

Zakat Disclosure by Malaysian Islamic Banks

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Abstract: This study investigates zakat disclosure on 16 Islamic banks (IB) listed under Bank Negara Malaysia during the year 2014. These are then compared, using a zakat disclosure to improve the element in zakat dimension from ethical identity index and social reporting disclosure. The new elements included are payment of zakat to zakat institutions, zakat as part of CSR program, zakat institution attestation on zakat computation, Shariah Supervisory Board (SSB) attestation that IB is not liable to pay zakat and reasons for not paying zakat. In addition, content analysis is undertaken to measure the volume of zakat disclosures. Based on the results, the overall mean zakat disclosure of IBs is 0.70 and Bank Islam Malaysia Berhad (BIMB), AmIslamic Bank Berhad and Hong Leong Islamic Bank Berhad, scores the highest disclosure of zakat compliance which is 0.80. Five IBs out of twelve surveyed (IB acknowledged the responsibility to pay zakat) to be above average. The remaining seven IBs suffer from the disparity between the communicated and ideal zakat disclosures. The results have important implications for Islamic Banks in order to enrich their images and good reputations in society as well as to remain competitive.

Key words: Zakat disclosure, zakat compliance, Islamic banks, corporate zakat, disparity

INTRODUCTION

Islamic banking has received momentous attention following the global financial crisis in 2008 and the increasing concern about the stability of Islamic banking in facing this crisis. Malaysia has been well known as the first country which propagated the Islamic finance to the world. There are 16 Islamic banks reported by Bank Negara Malaysia operated under the surveillance of Shariah law. The purity per se was screened through the information disclosed in the annual reports. One of the valuable aspects that have always been important in many literature studies is zakat dimension. Zakat is the third pillar after shahadah and solat have been mentioned several times in Quran together with solat. "And be steadfast in prayer and given Zakat and whatever good ye send forth for your souls before you, ye shall find it with Allah; for Allah sees well all that ye do" (Surah Al-Baqarah: 110). Hence, the following questions motivate the current study, to what extent Islamic banks had paid and disclosed information pertaining on zakat in their annual report. Thus, this study attempts to address the gap by examining the said elements zakat disclosure among the Islamic banks based on their annual reports.

Literature review

Corporate zakat: Zakat is the third pillars of Islam which every Muslim is obliged to pay which according to Qaradha^{wi} and Siddiqui in 2011 zakat literally means "increase, growth and purification" as well as "blessings". Its origin is found in Qur'an 9:103: "Of their goods, take alms, so that you might purify and sanctify them". Zakat is also term as "grow" and "praise" that refers as "charity" originally found in Quran as zakat can increase someone's wealth 30:3: "And that which you give as a gift (to others) in order that it may increase (your wealth by expecting something in return) from other people's property has no increase with Allah but that which you give in zakat sincerely for the sake of Allah, those people shall have manifold increase".

Second, there are different definitions of zakat among the scholars in Islam. Sayyid (1991) defines zakat is "that portion of a man's wealth which is designated for the poor". Another definition of zakat is "a compulsory levy imposed on the Muslims so as to take surplus money or wealth from the comparatively well-to-do members of the Muslim Society and give it to the destitute and needy" (Zaim, 1989). Ahmad (1977) proposed zakat is paid from those who have a surplus, to the poor. While, the

famous contemporary Muslim's Islamic Jurisprudence (Qaradawi, 2011) refers zakat as "to grow" and "to increase". In Shari'a, zakat refers to "the determined share of wealth prescribed by God to be distributed among deserving categories". All these are the evidence of the role of zakat pertaining to wealth's purification and prosperity. The definition of zakat is directed to one consensus meaning that refers as charity or sadaqah in Quran as Zakat can increase someone's wealth. Allah promises in Quran.

"And that which you give as a gift (to others) in order that it may increase (your wealth by expecting something in return) from other people's property has no increase with Allah but that which you give in Zakat sincerely for the sake of Allah, those people shall have manifold increase" (Surah Ar-Room 30: 3). In another verse "and He causes Charitable deeds to prosper". (Surah al-Baqarah 2: 276), "and whatever thing you spend, He exceeds it in reward and He is the best of Sustainers".(Surah Saba 34: 39).

Corporate zakat is not applicable to the individual, also relevant on the Islamic banks as entities which represent the Islamic organizations. The fundamental aspect of Islamic banks is to comply with sharia law and to avoid four prohibited elements that consist of interest (riba), gambling (maisir) uncertainty trading (gharar) and injustice (zulm). In Malaysia, a zakat is a voluntary act so that each Islamic bank has freedom of choice either to decide voluntarily pay the zakat or not. Although no evidence revealed in the Quran or Hadith to mention the company is compulsory to pay corporate zakat, but there is a consensus that recognized zakat to be paid by organizations which have a similar entity to individual (Abu Bakar and Abdul Rahman, 2007)

In 31st meeting held on 9th December 1992, the National Fatwa Committee decided a company be compulsory to pay zakat when it fulfills the following conditions: the company is owned by Muslims, the company is owned by independent Muslims, the company has complete ownership, there is sufficient nisab there is sufficient haul, the intention of doing business is to gain profit and the zakat rate on company is 2.5% ("Portal Rasmi Muamalat dan Kewangan Islam", 2016). In addition, the company shared by Muslims and non-Muslim, only the shares owned by the Muslim is zakat table and the zakat is calculated based on the net income obtained. Ethically, once the fatwa has issued, it is obligatory to the corporations to apply this mandate.

The issue of disclosure adequacy of annual reports among the Islamic banks has received much

attention since Islamic banks must be accountable and transparency to their stakeholders. Therefore, the best way for Islamic banks is to disclose their information pertaining to zakat in their annual reports, since it is ethical for Islamic banks to pay zakat.

Disclosure of zakat: Despite its fundamental element for Islamic banks foundation, it is found that little information on the zakat has been disclosed in annual report among the Islamic banks (Abd Samad *et al.*, 2015; Amalina *et al.*, 2013). Few indexes have been proposed to provide standardization on the information pertaining to zakat matters should be disclosed in the annual report for Islamic banks. A study proposed ethical identity index with aims to examine the strength of Islamic banks in communicating their operations based on the annual report (Haniffa and Hudaib, 2007).

Another study has explained that Islamic banks are expected to disclose the information related to zakat disclosure either there is a requirement to pay zakat or not. Another guidelines that are usually referred as zakat accounting standard in Malaysia namely, MASB FRS i-1, refers to Malaysian Accounting Standard Board (MASB) is accountable to provide a guideline on the "Financial Reporting Standard: Presentation of Financial Statements of Islamic Financial Institutions". According to Nur Barizah (2007), though it was designed exclusively for accounting reporting standard for Islamic Financial practices in Malaysia, there are few discussion on zakat disclosure. The discussion mentioned that the zakat as part of liabilities which shall be presented in the "Face of the Balance Sheet" otherwise in "Notes". Other than that the guideline urged the zakat payment to be disclosed as part of responsibility towards the "depositors, shareholder and other".

Although previous studies conducted have dealt with zakat disclosure extensively, this study proposes mainly to include a statement of zakat payment to zakat institutions zakat as part of CSR program and zakat institution attestation on zakat computation. The elements are required to show the excellence of IB pays zakat. Otherwise, the calculated amount of zakat might be ambiguous although there is Shariah Board attestation on the matters pertaining on zakat, Shariah Board is subjected to conflict of interest (Graiss and Pellegrini, 2006). Therefore, by improving the said elements on zakat compliance, it may reduce the curiousness among the stakeholders and increase the confidence level on Islamic banking system.

MATERIALS AND METHODS

Methodology: This study has been conducted on 16 Islamic banks listed under Bank Negara Malaysia using content analysis. This study employed annual report for the year 2014, retrieved from the banks websites because the majority of the Islamic banks disclosed their annual reports on Financial Statements in their website. This study also examined zakat compliance based on the reports available within the company's website. Nevertheless, the reports available are reasonable because Islamic banks should be ethically paid the zakat and the information regarding on it must be well explained in their reports.

By using content analysis, corporate annual report and report of financial statements for 2014, each Islamic Bank scored 1 if they disclosed the information and 0 if none. Then, a total of disclosure of zakat compliance is calculated for each bank. This study also provides four new elements inside the zakat dimension (number 9, 10, 16 and 17). There are eleven elements that need to be disclosed if they are recognized to pay zakat which are:

- Bank liable for zakat
- Amount paid for zakat
- Sources of zakat
- Asnaf/beneficiaries of zakat
- Balance of zakah not distributed amount
- Reasons for balance of zakah
- SSB attestation that sources and uses of zakat according to Shariah
- SSB attestation that zakat has been computed according to Shari'ah
- Zakat as part of Corporate Social Responsibility program (new)
- Zakat institutions attestation on zakat computation (new)
- Zakat paid to zakat institutions (new)
- SSB opinion regarding validity of computation
- Income Statement
- Statement of cash flow
- Notes to financial statements

Meanwhile, there are only two elements that need to be disclosed if they are not recognized to pay zakat which are:

- SSB attestation that IB is not liable to pay zakat (new)
- Reasons for not paying zakat (new)

RESULTS AND DISCUSSION

The zakat disclosure is the extended work of Haniffa and Hudaib (2007) and Maali *et al.* (2006) under the dimension of zakat only. The new elements included are zakat paid to zakat institutions, zakat as part of CSR program, zakat institution attestation on zakat computation and SSB attestation if the bank not required paying zakat with reason.

This study interested to investigate the zakat disclosure since the fundamental building of Islamic banks is Shariah law that suggests the Islamic banks is required to pay zakat followed by the decision of National Fatwa Committee of Malaysia.

Comprehensive information on zakat disclosed in the annual reports is very important to increase the Muslim stakeholders confidence in the Islamic banks. The findings show there is commonalities information on zakat disclosed among Islamic banks that paid the zakat. Meanwhile few banks who acknowledge they are not liable to pay zakat disclose the reasons.

Table 1 and Appendix 1 presents the results of the overall zakat disclosure for 16 Islamic banks operating in Malaysia for the year 2014. From the results, the zakat disclosures can be divided into two categories, first, the zakat disclosure for the banks that pay the zakat. Second for the banks who did not pay the zakat. The higher percentage of Zakat disclosure indicates less variation between the communicated and proposed zakat disclosure in the reports. By using content analysis, corporate annual report and report of financial statements for 2014, each Islamic Bank scored 1 if they disclosed the information and 0 if none. The higher percentage of Zakat disclosure indicates less variation between the communicated and proposed zakat disclosure in the reports. Based on the results, the overall mean zakat disclosure of IBS is 0.70 and the highest score is 0.80 (BIMB, AMIBB and HLIBB). It means that BIMB, AIMBB and HLIBB have the highest information communicated under the zakat disclosures checklist.

Under the first element of zakat disclosure, 12 Islamic banks acknowledge that they are liable to pay zakat. Thus, the banks fall under the first category which the banks are expected to disclose ten elements of zakat disclosure. The zakat disclosure was further examined into the amount of zakat paid by the bank. Only ten out of twelve Islamic banks stated the amount zakat paid in their annual reports. ALRAJHI and KFHMB admitted they are liable to pay, however, the liability to pay zakat is transferred to their parent company. There is no Shariah Supervisory Board opinion on this matter was disclosed in their annual reports. The excerpt of the report of ALRAJHI bank and KFHMB respectively is appeared as below.

Table 1: Level of Zakat disclosure of Islamic banks

Elements	AFIBB	ALIBB	AMIBB	BIMB	BMMB	HLIBB	MIBB	OCBC	PIBB	RHB	KFHMB	ALRAJHI	CIMB	BCSB	AFBB	HSBC
Bank liable for zakat	1	1	1	1	1	1	1	1	1	1	1	1				
amount paid for Zakat	1	1	1	1	1	1	1	1	1	1						
Sources of zakat	1	1	1	1	1	1	1	1	1	1	1	1				
Ansaf/beneficiaries of zakat	1	1	1	1	1	1	1	1	1							
Balance of zakat not distributed																
Reasons for balance of zakat																
SSB attestation that sources and uses of zakat according to shariah		1	1	1	1	1		1								
Computed SSB attestation that zakat has been computed according to zakat calculation	1	1	1	1	1	1	1	1	1	1	1					
Zakat as part of CSR program		1	1	1	1	1	1									
institution on zakat computation																
The method of zakat computation	1	1	1	1	1	1	1	1	1	1	1					
Zakat paid to zakat institution	1	1	1	1		1	1	1	1	1						
Incoming statement	1		1	1	1	1	1	1	1	1						
Notes to financial statement/account	1	1	1	1	1	1	1	1	1	1	1	1		1		1
Statement of cash flow	1	1	1	1	1	1										
SSB attestation that IB is not liable to pay zakat																1
Reasons for not paying zakat											1	1	1	1	1	1
Total	10	11	12	12	11	12	10	10	9	8	5	3	1	2	2	2
Disclosure of zakat compliance	0.67	0.73	0.80	0.80	0.73	0.80	0.67	0.67	0.60	0.53	0.33	0.20				

Mean = 0.70 mean excluded element 16 and 17; Max 0.80 Min 0.53; Total Sum of elements 1-15

Zakat represents business zakat payable by the Bank to comply with the principles of Shariah and as approved by the Shariah Advisory Council. The Bank only pays zakat on its business and does not pay zakat on behalf of depositors or shareholders. The zakat provision is borne by the Bank's Holding Company (2014).

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat would be paid by Kuwait Finance House K.S.C who is the main shareholder of Kuwait Finance House (Malaysia) Berhad (2014).

Interestingly, different banks have their own individual method of sources of zakat. Some bank indicates the sources of zakat can be from employees income, shareholder's income, depositors money or zakat on bank's business. The majority of the banks stated their sources of zakat fund. Only ALIBB, AMIBB, BIMB,

BMMB, OCBC and HLIBB disclosed attestations from SSB that the sources and uses of Zakat and the amount computed for zakat according to the Islamic principles.

Zakat paid is declared if the zakat has been transferred to entrusted authority for example zakat institutions. Since Zakat paid by the Islamic banks is a huge amount, the banks shall not distribute the zakat by their own wills since they might be overlooked the appropriate asnaf of zakat or there will be an issue of unfair distributions. Thus, the zakat should be paid to the zakat institutions. The majority of the banks disclosed information that the zakat paid to zakat institutions except for ALRAJHI, KFHM and BMMB. Although BMMB disclosed the information on the asnaf/beneficiaries of zakat fund but none information on the zakat has been paid to zakat institutions has been stated.

With regards to the banks, CIMB, SCSB, AFBB and HSBC reported information that not liable to pay zakat,

provided with reasons why they did not have to pay zakat. There is seems to be conflicting statements in the CIMB's report, The obligation and responsibility for payment of Zakat lies with the Muslim shareholders (if any) of the Bank, the Bank's Immediate Holding Company and the Bank's Ultimate Holding Company. The obligation and responsibility for specific payment of Zakat on deposits and investments received by the Bank from its customers lies with its Muslim customers only.

The aforesaid is subject to the jurisdictional requirements on Zakat payment as may be applicable from time to time on the Bank and its subsidiaries arising from changes to local legislation, regulation, law or market convention as the case may be. Accrual of Zakat expenses (if any) in the Financial Statements of the Bank is reflective of this. (Reports and Financial Statements 2014)

The first statement declared that the bank is not responsible for paying zakat while the second statement stated the bank is "subject to jurisdictional requirements" indirectly suggests that the bank is liable to pay zakat according to the decision of National Fatwa Committee as mentioned before. Nevertheless, there is contradictory statement for attestation of SSB in SCSB report:

In our opinion: Standard Chartered Saadiq Berhad during the year ended 31 December 2014 is not required to pay zakat because its shareholder is non-Muslim (2014). Surprisingly, despite the SSB have confidence to say SCSB's shareholders is non-Muslim, in the same reports has been clearly stated that some portion of the company is owned by a person with Muslim's name, Osman Tarique Morad with a share of 9,697 as at December 2014 (Financial Statements 2014).

For HSBC and AFBB, the statement of reasons not paid the zakat suggests the banks have nothing to do with the shareholder's zakat and it is not the responsible of the bank. Muslim scholars have been discussed and debated on the matter of the bank and the individual shareholders are two separate entities but this study has no intended to focus on this issue. The excerpt of the reports by HSBC and AFBB respectively clearly stated their reasons: On that note, we, being the members of the Shariah Committee of HSBC Amanah Malaysia Berhad, do hereby confirm that with the exception of identified breaches that are being remedied, in our opinion: the Bank is not required to pay zakat for the financial year ended 31 December 2014 because its shareholder has no obligation to pay zakat. (HSBC annual report 2014).

The obligation and responsibility of payment of zakat lies with ultimate individual shareholders and the

depositors of the bank. As such, no accrual of zakat expenses is recognized in the financial statements of the bank (AFBB annual report 2014).

It has found that there is interesting the fact that the bank has been appointed as agent by zakat institutions to distribute the zakat fund directly to asnaf of zakat. However, there is surprising discovery, since Islamic banks were built within the religious Islamic faith HSBC Amanah Malaysia Berhad (HSBC), CIMB Islamic Bank Berhad (CIMB), Asian Finance Bank Berhad (AFBB) and Standard Chartered Saadiq Berhad (SCSB) are found not liable to pay zakat. So, they are expected to pay zakat and should take the social responsibilities. They are also expected not to say confidently they are not required to pay zakat. Although the Islamic banks should view them as an act of social responsibilities, HSBC, CIMB, AFBB and SCSB seem to treat zakat as a tax burden. Islamic banks are also expected to communicate more on the zakat disclosure to reflect their accountability to Allah. An urgency to improve the communication in the annual report on zakat disclosure and enforceable standardization for zakat disclosure is needed in the financial reporting framework for Islamic banks in Malaysia.

CONCLUSION

The zakat disclosure is the extended work of Haniffa and Hudaib (2007) and Maali *et al.* (2006) under the dimension of zakat only. The new elements included are zakat paid to zakat institutions, zakat institutions attestation on zakat computation and zakat as part of CSR program if IB is liable to pay zakat. Also, SSB attestation if the bank not required paying zakat with reason. This study interested to investigate the zakat disclosure since the fundamental building of Islamic banks is Shariah law that suggests the Islamic banks is required to pay zakat followed by the decision of National Fatwa Committee of Malaysia.

Using content analysis, corporate annual report and report of financial statements for 2014 of 16 Islamic banks in Malaysia were scored 1 if disclosed and 0 if none. The higher percentage of Zakat disclosure indicates less variation between the communicated and proposed zakat disclosure in the reports. Based on the results, the highest score is 0.8. This means BIMB, AIMBB and HLIBB has the highest information communicated under the zakat disclosures checklist.

The study found that there is interesting the fact that the bank has been appointed as agent by zakat institutions to distribute the zakat fund directly to

beneficiaries of zakat. However, there is surprising discovery since Islamic banks were built within the Islamic religious faith is expected to pay zakat and should be being the social responsibilities are expected not to say confidently they are not required to pay zakat. Despite the Islamic banks should view them as an act of social responsibilities, HSBC, CIMB, AFBB and SCSB seems to treat zakat as a tax burden. Islamic bank is expected to communicate more on the zakat disclosure to reflect their accountability to Allah. An urgency to improve the communication in the annual report on zakat disclosure and enforceable standardization for zakat disclosure is needed in the financial reporting framework for Islamic banks in Malaysia.

LIMITATIONS

However, this research has several limitations. First, the study focuses on one period of the year 2014. Future research should consider two to three year of the annual report. Secondly, this finding is based on the annual report of the Islamic banks only. Future research may include the information from other secondary sources such as website, group’s annual reports and the Bulletin of the bank if any.

RECOMMENDATIONS

Our findings have very important implications for the stakeholders of Islamic banks in the region in order to communicate thoroughly on zakat disclosure and avoid ambiguous statement. It is recommended if the Islamic banks can provide comprehensive details of discussion pertaining to the communication of not paying the zakat.

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APPENDIX 1

Level of zakat disclosure of Islamic banks

Islamic Banks	Liable to pay zakat	Level of disclosure
Affin Islamic Bank Berhad (AFIBB)	Yes	0.67
Alliance Islamic Bank Berhad (ALIBB)	Yes	0.73
AmIslamic Bank Berhad (AMIBB)	Yes	0.80
Bank Islam Malaysia Berhad (BIMB)	Yes	0.80
Bank Muamalat Malaysia Berhad (BMMB)	Yes	0.73
Hong Leong Islamic Bank Berhad (HLIBB)	Yes	0.80
Maybank Islamic Berhad (MIBB)	Yes	0.67
OCBC Al-Amin Bank Berhad (OCBC)	Yes	0.67
Public Islamic Bank Berhad (PIBB)	Yes	0.60
RHB Islamic Bank Berhad (RHB)	Yes	0.53
Kuwait Finance House (Malaysia) Berhad (KFHMB)	Yes	0.33
Al Rajhi Banking and Investment Corporation (Malaysia) Berhad (ALRAJHI)	Yes	0.20
Standard Chartered Saadiq Berhad (SCSB)	No	Providereason
Asian Finance Bank Berhad (AFBB)	No	Providereason
CIMB Islamic Bank Berhad (CIMBIBB)	No	Providereason
HSBC Amanah Malaysia Berhad (HSBC)	No	Providereason

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