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Calculation, Distribution and Disclosure of Zakat in Malaysian Islamic Banks

Pengiraan, Pengagihan, dan Pendedahan Zakat di Bank-Bank Islam di Malaysia

Nurul 'Iffah M A Zaaba*, and Rusni Hassan**

Abstract
Zakat information in annual reports is one of the main attributes that differs Islamic banks from conventional banks. Thus, this study focuses on the zakat information that can be found in Islamic banks financial statements in comparison to the available standards. Reporting standards and guidelines from BNM, AAOIFI, JAWHAR and MASB were used by these banks as guidelines in calculating, distributing and reporting zakat. Due to the absence of standardized accounting standard, certain zakat information was not found in the financial statements. Compared to previous literatures, Islamic banks are moving towards increasing their zakat information disclosure. Based on the analysis of selected Islamic banks’ annual reports, this study concludes by suggesting establishment of standardized zakat distribution framework for Islamic banks.

Keywords: Zakat, Reporting Standards, Disclosure, Financial Statement, Islamic Banks.

Abstrak
Maklumat tentang zakat dalam laporan tahunan adalah salah satu sifat utama yang membezakan bank Islam daripada bank konvensional. Oleh itu, kajian ini memberikan tumpuan kepada maklumat zakat yang boleh didapati dalam penyata kewangan bank-bank Islam dibanding dengan piawaian yang ada. Piawaian pelaporan

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Calculation, Distribution and Disclosure of Zakat in Malaysia in Islamic Banks


Kata Kunci: Zakat, Piawaian Pelaporan, Pendedahan, Penyata Kewangan, Bank-Bank Islam.

Introduction

Paying zakat is one of five pillars of Islam after witnessing the confession of Faith (Shahadah) and performing prayers (Salah) that was obliged from the early days of Islam. In the beginning of Islam, the zakat was collected from individual only then it has broadened to institutional payers such as companies or corporations. This includes Islamic bank as well.¹

In the case of individual, any Muslim who possess wealth over a certain amount (nisab) are obliged to pay zakat and as for companies, they are responsible to pay out business zakat.² Therefore, zakat payment has become one of the characteristics of Islamic banks compared to conventional. However, if they do not pay zakat, they are responsible in informing the shareholders.³

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Using financial statements (and annual reports) as a mean of communication, sufficient zakat information must be provided so it can satisfy stakeholders’ needs for Islamic law (Shariah) compliance assurance.\(^1\)

Islamic banks pay zakat on voluntary basis. It is also notable that each Islamic bank has its own zakat’s computation and payment method according to the rulings made by their respective Shariah Supervisory Board (SSB) or Shariah Committee (SC).\(^2\)

1) This is because of no specific accounting standards for zakat to be used by the Islamic banks of Malaysia. Nonetheless, Islamic banks can refer to Bank Negara Malaysia (BNM)’s Guidelines on Financial Reporting for Islamic Banking Institutions, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)’s Financial Accounting Standard (FAS) 9, Jabatan Wakaf, Zakat dan Haji (JAWHAR)’s Zakat Management Manual and Malaysian Accounting Standards Board (MASB) Technical Release (TR) i-1 as standards and guidelines for zakat matters. It is worth mentioning that there is additional information needed to be disclosed by Islamic banks that pay zakat according to Bank Negara Malaysia (2018).\(^3\)

Those information are:

2) Responsibility for zakat payment either on the business, and/or behalf of the shareholders;

3) method applied in the determination of zakat base e.g. Growth Method, Working Capital Method; and

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\(^3\) “Financial Reporting for Islamic Banking Institutions”
4) beneficiaries of zakat fund e.g. Baitul Mal, orphanage, etc.

Zakat disclosure, reporting and calculation

Islamic banks have been bombarded with accusations that they are similar with conventional banks and they are driven by profit maximization. However, the reality is Islamic banks do not only base on profit but on religion as well. They must comply Shariah requirements so that they can uphold their name proudly. However, being business entities, they are expected to generate profit out of their business. Hence, they must find a balance between being Islamic and business institutions.

Tax and zakat payment have been always incorporated in Islamic banks’ balance sheet. These two pieces of information were made available in their financial statements. Business organization needs to pay tax liability imposed by the government while zakat is one of the requirements of Shariah law if all the conditions for zakat are present. Islamic banks have been fulfilling their zakat obligations. Bank Islam, for instance has been paying zakat ever since its establishment.

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Based on year 2018, out of sixteen Islamic banks, twelve banks disclosed their zakat payment. Seven banks disclose zakat payment independently and the remaining five incorporated zakat payment with tax.

Table 1: Total Amount of Business Zakat Paid by Islamic Banking Institutions in Year 2018

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
<th>Total Amount of Zakat Paid (RM’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bank Islam Malaysia Berhad</td>
<td>12,678</td>
</tr>
<tr>
<td>2.</td>
<td>Bank Muamalat Malaysia Berhad</td>
<td>6,134</td>
</tr>
<tr>
<td>3.</td>
<td>MBSB Bank Berhad</td>
<td>4,844</td>
</tr>
<tr>
<td>4.</td>
<td>Affin Islamic Bank Berhad</td>
<td>3,897</td>
</tr>
<tr>
<td>5.</td>
<td>AmBank Islamic Berhad</td>
<td>1,855</td>
</tr>
<tr>
<td>6.</td>
<td>Hong Leong Islamic Bank Berhad</td>
<td>350</td>
</tr>
<tr>
<td>7.</td>
<td>Alliance Islamic Bank Berhad</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>29,866</td>
</tr>
</tbody>
</table>

Source: Individual Financial Statements of Islamic Banks

As the table suggests, the amount of business zakat paid by the Islamic banks is very high. According to Rahman (2012) and annual report of PPZ MAIWP of year 2017, business zakat records among the highest collection with Islamic banks being the main contributor to this type of zakat. Table 2 below shows five out of sixteen Islamic banks that disclosed their zakat paid accumulated with tax in year 2018.
Table 2: Total Amount of Tax and Business Zakat Paid by Islamic Banking Institutions in 2018

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
<th>Total Amount of Tax and Zakat Paid (RM’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Maybank Islamic Berhad</td>
<td>542,331</td>
</tr>
<tr>
<td>2.</td>
<td>CIMB Islamic Bank Berhad</td>
<td>187,658</td>
</tr>
<tr>
<td>3.</td>
<td>Public Islamic Bank Berhad</td>
<td>167,902</td>
</tr>
<tr>
<td>4.</td>
<td>RHB Islamic Bank Berhad</td>
<td>125,211</td>
</tr>
<tr>
<td>5.</td>
<td>OCBC Al-Amin Bank Berhad</td>
<td>54,861</td>
</tr>
</tbody>
</table>

Source: Individual Financial Statements of Islamic Banks

Nevertheless, it can be inferred that zakat payment was not properly disclosed when they accumulated zakat payment together with tax liability.

For zakat distribution, Islamic banks can choose to pay directly to the zakat institutions, or they can also pay zakat to the eligible zakat recipients (asnaf) through the government or non-government agencies. There are three methods of zakat payment. The first method is to pay zakat directly to the recipients (asnaf). The second method is to pay zakat directly to the zakat center and the third method is the combination of two former methods.  

For the third method, Islamic banks act as zakat payer and zakat distributor. In this case, they pay the amount of zakat liable and they ask for a refund ranging from one-eighth (1/8) to three-eighth (3/8) of the total zakat paid. This is subject to the policy of each zakat institutions.

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Bank Islam, for instance has been practicing the third method since 1983 as they pay five-eighth (5/8) to the zakat centers and distribute the remaining (3/8) by themselves as a part of CSR activities.  

This zakat fund, however, will only be allocated for three main recipients (asnaf) – the poor (fuqara‘), the needy (masakin) and people in the cause of Allah (fisabilillah) and only for programs that fulfill zakat receiver’s entitlement.

**Zakat reporting and disclosure standards**

For Islamic banks, zakat management is a regulatory and reputational necessity. They are liable to calculate, pay and disclose information on zakat in the annual reports. However, there is no standard zakat reporting for Islamic banks to follow in Malaysia. Yet, they still can refer to these four guidelines and standards for zakat matters:

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1) Bank Negara Malaysia (BNM)’s Guidelines on Financial Reporting for Islamic Banking Institutions,
2) Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)’s Financial Accounting Standard (FAS) 9,
3) Jabatan Wakaf, Zakat dan Haji (JAWHAR)’s Zakat Management Manual, and
4) Malaysian Accounting Standards Board (MASB) Technical Release (TR) i-1.

BNM has issued Guidelines on Financial Reporting for Islamic Banking Institutions in 2018 as a guideline on reporting including information on zakat for Islamic Banking Institutions to follow. Information that these institutions need to disclose are as follows:

(a) Whether these institutions are obliged to pay zakat, if they do not pay zakat, they must disclose a statement to that effect in the financial statements.
(b) If they pay zakat, they need to disclose additional information regarding:
   (i) Its responsibility toward zakat payment, either zakat on business and/or zakat on behalf of the shareholders;
   (ii) Method applied in determining zakat base; and
   (iii) The beneficiaries of zakat fund.

This information was an obligation as it is stated under S 11.6 (b) where “… S denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement actions; ...”

Furthermore, AAOIFI has issued FAS 9 regarding zakat. This standard listed a few required information that Islamic financial institutions need to disclose, among other:

1) Method used for determining the zakat base,
2) whether or not the entity that collects and pays zakat on behalf of the investment accountholder and other accounts,
3) And other related issues regarding zakat.\textsuperscript{21}

On the other hand, JAWHAR has prepared Zakat Management Manual so that institutions that pay zakat can refer to this manual. In this manual, issues on business zakat was discussed in detail such as the elaboration of the conditions for zakat liability as per discussed in AAOIFI’s FAS 9 with the presentations of each scholar's own view on some issues.\textsuperscript{22}

Besides, MASB has issued TR i-1 where it deals only with issues relating with zakat on business. For the disclosure, an entity shall disclose this information:

1) Method used in the determination of zakat base,
2) Its responsibility towards payment of zakat business, and
3) Major components of zakat which include current zakat expense; zakat payment; zakat liability; and any adjustments recognized in the period for zakat of prior periods.

It also claimed that AAOIFI’s FAS 9 has been one of the bases of this TR. However, it is said that AAOIFI’s FAS 9 is inappropriate to be applied in Malaysia because it is specifically meant for Islamic financial institutions that also act as zakat collectors and distributors and it might run contrary with Malaysian state or federal legislation.\textsuperscript{23} However, according to Abdullah et al. (2012),\textsuperscript{24} MASB TR i-1 can only be a

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{21} Financial Accounting Standards No. (9) in Accounting Auditing and Governance Standards, 329–61. Accounting and Auditing Organizations of Islamic Financial Institution (AAOIFI), 2015.
\end{itemize}
\end{footnotesize}
Guideline for zakat accounting treatment meanwhile, cooperation from zakat authorities is still needed for the details on the zakat assessment.

Zakat calculation

According to AAOIFI’s FAS 9, the zakat base should be calculated using either of these two methods: Net Assets and Net Invested Funds by using 2.5% for a lunar calendar and 2.5775% for a solar calendar. On the other hand, two method of calculation that were recommended by JAWHAR and MASB are Adjusted Working Capital method and Adjusted Growth Method. It is interesting to note that usage of both methods would result in the same amount of zakat base.

Additionally, in the manual prepared by AAOIFI and JAWHAR, there are examples of zakat calculation that can be referred to when these entities are calculating their business zakat depending on method that they used. Yet, institutions that used this TR can also refer to zakat authorities regarding this matter. Furthermore, the zakat rate recommended is 2.5% without considering the entity is using lunar or solar calendar. On the other hand, JAWHAR does mentioned about using 2.5% as a famous culture in Malaysia although they do use solar calendar with the assumption that the difference is on zakat payable items.

Analysis and Findings

There are 16 banks that were listed as Islamic banks. Thus, information on method used in calculating zakat and zakat rate were gathered from individual Islamic banks. This study is a continuation from

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previous studies done by Abbas, Sulaiman, & Bakar (2018), Zaaba & Ariffin (2018) and Abd Samad, Said, Mohd Nasir, Mahshar, & Kamarulzaman (2017).\textsuperscript{29}

It is important to note that two banks were not liable for zakat in year 2018. These banks are HSBC Amanah and Standard Chartered Saadiq. Moreover, business zakat of Al-Rajhi and Kuwait Finance House was on the responsibility of its holding company or its main shareholders. Thus, zakat information in the financial statements were not available for analysis.

Table 3: Method for zakat calculation and zakat rate

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
<th>Method used for calculating zakat base</th>
<th>Zakat rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Affin Islamic Bank\textsuperscript{30}</td>
<td>Growth method</td>
<td>2.5775%</td>
</tr>
<tr>
<td>2.</td>
<td>Al-Rajhi\textsuperscript{31}</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>3.</td>
<td>Alliance Islamic Bank\textsuperscript{32}</td>
<td>Growth method</td>
<td>2.575%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Bank Name</th>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>AmBank Islamic</td>
<td>Net profit method</td>
<td>2.5%</td>
</tr>
<tr>
<td>5.</td>
<td>Bank Islam</td>
<td>Growth method</td>
<td>N/A</td>
</tr>
<tr>
<td>6.</td>
<td>Bank Muamalat</td>
<td>Growth method</td>
<td>2.5%</td>
</tr>
<tr>
<td>7.</td>
<td>CIMB Islamic Bank</td>
<td>Adjusted growth method</td>
<td>N/A</td>
</tr>
<tr>
<td>8.</td>
<td>HSBC Amanah</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>9.</td>
<td>Hong Leong Islamic Bank</td>
<td>Net asset method</td>
<td>N/A</td>
</tr>
<tr>
<td>10.</td>
<td>Kuwait Finance House</td>
<td>Opening reserve method</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Bank</th>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.</td>
<td>MBSB Bank</td>
<td>Working capital method</td>
<td>2.5%</td>
</tr>
<tr>
<td>12.</td>
<td>Maybank Islamic</td>
<td>Adjusted growth method</td>
<td>2.5%</td>
</tr>
<tr>
<td>13.</td>
<td>OCBC Al-Amin</td>
<td>Growth method</td>
<td>N/A</td>
</tr>
<tr>
<td>14.</td>
<td>Public Islamic Bank</td>
<td>Profit and loss method</td>
<td>2.5%</td>
</tr>
<tr>
<td>15.</td>
<td>RHB Islamic Bank</td>
<td>Working capital method</td>
<td>2.5%</td>
</tr>
<tr>
<td>16.</td>
<td>Standard Chartered Saadiq</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Individual Financial Statements of Islamic Banks (2019)

The authors found that Islamic banks are moving towards more transparency as more banks disclose zakat information in their financial statements. Compared to the findings of Zaaba and Ariffin (2018)\(^\text{46}\), there


\(^{46}\) Zaaba and Ariffin, “Zakat Computation and Disclosure by Malaysian Islamic Banks,” 1–11.
is an additional 3 banks that disclosed their method in calculating zakat base. Concurrently, there is one bank that disclosed on their zakat rate. However, it is difficult to compare as previous study mentioned their sample anonymously.

It can be concluded that growth method was chosen by many banks in calculating their zakat base. This is in correlation with what JAWHAR and MASB have recommended. However, there is no explanation in the financial statements of banks that chose opening reserve method and profit and loss method. Furthermore, zakat rate of 2.5% was used by many banks in correlation with what claimed by JAWHAR. On the other hand, Alliance Islamic Bank has chosen 2.575% as their zakat rate. This rate was never mentioned by previous mentioned guidelines and standard.

Table 4: Beneficiaries of zakat

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
<th>Beneficiaries of zakat</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Affin Islamic Bank</td>
<td>The zakat fund is distributed through various channels i.e. States Zakat Collection Centre, non-governmental organization and individuals under asnaf categories</td>
</tr>
<tr>
<td>2.</td>
<td>Al-Rajhi</td>
<td>N/A</td>
</tr>
<tr>
<td>3.</td>
<td>Alliance Islamic Bank</td>
<td>The payment of zakat to zakat authorities and eligible recipients is recommended and approved by Shariah Committee and the Board of Directors respectively.</td>
</tr>
<tr>
<td>4.</td>
<td>AmBank Islamic</td>
<td>The Bank has fulfilled its obligation to pay business zakat to state zakat authorities and has identified eligible beneficiaries (asnaf).</td>
</tr>
<tr>
<td>5.</td>
<td>Bank Islam</td>
<td>During the financial year, the Bank fulfilled its obligation to pay zakat on its</td>
</tr>
</tbody>
</table>
business to state zakat authorities by adopting the capital growth computation method and in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji (“JAWHAR”). Several zakat authorities had mandated the Bank as their agent to distribute a portion of the business zakat to eligible beneficiaries (asnaf), including needy individuals, mosque, non-governmental organisations, student welfare funds of higher learning institutions and schools as guided by the Business Zakat Payment Guideline that was approved by us.

<table>
<thead>
<tr>
<th></th>
<th>Bank Muamalat</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.</td>
<td>CIMB Islamic Bank</td>
<td>The Bank pays business zakat by adopting the Adjusted Growth Method to state zakat authorities in line with the methodology approved by Board Shariah Committee.</td>
</tr>
<tr>
<td>8.</td>
<td>HSBC Amanah</td>
<td>N/A</td>
</tr>
<tr>
<td>9.</td>
<td>Hong Leong Islamic</td>
<td>The Bank has fulfilled its obligation to pay zakat for its business on behalf of its shareholders to the state zakat authorities.</td>
</tr>
<tr>
<td>10.</td>
<td>Kuwait Finance House</td>
<td>N/A</td>
</tr>
<tr>
<td>11.</td>
<td>MBSB Bank</td>
<td>The beneficiaries of zakat fund include schools, mosques, universities and non-government organisations.</td>
</tr>
<tr>
<td>12.</td>
<td>Maybank Islamic</td>
<td>N/A</td>
</tr>
<tr>
<td>13.</td>
<td>OCBC Al-Amin</td>
<td>The beneficiaries of the zakat fund were Pusat Pungutan Zakat Universiti Putra</td>
</tr>
</tbody>
</table>
Based on the categorization made by Rahman (2012),\(^{47}\) five banks fall under third category that pay zakat directly to both zakat authorities and eligible *asnaf*. These five banks are Affin Islamic Bank, Alliance Islamic Bank, AmBank Islamic, Bank Islam and Public Islamic Bank. Furthermore, two banks fall under first and second category respectively which is MBSB Bank and OCBC Al-Amin for former category and CIMB Islamic Bank and RHB Islamic Bank for latter category.

However, it is difficult to monitor the self-regulated zakat distribution that were practiced by the third category due to the absence of zakat distribution framework for Islamic financial institutions. Therefore, it is recommended that zakat authorities provide standardized framework for self-regulation of the zakat distribution for these institutions. This is to avoid the mismanagement of the fund and it can serve as a good mechanism to monitor and control the implementation process of the fund. It is important to note that zakat distribution is not

\(^{47}\) Rahman, “The Role of Zakat In Islamic Banking Institutions In Developing The Economy of The Poor and Needy In Malaysia,” 256–76.
under the purview of Bank Negara Malaysia thus reflects the insufficiency of zakat standards in Malaysia resulting in unsuitability of this entity to be the ultimate regulator of Islamic Financial Institutions (IFI).

Conclusion

The prevailing study found that more zakat information can be found in the recent financial reports. Despite the fact that zakat disclosure might have improved, zakat distribution of Islamic banks has not been further discussed in the literature.

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