A Critical Analysis of the Influence of Perception on Compliance Behavior of Income Zakat

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Abstract: Kedah issued a religious decree making it compulsory to pay income zakat in 1997. However, the collection of income zakat amongst Muslims who have fulfilled the conditions to pay income zakat in Kedah has remained low. Some public educators in Kedah did not pay income zakat to Kedah State Zakat Board because of the perception that they could pay zakat at other zakat institution. Also, they showed a lack of confidence in the Kedah State Zakat Board's ability to manage and distribute zakat. Studies on zakat compliance have shown mixed and inconclusive evidence regarding the determinants of income zakat compliance. Therefore, this study critically analyses the influence of perception towards equity in zakat distribution, perception towards the facility, perception towards law, and perception towards service quality on compliance behavior of income zakat in Kedah, Malaysia. This study employs a quantitative approach where primary data is collected using a questionnaire instrument; data is analyzed using PLS-SEM to determine significant determinants of compliance behavior of income zakat. This study provides empirical evidence that perception towards facility and service quality has significant relationships with income zakat's compliance behavior. However, perception towards equity in zakat distribution and perception towards law are not significant determinants of compliance behavior of income zakat in Kedah. This study is hoped to provide evidence that could be used as guidance for suitable policy and measures by Kedah State Zakat Board to improve zakat collection in the future.

Keywords: Equity, Facility, Law, Service Quality, Compliance Behavior, Zakat.

INTRODUCTION
The National Fatwa Council agreed upon a consensus on the 22nd June 1997 that income zakat is compulsory for every Muslim individual who has fulfilled the conditions of perfect title, nisab, and hawl (Abdul Aziz & Abdullah, 2013). However, zakat collection in Malaysia is still low, including income zakat. While most of the employees paid income tax which is a legal
obligation, they did not comply with zakat payment which is a religious obligation (Saad et al. (2010); Bidin et al. (2009); Bidin & Md Idris (2009). The issue is the low collection of employment income zakat amongst Muslims eligible to pay income zakat even though Kedah gazetted the compulsory zakat employment income on 19 April 1986 under section 38(2) of the Kedah Islamic Law of Administration 1962 of the Government Bill No. 146 (Tarimin, 1995). Although there has been an increasing trend in the collection of business zakat, paddy zakat, and income zakat, there were still Muslims in Kedah who have not paid zakat to Kedah State Zakat Board (KSZB) so much so that the present increase in the collection of zakat is still not sufficient for distribution to all recipients because of the increasing number of zakat recipients (Sinar Harian, 2014). There is a rising trend in the collection of zakat, yet it is still not sufficient to cover all recipients reflects the efficiency (or the lack of it) of the management of zakat by the Kedah State Zakat Board.

Yet, Haji-Othman et al. (2019) discovered that only 58 percent of Muslim workers paid income zakat in Kedah. Despite a religious decree on the compulsory position of zakat on employment income in Malaysia, many Muslims still fail to fulfill their religious obligation to pay. So far, studies on zakat compliance have shown mixed and inconclusive evidence regarding the determinants of income zakat compliance. Therefore, this study critically analyses the influence of perception towards equity in zakat distribution, perception towards the facility, perception towards law, and perception towards service quality on compliance behavior of income zakat in Kedah, Malaysia. This study is hoped to provide evidence that could be used as guidance for suitable policy and measures by Kedah State Zakat Board to improve zakat collection in the future.

LITERATURE REVIEW
Perception towards Equity in Distribution and Compliance Behavior
In the context of zakat compliance behavior, Wahid (2011) observed that in Selangor, Muslim’s confidence towards zakat institutions depended on the corporate image of zakat institutions, collection, and fairness in the distribution of zakat. Sanep & Hairunnizam (2005) explored the subject of fairness in zakat contribution. The study examined factors influencing the compliance behavior of zakat and established that perception towards fairness in zakat distribution was one of the significant determinants of compliance behavior of zakat. Moreover, Abdul Aziz & Abdullah (2013) found that most of the respondents agreed that the zakat institution in Perak was ineffective in the distribution of zakat, reinforcing this finding. This study showed that the ineffectiveness in the distribution of the zakat affected the payment of income zakat.

Similarly, Hairunnizam Wahid et al. (2009) examined the factors which contributed to the dissatisfaction of zakat payers towards zakat institution in Peninsular Malaysia and revealed that more than half of the dissatisfied payers did not pay zakat. The result further disclosed that among the reasons for zakat payer’s dissatisfaction was the perception of ineffective distribution methods. Muhammad (2008), who substantiated that perception towards fairness or equity in zakat distribution was positively and significantly affected zakat payment to the zakat institution,
further supports this evidence. Furthermore, Wahid et al. (2005) reinforced that perception towards fairness in zakat distribution was one of the significant determinants of compliance behavior of zakat.

**Perception towards Facility and Compliance Behavior**

Hairunnizam, Sanep, & Mohd Ali (2007) explored factors that motivated the payment of income zakat in Malaysia and attested that facilities such as paying zakat through salary deduction were significant factors that influenced zakat payment compliance. Ram Al Jaffri (2010) supported this finding when it revealed that the zakat payment facility had a significant positive relationship with the intention to comply with zakat payment. Moreover, Haji-Othman et al. (2019) discovered that perception towards facility provided by Kedah State Zakat Board was a significant factor that influences zakat compliance.

**Perception towards Law and Compliance Behavior**

Numerous studies have examined the influence of perception towards law and law enforcement on compliance behavior with mixed results. Among the studies are Davis et al. (2003), Murphy (2008), Benk, Cakmak, & Budak (2011), Cummings, Martinez-Vazquez, & Michael (2001), Cummings, Martinez-Vazquez, McKee, & Torgler (2009), Carnes & Englebrecht (1995), Mohd Rizal (2010), Niemirowski et al. (2003) and Zainol (2008).

Davis et al. (2003) observed the effect of social norms and law enforcement on the dynamics of taxpayer compliance. This study constructed two models to evaluate the movement between classes of compliant and non-compliant taxpayers. The result revealed that the effect on adherence of changing enforcement levels depended on whether the taxpayers were compliant or non-compliant. Although non-compliant taxpayers responded to enforcement, law-abiding taxpayers were not sensitive to changes in enforcement policies. It meant that law enforcement was significant on tax non-compliant but not a significant influence on tax compliance. Murphy (2008) supported this finding by attesting that the enforcement approach was practical for those who had weaker respect for the law than those with more substantial concern.

On the other hand, Benk, Cakmak, & Budak (2011) verified that penalty magnitude had a significant effect on tax compliance intentions. Similarly, Cummings, Martinez-Vazquez, & Michael (2001) proved that tax compliance (evasion) was a complex decision motivated by various factors such as detection and punishment. Cummings, Martinez-Vazquez, McKee, & Torgler (2009) supported this evidence by revealing that different levels of law enforcement were associated with varying levels of tax compliance. Likewise, Carnes & Englebrecht (1995) supported these findings. Carnes & Englebrecht (1995) demonstrated that compliance taxpayers perceived the risk of being detected by law enforcement as a significant factor influencing tax compliance. Cummings et al. (2001) reinforced this evidence by discovering that enforcement effort increased tax compliance, but this is a less effective mechanism where the respondents perceived the tax regime as unfair.
In the same way, Mohd Rizal (2010) examined factors that interacted in the development of a suitable self-assessment System (SAS). The findings of this study demonstrated that tax penalties influenced tax compliance. Niemirowski et al. (2003) maintained this finding by revealing that the perception of tax law's seriousness was associated with tax-paying compliance. In the environment of zakat compliance, Kamil (1995) verified that zakat law and enforcement did not influence zakat compliance because zakat payers perceived zakat law enforcement as nonexistence. Zulkifli & Sanep (2010) supported this finding when they discovered that law did not affect the compliance behavior of zakat. Zainol (2008) contradicted this finding when the study finds that law and enforcement were significant factors related to zakat compliance behavioral intention. Haji-Othman et al. (2020) further supports Zainol (2008) when they discovered that perception towards law was not a significant factor influencing zakat compliance behavior.

**Perception towards Service Quality and Compliance Behavior**

Perception towards service quality refers to people’s perception of service quality offered by institutions to perform a particular behavior. It relates to consumer’s expectations of actual service performance (Parasuraman, Zeithaml, & Berry, 1985). In the context of zakat, it refers to people’s perception of the quality of service offered by zakat institutions to facilitate zakat payers to pay zakat. Perception towards service quality is among the measurements that have been used in many studies on compliance behavior of tax and zakat. Among the studies that have examined perception towards service quality on compliance behavior include Kamil (2002), Amin & Isa (2008), Zainol (2008), Ram Al Jaffri (2010), Alm, Jones, Cherry, & Mckee (2011), Alabede, James O. (2011), Alabede, Zaimah, & Kamil (2011) and Alm, Cherry, Jones, & McKee (2010).

Perceived service tax quality significantly influences tax compliance behavior (Alabede et al., 2011). Alabede, James O, (2011) and Alabede et al., (2011) used perceived service tax quality as one of the variables explaining low tax compliance in Nigeria. The studies verified that perceived service tax quality played a significant role in influencing tax compliance behavior. Correspondingly, though in a different environment, Amin & Isa (2008) showed that service quality influenced customers’ satisfaction on Islamic banking in Malaysia.

In the zakat context, Haji-Othman et al. (2019) found that service quality was among the significant variables influencing zakat payment among public servants in Kedah. Zainol (2008) supported this finding when it revealed that service quality was a significant factor in zakat compliance behavioral intention. This finding is further reinforced by Al Amran, Haji-Othman, Mohamed Fisol, & Sheh Yusuff (2020) when they discovered that perception towards service quality was a significant determinant in customers’ Islamic banking products selection. However, Haji-Othman (2017) contradicted this finding when the study revealed that service quality did not significantly influence the intention to pay income zakat.
RESEARCH METHOD
This study uses a quantitative method where it collects primary data using questionnaires. This quantitative method of this study can be classified as causal because this method examines the cause-and-effect relationship between variables in the theoretical framework of the study. This study analyses data using Partial Least Square Structural Equation Modelling (PLS-SEM).

Theoretical Framework of the Study
The theoretical framework is adapted and adopted from Ajzen (1991) and based on deductive reasoning. There are four independent variables: perception towards equity, perception towards the facility, perception towards law, and perception towards service quality, while compliance behavior is the dependent variable.

![Figure 1. Theoretical Framework of the Study](image)

Data Collection
This study uses a survey method using a questionnaire instrument to collect data. This method is considered suitable because units of analysis (respondents) are scattered around the state of Kedah. This study population consists of public educators who are eligible to pay income zakat located in Kedah. This study chooses a sample size of 372 based on Krejcie and Morgan (1970).

Data Analysis
Data analysis of the study involves several stages. The first stage involves the assessment of the measurement model to identify the underlying structure of the variables involved (Hair, Hult, Ringle, & Sarstedt, 2014). In the second stage, the assessment of the structural model is performed; that is, the data is run using the structural equation model (SEM). The measurement model is done using the validity factor analysis to validate the measurement scale (Hair et al., 2014). Variables that pass this analysis test are then applied to structural model analysis to examine the relationships between the endogenous variables and the exogenous variables of the study.
FINDINGS AND DISCUSSIONS
Table 1 reveals the finding of the study based on 372 randomly selected public servants in the state of Kedah using structural equation modeling SMART PLS Version 3.

Table 1. The Effects of Perception towards Equity, Facility, Law, Service Quality on Compliance Behavior of Income Zakat

<table>
<thead>
<tr>
<th>Path Relationship</th>
<th>Coefficient</th>
<th>t- Statistics</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perception towards Equity -&gt; Compliance Behavior</td>
<td>0.034</td>
<td>0.653</td>
<td>0.514</td>
</tr>
<tr>
<td>Perception towards Facility -&gt; Compliance Behavior</td>
<td>0.406</td>
<td>7.264</td>
<td>0.000</td>
</tr>
<tr>
<td>Perception towards Law -&gt; Compliance Behavior</td>
<td>0.177</td>
<td>1.238</td>
<td>0.216</td>
</tr>
<tr>
<td>Perception towards Service Quality -&gt; Compliance Behavior</td>
<td>0.102</td>
<td>2.007</td>
<td>0.045</td>
</tr>
</tbody>
</table>

This study reveals that perception towards equity or fairness in zakat distribution is not a significant determinant of compliance behavior of income zakat in Kedah. This finding implies that the public educators do not perceive the fairness in zakat distribution as a substantial factor in determining whether they pay zakat. This evidence is because there are other important motivations for paying income zakat. Moreover, this finding opposes Muhammad (2008), who revealed that perception towards equity in zakat distribution positively and significantly affected zakat payment.

In addition, perception towards facility has a significant favorable influence on the income zakat compliance. This piece of evidence supports Haji-Othman et al. (2019), Zainol (2008), and Ram Al Jaffri (2010). They provided evidence that the facility had a significant relationship with the intention to pay income zakat. Kedah State Zakat Board has made a great effort since being corporatized in 2016. Nowadays, zakat payers could pay their zakat through monthly deduction schemes, ATMs, online payments, apps, and other facilities. The facilities to pay income zakat are essential to influence their compliance. However, the issue does not lie with facilities that are perceived as sufficient. Rather, the issues lie more on law enforcement, which is considered weak, which influences the non-compliance of income zakat payment.

Additionally, perception towards law is not a significant determinant of income zakat compliance. This finding supports Haji-Othman, Sheh Yusuff, & Nayan (2020), who revealed that perception towards law does not influence zakat compliance since zakat law and enforcement is weak. Further reinforced this finding when they found that perception towards law is not a significant determinant of compliance. However, Mohamed Sareye Farah, Haji-Othman, & Mohamed Omar (2017) contradicted this finding when they discovered that perception towards law influenced zakat compliance.

The obligation to pay zakat in Kedah is based on the Qur’an, the Sunnah, fatwa, and circulars. The National Fatwa Council agreed upon a consensus that income zakat is compulsory for every Muslim individual who has fulfilled the conditions of perfect title, nisab, and hawl. Also, Kedah
gazetted the mandatory zakat employment income on 19 April 1986 under section 38(2) of the Kedah Islamic Law of Administration 1962 of the Government Bill No. 146. In addition, there is the directive by the Office of the Secretary of the State of Kedah (SUk), which has directed eligible Muslim public servants to pay zakat to Kedah State Zakat Board through a monthly salary deduction scheme. However, the perception is that law enforcement is weak because Kedah State Zakat Board has not assigned any income zakat numbers to zakat payers. Unlike the Inland Revenue Board of Malaysia (LHDNM), which sets income tax numbers to taxpayers. The setting of income zakat numbers to zakat payers is vital because those who refuse to file and pay zakat are punishable under zakat law. Without assigning the zakat numbers, Kedah State Zakat Board could not trace the zakat non-compliant, therefore, could not enforce the zakat law accordingly.

In the case of tax, the Inland Revenue Board of Malaysia (LHDNM) has introduced the e-filing system where income earners must file every year, and failing to do so will result in certain punishment. Taxpayers perceive tax law enforcement as strong; therefore, they must oblige to perform the e-filing and pay the tax due accordingly. On the other hand, the perception towards zakat law enforcement is weak, which weakens zakat compliance.

Furthermore, this study reveals that perception towards service quality influences zakat compliance. This finding supports Haji-Othman, Sheh Yusuff, & Badrolhisham (2020), who discovered that service quality is significant in influencing zakat compliance. Ali Amran, Haji-Othman, Mohamed Fisol, & Sheh Yusuff (2020) discovered that service quality influenced Islamic banking compliance and further reinforced this discovery. In the environment of zakat in Kedah, service quality has improved, although not at the level of service quality of tax. However, each zakat center in every district in Kedah could improve the service quality.

CONCLUSION

Zakat is a significant source of income and could be used as an instrument to finance specific programs to achieve social, political, and economic development among Muslim communities. However, the collection of income zakat amongst Muslims who have fulfilled the conditions to pay income zakat in Kedah has remained low even though Kedah issued a religious decree making it compulsory to pay income zakat in 1997. Some educators in Kedah did not pay income zakat to Kedah State Zakat Board because of the perception that they could pay zakat at any zakat institution. Also, they showed a lack of confidence in the Kedah State Zakat Board's ability to manage and distribute zakat. This study critically analyses the influence of perception towards equity in zakat distribution, perception towards the facility, perception towards law, and perception towards service quality on compliance behavior of income zakat in Kedah, Malaysia. This study reveals that perception towards facility and service quality has significant relationships with income zakat compliance behavior. However, the result demonstrates that perception towards equity in zakat distribution and perception towards zakat law are not significant determinants of compliance behavior of income zakat in Kedah. This study recommends that future studies explore other determinants of income zakat compliance to shed
more light on this fertile area of research. This study is hoped to provide evidence that could be used as guidance for suitable policy and actions by the Kedah State Zakat Board to improve zakat collection strategies in the future.

REFERENCES


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