our study. The present study would complement the previous literature by going a step further in identifying and emphasizing the implementation of *zakat* regulations as a tax deduction affects the compliance of paying *zakat* in Indonesia and Malaysia. In essence, it provides empirical evidence of the potential and actual reasons for the *zakat* collection.

Based on the theoretical basis and findings of previous studies, therefore the third and fourth hypotheses are developed:

H₃: *The implementation of zakat regulations as a tax deduction affects the compliance of paying taxes in Indonesia and Malaysia*

H₄: *The implementation of zakat regulations as a tax deduction affects the compliance of paying zakat in Indonesia and Malaysia*

Research Methods

Primary data from the questionnaire distributed through an online survey among academicians as well as the Council of the Islamic Economic Community and *zakat* management organizations in Malaysia and Indonesia were the source of the data in this study. The researchers used convenience sampling for the sampling technique. The questionnaire to measure *zakat* as a tax deduction is represented by 15 questions/indicators, while compliance in paying taxes with 8 questions, and compliance in paying *zakat* contains 11 questions. Each question is given a choice of answers on a 1-5 Likert scale.

The questionnaires used in this study were adopted from the previous study based on a condition that was appropriate for this study by Alfiah (2014).

Indicators of *zakat* variables as tax deductions include the governing legal basis, *zakat* reduces personal taxes, *zakat* as a tax deduction is self-calculated, *zakat* as a cost, and *zakat* benefits as a tax deduction. *Zakat* as tax deduction must be paid at the official OPZ, while *zakat* policy as a tax deduction can increase *zakat* and tax revenue, integrated *zakat* and tax collection systems increase motivation to pay *zakat* and taxes, socialization of tax regulations on *zakat* increases taxpayer compliance, paying professional *zakat*, differences in *zakat* and tax, *zakat* and tax as a dual obligation of a Muslim (Ghaffari, 2017).

Indicators of taxpayer compliance include registering as a taxpayer voluntarily, reporting tax returns on time, calculating income tax correctly, paying taxes on time, paying taxes as an obligation, taxes supporting development activities, and never getting a tax bill (STP) (Ghaffari, 2017).

Indicators of *zakat* compliance variables include: not delaying paying *zakat* every time there is an increase in assets, *zakat* helping relieve those who are more in need, *zakat* cleansing assets and getting rewards, believing that OPZ will distribute *zakat* correctly, paying *zakat* after there are government regulations, paying professional *zakat* on time, performing professional *zakat* according to calculations, distributing professional *zakat* every month, willing to accept sanctions if they do not pay *zakat*, not being burdened with professional *zakat* obligations, and having been accustomed to sharing since childhood (Ghaffari, 2017).

Furthermore, the differences in the implementation of *zakat* as a tax deduction between Indonesia and Malaysia were analyzed by using Mann-Whiteney test, while the effect of the implementation of *zakat* as a tax deduction on tax compliance behavior and *zakat* was analyzed by using simple linear regression test with the help of SPPS version 22.0 software at the significance level $p < 0,05$.

Results and Discussion

Within three months, the researchers have received 129 completed questionnaires, consisting of 69 Malaysian respondents and 60 Indonesian respondents. This study used convenience sampling method, so it has not possible to generalize the overall population of the study. However, it is importance as the basic to answer the problem of *zakat* and tax compliance in Indonesia and Malaysia more comprehensive for the future study. The results of the validity analysis obtained an invalid indicator, the 5th indicator for the variable of *zakat* as a tax deduction and the variable of *zakat* compliance (with r count <0.237). Invalid indicators were excluded from the analysis. The results of the reliability analysis showed that the three variables in this study were reliable, indicated by the Cronbach alpha value of >0.90 each. The demographic characteristics of respondents between the two countries are shown in Table 1. Description and differences in the regulation of zakat as tax deductions, compliance of zakat payer and taxpayers between Indonesia and Malaysia are shown in Table 2.

Table 1. Demographic Characteristics

Characteristics	Country		P
	Indonesia	Malaysia	
Age (year)			
20-30	9 (18)	9 (15)	0,000
31-40	1 (2)	33 (55)	
41-50	19 (38)	10 (16,7)	
51-60	21 (42)	8 (13,3)	
Sex			
Male	35 (53,8)	13 (21,7)	0,000
Female	30 (46,2)	47 (78,3)	
Marital status			
Single	6 (10,2)	8 (13,3)	0,679
Married	53 (89,8)	51 (85,0)	
Divorced	0 (0,0)	1 (1,7)	
Number of children			
No one	12 (24,0)	16 (26,7)	0,277
1-3 children	30 (60,0)	27 (45,0)	

Characteristics	Country		P
	Indonesia	Malaysia	
4-6 children	8 (16,0)	15 (25,0)	
7-9 children	0 (0,0)	2 (3,3)	
Income/month			
< 3 million	5 (16,1)	0 (0,0)	0,000
3-9 million	5 (16,1)	11 (18,3)	
>9-18 million	18 (58,1)	23 (38,3)	
>18-27 million	0 (0,0)	22 (36,7)	
>27-36 million	1 (3,2)	3 (5,0)	
>36 million	2 (6,5)	1 (1,7)	
***Zakat* of income**			
< 3 million	25 (100)	27 (45,8)	0,000
3-9 million	0 (0,0)	30 (50,8)	
>9-18 million	0 (0,0)	2 (3,4)	
>18-27 million	0 (0,0)	0 (0,0)	
>27-36 million	0 (0,0)	0 (0,0)	
Tax on income			
< 3 million	29 (100)	31 (53,4)	0,000
3-9 million	0 (0,0)	16 (27,6)	
>9-18 million	0 (0,0)	7 (12,1)	
>18-27 million	0 (0,0)	4 (6,9)	
>27-36 million	0 (0,0)	0 (0,0)	

Data presented in n (%)

Table 2. Differences in compliance of *zakat* payers and taxpayers in Indonesia and Malaysia

Variable	Country				P
	Indonesia (n = 69)		Malaysia (n = 60)		
	Mean (SD)	Median (Min-Max)	Mean (SD)	Median (Min-Max)	
Compliance *zakat* payer	42.5 (9.6)	44 (16-55)	47.4 (5.6)	48 (33-55)	0,004*
Compliance of taxpayers	32.5 (6.8)	34 (2-40)	34.8 (4.8)	37 (24-40)	0,105

Information: * = significant difference

The Malaysian government has made a policy by giving reductions to individual *zakat* payers. Through a scheduled tax deduction model or a monthly deduction (PCB) system, they will experience a tax reduction of *zakat* or *zakat* that can be used to reduce taxes up to 100% (Deed 53, 2. 6A (3). The policy is aimed at avoiding double tax payments for *zakat* payers as an incentive to the Muslim community of *zakat* payers; this incentive has significant implications for the receipt of *zakat* in Malaysia. In 2008, *zakat* receipts in all states in Malaysia reached RM1.2 billion, equivalent to Rp. 3.36 trillion with a Muslim population of 60% of the total 28 million inhabitants, which is very different compared to Indonesia with a Muslim population of 85% from a total of around 270 million people (Suprayitno et al., 2013). The implementation of *zakat* as a tax deduction in Indonesia has also been carried out, but it seems that it has not been fully appreciated by Muslims as the *zakat* payers and taxpayers so society's welfare is still not attainable (Kusuma & Ryandono, 2016). In addition, the differences in calculation methods in reducing taxes are also due to the lack of knowledge of *zakat* regulation as a tax deduction. The Indonesian government applies *zakat* as a deduction from taxable income which is considered still burdensome to Muslim taxpayers because its double obligation to pay *zakat* and tax are still relatively greater. Meanwhile, the Malaysian government applies *zakat* as a direct deduction of income tax (tax credit) so that accrued taxes become more effective (Logawali et al., 2018) and this concept will have a greater economic impact (Djatmiko, 2019).

Based on the indicators used, it is known that of the 14 indicators analyzed, almost the majority were perceived as lower by respondents in Indonesia, namely the legal basis governing *zakat* as a tax deduction, the treatment of *zakat* as an individual tax deduction, taxpayers do their own calculation of *zakat* as a tax deduction, the benefits of applying *zakat* as a tax deduction, *zakat* can reduce the tax burden, the reduction of *zakat* on taxes can occur if *zakat* is paid at an official institution appointed by the government, the tax policy as a tax deduction can increase the receipt of zakat and taxes simultaneously, *zakat* and tax collection systems managed in an

integrated manner can increase the motivation to pay *zakat* and tax, between *zakat* and tax have the same terms of objects, subjects, functions and goals, professional *zakat* that has been paid, and the difference between *zakat* and tax is in the case of *nisab*. The lower perception of respondents in Indonesia on these indicators indicates that there is still a need for socialization and an increase in the understanding of the people who are obliged to pay *zakat* and taxpayers regarding the regulation of *zakat* as a tax deduction.

Previous research indicating the difference in the implementation of *zakat* as a tax deduction between Indonesia and Malaysia is shown by Purwakananta (2020) where the management of *zakat* in Indonesia is still ineffective. Meanwhile, Malaysia is an example of a country that has succeeded in applying *zakat* as a tax deduction when it is paid at official government institutions (Iskandar, 2019; Suprayitno et al., 2013).

The description of the *zakat* payer compliance variable in Indonesia obtained a range of total scores between 16-55 with an average value of 42.5 ± 9.6 and a median of 44. As for Malaysia, a range of total scores ranging from 33-55 with an average value of 47.4 ± 5.6 and median 48. The Mann-Whiteney test results obtained a p value of 0.004 (p <0.05) indicating that there are differences in the compliance of *zakat* payers between Malaysia and Indonesia. Therefore, the first hypothesis (H1) of this study was accepted.

Previous research in line with the results of this study was shown by Tarmidzi (2016) stating that the differences in compliance on paying *zakat* are due to the existence of sanctions and the determination of *zakat* as an obligation to be paid.

Compliance on paying *zakat* in Indonesia is lower than compliance on paying *zakat* in Malaysia. The low level of compliance to pay *zakat* in this study is evident from the differences in perception of the indicators used. Respondents' perceptions in Indonesia about the stability and intention not to delay issuing *zakat* every time there is an increase in income or wealth in accordance with religious orders is lower than respondents in Malaysia. Respondents' perceptions in Indonesia about the belief that *zakat* issued will

help ease the burden on others who are more in need are also lower than respondents in Malaysia. The perception of Indonesian respondents in paying professional *zakat* in a timely manner is also lower, the respondents in Indonesia who perceive not feeling burdened and reluctant with the obligation of professional *zakat* are less than respondents in Malaysia, and the number of respondents in Indonesia who are not accustomed to sharing since childhood is more than respondents in Malaysia.

These results are relevant to previous studies that adherence to paying *zakat* can be due to the lack of motivation, faith factors, religious understanding, and reciprocity, social awareness, self- satisfaction and organization (Mukhlis & Beik, 2013). Religiosity is able to explain the willingness to pay taxes and *zakat* (Mujaddid & Ramadan, 2019). Compliance on paying *zakat* is low because of the influence of subjective norms and religiosity (Sahaluddin & Mokhtar, 2019). Awareness in carrying out religious duties helps realize the payment of *zakat* (Muhammad et al., 2018).

The compliance of taxpayers' variable in Indonesia obtained a range of total scores between 2- 40 with an average value of 32.5 ± 6.8 and a median of 34. While for Malaysia, a range of total scores was obtained between 24-40 with an average value of 34.8 ± 4.8 and median of 37. The Mann-Whiteney test results obtained a p value of 0.105 (p>0.05) indicating that taxpayer compliance between Indonesia and Malaysia was not significantly different. Hereby, the second hypothesis (H2) of this study was rejected.

Based on the descriptive results it can be seen that the average total score of taxpayers' compliance behavior of Indonesian respondents is 32.5 while the total score of taxpayers' compliance behavior for Malaysian respondents is 34.8. The total score is close to the maximum total score (40) indicating that the perceptions of taxpayers' compliance in Indonesia and Malaysia are both relatively high. The relatively similar level of compliance on paying taxes between Indonesian and Malaysian respondents could be due to the fact that most of the respondents in this study were professional workers whose taxes or reporting were mostly managed by the institution or agency where they worked. This result is relevant to the study of Pasaribu & Tjen (2016) that

taxpayers who work as civil servants (employees in an institution) are more obedient compared to entrepreneurs, because the income received by the employees is routinely deducted by the employers, whereas entrepreneurs have more opportunities to do tax evasion. In addition, the employers generally require ownership of a Taxpayer Identification Number (NPWP) as a condition of job application. In fact, some employers, especially government agencies require employees to submit annual tax returns on time.

The finding of this study is not in line with the report from Kusuma (2017) which states that the level of compliance of taxpayers in Indonesia is still much lower compared to Malaysia. The effect of implementing *zakat* as a tax deduction on paying *zakat* and tax compliance behavior in Indonesia and in Malaysia is shown in Table 3.

Table 3. The effect of implementing *zakat* as a tax deduction on paying tax and *zakat* compliance in Indonesia and in Malaysia

Country	Zakat			Tax		
	b	T	P	b	T	P
Indonesia	0,523	5,017	0,000	0,741	7,928	0,000
Malaysia	0,659	6,666	0,000	0,535	3,739	0,000

The implementation of *zakat* as a tax deduction is proven to affect the compliance of paying *zakat* and tax both in Indonesia and Malaysia ($p < 0.05$). The third and fourth hypotheses (H3 and H4) of this study were accepted.

The descriptive analysis results show that the average total score of *zakat* implementation as a tax deduction in Indonesia is 54.0 with compliance on paying *zakat* and taxes respectively 42.5 and 32.5. Meanwhile, the average of total scores of implementing *zakat* as tax deduction in Malaysia is 65.7 with compliance on paying *zakat* and taxes respectively 47.4 and 34.8. These figures indicate the higher the implementation of *zakat* as a tax deduction, the higher the compliance of paying *zakat* and taxes, as also shown by the results of the analysis which shows that the value of the regression coefficient is positive.

Zakat as tax deduction is intended to ease the dual obligations of Muslims in paying *zakat* and taxes, so that its implementation can motivate Muslims to be more obedient in paying *zakat* and taxes. The study by Logawali et al. (2018) also reported that *zakat* as a PKP reduction in the Ministry of Religion of Gowa Regency provided a relief for Muslims in paying *zakat* and taxes so as to increase awareness and honesty to pay *zakat* and taxes in order to increase state income.

Conclusion

There are differences in the compliance of paying *zakat* between Indonesia and Malaysia. However, there is no difference in compliance of paying taxes between Indonesia and Malaysia. Besides, the implementation of *zakat* as a tax deduction affects the compliance of paying *zakat* both in Indonesia and Malaysia.

The implication of this research is that the strategy to increase *zakat* and tax revenues in Indonesia has several obstacles. First, the lack of socialization from both the tax officials and *zakat* officials that *zakat* can be used to reduce taxable income. When reporting annual tax returns, tax officials often do not ask taxpayers whether the reported income has been paid through *zakat*. In addition, *zakat* officers, when submitting Evidence of Zakat Deposit, do not explain to *muzakki* that the evidence can be used to reduce taxable income. Second, there are still many psychological factors in Indonesian Muslims who are reluctant to disclose the amount of *zakat* that they pay for fear that it will affect the level of sincerity in fulfilling one of these Islamic laws. So many do not include TIN in the Zakat Proof form. Third, it is not yet clear what types of *zakat* that can be deducted from taxable income. In the explanation of the Income Tax Law, it is stated that what is meant by *"zakat"* is as referred to in the Law governing *zakat*. Whereas in the Zakat Management Act it is stated that *zakat* that can be deducted from taxable income includes all types of *zakat*, both *zakat maal* and *zakat fitrah*. However, in practice, only *zakat* on income (professional *zakat*) can be deducted from taxable income. For this reason, it is necessary to implement regulations which emphasize that only

professional *zakat* can be used as a deduction as well as an example of the correct calculation method in order to minimize doubts in the community. Fourth, *zakat* has not been managed as modern as tax revenue. If all tax money paid by taxpayers has been recorded in the State Revenue Module (MPN) and received a State Revenue Number (NTPN), then in the future it is expected that each *zakat* fund paid by *muzakki* will also be recorded in the Zakat Revenue Module (MPZ). The *muzakki* can monitor the *zakat* funds that they have paid and are used for which activity.

The proposal to include *zakat* in the State Budget (APBN) structure still faces many obstacles, because the allocation of *zakat* funds is limited to only eight groups namely the Poor, Destitute, *'Amilin, Mu'allaf, Riqob, Gharimin, Fii Sabiilillah*, and *Ibnu Sabil*. However, the complementary synergy between *zakat* and tax must continue to be done in order to improve the welfare of the Indonesian society.

The successful implementation of *zakat* as a tax deduction and compliance in paying taxes in Malaysia compared to Indonesia suggests the need for Malaysia's contribution to share tips with Indonesia and also be responsive to the need to increase the global/world *zakat* movement. However, the findings of this study still have limitation. First, its results might reflect only a section of the whole society. Second, the study is bias in its sample selection whereby it focusing on academician and does not represent the real state of affairs in the society at large. Third, the survey received very low responses and thus limits its generalizability. Nevertheless, in spite of these limitations, the findings of this study are still useful for certain crucial topics which need attention from those who are involved in *zakat*. It aims to design a strategy of effectiveness enhancement in *zakat* and taxes collection.

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