

# A Critical Review of *Zakat* as Tax Deduction: An Indonesia-Malaysia Comparative Study

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## ABSTRACT

This idea originated from the speech of the Minister of Finance at the 2nd Annual Conference of Islamic Finance in 2017 on the management of *zakat* and taxes. This paper critically discusses the regulation of income tax and *zakat* income in Indonesia and Malaysia. Furthermore, this paper aims to compare the treatment of *zakat* on personal income tax reporting with personal income tax in Malaysia. This study used a research design that adopts the Plomp & Nieveen's (2007) development model with adjustments, by collecting data through document studies, literature studies, and in-depth interviews with *zakat* and tax practitioners. The results of the discussion show that Indonesia has not implemented *zakat* as a tax credit like Malaysia. Indonesia also does not yet have a national standard for *zakat* calculation. The theoretical implication based on the results of the discussion shows that there is no significant reduction in personal income tax payable because *zakat* is recognized as an "expense" not as a "tax deduction" so that the tax burden is borne by the WPOP is still high. The Indonesian government needs to consider a policy of recognizing *zakat* as a tax credit to ease the double burden borne by the WPOP. The government also needs to consider a single standard of calculating income *zakat* as well as calculating income tax.

## ABSTRAK

Gagasan ini berawal dari pidato Menteri Keuangan pada 2nd Annual Islamic Finance Conference tahun 2017 tentang pengelolaan *zakat* dan pajak. Makalah ini secara kritis membahas tentang regulasi pajak penghasilan dan *zakat* di Indonesia dan Malaysia. Selanjutnya, makalah ini bertujuan untuk membandingkan perlakuan *zakat* pada pajak penghasilan terutang WPOP di Indonesia dan Malaysia. Metode penelitian yang digunakan adalah Design Research yang mengadopsi model pengembangan Plomp dan Nieveen (Plomp & Nieveen, 2007) dengan penyesuaian melalui studi dokumen, studi literasi, dan wawancara dengan praktisi *zakat* dan perpajakan. Hasil diskusi menunjukkan bahwa Indonesia belum menerapkan *zakat* sebagai pengurang pajak seperti Malaysia. Indonesia juga belum memiliki standar nasional penghitungan *zakat*. Implikasi teoritis berdasarkan hasil pembahasan menunjukkan bahwa tidak terdapat penurunan yang signifikan pada pajak penghasilan orang pribadi terutang karena *zakat* diakui sebagai "biaya" bukan sebagai "pengurang pajak" sehingga beban pajak yang ditanggung oleh WPOP masih tinggi. Pemerintah Indonesia perlu mempertimbangkan kebijakan pengakuan *zakat* sebagai pengurang pajak langsung untuk meringankan beban ganda yang ditanggung oleh WPOP. Pemerintah juga perlu merancang satu standar tunggal perhitungan *zakat* penghasilan seperti halnya pada perhitungan pajak penghasilan.

## 1. INTRODUCTION

This critical review was derived from the speech of the Minister of Finance at the 2nd Annual Islamic Finance Conference in Yogyakarta on Wednesday, August 23, 2017 ([www.djppr.kemenkeu.go.id](http://www.djppr.kemenkeu.go.id)). According to the Minister of Finance, *zakat* is one of the Islamic financial instruments that can help achieve the sustainable development target in 2030

(Sustainable Development Goals). This target can be achieved through poverty alleviation programs and economic inequality so that it needs a better tax management development.

In fact, it is absorbed only less than one percent, compared to the high expectation of the Indonesia government towards the receipts of the state through the tax sector ([www.pajak.go.id](http://www.pajak.go.id)) and the

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potential for *zakat* (Hafidhudhin, 2013). This evidence becomes the basis for research. The implementation of *zakat* management, which refers to tax management, certainly requires a variety of studies or more detailed studies. And, this should be done through research that is conducted empirically for getting a comprehensive analysis both theoretically and empirically. *Zakat* and tax obligations, in addition to having similarities, also have differences so that it needs further investigation related to the treatment of both.

Both tax and *zakat* can be considered obligatory. Tax is a citizen's obligation to a country whose counter-terrorism is not direct while *zakat* is the obligatory giving of certain assets based on a certain nature, size and class so that substantively *zakat* has an important position in Islam. Indonesia and Malaysia as countries with a majority of Muslim population, it can make *zakat* an important position so that regulation is needed for the management of *zakat*.

The function of voting on taxes is carried out by the state through the Directorate General of Taxation. Tax funds are then distributed through physical and non-physical work and development programs. On *zakat*, the function of voting can be done directly by obligatory *zakat* to then be distributed alone to *asnaf* or can be through *zakat* management organization.

Malaysia, is one of the countries in Asia that bears a resemblance to Indonesia such as religion, Malay race, language, customs, and culture. In the development of sharia economics, especially in the application of *zakat* obligations, Malaysia has implemented *zakat* obligations as a direct tax deduction, while Indonesia has only limited to reducing gross income. It became interesting to be reviewed further. How to apply *zakat* and tax regulations that provide guarantees of ease for taxpayers and *zakat* payer. The relationship between *zakat* and tax needs to be reviewed in a critical review of *zakat* as a tax deduction by conducting a comparative study between Indonesia and Malaysia.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESES

The tax is a citizen's contribution to the state by receiving indirect benefits in the form of public facilities and services such as health, education, social, environmental, and others. Tax is as the people's obligation whose nature can be imposed on state coffers under the law without counter presentations utilized to finance state public

expenditures (Mardiasmo, 2016). When viewed from a tax economic perspective, it can also mean the transfer of a number of private assets into public assets controlled and managed by the state so that the state has economic resources for the welfare of the people. From a legal perspective, citizens are bound by regulations and laws that must be adhered to. As one of the instruments in state revenue, taxes have several inherent characters that are mandatory and coercive, receive no direct rewards or benefits from tax payments, and are strictly regulated by regulations in the form of other laws and regulations.

The word *zakat* has several conceptual meanings. First of all, *zakat* is derived from the word *zaka* which means to grow, blessing, and good (Qardawi, 2000). Secondly, the Maaliki, Hambali, and Shaykh agreed that *zakat* is a special expenditure on special assets with a certain *nishab* for *mustahik* determined by *sharia* (Al-Zuhaily, 2000). *Mustahik* is a group of people entitled to *zakat* consisting of the poor, the *zakat* manager, the converts, to free slaves, and those who are in debt (Al-Quran, 2018). Therefore, *zakat* has to do with the activities related to the thing to grow, of blessing, and being good with the group of people consisting of the poor and *zakat* manager, the converts, to free slaves, and those who are in debt.

As with taxes, *zakat* also has economic, societal, and worship functions (Wajdi, 2008). In Islam, the economic function of *zakat* is considered an effective transfer tool from the party that has excess wealth to the deprived. *Zakat* serves as a social tool in terms of allaying inequalities and welfare gaps in society. *Zakat* as a function of worship because it is one of the obligations in the pillars of Islam.

### Indonesia-Malaysia Taxation System Overview

Indonesia implements a self-assessment system, which provides flexibility for taxpayers to calculate, pay and self-report the amount of income tax owed each fiscal period. But the state still levies taxes on wealth, taxes on land and buildings, taxes on gifts, local taxes, and others, so that almost none of the objects are taxed. With various regulations that must be met by taxpayers with a tax system adopted by Indonesia, it requires Indonesian taxpayers to have awareness of paying high taxes (tax consciousness) and strong tax compliance. A tax object is a form of event or circumstances on which the subject of tax is subject to the obligation to pay taxes under Law No. 17/2000 on Income Tax. The Object of Income Tax in Indonesia refers to the General Provisions of Taxation and applies

progressive tax rates. The Income Tax Rate of Article 21 Personal in accordance with article 17 is 5% to 30%.

Overall the tax laws in Malaysia are quite friendly. Malaysia does not collect taxes on wealth, land taxes, taxes on gifts or state taxes. These conditions create a simple tax system, easy to administer and encourages the entry of foreign investors into Malaysia. Like Indonesia, Malaysia

also adheres to the self-assessment system. Malaysia collects taxes on business or professional income, payroll, dividends, interest, discounts, leases, royalties, premiums, annuities, and others. Malaysia implements a progressive income tax rate of between 0% and 30% according to the income earned after deducting the specified deduction fee list.

Table 1. Indonesia-Malaysia Tax Management Comparison

Difference	Indonesia	Malaysia
Regulation	1. Law No. 36 of 2008 2. Regulation of the Director General of Taxation No. PER-16/PJ/2016 on Non-Taxable Income Rate.	1. Income Tax Act of 1967 2. Income Law on oil and gas in 1967 3. 1976 land and building benefit law
Tax Management Organization	Directorate General of Taxation under the Minister of Finance	Domestic Results Institute under the supervision of the ministry of finance
Income Taxation Policy	World-wide income	territorial income
Status of Residence	Domestic tax subjects : being in United > 183 days in 12 months Foreign tax subjects : being in United < 183 days in 12 months	Domestic tax subjects : being in United > 181 days Foreign tax subjects : being in United < 181 days
Personal Income Taxes	for domestic taxpayers: Progressive rates between 5% and 30% overseas taxpayers: 20% of gross income	for domestic taxpayers: Progressive rates between 0 % and 30% overseas taxpayers: 30 % of gross income
Cost Reduction	Non-Taxable Income, Office expenses, Pension expenses, dues paid by the Taxpayer (health, old day insurance, health)	For 2019 there are 21 types of individual pieces described in detail by LHDN
Tax Credits	Only article 25 or overseas fiscal tax payable in advance	In addition to upfront taxes, tax credits are also charged on income less than RM 35,000 with a total rebate of RM.800 and zakat (fitrah and income)

Resource: [www.pajak.go.id](http://www.pajak.go.id) and [www.hasil.gov.my](http://www.hasil.gov.my). Data processed.

### Indonesia – Malaysia Zakat Management System Overview

In the Malaysian zakat management system, each state has the full right and authority to administer zakat. Each state has a zakat organization in the form of a private company managing the zakat and BaitulMaal or Zakat Committee under the power of the Islamic State Religious Assembly with their own policy, objectives, and functions. *Zakat* collection is done by a private company under MAI while the distribution is done by *Bai-tulMaal*. But, not all states have both institutions, some states have only one.

In Indonesia –based on Regulations of the Director General of Taxation No. 5 of 2019 – *zakat* is

managed by private parties in the form of *Amil Zakat* Institute (LAZ) and the government in the form of Regional Zakat Agency (BAZDA)/*Badan Amil Zakat Nasional* (BAZNAS). LAZ/LAZIS and BAZDA/BAZNAS play a role in collecting, distributing, and utilizing *zakat*, *infaq* and *shodaqoh* in accordance with religious provision. However, there are no institutions that act as regulators and supervisors, thus it impresses a competition in the collection of *zakat* funds. The example is that they are aiming at each other the same *Muzakki* and distributing funds by conducting similar work programs between LAZ/ LAZIS and BAZDA /BAZNAS.

Table 2. Comparison of Indonesian – Malaysian Zakat Management

Difference	Indonesia	Malaysia
Regulation	Law No. 38 of 1999 was repealed and replaced with Law No. 23 of 2011	Each state has its own regulations. There are no regulations related to zakat management that are national.
Zakat Management Organization	<i>Amil Zakat</i> Regional / National Agency (BAZDA/BAZNAS) and <i>Amil Zakat</i> Institute (LAZ/LAZIS) in accordance with PerDirJenPajak No. 05 of 2019	Generally the organizing of <i>zakat</i> under the Majelis Agama Islam and AdatIstiadatMelayau (MAIAIM) except Kedah under the Position of Power of <i>Zakat</i> (Wira, 2019)
Object	In accordance with article 4 of Law No. 23 of 2011 on Zakat Management, namely <i>zakat mall</i> and <i>zakat fitrah</i>	The types of zakat collected and administered vary depending on state regulations
Penalties	There are no penalties for individuals who do not pay zakat. Only sanctions for zakat-free organizations	There are penalties in the form of fines (RM. 1,000 to 5,000) and imprisonment (6 to 36 months)
Fund Collection and Distribution	Conducted by each OPZ either managed by the government (BAZDA/BAZNAS) or (LAZ/LAZIS). BAZNAS is an institution authorized to perform <i>zakat</i> management duties nationally (Law No. 23 of 2011 article 6)	The raising of funds is carried out by the Zakat Levy Center (PPZ) and distribution is carried out by the <i>baitul mall</i> institution. If the state only has one of the zakat management institutions (e.g. PPZ/ <i>baitul mal</i> only), then the collection and distribution is carried out by the institution.
Treatment to Taxes	As a Deduction of Gross Income in accordance with Regulation of the Director General of Taxes No. 05 of 2019 Article 1 paragraph 3	As a tax credit ( <a href="http://www.hasil.gov.my">http://www.hasil.gov.my</a> )

Source: processed data

### Zakat as a Tax deduction

*Zakat* is still considered less important than the tax in most Muslims' perception. Zakat raising in Malaysia is still far behind compared to tax fundraisers by the Ministry of Home Affairs (Sapingi, 2011). Cangih, Fikriyah, & Yasin (2017) found the realization of zakat receipts only amounted to 1 percent of the total potential of zakat receipts in Indonesia despite an increase in the potential of zakat receipts every year throughout 2011-2015. The poor implementation of *zakat* in Muslim countries is due to the limitations in achieving the success of the noble *zakat* goal (Bakar & Rahman, 2007). Qardawi (2000) argued that *zakat* was not a substitute for tax.

Studies on *zakat* and taxes have been widely conducted by several researchers viewed from various perspectives. Bakar & Rahman (2007) compare and distinguish zakat and taxation, especially on legal, economic, social, ethical and spiritual aspects. They examine issues related to the implementation of zakat in modern times by reviewing the practice of zakat and taxation at the

beginning of the Islamic period and exploring these issues in the context of Malaysia. The rare empirical study related to zakat, especially on the efficiency of institutions in managing zakat, is the reason for the research. The research successfully confirmed the identification of the appropriate methods for evaluating the efficiency and governance of zakat institutions. This identification is important because it has an impact on the Islamic financial system to achieve socio-economic justice through proper distribution of wealth. The result shows that zakat is very different from the tax system.

There are some factors affecting people's *zakat* compliance. Ahmad, Nor, & Daud (2011) conducted empirical examination of the implementation of *zakat* compliance model for *zakat* management organization (OPZ) based on the development of tax compliance model using case studies in Aceh Province. The results showed that *zakat* compliance model can be established based on tax compliance model. Aceh's case study also shows that individual zakat compliance is not significantly influenced by *zakat* law alone, but by demographic factors (gender

and age), reference group, education, and perception of the tax system. Awang & Mokhtar (2011) tried to technically compare between business zakat and taxation. The results of the research show that the assessment of zakat business is based on the information contained in the financial position report, while the assessment for taxation is based on the company's comprehensive income report. Nurhayati & Siswantoro (2015) analyzed variables that affect zakat preferences as a tax deduction. The test results showed that satisfaction, trust, and motivation had a significant and positive effect on zakat preferences as a tax deduction. The results also showed that awareness of zakat as a reduction in taxes and zakat as a deduction for taxable income is still low.

Other researchers also conducted studies on zakat. Setianingrum, Madjid, & Asaari (2016) strived to understand the definition of zakat as a tax credit, the role of zakat as a tax credit against the increase in development funds. They also describe zakat as a tax credit that can provide multiplier effect for the strength and integrity of Indonesia. This research confirms that the way to align zakat into the tax system is to recognize zakat payment as a tax deduction/ tax credit, so that zakat seems to be likened to tax payment. Thus, at the end of the year the taxpayer can calculate zakat while calculating the tax to be paid. Zakat is a tax credit that can directly reduce the amount of tax imposed.

Tax credits are a direct deduction of taxes paid by the taxpayer. Canggih et al. (2017) measure the potential and realization of zakat receipts in Indonesia. The results showed that the potential for zakat receipts has increased during the period 2011-2015. However, this potential increase has not been matched by an increase in real zakat receipts. The

increase in zakat receipts is only 1 percent of the total potential zakat. The cause of the gap between potential and realization is thought to be because the majority of Muslims in Indonesia prefer to pay and distribute zakat directly to mustahik. Ma'mun (2017) investigated the effect of zakat on state revenues if zakat is managed by the state. The results showed that equal management between zakat and tax is needed. Last, Saada & Foori (2020), confirm the perception of Muslims in Malaysia about zakat, and provide evidence of the practice of zakat and taxes in Malaysia by identifying reasons for Muslims who are reluctant to pay zakat. Research results show that respondents feel that zakat should be an important element of fiscal policy.

### 3. RESEARCH METHOD

This is a qualitative research that aims to develop a regulation in the field of taxation and zakat as a solution to the problem in harmonizing the implementation of the two obligations which currently applies in Indonesia. The study used a qualitative approach with literacy studies.

The data were collected by virtual case simulation, interview, and documentation / literacy studies. The technique adopted the technique by Miles and Huberman (2009). It is the development model of Plomp and Nieveen (2007) with adjustments. The Plomp model is widely applied to educational product development models such as textbooks, teaching methods, and others. This study seeks to develop a model for measuring zakat on taxes so that the stages in the Plomp and Nieveen Model study are appropriately to be adapted. The Plomp model in this study goes through nine (9) stages which can be seen in Figure 1.

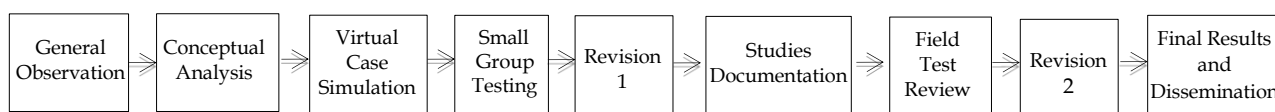


Figure 1. Research Design

### 4. DATA ANALYSIS AND DISCUSSION

Zakat is one of the pillars of Islam which is obligatory for every Muslim with certain conditions. Zakat means growing, developing, holy, and praiseworthy (Qardawi, 2000). BAZNAS defines zakat as certain assets that are issued to 8 asnaf if they have reached certain conditions according to Islamic religious rules (baznas.go.id). The Malaysia Accounting Standards Board (MASB) defines zakat as a mandatory contribution that is valued based on certain assets owned by a Muslim that meet certain

conditions and are distributed to certain categories of recipients (Adnan & Barizah, 2009). The Hambali, Syafii, Maliki, and Hanafi agree on certain conditions relating to the time of ownership, the amount, and the source of the assets that are zoned (Al-Zuhaily, 2000). The main purpose of zakat is to achieve socio-economic justice (Norazlina & Rahman, 2011) by providing an equal and trustworthy distribution of wealth (Saada & Foori, 2020).

Tax or in Arabic is called "*Adh-Dhariibah*" which means levies collected from the people by tax collectors (Ridwan, 2014). Arpandi (Lecturer of UIN Raden Intan Bandar Lampung, MUI Board of Lampung, Chairperson of the Al-Kautsar Lampung Amil Zakat Institute, and ulama) in an in-depth interview on Wednesday, August 26, 2020, at 08.30 s.d. 09.30 WIB, argued that there is no tax for Muslims, only *zakat*. However, the times have resulted in changes to *zakat*. From the *jumhur* of scholars, there is no solid basis for either the Al-Qur'an and no hadith which states that there is tax payment. But in line with the needs of the state at this time, taxes are allowed in the context of the country being considered an emergency, so the state requires its people to pay taxes. However, if it is fulfilled, the state does not oblige its people to pay taxes. In addition, there is one condition, namely Al-adan, which means that the state must be honest and fair in collecting taxes from the people.

In the Islamic view, initially, there was no tax. *Jumhur* ulama also said there was no term tax. Yusuf Al-Qardawi also agrees that *zakat* and taxes are different. Taxes or *zisyah* during the time of Rosulull were levied on non-Muslim residents living in Muslim government-controlled areas as a form of "tribute" to be paid by non-Muslims because they were given the opportunity to live safely in the area. Islamic government at that time only collected *zakat* for Muslims, and *zishah* for non-Muslims. There were hardly any Muslims who paid taxes at that time because taxes were only paid by non-Muslims. The new state levies taxes when the state is in a state of emergency. If the condition of the country is safe again and the need for funds to finance emergency conditions has been met, then the collection of taxes on Muslim citizens will be stopped.

James & Nobes (2003) define taxes as mandatory levies made by public authorities that do not receive any direct compensation. This is in line with Law no. 6 of 1983 article 1 (paragraph 1) concerning General Provisions and Tax Procedures, which was amended the last time by Law of the Republic of Indonesia No. 16 of 2009. Taxes based on law are defined as compulsory contributions to the state that are owed by individuals or entities that are compelling under the law, without receiving direct compensation, and are used for state needs for the greatest prosperity of the people. The main characteristics of tax implementation in Indonesia must refer to article 23 of the 1945 Constitution that the state revenue and expenditure budget as a form of state financial management is determined for the benefit of the state must be regulated by law

On the whole, the tax laws in Malaysia are quite friendly. Malaysia does not collect tax on property, tax on land, tax on gifts, or state tax. This condition creates a tax system that is simple, easy to administer, and encourages foreign investors to enter Malaysia. Malaysia adheres to a self-assessment system.

This condition is different from the tax regulations in Indonesia. Even though Indonesia applies a similar taxation system, this country still collects taxes on wealth, taxes on land and buildings, taxes on gifts, local taxes, and others. Almost none of the objects are taxed. Based on PMK No. 101/PMK.010/2016 Non-Taxable Income for Indonesian personal income tax includes PTKP for individual taxpayers, for additional married taxpayers, for wives' income combined with husbands, and for each additional dependency, a maximum of three people.

The calculation formula for personal income tax in Indonesia can be done by calculating the amount of regular and irregular income before deducting the expenses that must be maintained to earn income such as office fees, pension fees/pension plan, as well as *zakat* and religious donations. The number of cost deduction items only consists of the payment of health, accident, and life insurance benefits or benefits; in-kind or enjoyment in the form of received non-money facilities; pension fees, *zakat*, or other religious donations, as well as scholarships. It appears in the formula that *zakat* is recognized as a deductible expense.

In the Malaysian individual income tax calculation formula, income tax is calculated by both business income and non-business income. The total income from the business and outside the business is then reduced by expenses in the form of donations, prize money to the state/ kingdom/ permitted entities plus personal expenses and others. Personal expenses as a reduction in gross income on Malaysia's tax calculations are more than Indonesia's.

Statistical data for 2018 (Statistical Yearbook of Indonesia 2019) shows the total population of Indonesia has reached 265,015,300 with a full-time population of 124,004,950 people ([www.bps.go.id](http://www.bps.go.id)). If it is assumed that 87 percent ([katadata.co.id](http://katadata.co.id)) is the number of people who are Muslim and work full time with an average income of Rp. 2.830.000/month, the potential for *zakat* income that can be collected based on the *zakat* calculator ([baznas.go.id](http://baznas.go.id)) reaches more than 7 trillion rupiahs per month. Canggih et al.(2017) emphasized that even though the potential for *zakat* receipts

increases every year, this is not balanced with the realization of zakat receipts. This contrasts with the fact that Indonesia is a country with a majority Muslim population. One of the reasons for this imbalance in the potential and realization of zakat is based on the facts on the ground that Muslims in Indonesia pay more attention to the payment of zakat fitrah compared to zakat or *zakat mal*.

Furthermore, the estimation of zakat potential and the realization of *zakat* collection by adjusting the estimated *zakat* potential of 2.4 percent of the Gross Domestic Product (GDP) each year, BAZNAS through the National *Zakat* Statistics report ([www.baznas.go.id](http://www.baznas.go.id)) estimates the potential for zakat and its realization. *zakat* collection during the 2015-2019 period as follows:

Table 3. Estimation of Potential and Realization of *Zakat* on Income in 2015-2019.

Years	Potential for Receiving <i>Zakat</i> (Rp)	Realization of <i>Zakat</i> Receipts (Rp)	Realization (%)
2015	206,616,000,000	22,004,604,000	10.65
2016	223,656,000,000	83,871,000,000	37.50
2017	243,600,000,000	58,707,600,000	24.10
2018	250,128,000,000	76,038,912,000	30.40
2019	268,608,000,000	69,838,080,000	26.00

Source: [baznas.go.id](http://baznas.go.id) and [bps.go.id](http://bps.go.id). Processed data

When viewed from the large potential figures, it is natural that the Minister of Finance conveyed the idea of *zakat* as one of the Islamic financial instruments as an effort to optimize the collection of *zakat* funds. It can be collected from income *zakat*, as well as the imbalance between the potential and realization of *zakat* receipts in the field. This can help achieve the sustainable development target of 2030 in poverty alleviation programs and economic inequality. Therefore, the government must take a role in efforts to increase *zakat* revenue, one of which is through the *zakat* policy as a tax deduction.

*Zakat* management in Indonesia is based on Law no. 23 of 2011 carried out by two institutions, namely the *Amil Zakat* Agency (BAZ) and the *Amil Zakat* Institute (LAZ). BAZ is an institution formed by the government under the auspices of the Ministry of Religion which collects and distributes *zakat* nationally through BAZNAS or BAZDA and is responsible to the president. LAZ or LAZIS is a *zakat* management institution initiated by the public / private sector with a similar goal to BAZ. It is recorded that there are around 180 *zakat* institutions based on PerDirJen Pajak No. 5 of 2019 (see Table 7). Law No. 23 of 2011 not only accommodates the interests of Muslims in carrying out the obligation of *zakat*, but also takes into account the interests of other religious communities in the activity of providing religious contributions. This is reinforced by the Regulation of the Director General of Taxes through PerDirJen No. 05 of 2019 concerning a list of partner institutions in the treatment of recognizing *zakat* or other religious contributions with the obligation to pay taxes.

In Indonesia, both BAZDA/BAZNAS and the *Amil Zakat* Institute (LAZ/LAZIS) have the role of collecting, distributing, and utilizing *zakat*, *infaq*, and *shodaqoh* in accordance with religious provisions. Unfortunately, there is no institution that acts as a regulator and supervisor yet, so it gives the impression of 'competition' in raising funds (for example targeting the same muzakki) and distributing funds (for example carrying out a similar or nearly the same program) between LAZ/LAZIS and BAZDA/BAZNAS. The programs carried out also still revolve around P2, namely Poverty Preservation and Showing Virtue so that it is difficult to assist the government in alleviating poverty and improving the welfare of the poor. In addition, there is no coordination between the *zakat* committee between regions so that the realization of the collection and utilization of *zakat* is carried out collectively and it is nationally difficult to be known transparently by the public. UU no. 23 of 2011 (article 33) emphasizes the purpose of *zakat* management as an effort to increase the effectiveness and efficiency of services so that the benefits of *zakat* can be felt by mustahik. In this way, community welfare and poverty reduction can be realized.

In Malaysia, *zakat* is managed by each state with full rights and authority. Thus, *zakat* is not collected and distributed centrally. Each state has a *zakat* organization in the form of a private *zakat* management company (*Zakat* Management Center/PPZ) and Baitul Maal or *Zakat* Service under the authority of the State Islamic Religious Council (MAI) with their respective bases, goals and functions. The collection of *zakat* is carried out by

PPZ under MAI while the distribution is carried out by Baitul Maal. Not all states have both institutions, some states only have one institution. If a state only has one of the *zakat* management institutions, this institution acts as a fund-raising institution as well as distributing *zakat* funds. Further Ust. Nor Azmi Hj. Musa as the Manager of the *Negeri Sembilan Zakat* Center, Malaysia suggested that Indonesia needs to further study the *zakat* management institutions that are separate between the collecting agencies and the *zakat* fund management/distribution institutions ([www.republika.co.id](http://www.republika.co.id)).

The government's idea of aligning *zakat* management with taxes has a positive effect on the macro economy. According to Kahf (1999), *zakat* has a positive effect on the level of consumption, savings and investment. From the muzakki's point of view, the level of muzakki consumption is reduced because some of the assets have to be set aside to pay *zakat*. On

the contrary, due to the precedent of *zakat* it is also imposed on assets that are stored (savings) up to a certain limit (*nishab*), investment becomes an option to maintain the assets owned so that these assets continue to grow and develop. Assets that grow and develop as stated by Qardawi (2000) become the object of compulsory *zakat*.

From the perspective of *Mustahik*, *zakat* received is an additional asset that can increase the purchasing power of the *mustahik* thereby increasing the ability to spend (consume) *mustahik*. The increase in spending activity in macroeconomic analysis indicates a positive economic performance variable. On the contrary, the assets invested by *muzakki* have the potential to open up wider job opportunities and reduce unemployment. In the macro economy, the *zakat* cycle is similar to the tax cycle as described by Priyono (2013) so that, with the paint par condition, the second cycle can be described in Figure 2.

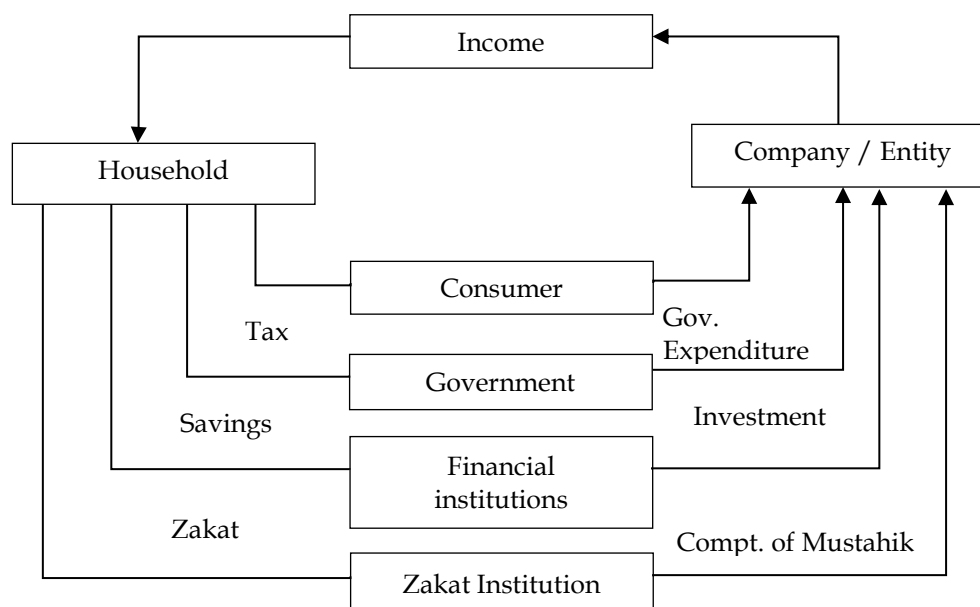


Figure 2. Money Cycle on zakat and taxes (Priyono, 2013)

The object of *zakat* in Indonesia is based on Article 4 of Law no. 23 of 2011 that includes *zakat mal* and *zakat fitrah*. *Zakat mal* consists of: gold, silver and other precious metals; money and other securities; commerce; agriculture, plantation and forestry; livestock and fisheries; mining; industry; income and services; and *rikaz*. The terms and procedures for calculating *zakat mal* and *zakat fitrah* as referred to in Article 4 paragraph 4 are implemented in accordance with Islamic law and are regulated through a Ministerial regulation. Every *zakat* object according to the law can be collected by both government-owned (BAZ) and private (LAZ/ LAZIS) *zakat* institutions

from the central to regional levels without exception. This is motivated by the history of the formation of *zakat* institutions which were initiated by the community so that *zakat* management in Indonesia is more active and dominated by the private sector.

The objects of *zakat* in Malaysia consist of *zakat fitrah*, income, commerce, gold and silver, savings, assets, stocks, livestock, agriculture, rice and rice, and *rikaz* ([www.zakat.com.my](http://www.zakat.com.my)). Unlike Indonesia, the management of *zakat* in Malaysia was initiated by the State Sultanate so that regulations regarding *zakat* management are also adjusted to the needs of the state. For example, not all states in Malaysia apply all



*zakat* objects in *zakat* regulations, for example rikaz which is only enforced in a few states.

Malaysia has implemented *zakat* as a tax credit or direct deduction of income tax. With this implementation, the double burden that must be borne by individual taxpayers and *zakat* payers can be reduced or even eliminated because the position of *zakat* is considered equal to the tax. In the Malaysian implementation, *zakat* is not considered as a charitable donation but rather as obligatory alms. This is in line with the results of research by Saada & Foori (2020) stating that *zakat* is mandatory alms or the equivalent of taxes. The positive impact due to the implementation of this policy is an increase in revenue from both the tax and *zakat* sectors. Malaysia confirms the positive correlation between tax and *zakat*, there is an increase in tax based on the income tax report as of June 2020 of RM. 6,207,543. Actually, this figure is a bit lower compared to the previous quarter (March 2020) of RM. 9,194,222 (www.ceicdata.com), however, since the introduction of *zakat* as a tax credit in the Malaysian tax system, state revenues from both sectors have increased.

*Zakat* in the Indonesian taxation system based on Article 4 paragraph (3) of the Income Tax Law is treated as non-object of income tax on the condition that it is paid to *zakat* or religious institutions authorized by the government, and the payment is not related to ownership, business, and employment. The impact of this article is that *zakat* can be treated as an expense that can be calculated in the income tax reporting. The principle of calculating *zakat* is carried out after income is deducted by costs related to income and debt that must be paid immediately, then calculated to obtain net assets (Setianingrum et al., 2016). However, the *zakat* system in Indonesia does not yet have a standard that can be used to measure the value of *zakat* income. The *zakat* calculator feature provided by *zakat* management institutions through online pages generates various amounts of *zakat*.

Siswanto & Nurhayati (2012) found that there are three *zakat* calculators that are the main providers in calculating *zakat*, namely *Dompot Dhuafa*, *Rumah Zakat Indonesia*, and BAZNAS. The three calculators produce different *zakat* figures, so Indonesia needs to have one standard for calculating *zakat* as in tax calculations. The difference in the results of the *zakat* calculation has an effect on the amount of *zakat* that is reported as a deduction for income by the taxpayer. Problems arise when taxpayers claim the excess tax paid due to differences in the amount of *zakat*. Indonesia needs to prepare a standardized calculation related to the calculation of *zakat* as well

as the standard income tax measurement issued by the government. *Zakat* calculation standards are also needed to anticipate the potential for *zakah* evasion. Regarding the impact of the absence of a standard *zakat* calculation, it is necessary to investigate further

Based on the results of internet literacy search through four pages of *zakat* institutions, it can be seen that the difference in *zakat* calculation by using the *zakat* calculator menu. It is known that the *zakat* value based on the *zakat* calculator RZI, DD, and LAZISMU produces the same *zakat* value. Although the standard of *nishab* used is different. RZI and LAZISMU used the gold standard of 85 grams as *nishab* while DD chose 522 kg *nishab* for rice. The three *zakat* institutions take into account expenditures for basic necessities including installments and overdue debt. The *zakat* obligation is calculated after deducting total income from expenses and / or for paying debt installments.

It is on the contrary to BAZNAS, which does not take into account the cost of expenses for basic needs or debt? The BAZNAS version of the *zakat* calculator directly calculates the amount of *zakat* 2.5% of the total income received without reducing the costs and expenses to be paid so that the resulting figure is larger than the previous three *zakat* calculators. Based on this description, the recognition of *zakat* as a tax deduction in the Indonesian tax system needs to be reviewed due to the following justifications:

#### **Increase state revenue through the tax and *zakat* sectors**

As presented in Figure –regarding the turnover of funds as a result of the alignment of *zakat* as tax – state revenues from the tax and *zakat* sectors will increase. The *zakat* paid by *Muzakki* is used by the recipient (*mustahik*) to carry out consumption activities which mean an increase in purchasing power. Consumption activities indirectly influence tax revenue through the VAT scheme on goods and services. Besides this, the precedent of *zakat* imposed on assets held to a certain extent requires *muzakki* to transfer these idle funds into more productive assets. The addition of production assets by *muzakki* is an opportunity for *mustahik* to get a new job or a better job. With this scheme, *zakat* does not only reduce the poverty rate which is marked by an increase in people's purchasing power, but also the unemployment rate due to the opportunity to get a job. This is in line with the mandate of the 1945 Constitution Article 34 paragraph (1) which emphasizes that the poor and neglected children must be cared for by the state.

### The mandate of the state to empower the poor

Article 34 paragraph (1) of the 1945 Constitution, assigns the state to protect the poor and neglected children. However, based on Table 4, state revenues are used mainly for central government spending and regional transfers. This is understandable given the

definition of tax aimed at state administration and provision of public facilities. It is necessary to further consider zakat as a second source of state income other than taxes to increase total state revenue. Thus, the state has more financial capacity which can be allocated for empowering the poor.

Table 4. 2017-2019 State Revenue and Expenditure Budget

Years	State Revenue	Government Expenditures		Budget Deficit
		Central government	Regional Transfer	
2017	1,750.3	1,315.5	764.9	330.2
2018	1,894.7	1,454.5	766.2	325.9
2019	2,165.1	1,634.4	826.8	296.1

www.kemenkeu.go.id

### Zakat can improve people's welfare

Surah *At-Taubah* verse 60 places the poor as one of the *asnaf* who is entitled to zakat. *Mustahik* from this community group needs to be eradicated from the cycle of poverty and pursued a better welfare. Zakat institutions, in this case BAZ and LAZ / LAZIS, play this role more than the government. For example, *Rumah Zakat Indonesia* has a poverty alleviation program namely "*SenyumMandiri*" which consists of basic entrepreneurship programs, advanced entrepreneurship, and sustainable entrepreneurship.

### Reducing Citizen Fees

Currently, the zakat recognition scheme in tax reporting based on zakat and tax laws is positioned as a deduction for taxable income. Zakat is recognized as a deductible expense that can be claimed when calculating the income tax payable. However, this treatment is still considered burdensome for both the taxpayer and the zakat-obligator because it turns out that the recognition of zakat only applies to non-final income. This means that taxpayers who receive final income cannot claim zakat even though they have paid zakat at an official institution appointed by the government and receive proof of payment according to the provisions of the law. Double fees that still have to be borne by the obligatory zakat and taxpayers as shown in Figure 2 have the potential for the practice of *zakah* evasion as is the case with tax evasion. It should be noted that although the main motive for *muzakki* to pay zakat is the religiosity factor, the potential for *zakah* evasion can occur in corporate income tax claims. Research shows that the tax system perception is negatively related to zakat compliance and is significant at 1%. The current tax system is considered a burden by taxpayers. Because zakat does not offer tax deductions, and is limited to income deductions. Paying zakat becomes double tax

for taxpayers (Ghani & Daud, 2011).

Unlike Indonesia, Malaysia admits the position of zakat is equal to taxes. The implication of this recognition means that zakat is recognized as a tax credit that can reduce the direct tax burden. However, this recognition only applies to personal income, whereas in the Indonesian tax system, claims for zakat can be accepted as a deduction for personal and corporate income tax.

For this reason, the government needs to align the position of zakat institutions by placing these institutions under one roof with the Directorate General of Taxes. This is expected that the collection of zakat can be more optimally done. The Directorate General of Taxation has better data and systems, complete facilities and infrastructure, and more competent human resources. The efforts to harmonize zakat into the taxation system are carried out by recognizing zakat payments as a tax deduction/ tax credit. By doing this, zakat can be equated with tax payments (Setianingrum et al., 2016).

The following are the summary points of the results of the in-depth interview with Sukirno, on Thursday, 27 August 2020 via video call (Lecturer in Accounting, FEB Yogyakarta State University). First, zakat institutions and tax institutions need to be unified, because these institutions can play the role as a state function to attract as well as encourage Muslims to adhere to their religious teachings. Zakat as a substitute for taxes may be good because many people are rich in Indonesia. This needs consideration by the government so that zakat institutions do not separate themselves. In that, they are free and they can report the management of the funds collected to the government.

Second, most of the *Muzakki* in Indonesia choose to pay zakat through the closest mosques or distribute

directly to their family and closest neighbors. *Zakat* institutions have facilitated *zakat* payment methods ranging from manual to online payments. The socialization of *zakat* institutions and the services offered needs improving so that not only *Muzakki*, who is aware, knows, and uses these facilities as he has adequate technological literacy. Third, Indonesia needs to follow the example of the UAE, the *zakat* manager and the tax manager is put together so that they know the data automatically. Unlike in Indonesia, when *zakat* has been withdrawn, it must show the receipt to the tax collector to get a tax deduction.

Fourth, Islamic religious rules and government regulations are aligned, but because our country is not an Islamic state, perhaps that is the reason why an institutional system has not been obliged, implemented and prepared under one roof. Last, the number of Muslims in Indonesia is very large and varied,

but the amount of *zakat* collected is not as much as the number of Muslims. This is due to the government's weakness in managing. Even though it already has a law which states that *zakat* and mandatory donations from each religion may be deducted from gross income or can be used as a tax deduction. However, the government is relinquished in terms of the option to pay *zakat*.

Sukirno's opinion is in line with Arpandi's, who tends to position *zakat* equal to tax, considering the early history of tax collection. But taxes cannot replace taxes for Muslims. The reason is that *zakat* regulation comes directly from Allah SWT, while taxes are regulated by the government of a country. Based on the above arguments, it is necessary to consider the recommendation of *zakat* as a tax credit in the Indonesian tax system as shown in Figure 2.

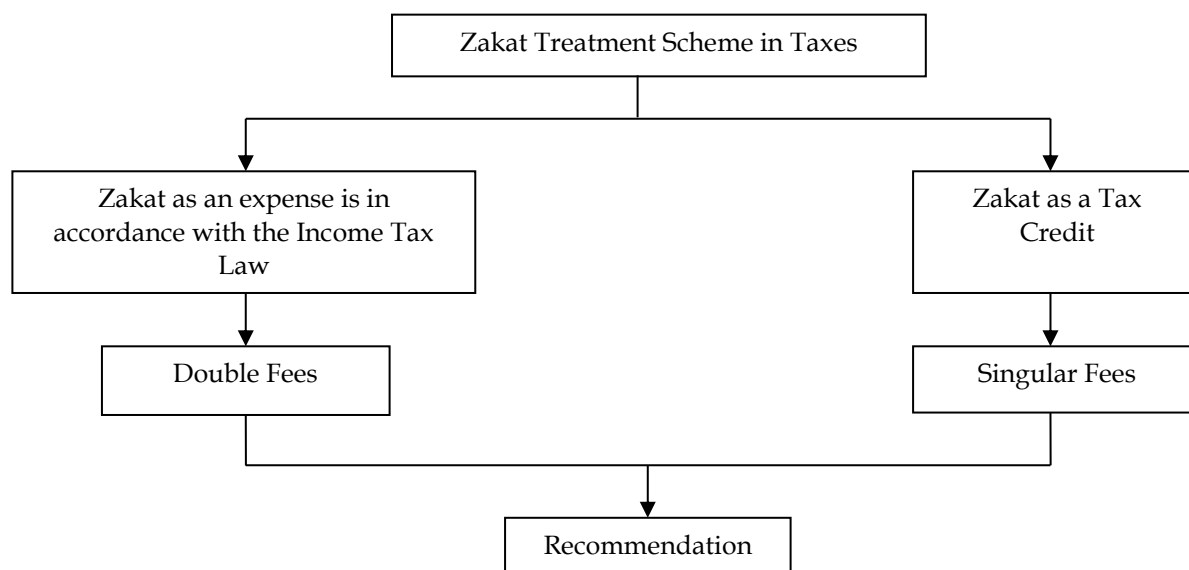


Figure 3. Zakat Treatment Scheme in Tax

*Zakat* is explicitly required in the Qur'an but the requirement and calculation are explicitly stated in the hadiths. It is interesting to see the facts in the field related to the calculation of *zakat*. It provides some techniques and methods that produce various *zakat* figures as described in the previous section. This is probably due to differences in views regarding the jurisprudence of *zakat* from various schools or the scholars' opinions.

The treatment of *zakat* as a tax deduction has been officially recognized in Law No. 23 of 2011 concerning *Zakat* Management. The understanding of *zakat* as a tax deduction is stated in article 22 that *zakat* can be deducted from taxable income provided that *Muzakki* must attach proof of payment of *zakat* (article

23). The implementation of this article is that *zakat* is recognized as a deduction cost that can reduce taxable income. This policy is still quite burdensome for Muslim taxpayers because the reduction of *zakat* on income in the tax report is relatively small when compared to *zakat* as a direct tax deduction or as a tax credit. Therefore, both taxpayers and *zakat* payers are facing the problem of double fees.

This is an example of a virtual case simulation related to the calculation of *zakat* as a cost that reduces taxable income and *zakat* as a tax credit or direct tax deduction. The illustration of the Maya case is as follows: Taxpayer with two dependent children. In the 2019 tax year, the taxpayer's net income was Rp. 350,000,000; the living needs are estimated at Rp.

15,000,000/ month. Taxpayers pay *zakat* income through BAZNAS of 2.5 percent and receive proof of payment of *zakat*. For the payment of *zakat*, the taxpayers claim in the annual tax report. What is the income tax that must be paid by Taxpayers if (a) Is *zakat* recognized as a deductible expense for income tax?; (b) Is *Zakat* recognized as a tax credit?; and (c) Assuming there are 100 WP and 100 WZ with the same income data, then calculate the total tax and *zakat* revenue.

Table 5 provides the calculation of tax payable using the *zakat* scheme recognized as a deduction for PKP and tax credits. In the first scheme, *zakat* is collected in the income deduction section to calculate taxable income before calculating the tax payable. The result shows that the personal income tax owed after the *zakat* claim is Rp. 35,162,500. The amount of personal income tax owed looks smaller than that in scheme 2. In the *zakat* scheme as a tax credit, *zakat* is calculated after knowing the amount of tax owed. *Zakat* then acts as a deduction from the tax payable so that the amount of personal income tax owed is higher, Rp. 1,312,500 compared to the income tax payable in the first scheme. However, the personal income tax payable that must be paid by taxpayers is actually smaller, namely Rp. 27,725,000. With the simulation assumption that there are 100 taxpayers and 100 *zakat* payers who have to carry out their obligations to pay *zakat* and tax, each scheme has the following consequences.

In scheme 1, the amount paid by taxpayers is still high because taxpayers have to pay taxes as being a citizen's compliance and also pay *zakat* as being obedient to religion. The compensation provided in this tax calculation scheme is still relatively small so that it does not have a significant impact on citizen fees. On the contrary, *Zakat* payers who earn more

than non-taxable income also still faced have obligation to pay taxes. Therefore, in scheme 1 it is suspected that there are community groups consisting of: 1) groups of people who pay taxes and *zakat*, 2) groups of people who only pay taxes, and 3) groups of people who only pay *zakat*. Groups two and three in this scheme need to be targeted by the state as an effort to increase revenue from the tax sector. In this case, it is necessary to consider the implementation of *zakat* as a deduction in accordance with scheme 2.

In scheme 2, the total income tax payable that is borne by the taxpayer at a glance looks higher than the personal income tax owed in scheme 1. In scheme 2, because *zakat* is treated equal to tax, *zakat* can be a direct tax deduction. Thus, the income tax payable that must be paid by both taxpayers and *zakat* payers becomes lighter so that there are no double fees that must be borne by both taxpayers and *zakat* payers. On the other hand, *Zakat* payers who earn more than non-taxable income who are initially reluctant or have not paid taxes to group three are suspected of voluntarily registering themselves as taxpayers to obtain tax reduction facilities. Thus there is an increase in the number of taxpayers which in the end has the potential to increase tax revenue.

Based on the above arguments, assuming 100 taxpayers pay tax and *zakat*, as well as an additional 100 *zakat* payers confirmed as taxpayers, it is certainly clear that there will be an increase in revenue from the tax sector and the *zakat* sector. Therefore, the idea of the Minister of Finance regarding *zakat* as one of the Islamic financial instruments can help achieve the sustainable development target in 2030 (Sustainable Development Goals) in poverty alleviation programs and economic inequality can be realized by implementing the *zakat* scheme as a tax deduction.

Table 5. Comparison of Calculation of Income Tax Payable

<b>Zakat as an Expenses</b>	<b>Rp.</b>	<b>Zakat as Tax Credit</b>	<b>Rp.</b>
Income	350,000,000	Income	350,000,000
<b>Less:</b>		<b>Less:</b>	
Positional allowance (5%, max Rp.6,000,000)	6,000,000	Positional allowance (5%, max Rp.6,000,000)	6,000,000
Zakat on Income: 2.5% x 350,000,000	8,750,000		
Non-Taxable Income: K/2	67,500,000	Non-Taxable Income: K/2	67,500,000
Total Deduction	82,250,000	Total Deduction	73,500,000
<b>Taxable Income</b>	<b>267,750,000</b>	<b>Taxable Income</b>	<b>276,500,000</b>

<b>Zakat as an Expenses</b>	<b>Rp.</b>	<b>Zakat as Tax Credit</b>	<b>Rp.</b>
<b>Personal Income Tax Payable:</b>		<b>Personal Income Tax Payable:</b>	
5% x 50,000,000	2,500,000	5% x 50,000,000	2,500,000
15% x 217,750,000	32,662,500	15% x 217,750,000	33,975,000
<b>Total Tax Payable</b>	<b>35,162,500</b>	<b>Total Tax Payable</b>	<b>36,475,000</b>
		<b>Zakat as tax credit</b>	
		Total personal income tax payable	36,475,000
		Zakat paid	8,750,000
		Personal income tax to be paid	<b>27,725,000</b>
<b>Assumption: There are 100 taxpayers</b>		<b>Assumption: There are 100 taxpayers</b>	
Amount of tax receipt		Amount of tax receipt	
100 taxpayers x 35,162,500	3,516,250,000	100 taxpayers x 35,162,500	2,772,500,000
Amount of zakat receipt		Amount of zakat receipt	
100 zakat payers x 8,750,000	875,000,000	100 zakat payers x 8,750,000	875,000,000
<b>Total receipt of tax and zakat</b>	<b>4,391,250,000</b>	<b>Total receipt of tax and zakat</b>	<b>3,647,500,000</b>
		Additional zakat payer confirmed as taxpayers	
		100 taxpayers x 27,725,000	2,772,500,000
		Amount of zakat receipt	
		100 zakat payers x 8,750,000	875,000,000
		<b>Total receipt of tax and zakat</b>	<b>3,647,500,000</b>
		<b>Grand total of tax and zakat receipt</b>	<b>7,295,000,000</b>

## 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

*Zakat* and taxes have similarities and differences based on the definitions and management objectives. The synergy of *zakat* and tax management in Indonesia has been implemented on the basis of Law No. 23 of 2011 concerning the *zakat* management. It is also based on PerDirJen No. 05 of 2019 concerning a list of institutions designated by the government as official institutions to receive *zakat* or other religious donations that can be claimed as tax deductions. However, in the field the *zakat* paid by the *zakat* payer, it is only recognized as a deductible cost. Therefore, the impact is relatively small when compared to the recognition of *zakat* as a tax credit as implemented by Malaysia. Indonesia needs to review this policy so that it has an impact on increasing state revenue from the tax and *zakat* sector. By doing so, the problem of poverty alleviation and social inequality can be immediately resolved.

This study adopted the research design by Plomp and Nieveen (2013) that was carried out in 9 stages. The Covid-19 pandemic period caused

obstacles being faced by in the small group testing stage. At this stage, the respondents should have attended to take part in the simulation but it was canceled due to the pandemic. The group test stage was carried out by distributing questionnaires with selected respondents and a limited number. Limited research time and inadequate reference sources are also the obstacles encountered in this study. This study did not succeed in obtaining a sample of personal income tax return reports from taxpayers who take advantage of the tax withholding facility based on Law no. 23 of 2011 concerning *zakat* management.

It is recommended to have a review for Law no. 36 of 2008, especially in Article 4 paragraph 3 point a1 concerning which is excluded from tax objects. Other aid or donations including *zakat* should be considered as a direct deduction from the tax payable. In line with this, Law no. 23 of 2011 concerning *Zakat* Management, editors in Article 22 also need to be revised with an editorial recommendation "zakat paid by *Muzakki* to BAZNAS or LAZ is deducted from income tax payable".

Studies on *zakat* and taxes have been carried out by some previous researchers but further studies needed to empirically document the success and shortcomings of implementing *zakat* as a deductible cost in income tax reporting. Besides that, there is an urgent need for standardization of national *zakat* calculations such as standardization in calculating income tax. The difference in the results of the calculation of *zakat*, which currently varies, has the potential to give birth to the practice of tax evasion, even though the motive for the *zakat* payers to pay it is different from that for the taxpayers in paying the taxes. This point needs further examination.

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