COMPANY ZAKAT ASSESSMENT METHODS IN SELECTED JURISDICTIONS

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Abstract

The paper aims to analyze the consistency and suitable method of company zakat calculation by evaluating the financial reports of companies in the countries: Saudi Arabia, Kuwait, and Malaysia. A previous study shows that the misconception on company zakat implicates a recognition and measurement (Adnan & Bakar, 2009). Then, this study describes that the consistency analysis is reviewed by comparing the preferred method in each country and the method that is currently applied by the company, while the suitable method is assessed by exploring all the possible zakat calculation methods that can be employed by the companies. This study discloses company zakat in the financial statements and its available common calculation methods. Descriptive data from financial companies disclosing company zakat in Saudi Arabia, Kuwait, and Malaysia are used. Accordingly, the proposed method would be used in the simulation calculation. Zakat can be based on final, calculated from its net income and non-final basis, calculated from working capital. The result shows that some countries have different yet similar calculation methods. The zakat companies should have a standardized method for calculation that can be reviewed by an external party. The study is relevant for the countries adopting company zakat in practice.

Keywords: Company Zakat, Method, Income, Working Capital

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1. INTRODUCTION

In the current era, zakat is applied to companies with Muslim ownerships. Company zakat or business zakat means religious mandatory to all Muslims who meet the criteria to donate the sum of wealth from their business earnings. The object of this type of zakat is the owner of the company, a Muslim, who fulfills the requirement of zakat. Many Muslims should pay company zakat (or zakat on business

since the company is only an entity) because this is mandatory based on some Muslim scholars' consensus (Rahman, 2003). They are only aware and well informed of the *maal* zakat (or "wealth" zakat) that is imposed on individuals, unlike company zakat. Zakat may be similar to tithe which was applied to Christian people. While, company zakat can be seen in financial statements of companies in the countries, which mandate a company to pay zakat, and they would disclose zakat payments like Saudi Arabia and Kuwait. In Malaysia, company zakat is not mandatory, and therefore, many companies do not pay zakat (Munandar, Syakhroza, Martani, & Siswantoro, 2019).

In actuality, company zakat is part of *maal* zakat that should be paid. However, since the company zakat is paid by a Muslim owner of a company, it needs special calculation, and may not be combined with the whole zakat on individual asset. Besides, it has specific characteristics that differ from *maal* zakat, which is simply based on the current value of the asset. Therefore, there are some formulas for company zakat (Munandar et al., 2019).

Some countries treat company zakat differently. Saudi Arabia and Kuwait treat company zakat like tax, such that a company is required to pay either zakat or tax. In Saudi Arabia, a company that is listed in Saudi Stock Tadawu and owned by local people is required to pay company zakat to the government while a foreign company must pay tax. Meanwhile, company zakat is applied to all closed and listing companies owned by Kuwaiti people, excluding foreign entities. On the other hand, Malaysia has a different treatment where company zakat does not replace tax like in Saudi Arabia and Kuwait but can reduce the taxable income of the company (Munandar et al., 2019). Siswantoro, Nurzaman, Nurhayati, Munandar, and Ismail (2021) stated that different countries applied different zakat mechanisms and regulations on zakat incentives. In Malaysia, zakat payment can be deducted from their tax payable amount, while in Indonesia, zakat can be deducted from taxable income if the payment of zakat only to recognized zakat agencies. In Indonesia, zakat should be productive, and it is for the needy and poor (Arifin & Anwar, 2021).

Previous studies only focus on the urgency of company zakat (Adnan & Bakar, 2009) or company zakat as a tax deduction (Obaidullah, 2016; Ismail, Shafiai, & Shaikh, 2019). This paper fills the gaps to find the suitable company zakat calculation based on the zakat amount paid and zakat calculation type, this is also the novelty of the paper. This reveals the consistency and the types of zakat calculation used in each country, particularly Saudi Arabia, Kuwait, and Malaysia, which have the potential data of company zakat in financial statements of the companies. Therefore, the research question in the paper is:

RQ: How is the consistency of the zakat calculation type with the practice in Saudi Arabia, Kuwait, and Malaysia?

The remainder of this paper is organized as follows. There is a literature review for a detailed discussion on previous studies in the current context in Section 2. The methodology of the study to meet the research objective is presented in Section 3. The analysis to discuss and compare the methods of zakat calculation and the zakat amount paid by the companies is in Section 4. Finally, the conclusion highlights the study findings, limitations, and future research possibilities in Section 5.

2. LITERATURE REVIEW

The discussion on company zakat appeared in the late 1990s. In Malaysia, State Islamic Religious Council (SIRC) introduced a specific regulation on this matter (Mohamad, 2020) while the Kingdom of Saudi Arabia applied company zakat as tax substitution for local companies (Deloitte, 2021).

The above development led to several scholars dedicating their effort to studying the matter. The study by Adnan and Bakar (2009) found that the misconception on company zakat implicates a recognition and measurement that is not in line with Islamic sharia. Also, the accounting standards may not be appropriate for the zakat calculation, including account classification, recognition, presentation, and disclosure. However, these studies do not provide solutions to these issues.

Problems with company zakat calculation are not stated in the Quran or hadith (Harahap & Yusuf, 2002). There is no specific sample from Prophet Muhammad PBUH on a company zakat calculation. Current Islamic scholars try to analyze with a similar sample of *maal* zakat to ascertain the company zakat calculation. Even though Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), an international Islamic accounting standard setter established in 1991 and based in Bahrain, has provided calculation method for company zakat, still there are some different methods for this issue. Zakatable asset is similar to the company as the spiritual entity which must pay zakat (Irfan & Muhyarsyah, 2020) and it has a legal basis for jurisdiction (Mahdi, 2021). In Malaysia, company zakat is ruled under Company Act which has been established in 2016, it harmonized the common law and Islamic teaching (Ramli & Abdul Ghadas, 2019).

The theoretical framework of company zakat is based on all zakatable wealth being subject to zakat. This includes a company owned by a Muslim. This activity has been practiced in Saudi Arabia, Kuwait, and Malaysia, as they applied Islamic teaching for quite a long (Munandar et al., 2019). The concept may be similar to tax but zakat is more toward individual ownership, not like a value-added tax which does not relate to people ownership. In addition, tax has much debate on the basis of a company as a tax object (Santosuosso, 2017). Some tax basis has a gap for tax avoidance which benefited a company (Kapoutsou, Tzovas, & Chalevas, 2015) and political issue factors (Sudibyo & Jianfu, 2016).

Collection on company zakat was affected by some factors (Yusuf & Derus, 2013) including compliance with religious obligation (Arif, Alwi, & Tahir, 2011) and lack of information, unlike *maal* zakat. There is no study on company zakat to prove that it is offset against the income (Samad, Ariff, & Nassir, 2016). This is also an interesting notable aspect of an investigation. Also, it is notable that each method has not been discussed separately in detail.

Some authors focus on the relationship between company zakat and the financial performance of the company (Al-Malkawi & Javaid, 2018), and their findings are specific to Saudi Arabia, where zakat has a significant ($p \leq 0.01$) effect on profitability and value of a company. In Indonesia, one study showed that profitability has a positive effect on zakat payment (Krisdiyanti, Rapini, & Farida, 2020) and vice versa (Maudi, Amrizal, Pribadi, & Cusyana, 2020). Meanwhile, there is no single study on company zakat to prove that it is offset against the income (Samad et al., 2016). This is also an interesting notable issue and, each method has not been discussed separately in detail as well.

The company zakat calculation method can be grouped into 3 types based on the current practices in the study countries.

1. *Kuwait:* It is based on 2.5% of the net income for listed companies (RSM, 2019), and for local and closed companies, it is based on the Law No. 46 made in 2006 regarding Zakat and Contribution of Public and Closed Shareholding Companies in the State's Budget that states that for Kuwait, closed public shareholding companies should calculate zakat by one percentage (1%) of their net profit. Additionally, companies have the right to distribute their zakat to public services. Net income for zakat calculation should be calculated after considering the cost and expense of the company and be supported by reliable documents.

2. *Saudi Arabia:* Currently, there are 2 types of zakat calculation methods prevalent in Saudi Arabia. The first is a direct method, which means that zakat is calculated from company assets. This method can be also called as net of zakatable assets method. The second is an indirect method, which means that zakat is calculated from sources of funds. It may refer to AAOIFI (2015). Previously, it was based on 2.5% of the net income or working capital whichever is higher (Deloitte, 2021; General Authority of Zakat & Tax, 2019).

The difference between each method (General Authority of Zakat and Tax, 2019):

- The direct method,

Zakat base = All zakatable assets – All obligations that funded them.

- The indirect method,

Zakat base = All sources of internal funds (equity, provisions, and adjusted net profit for the year) + External sources of funds not exceeding deductible assets (long-term liabilities and liabilities that are financing deductible assets) – or – Non-zakatable assets – Zakatable assets, or adjusted net profit for the year, whichever is greater.

3. *Malaysia:* In Malaysia, company zakat is not obligatory, but it can be seen as a taxable income deduction, unlike individual zakat which can be a tax deduction. There are 3 types of company zakat in Malaysia[1]:

- Zakat on working capital (equation (1)). This method is used for company, cooperative, and trading where there is a classification of current assets and liability.

$$(Current\ assets - current\ liability) \times \% \ Muslim\ ownership \times 2.5\% \quad (1)$$

- Zakat on growing capital (equation (2)). This is used by Islamic financial institutions and banks, takaful, and companies that do not have a classification of current assets and liability. While a mixed fixed asset is a fixed asset can that be considered as a current asset in the following year (zakatable asset)?

$$(Equity + Long\ term\ liability - Fixed\ asset - Mixed\ fixed\ asset) \times \% \ Muslim\ ownership \times 2.5\% \quad (2)$$

- Zakat on net income (equation (3)). This is for the companies that do not have a financial statement such as small companies, markets, restaurants, stores, and similar items.

$$(Revenue/Sale/Income - Expenditure/Cost) \times 2.5\% \quad (3)$$

The main contributions of the existing literature review are providing the fact that company zakat still has a dispute in the calculation, harmonization of the legal basis for company zakat, factors on company zakat collection, and relationship of company zakat and financial performance of the company. The important topics is also the practices of company zakat calculation in related country. This paper has explained in detail the issue of company zakat.

The only country which has one method for zakat calculation is Kuwait. So, we can only have one hypothesis for Kuwait, therefore the hypotheses are:

H1: There is no significant difference between the actual zakat and zakat calculation method.

H2: There is a positive correlation between the actual zakat and zakat calculation method.

3. METHODOLOGY

This study is based on the data of zakat payments made by the companies. The zakat payment, working capital, and net income data are acquired from Thomson Reuters. Simulation on a zakat company calculation is applied to the company. The companies considered are from Saudi Arabia, Kuwait, and Malaysia. However, each country has different methods for zakat calculation. From this, we can see a consistent and suitable zakat calculation method for a company in each country. There are three types of zakat calculation simulation models, namely:

a) Net income x 2.5% (Practice in Kuwait).

b) Working capital x 2.5% (Practice in Malaysia).

c) Saudi Arabia used the net income approach or working capital whichever is higher, a or b whichever is higher.

d) The combination between net income and working capital, (working capital – zakat on net income) x 2.5. This combination is to accommodate the net income and balance sheet approach (based on a combination of net income and working capital) (Practice in Malaysia).

The combination uses two methods, which means that zakat is not imposed on working capital and net income together. This method avoids double zakat payment (Siswantoro, 2012).

[1] https://www.zakat.com.my/info-zakat/jenis-jenis-zakat/zakat-perniagaan/

These zakat calculation models would be compared to actual zakat payment. Then we get the deviation (actual zakat payment – zakat calculation based on specific method), and the amount is absolute. The smallest deviation means that the calculation zakat method is close to the actual zakat to be made by each company. Even though there is a standard for zakat calculation, the component of the zakat object may be different and subjective.

Table 1. Sample

Number of listed companies	
Kuwait	164
Malaysia	940
Saudi Arabia	203
Total	1307
Number of uncompleted data	
Kuwait	144
Malaysia	895
Saudi Arabia	37
Number of companies for sample research	
Kuwait	20
Malaysia	45
Saudi Arabia	166
Total sample	**231**

A total of 231 companies were considered for the sample, out of which 20 were from Kuwait, 45 from Malaysia, and 166 from Saudi Arabia in 2016, 2017, as well as 2018, and 2019, respectively (Table 1). The calculations of Zakat for these countries are different. While zakat is based on net income in Kuwait, it is based on the balance sheet and net income in Saudi Arabia and Malaysia.

The difference test uses a paired-sample t-test to see any significant difference between actual zakat payment and zakat calculation based on data available and method. While for the correlation test, we use the Pearson test as it is ratio data. This method is used to test the hypotheses above.

Table 2 shows that zakat description for each country along with the company types: Kuwait has 8 types, Malaysia has 14 types, and Saudi Arabia has 19 types. Each country has different and specific characteristics that may cause different suitable zakat calculation methods. Zakat of wealth can be divided into 2 types (based on fiqh — Islamic law) wealth zakat, and agricultural and mining zakat. Zakat on wealth is based on capital in the balance sheet, while zakat on agricultural and mining is based on the revenue/income of a firm. This is also a combined method of using the net income/revenue method and balance sheet method (Siswantoro et al., 2021).

Table 2. Zakat company description

Country	***Kuwait***	***Malaysia***	***Saudi Arabia***
Type	***8***	***14***	***19***
Description	Trading Companies & Distributors		
	Construction & Engineering		Construction & Engineering
	Diversified Consumer Services		
	Airlines		
	Wireless Telecommunication Services	Wireless Telecommunication Services	Wireless Telecommunication Services
	Real Estate Management & Development	Real Estate Management & Development	Real Estate Management & Development
	Food Products	Food Products	Food Products
		IT Services	
		Gas Utilities	
		Health Care Providers & Services	Health Care Providers & Services
		Transportation Infrastructure	Transportation Infrastructure
		Air Freight & Logistics	
		Diversified Telecommunication Services	
		Electric Utilities	Electric Utilities
		Automobiles	
			Food & Staples Retailing
			Construction Materials
			Oil, Gas & Consumable Fuels
			Specialty Retail
			Hotels, Restaurants & Leisure
			Chemicals
			Building Products
			Pharmaceuticals
			Metals & Mining
			Road & Rail

4. ANALYSIS

The analysis starts with the statistical description of zakat payments from each country. From the overall sample, we analyze each country, Kuwait, Malaysia, and Saudi Arabia, respectively. For overall sampling, the smallest deviation (discrepancy between average and data) is for the working capital method (Table 3).

In Kuwait, the smallest deviation between zakat payment and actual is net income basis (Table 4). Kuwait uses the net income basis for the zakat calculation of the company. The result is consistent as the deviation is smaller for net income deviation. This is clear that zakat can be offset against the income, which differs from the research findings of Samad et al. (2016).

Malaysia has various methods for zakat calculation as stated above (Table 5). The smallest deviation method is the working capital and net income approach where a company pays zakat with

net income x 2.5% that is then, subtracted on the working capital zakat calculation basis to avoid double zakat. This can be a good proposal for a zakat calculation method in Malaysia. The second-lowest deviation is the net income basis method.

Saudi Arabia has a working capital approach for the smallest deviation (Table 6), which is an indirect method. Previously, Saudi Arabia used either a balance sheet or net income approach whichever gives the highest. Then, they revised to balance sheet approach in 2019. More companies pay zakat since it can increase the company's financial performance as stated by Al-Malkawi and Javaid (2018).

Table 3. Overall sample

Description	*Deviation net income*	*Deviation working capital*	*Deviation working capital + Net income*
Mean	14,822,147	7,952,147	17,819,512
Standard error	5,014,401	2,185,014	5,936,984
Median	1,742,260	1,593,719	2,536,732
Standard deviation	76,212,290	33,209,344	90,234,347
Sample deviation	5,808,313,140,477,350	1,102,860,527,969,130	8,142,237,439,448,350
Kurtosis	55	67	56
Skewness	7	8	7
Range	680,500,000	350,400,000	799,900,000
Minimum	–	–	–
Maximum	680,500,000	350,400,000	799,900,000
Sum	3,423,915,866	1,836,945,894	4,116,307,178
Count	231	231	231

Table 4. Kuwait sample

Description	*Deviation net income*	*Deviation working capital*	*Deviation working capital + Net income*
Mean	1,712,671	2,147,209	1,748,281
Standard error	494,762	649,924	624,488
Median	1,181,272	1,088,825	925,090
Standard deviation	2,212,641	2,906,549	2,792,795
Sample deviation	4,895,779,867,557	8,448,028,983,958	7,799,701,158,208
Kurtosis	8	6	10
Skewness	3	2	3
Range	9,136,919	11,857,634	11,685,191
Minimum	230,659	3,023	175,466
Maximum	9,367,578	11,860,657	11,860,657
Sum	34,253,420	42,944,179	34,965,615
Count	20	20	20

Table 5. Malaysia sample

Description	*Deviation net income*	*Deviation working capital*	*Deviation working capital + Net income*
Mean	2,586,997	5,066,971	1,822,247
Standard error	693,817	1,141,433	461,368
Median	658,742	1,932,500	966,864
Standard deviation	4,654,269	7,656,962	3,094,952
Sample deviation	21,662,222,188,315	58,629,070,640,368	9,578,729,041,942
Kurtosis	14	7	18
Skewness	3	3	4
Range	25,454,475	36,729,024	17,990,315
Minimum	-	5,661	-
Maximum	25,454,475	36,734,685	17,990,315
Sum	116,414,882	228,013,707	82,001,129
Count	45	45	45

Table 6. Saudi Arabia sample

Description	*Deviation net income*	*Deviation working capital*	*Deviation working capital + Net income*
Mean	19,718,359	9,433,663	24,092,412
Standard error	6,943,975	3,018,168	8,216,074
Median	2,488,298	1,595,753	3,946,987
Standard deviation	89,466,864	38,886,380	105,856,713
Sample deviation	8,004,319,683,690,520	1,512,150,553,721,920	11,205,643,767,699,000
Kurtosis	39	49	39
Skewness	6	7	6
Range	680,500,000	350,400,000	799,900,000
Minimum	-	-	-
Maximum	680,500,000	350,400,000	799,900,000
Sum	3,273,247,565	1,565,988,008	3,999,340,433
Count	166	166	166

Table 7 shows the comparison of deviation zakat payment. Kuwait has consistent results for its zakat calculation method. While Saudi Arabia has a conservatism method, we cannot determine which method the companies used in actual, but working capital has the smallest deviation. Other proposals for methods of calculating zakat include a combination of working capital and net income in

Malaysia. This can be a proposal to Adnan and Bakar (2009) who may not get the answer at that time. This is also based on the strong basis as stated by Harahap and Yusuf (2002). The smallest deviation means there is a closer method of zakat calculation with actual zakat payment.

Table 7. Comparison of deviation

Country	*Rank 1*	*Rank 2*	*Rank 3*
Overall	WC	NI	WC + NI
Kuwait	NI	WC + NI	WC
Malaysia	WC + NI	NI	WC
Saudi Arabia	WC	NI	WC + NI

Note: WC = Working capital; NI = Net income.

The hypothesis is rejected, which is 0.003. This means that there is a significant difference between actual zakat and zakat calculation. Eventhough, the lowest deviation is net income (Table 4). This means that the closest of deviation does represent the closet accurate zakat calculation. In reality, each zakat payer may have difference zakat calculation method in Kuwait. However, the correlation test is high and significant meaning that both value (actual zakat and zakat method) has a strong calculation.

Table 8. T-test paired samples

Item	*Mean*	*t*	*df*	*Sig. (2-tailed)*
Actual – Net income	-1.68	-3.387	19	0.003

Table 9. Pearson correlation test

Variable		*Actual*	*Net income*
Actual	Pearson correlation	1	0.968**
	Sig. (2-tailed)		0.000
	N	20	20
Net income	Pearson correlation	0.968**	1
	Sig. (2-tailed)	0.000	
	N	20	20

*Note: ** Correlation is significant at the 0.01 level (2-tailed).*

Zakat final is based on direct rate to income such as agricultural and mining basis. This is similar to tax income, actually; in addition, this method is quite simple. Therefore, some countries adopted this method. On the other hand, zakat of wealth is based on the zakatable asset in the balance sheet. This method is also applied for non-final zakat object. Combination of both methods is also recommended, but finally, object zakat must be excluded from the balance sheet as it has been charged before. This is, however, to avoid double zakat calculation.

5. CONCLUSION

The research shows that zakat calculation method is consistent with the preferred method for each country Kuwait. Saudi Arabia has conservatism method which is working capital has smallest deviation. While Malaysia has different result since they use more than one method for calculating zakat, working capital modification with net income can be an alternative to zakat calculation method. This is the novelty of the paper which can give better recommendation for zakat calculation. In addition, there is a significant difference from actual zakat payment and zakat calculation method in Kuwait, even though it has higher correlation.

Recommendation for this paper is that there should be a review of zakat calculation from independent body. This is to avoid the difference calculation of misinterpretation from zakatable objects. However, this is a like tax which have a review for clients who paid their tax.

This study only analyzes the implementation in Saudi Arabia, Kuwait, and Malaysia owing to the availability of corporate zakat reports that are disclosed in the financial statements. However, other countries might have similar guideline and incentives for zakat company payment such as deduction from taxable income. Future research can be done in other countries that have similar regulation.

The limitation of the study is that not many companies are included in the analysis since it comprises only stock exchange listings. The recommendation of the study is to explore the zakat calculation method for each country to know how companies calculate their zakat. Other method of company zakat can be used such as revenue basis.

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