

## The Application of Theory of Planned Behaviour on Business Zakah Compliance in Yemen: A Proposed Framework

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**Abstract:** Zakah (the alm tax), as one of the five pillars of Islam, aims at poverty reduction and eradication among Muslim community. Similar to tax, understanding the issue of non-compliance is highly relevant to the context of Zakah as well. In Yemen, the proceeds from Zakah are considered low, probably due to compliance gap. Several studies have been conducted on the issues of Zakah compliance in some Islamic countries and most of the literature focused on employment income and saving, with less attention given to business Zakah. The core objective of this paper is to propose a framework for examining factors influencing the current level of Zakah compliance by business enterprises through the theory of planned behaviour. This paper provides a framework to researchers and guidance to the Zakah authorities to better understand the Zakah payer and eventually develop a more effective business Zakah compliance programs to encourage higher intention to pay Zakah among business owners.

**Key words:** Zakah • Zakah compliance • Business zakah • Theory of planned behaviour • TPB

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### INTRODUCTION

The alms tax (Zakah or Zakat) is an obligation for all Muslims. It is one of the five pillars of Islam alongside the testimony of faith, prayer, fasting during month of Ramadan and performing the pilgrimage to Makkah. Basically, “Zakah” is an Arabic word which means cleanliness, blessing, betterment and growth [1]. If Zakah is given to a person it is expected to improve and make that individual better in future [1]. Scholarly definition of the subject matter of Zakah has come from different perspectives. From an economic perspective, Kahf [2] concludes that Zakah is probably the “first pillar of its economic system”. Further, it considers the first and most critical practice to achieve economic justice and to provide sustenance for the economically unfortunate.

From a religious perspective, Qardawi [1] asserted that wealth belongs to Allah, the Mighty and Sublime and assign its responsibility to individuals so that they can feel the pleasure of ownership. A person can only obey the command of Allah the Almighty when he pays Zakah to Asnaf (people entitled to Zakah fund) according to the teaching of Islam. Zakah is an obligation stated in the

Holy Quran thirty times. In twenty-eight of them, it is mention back to back with the word prayers, which highlights the significance of paying Zakah besides prayers. For instance, Allah the Almighty in Holy Quran [3], Surah Al-Muzzamil: Verse 20, said:

*“...and establish prayer and give Zakah and loan Allah a goodly loan. And whatever good you put forward for yourselves - you will find it with Allah . It is better and greater in reward. And seek forgiveness of Allah. Indeed, Allah is Forgiving and Merciful”.*

Thus, the importance of Zakah is obvious in Islam. Country with a large Muslim populations shall give utmost consideration on this aspect, including improving the administrative aspect of Zakah implementation. The aim of this paper is to propose a framework for business zakah compliance study in Yemen, by utilizing the theory of planned behaviour. The paper starts with a brief background of Zakah in Yemen. The next section discusses the literature review which was followed by a proposed framework. The conclusion was then highlighted in the last section.

**Zakah in Yemen:** Zakah and taxation systems are two important elements of an Islamic fiscal system [1], where both are imbued with the elements of obligation and compulsion. Based on this premise, Zakah is imposed on Muslims only, while conventional taxes are imposed on taxpayers, covering both Muslims and non-Muslims. This paper concentrates on Zakah as a critical component in the economy of the Yemeni society. According to Zakah law [4], there are several types of Zakah in Yemen, which include zakah charged on gold and silver, liquidity, cultivation, honey, livestock, marine products, income, minerals, al-Fitr Zakah (associated with breaking the fasting) and Zakah on business (commercial and trade activities). This paper focuses on Zakah of business.

Yemen is “probably the only Muslim country in which the government has retained the task of collecting and distributing Zakah without interruption since it was imposed by Prophet Muhammad (peace be upon him)” [2]. In Yemen, the collection and distribution of Zakah were conducted by the government since the arrival of the first Muslim Governor, Mu’adh, who was sent by the Prophet (peace be upon him) to Yemen, around the ninth year after Hijrah (i.e. 630 CE). Zakah is administered, collected and distributed orderly by the Directorate of government called “The General Directorates of Zakah Obligations (GDZO)” which organizes the process at the national, governorate and local levels. Additionally, the Directorate collects the Zakah of al-Fitr at the end of fasting month (Ramadan) [2].

The jurisdiction of Zakah is included in the Yemeni constitution. It was, therefore mandatory even before the constitution made it an absolute requirement. Yemen takes a traditional sight of what is subject to zakah and makes no analogy to include modern earnings like income from shares or deposits [5]. The Yemeni authorities enacted the Zakah law [4], which provides for the collection and distribution of Zakah by the GDZO. Currently, the Directorate is under the supervision of the Ministry of Local Administration.

Despite legal and administrative effort by the government, there still exists a gap between the estimated and actual proceeds of Zakah due to the difficulties faced by the GDZO. This gap appeared more clearly in the final accounts of the State’s General Budget for fiscal years, starting from 2009 to 2013, which shows a deep gap between the revenue of Zakah collected annually and the revenue of Zakah that was estimated. For instance, during the period of 2009 until 2013 the Zakah gap was reported to be in the range of 4% to 14% each year, with an annual average of 10% [6]. Several of the previous studies,

mostly in Malaysia [7, 8, 9], have empirically examined the level of Zakah compliance, but they are limited to employment income and savings. Notwithstanding this, a careful review of existing literature indicates that probably no study has yet examined empirically Zakah compliance of business organizations. Thus, this paper provides a framework to investigate the level of Zakah compliance behaviours in Yemen especially amongst business owners.

### **Literature Review**

**Principles of Zakah on Business:** Zakah on business (i.e. commercial and trade) is one of the most important portions of Zakah. The source of the Zakah from commercial activities is the trading result in line with the Islamic principles and not from some illegitimate operations or activities such as theft, fraud, looting and illegal trading. Some of the key principles and requirements of business (commercial) Zakah as practiced in the Islamic teachings and issued by Yemeni Zakah law [4] are discussed in the paragraph below:

Firstly, the definition of business organizations is very important in Islamic Zakah jurisdiction. Business refers to any form of trading activities, that includes buying and selling goods and services with the intentions of making profit. These may include goods in the form of gold, land and real estate, crops and fruits, cattle, poultry, transportation, etc. Secondly, most Islamic jurists would agree in terms of the Nisab of Zakah business which is commensurate with the monetary value of 85 grams of gold (or 200 silver Dirhams). Thirdly, the Zakah due is calculated based on the Haul (one full year). Finally, the rate of Zakah is 2.5% of the net assets value.

Unlike the conventional income tax (which is a profit-based tax), Zakah on business is calculated on the net assets of a business establishment. The calculation start with by summing the value of “the merchandise inventory, cash and bank balance and value of the receivables” (i.e. the current assets). Next, the value of all eligible debt is subtracted from the total above. Then the Zakah rate of 2.5% is applied on the difference to arrive at the Zakah payable. However, assets which were used in the business’ operations but were not meant for profit are to be excluded. In other words, all assets used in the day-to-day operations of the business without the intention of making profits are not subject to Zakah.

**Prior Studies on Zakah Compliance:** Zakah compliance refers to the payment of Zakah according to the fatwa (a ruling based on Islamic law issued by the religious

authority) and regulations issued under the authority of Zakah [10]. Several researchers in Islamic countries, such as Malaysia, Indonesia and Saudi Arabia, have investigated Zakah compliance. The majority of the Malaysian studies have utilized the theory of reasoned action (TRA) or theory of planned behaviour (TPB) [8, 9, 11, 12, 13, 14, 15, 16, 17]. Others have based their studies on Zakah compliance in terms of religious practices [18, 19, 20] and law enforcement influence [19, 21].

Bidin et al. [7] have used the TRA to predict compliance intention on employment income Zakah. In a different study, Bidin and Idris [22] and Sapongi et al [8] used the TPB to investigate Zakah compliance on employment income. Recently, Rahim and Kaswadi [12] examined the role of Zakah compliance among Muslim staff of a local Malaysian University located in the state of Sarawak. More recently, Azman and Bidin [9] investigated Zakah compliance behaviour on saving among staff of another local university located in the northern peninsular of Malaysia.

In the Indonesian context, Huda et al [23] also applied the TPB theory to examine Zakah compliance behaviour among individual Zakah payers. Another study by Heikal and Khaddafi [24] investigated the local traders' intention to pay commercial Zakah by employing the same theory too.

In Saudi Arabia, Al-Osaimi [25] conducted a study to examine the factors that influenced the intention of Zakah compliance on land intended for sale in Makkah by using TPB theory. A recent study by Al-Hamdan [26] determined the factors that affect the Zakah compliance among owners of mutual funds in Saudi Arabia by using TRA theory. Therefore, literature review shows that studies on Zakah mostly employed theories that used in taxation studies, as the concept of Zakah is a kind of taxation in Islam. From the above discussion, it is evidence that most of prior studies were conducted in Malaysia. However, less attention is paid to other countries such as Indonesia and Saudi Arabia. Also, the majority of the prior studies focused on Zakah compliance on saving and employment income based on the theory of TPB or TRA. Hence, this paper focused on business Zakah compliance by business organizations in Yemen.

**The Theory of Planned Behaviour:** Theory of planned behaviour was developed to extend the TRA [27, 28]. Ajzen and Fishbein [28] refer to volitional behaviour as being interpretable by people's attitude toward the certain

behaviour and subjective norms. Attitudes toward the behaviour can be determined by an individual's beliefs that the behaviour leads to particular results and the individual's assessment of results, whether favourable or unfavourable.

As highlighted in TRA, the key point of TPB is intention. Intention acts as a motivational dynamic in influencing people's behaviour. It indicates how people are willing to do something and how much of an effort they can put in implementing the behaviour [27]. Accordingly, attitudes and subjective norm in TRA affect individuals' intention to execute the behaviour. Nevertheless, Ajzen [27] asserted that this theory can be workable if the behaviour is under volitional control and required opportunities and resources available such as money, time, skills and education. Therefore, the components of perceived behavioural control in TPB accompanies the original theory. Thus, based on TPB theory, there are three independent variables, namely, attitudes, subjective norms and perceived behavioural control.

TPB theory is being applied to expect and clarify a wide range of behaviour in terms of a narrow set of constructs such as (attitude, subjective norms and perceived behavioural control) [27]. TPB holds that only specific attitudes toward the behaviour in questions can be expected to predict somebody's intentions. Knowing the person's beliefs can be a significant factor for knowing the person's attitudes. Besides perceived behavioural control has a vital effect on intentions. According to Ajzen [27], perceived behavioural control is defined as individual's perceptions of their ability to execute a certain behaviour based on these predictors that lead to intention. A rule of thumb is that the more favourable the attitude and the subjective norms are, the greater the perceived behavioural control and the stronger the individual's intention to execute the behaviour in question.

Overall, TPB theory is an intention-based model [27] which has been established to justify the intention of a particular individual behaviour [29]. TPB theory has been applied in various business and management related field, covering specific area in accounting, marketing, tourism and taxation as well [41][42][43]. Ajzen and Driver [29] used this theory to examine the student's intention on choice of leisure. Their result shows a positive relationship between TPB dimensions and the intention to participate in activities of leisure under study, such as spending time at the beach, jogging or running, mountain climbing, boating and biking.

**Dimensions of Planned Behaviour**

**Attitude:** Attitude is the first element of TPB theory which has been utilized in many studies related to marketing, education and leisure choice [29, 30, 31]. Furthermore, there are studies related to taxation which have examined the attitude of taxpayers towards tax compliance intention [32, 33]. Bobek [34] and Bidin, Hussin and Salleh [35] discovered that the attitude of taxpayers has a positive association with tax compliance. In the field of Zakah, several researchers have treated attitude towards Zakah compliance as a critical factor of behavioural intentions. Bidin and Idris [22] found that the attitude of employees significantly influenced the intentions to pay Zakah on employment income in Malaysia. Bidin *et al.*, [7] also found a significant association between attitude and Zakah compliance on employment income. Similarly, Al-Hamdan [26] revealed that attitude significantly influenced Zakah compliance among owners of mutual funds in Saudi Arabia. Recently, Azman and Bidin [9] reported that Zakah compliance behaviour on saving is significantly influenced by the attitude toward paying Zakah.

Contrary to the above findings, a number of studies [14, 24, 25] found that attitude has the least impact on the intention to pay Zakah. For the purpose of business Zakah, the attitude toward Zakah on business reflects a business owners' intention to comply or not to comply with Zakah on business.

**Subjective norms.** Based on the available literature, there is a significant influence of subjective norms on behavioural intention [7, 9, 36, 37, 38]. In the field of taxation, several studies have shown empirically that positive subjective norms significantly affect tax compliance intentions [32, 34, 35, 39].

**On Zakah perspective,** prior studies carried out on the relationship between subjective norms and Zakah compliance have shown a mixed result. Majority of studies [7, 9, 22, 24, 26] indicate a significant relationship, except two studies [12, 14] that found otherwise. Therefore, in this study, subjective norms towards paying Zakah on business reflects a business owners' intention to comply or not to comply with Zakah on business.

**Perceived behavioural control.** Previous studies [22, 38, 39, 40] have shown that there is a significant relationship between perceived behavioural control and behavioural intention. In a study related to taxation [39], it was revealed that there is a strong relation between perceived behavioural control and tax compliance. In terms of Zakah, previous studies have investigated the association between perceived behavioural control and

Zakah compliance intention. The results showed that almost all prior studies [8, 12, 22, 24] found a significant association between perceived behavioural control and Zakah compliance intention.

Conversely, Al-Osaimi [25] has shown that perceived behaviour control are not significantly influenced by the intention to comply with Zakah on land intended for sale. From the above discussion, the present study anticipated that perceived behavioural control has a critical role for business owners' intention to comply or not to comply with business Zakah.

**Proposed Framework:** Based on the literature review, TPB is the best theory to determine the behavioural intention of individuals. The present study proposes Zakah compliance intention as a dependent variable and the attributes of attitude, subjective norms and perceived behavioural control (in the context of business zakah) as the independent variables. Figure 2 demonstrates the proposed framework of behaviour intention to comply with Zakah on business.

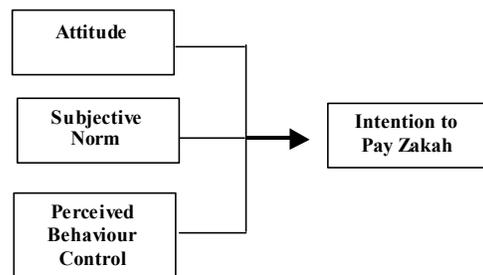


Fig. 2: A Proposed framework for business zakah compliance study

Source: adapted from Ajzen [27]

**CONCLUSION**

The paper offers discussion of a proposed framework for Zakah compliance behaviour, with emphasis on the factors that influence this action among business owners. The TPB framework is considered among the best theories recommended for current research on business zakah compliance in Yemen. If such a study were to be conducted, it would be worth to consider the population of the study as comprising individual business owners in Yemen. The authors also proposed the use of questionnaires as the key tool for collecting the data.

Output from such studies is expected to assist the government, especially the GDZO on understanding Zakah compliance intention of business owners and

accordingly to administer and implement Zakah in a more systematic and effective manner, with the ultimate aim of reducing the Zakah compliance gap. Researchers from other Muslim majority countries are also expected to benefit from this proposal.

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