

# POTENTIAL INCOME ZAKAT REVENUE IN PRIVATE UNIVERSITIES: CONCEPTUAL FRAMEWORK ANALYSIS <sup>1</sup>

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## Abstract

Zakat management in Indonesia has long been established by the community, either through private organizations or institutions, *Badan Amil Zakat (BAZ) / Lembaga Amil Zakat (LAZ)* regional and the Universities. Meanwhile, the Government Regulation (PP) on the Implementation of Constitution 2014 Act number 23 on the management of zakat was just ratified. The content states that Universities can register officially to the BAZ in accordance with the applicable procedures. Therefore, universities are appropriate places as a means to achieve the goal of the people for learning, research and public services as stated in the legislation. However, there are two issues that occur. First, what are the factors to determine whether universities join the *Organisasi Pengelola Zakat (Zakat Management Organization) (OPZ)* officially or not? Second, what is the form of delivery factor carried out by the OPZ University? Based on these issues, this paper is written to achieve two objectives. The first is to establish the official conceptual framework carried out by OPZ government. The second is to identify general concepts conducted by OPZ University. This study uses content analysis method through the study documentation. As a result, this study will give two findings. First, it is to establish a conceptual framework analysis of the potential of zakat in universities. Second, it is to find a conceptual framework through OPZ official registration to be beneficial to all parties. This paper gives an overview of the potential improvement of zakat and income distribution. This study will provide convenience to the government to jointly market the actual zakat to the public.

Keywords: BAZ / BAZNAS, Indonesia, Potential, Zakat, Private University

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## INTRODUCTION

Zakat is the fifth pillar of Islam and a part of worship that is required all Muslim individuals (Mohd Rahim Khamis, Mohd. Rohani, Arifin Md Salleh, Abdol Samad Nawi, 2014). Zakat has a significant role in Islam since the time of Prophet Muhammad SAW. According to Islamic law, the rich have to pay zakat to purify their soul and their property. Money collected from the payment of zakat is intended to be distributed to Muslims who are less fortunate, to the poor and the needy, to those who take care of it, to people who just convert to Islam (*mualaf*), to those in slavery and in debt (Fahme, Ali, Ridwan, and Aziz, 2014). From the economic point of view of Islam, zakat is not regarded as a burden but as a responsibility to Muslims who are less fortunate. Thus, both spiritual and material aspects of the rich and the poor are expected to be enhanced through zakat (Noor, Wahid and Nor Ghani Md., 2004).

According to the previous study highlights, zakat has been identified as an important resource for the socio-economic development of the country. In this perspective, Mohd Rahim Khamis, Mohd. Rochani, Arifin Md Salleh and Abdol Samad Nawi, (2014) propose the distribution of zakat funds can help generate economic activity of the country, contributing to social security and to help bridge the gap between the haves and the have-nots. Zainal Bidin, Kamil Md Idris, Mohd. Shamsudin and Faridahwati (2009), Bidin et al., (2009) also stress the importance of zakat in this context which can contribute to economic development is zakat on employment income. Next Mohd Rahim, Khamis et al., (2014) shows that zakat can be differentiated into several types, and one of the types of zakat is zakat on employment income. Because zakat revenue is the fees charged on income of Muslim individuals from various sources or activities in which Muslim individuals engage (Nur Barizah Bakar and Abd.Ghani, 2011) and has accounted for the highest percentage in the overall zakat collection in the states in Malaysia, Hairunnizam Wahid, Mohd Ali Mohd Noor, (2005); Bidin et al., 2009). However, zakat on income is still an issue in Indonesia, which suggests that Muslim individuals mostly pay serious attention to the obligation to pay the *zakat Fitrah*, but not serious about paying zakat on income (Mohd Rahim, Khamis et al., 2014), ,

Growth and development of zakat in Indonesia is interesting. If we look at the amount of zakat collection, we find that it improves over time. The fundamental problem faced by all parties is associated with a large gap between the potential and actual collection of zakat funds. Thus, valid data is still not available. The availability of data that can explore the potential of zakat is needed. The presence of this data will help the development planning in realizing the actual zakat collection and zakat payment programs.

However, researches to examine the potential of zakat in Indonesia are still limited. For this reason, the first objective of this paper is to estimate the potential of zakat in Indonesia. Second, to explore the relationship between demographic characteristics and the payment of zakat. Third, to establish a conceptual framework Zakat Management Organization (OPZ) officially organized by the Government<sup>3</sup> and identify general concepts the implementation of OPZ universities.

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<sup>3</sup> Government means the same as the Kingdom

## **PREVIOUS STUDIES AND REVIEWS**

### **The concept of zakat**

Zakat is worship in Islam. Islam requires every Muslim man and woman who has had a certain property to pay zakat every year. Literally, the word zakat means purification and growth. Purification can be interpreted as a way to cleanse the soul of zakat payers of selfishness and greed. Zakat is also to clean the property of zakat payers (Hussain & Abdullah, 2015). Growth means that recipients may use the zakat funds they receive in productive activities to generate more revenue (Asmah Abdul Aziz, Muslimah Mohd Jamil, Huzaimah Ismail and Nafisiah Abdul Rahman, 2013).

Furthermore, from the perspective of Islamic law, zakat can be referred to as the number of wealth that Allah has enjoined to be paid to eligible persons (eight recipients). Meanwhile, according to the legal perspective, zakat can be understood as the amount of money or goods obtained from the type of certain wealth when they reach a certain amount at a specific time, which must be spent on specific categories in a certain way (Asmah Abdul Aziz et al., 2013). The importance of paying zakat has been set in the Al-Quran. In order to demonstrate the importance of zakat, Allah mentioned zakat word 58 times in the Quran. In this context, the word zakat mentioned 32 times in isolation and 26 times along with prayers. Putting the word zakat alongside prayers means that Islam emphasizes both activities for the development in the world and the Hereafter (Nur Barizah Bakar & Abd.Ghani, 2011).

### **Zakat and socio-economic development**

The literature suggests that the payment of zakat and socio-economic development of the Muslim community are inextricably linked. For example, Bakar & Abd.Ghani, (2011) states that the payment of zakat can be seen as a symbol of Islamic economic justice that ensures equal distribution of wealth. Accordingly, Asmah Abdul Aziz et al., (2013) explains that the zakat can meet the four objectives of socio-economic development; first to reduce poverty and sustain socio-economic justice, second to keep people out of envy, third to clean wealth and the payers from being stingy and fourth to mediate faith in the favor of Allah SWT.

According Ab Rahman and Omar, (2010), zakat can be one medium to reduce the polarization of wealth among the rich. Zakat distribution will distribute wealth in the society regardless of the individual status. This allows the poor using zakat funds for productive activities. In addition, zakat also ensures social justice through efficient and good administration. Such a situation like this will support economic growth in developing countries. In turn, it will lead a country with an efficient and good administration which will generate sufficient income. Based on this, Indonesia as a country with the biggest Islam and one of the most populous country in the world needs to integrate zakat funds in poverty reduction programs. In one hadith narrated by Imam Tabarani, Prophet Muhammad insists that Allah requires Muslims to pay zakat. Zakat is an important tool to reduce poverty and promote social welfare. This hadith shows that the payment of zakat is the link to eradicating poverty and reducing income inequality. In this perspective, the Constitution 1999 Act number 38 on Zakat, as amended by the Constitution 2011 Act number 23 on Zakat, gives a mandate to form a stronger integration of the management of zakat in poverty alleviation programs in the country (Beik & Arsyianti, 2013). The purpose of this poverty eradication program, the Government has the task of reducing poverty through approved economic programs, while the zakat gives to eight recipients for the socio-economic life to individual *mustahik* increase and provide an opportunity to change their lives.

## **Zakat on income**

The highlights the previous studies suggest that the property owned by Muslim individuals subject to zakat, for it is related to the ownership of property. In this perspective, there are two types of wealth subject to zakat; traditional wealth and modern wealth. Traditional wealth refers to property that has been mentioned in the Islamic law. This includes agricultural, mineral and marine resources, gold, jewelry, money, the wealth of livestock, trades and wealth. Meanwhile, modern property refers to income earned from the exploitation of assets, income from employment, property and financial securities companies and the wealth of Islamic financial institutions. Islamic legal experts consider that modern property is subject to zakat as a result of changes in the current economic practices and zakat has great benefits to the public and upholds justice (Johari et al., 2013).

According to Nur Barizah Abu Bakar (2010), Nur Barizah Bakar and Abd.Ghani, (2011), workers' income is subject to zakat. Evidence that the workers' income is subject to zakat are available from various sources of Islam, as written in the Quran (Surah al-Baqarah, 2: 267) and the hadith narrated by Abu Daud no. 1573, Tirmidzi no. 631 and Ibnu Majah no. 1792 namely "And there is no zakat on property until it reaches haul". And then Nik Mustapha (1987) states that the purpose of zakat is to purify the wealth and the owners and Islam puts something in suitable places and proportions that people who earn more have big responsibility as described in the Quran (Surah Az-Zukhruf, 43:32)<sup>4</sup>. The income received by a person depends on the efforts done through legal ways, including efforts to give gratitude for the blessings that Allah SWT will redouble its result (Surah An-Nisaa, 4:32)<sup>5</sup>. Therefore, revenue is the most important indicator of economic status of the household for providing infrastructure directly to obtain goods and services which are considered as the basis for maintaining a healthy life. Income can be used as quantitative variables and can be grouped into several categories.

## **Factors Affecting Zakat Payment**

Although Indonesia has the largest Muslim population in the world, not many studies have been conducted on the potential zakat related to factors of the main sources of zakat payment. Most studies conducted zakat in Muslim countries play an important role in the financial systems of their countries like Pakistan, Bangladesh and Malaysia.

Muda, Marzuki and Shaharuddin, (2006) examine the internal and external factors that affect individuals taking part in zakat. They have identified five factors that are generosity (altruism), the level of faith, self-satisfaction, benefits (utilitarian) and organizations affect individuals taking part in zakat. Individual altruism is the main factor influencing to pay zakat, followed by religion, self-satisfaction and organizational factors.

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<sup>4</sup> (Why is the portion that they disbelieve?) Is it they who distribute (spiritual and religious things become the greatest) Mercy of your Lord (O Muhammad, as if we were only powerful in material things and worldly course? They do not disbelieve ): We have apportioned among them their livelihood in the life of this world, (half we made some rich and the poor suffer); and We raise some of their highest rank of one another; (Them) so that some of them may make use of their life (help) others. But the Mercy of thy Lord, (which includes good fortune and hereafter) is better than the material and worldly things they collect.

<sup>5</sup> And do not expect (to get) the grace that Allah has given to some of you (to make them) more than others (about wealth, knowledge or rank ). (As has been fixed) those guys are part of what they earn, and the women a share of what they earn; (So you work at) and ask Allah of His bounty. Allah is ever Knower of all things.

Mohd Ali Mohd Noor and Nor Ghani Md. Nor, (2004) studied the paying zakat awareness among the professional staff of the University Kebangsaan Malaysia (UKM). They revealed that the religious adherence, gender, education level, number of dependents and the level of knowledge of zakat to be the factors that affect the professional staff of UKM to take part in income zakat. Among these factors, the religious adherence and religious education are the most important factors compared to other factors. The zakat institution factor does not affect the professional staff to pay zakat.

Ram Al-Jafri Saad (2010) studied factors that affect paying zakat in Malaysia. They found that the religious adherence becomes a major factor affecting the payment of zakat in Malaysia. With a high level of religious adherence, it becomes an easy way for Muslim individuals to understand the true concept of zakat as a social responsibility for the development of Islam and the concept of true wealth in Islam where wealth and property have to be shared with the needy.

Law enforcement should also be the factor to determine the compliance of income zakat payment and has a direct relationship with the probability to pay zakat. Kamil Md. Idris and Ahmad Mahdzan Ayob (2002) relates the compliance of income zakat payment in Malaysia show the presence of law enforcement related to religion, laws and others. This clearly shows that zakat is an obligation that must be fulfilled.

A similar statement delivered by Kamil Md. Idris, (2006) who found the law enforcement is not important to affect the Muslim individuals to pay zakat through formal institutions. This is because people already know about the Muslim obligation to pay zakat. They may pay zakat through informal channels than zakat institutions. The study shows that the level of knowledge and environment has important role towards Muslim individuals who adhere to pay zakat.

Nur Barizah Abu Bakar (2010) found that internal factors remain important influence for the majority of zakat payers compared to external factors. Nevertheless, their findings cannot be expanded in general because of at least three reasons. First, UIAM is a faith-based institution; therefore the decisions are only from a part of the society. Second, this study includes only three faculties of the UIAM which members are expected to give a basic understanding of the zakat or related areas. Therefore, this study has a bias in the selection of the sample as not representing the true circumstances in society in general. Third, this study receives a very low acceptance, only 13.2%, and thus limiting the generalization. Nevertheless, despite these limitations, the results of this study will be useful and the instructions as they pointed to certain important issues that should be considered by those involved in zakat mapping out their strategy to improve the efficiency and effectiveness of this noble institution.

Kamil Md. Idris, (2006) clearly shows that the clear and firm law enforcement of zakat is another important factor that affects compliance to pay zakat. His research concluded that there is a direct relationship between individual response and limited law of probability to pay zakat through formal institutions for the collection of zakat. If the law is viewed positively then the compliance will also be positive. Therefore, the authorities should give serious consideration towards available legal matters of zakat which are to further enhance the collection of zakat to a very satisfactory level and to ensure that every member of society cannot be separated from the responsibility for paying zakat.

In addition, another approach used in studying the compliance of zakat is by making a comparison between zakat compliance behavior and tax. Researchers consider the theory of zakat compliance as it was studied by Sanep Ahmad, Wahid Hairunnizam and Adnan Mohamad (2006). The results of their study find that among the factors affecting tax compliance is demographics such as age, gender, income level and dependency. However, as

noted by Wahab and Borhan, (2014), to apply the theory of tax compliance and zakat compliance is not very accurate because zakat and taxation are actually very different. Compliance and avoidance of paying zakat take into considerations not only the physical punishment and penalty, but also the mental burden.

## Gap Analysis

As description above, then the gap analysis of the study conducted conceptual studies are shown in Table 1.

**Table 1: Distinguishing Aspects of Research**

Category	Distinctive aspects	Previous research	The analysis conducted
Potential	External factors	<ul style="list-style-type: none"> <li>• Salary income includes allowances after deducting liabilities</li> <li>• In a University</li> </ul>	<ul style="list-style-type: none"> <li>• Net income</li> <li>• Incentives earned from external institutions</li> <li>• Level of Welfare</li> <li>• Conducted in many private universities</li> <li>• OPZ at University</li> </ul>
	Internal factors	<ul style="list-style-type: none"> <li>• Attitudes.</li> <li>• Knowledge of Zakat.</li> <li>• Compliance to Pay Zakat.</li> <li>• Awareness.</li> <li>• Avoidance.</li> </ul>	<ul style="list-style-type: none"> <li>• Level of education,</li> <li>• The level of knowledge of zakat</li> <li>• Demographics</li> </ul>

## DISCUSSION

Zakat is one of the pillars out of the five pillars of Islam which requires certain people to contribute a portion of their wealth to the needy. Zakat has also become an important source of finance, especially in Muslim countries. Even so, Indonesia, as one of the countries with high Muslim population, is still lagging behind in terms of collection and distribution of zakat. While zakat received by these countries is increasing every year, there are still many rich people who do not take part in zakat donations. On the other hand, those who contribute also take part in a variety of ways. Although some institutions have been willing to trust them to distribute zakat, many individuals distribute it by themselves. Thus not only the development and the potential contribution of zakat, the factors that affect the payment of zakat should also be reviewed to strengthen the system of zakat in Indonesia.

In Indonesia, since Constitution 2005 Act No. 14 has been passed regarding to Teachers and Lecturers and the enactment of Regulation on the Implementation of the Constitution 2014 Act No. 23, related to the management of zakat in University, it is known that the payment of zakat revenue is a religious obligation (Teh Suhaila Tajuddin and Aza Shahnaz, 2015). Lecturers are considered as a knowledgeable person and can be a disseminator of information to the public on behalf of the Government. In this perspective, Hairunnizam Wahid and Sanep Ahmad (2007) also stated that people who do not pay zakat are considered to deny their religious obligations and the matter is also influenced by several factors such as piety. Therefore, two things must be done. First, to do a preliminary study to obtain secondary data and second, to establish the initial model and create questionnaires distribution

based on the research formulation questions related to the calculation of potential zakat that has been set by BAZNAS and FEM IPB (2011)<sup>6</sup> as shown in figure 2. Next, this budget will be used to calculate potential zakat revenue in universities.

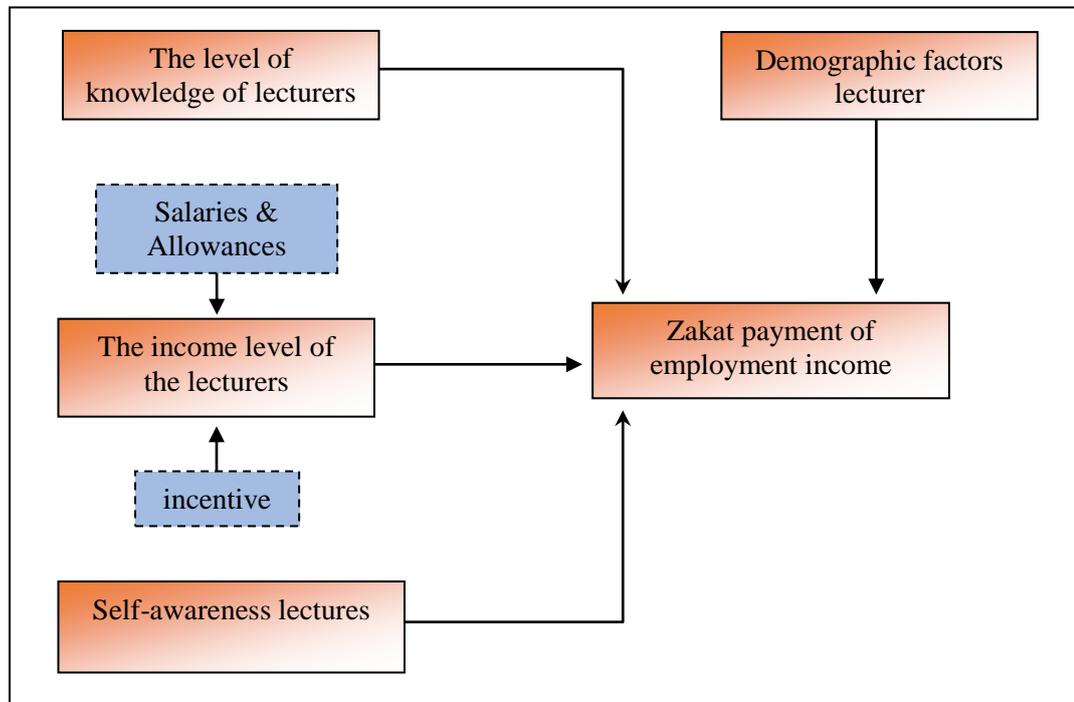


Figure 2: Conceptual framework

The data obtained will be used to estimate the potential zakat. Secondary data will inform the level of income and revenue class. Empirical Analysis of key data in this study will be done through descriptive statistics and statistical inference.

## CONCLUSION

The Indonesian government has given zakat money as a source of finance for the country in addition to the tax funds. Zakat can be given as a tax deduction, if *muzakki* pay zakat in official OPZ which has been designated by government. Collection and distribution of zakat funds needs to be improved continuously through the existing OPZ management within the University. In the case of Indonesia, the number of researches related to the potential zakat is still limited. The findings of this study can be used to estimate the potential income zakat and explore the determinants of income zakat payment and cash incentives in private universities in Jakarta, Indonesia. The primary data obtained through studies in private institutions, while secondary data obtained from various sources. The empirical analysis is conducted through descriptive and multivariate analysis.

<sup>6</sup> BAZNAS stands to Badan Amil Zakat Nasional Infaq and shadaqoh. While FEM IPB is the Faculty of Economics and Management Bogor Agricultural University.

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