

## Perception of Business Owner toward Business Zakah Compliance Intention

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**Abstract:** Zakah is a yearly religious obligation of individual Muslims to distribute among the rightful beneficiaries, either directly or indirectly via zakah collection authority. Besides tax, being a legal obligation, Muslim majority countries also administer zakah that collected from its Muslim citizen. Similar to tax, understanding compliance intention of zakah payer is important in addressing the issue of non-compliance as to maximize zakah collection. The limited studies on zakah compliance seems concentrated on employment income and saving, with almost no attention is given to other types of zakah, including the business zakah. By employing the Theory of Planned Behavior, this paper examine the relationship between attitude, subjective norm, perceived behavioral control and zakah compliance intention on business. Analysis is carried out on two hundred and two completed questionnaires obtained from individual business owners in Yemen. The findings show that all the three factors, namely, attitude, subjective norm and perceived behavioral control were found positively significant to intention to comply zakah on business. Attitude was found to be the most important factor influences intention to pay zakah on business among. The findings of this study can be of useful input to zakah authority and policy makers in promoting higher business zakah compliance.

**Key words:** Business Zakah • Compliance Intention • Theory of Planned Behavior • Zakah Compliance

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### INTRODUCTION

Zakah is established as one of the most important obligations in Islam. Basically, it is an annual amount in kind or money which a Muslim must distribute among the rightful beneficiaries (*Asnaf*). Since the first introduction of zakah in the second year of Hijrah (or 623 AD), the implementation of zakah continues to be one of Muslim governments' functions throughout the Islamic history [1]. In Sharia (Islamic) law, the properties offered for trade by individuals and companies are Zakatable. The amount of zakah is 2.5% of wealth and assets each year. Islamic law has regulated the conditions of Zakatable assets and income. Zakah is levied on liquidity, commercial goods or merchandise, agricultural products, livestock and minerals, including gold, silver and treasure trove. However, based on the methodology of *Qiyas* (analogical reasoning) in Islam, all types of wealth in modern life are Zakatable such as bank deposits and financial securities like shares and bonds [2]. Zakah compliance based on Islamic principles, it is dissimilar with the modern tax compliance for the simple reason that zakah is one of the obligatory Islamic dues to satisfy the necessary

conditions to attain for the soul purity and goodness [3]. Hence, zakah compliance refers to the actions (compliance) together with the intention to fulfill instructions and orders from the Almighty for getting the willingness. While tax compliance is in effect a concept where the action (compliance) is with the purpose of meeting tax laws and rules by tax authorities. Zakah compliance intention is defined as the individual's intention toward payment of zakah according to the fatwa (a ruling on a point of Islamic law) and regulations issued under authority of zakah [4]. Nevertheless, Bakar and Rahman [2] stated that zakah payers are believed to acquire a return of zakah not only in the current life, but in the hereafter when they comply with Islamic obligations. Thus, they have intention to comply with paying zakah on their property according to Islamic teaching.

In Yemen, zakah is administered, collected and distributed by the Directorate of government called the General Directorate of Zakah Obligations (GDZO) which organizes the process at the national, governorate and local authority levels. There are several types of zakah in Yemen, namely zakah 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) [5]. Yemen includes zakah authority in its constitution. It was mandatory even before the Constitution made it a mandatory requirement. It seems Yemeni Authority takes a traditional view of what is subject to zakah and makes no analogy to include income, shares, or deposits [6]. In 1999, Yemen issued its zakah laws which, provides for zakah collection and distribution by 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, likely among other due to low level of zakah compliance [7]. 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 to 2013 the zakah gap was reported to be in the range of 4% to 14% or YR 563.5 million to YR 1.858 billion each year, with an annual average of almost 10% or YR 1.21 billion [8].

Previous empirical studies mostly conducted in Malaysia have examined the level of zakah compliance intention, but they are limited to employment income and savings [9, 10, 11]. Notwithstanding this, a careful review of existing literature indicates that probably no study has yet examined empirically zakah compliance intention in the Middle-Eastern countries, including in Yemen. This research investigates the level of zakah compliance intention in Yemen especially amongst business owners.

This paper is organized into few sections. The general background demonstrating the meaning, purpose and problem with regard to zakah compliance intention are presented above. The next section considers relevant literatures, research framework and hypothesis development. Research methodology is discussed in the third section, followed by analysis of the results in section four. Discussions and implications are presented in section five. Finally, conclusion are provided.

**Literature Review and Hypothesis Development:** Zakah on Business. Key principles and requirements of business (commercial) zakah as per the Islamic teachings are issued by way of Yemeni Zakah law [5]. Firstly, the definition of business organizations is very important in Islamic zakah jurisdiction. Business refers to any form of trading activities which, includes buying and selling goods and services with the intentions of making a 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 (threshold) 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 by summing up 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 debt is subtracted from the total. 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.

**Theory of Planned Behavior.** Theory of Planned Behavior (TPB) was developed by Ajzen [12] as an extension to the Theory of Reasoned Action (TRA) which, was originally formulated by Ajzen and Fishbein [13]. According to the TPB theory, three factors explain the peoples' behaviors as determined by their intention are attitude, subjective norm and perceived behavioral control. The main element in TPB theory is intention. It refers to the individual's objective to execute a certain behavior. Intention indicates to how hard individuals are willing to try and how much efforts individuals plan to put with the aim of performing a particular behavior [12]. Intention is an important determinant to accept or reject the person's behavior [13]. A person who has a positive intention toward certain actions will be more compliant than an individual with a negative intention. From Islamic viewpoint, people's actions are evaluated and judged based on their intention [14]. In the zakah field, intention was examined in prior studies, either using the 3 factors of TPB [9, 10, 15, 16, 17, 18] or two factors in TRA [9, 19, 20]. Specifically, the TRA theory has two factors (i.e. attitude and subjective norm) and the TPB theory has perceived behavioral control as an additional factor.

Attitude refers to the degree to which an individual has a good or poor evaluation on a particular behavior [13]. Prior studies found that attitude is a significant predictor of zakah compliance intention in different types of zakah as well, covering savings [11], mutual funds [19] and employment income [21]. Contrary to the above findings, a number of researchers [15, 18, 22, 23] also

found that attitude has the least impact towards the intention to pay zakah. In the present study, zakah payer's attitude toward zakah on business reflects an intention of individual business owners to comply or not to comply with zakah on business. Subjective norm in many different countries was studied and identified as the contributing factor that motivates zakah payers. The subjective or social norm is defined as a perceived social pressures exerted on a person either to act or not to act [12]. Some researchers have carried out studies on the relationship between subjective norm and zakah compliance intention. Their results show that a positive relationship does exist [9, 11, 18, 19, 22]. On the other hand, another study found that subjective norm insignificantly affects zakah compliance intention on employment income [21]. Also Azman shows that an insignificant relationship exists between subjective norm and intention of paying zakah on saving [23]. Therefore, in this study, subjective norm towards paying zakah on business reflects an individual business owners' intention to comply or not to comply with zakah on business. Perceived behavioral control reflects the perceived capacity to perform the desired behavior. Perceived behavioral control is associated with a person's understanding about the level of easiness and difficulties in execution such behavior. It is also presumed to reflect previous experience besides expected impediments [24]. Various studies have examined at the influence of perceived behavioral control on intention to perform the behavior. Prior studies revealed that perceived behavioral control is strongly associated with zakah compliance intention [18, 22], but study also found otherwise, but in different types of zakah [15]. In the context of current study, it is believed that perceived behavioral control would likely have influence over business owners' intention to comply with business zakah.

Following the TPB theory [12], as used by Bidin *et al.*, [17], the research framework derived is depicted in Figure 1 below.

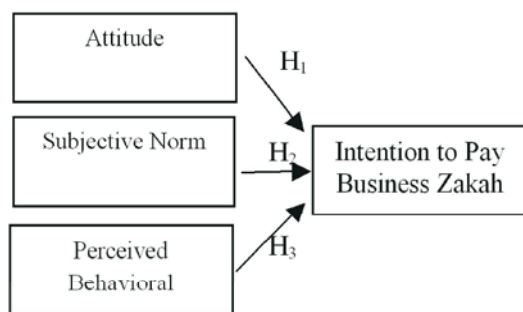


Fig. 1: Research Framework

The above framework demonstrates the relationship between the three TPB factors and business zakah compliance intention. Based on literature, it is expected that a positive attitude, subjective norm and perceived behavioral control towards zakah would encourage the business owners to comply with zakah and vice versa. Based on prior studies, the following hypotheses were formulated:

- H<sub>1</sub>: There is a positive relationship between attitude and zakah compliance intention amongst individual business owners.
- H<sub>2</sub>: There is a positive relationship between subjective norm and zakah compliance intention amongst individual business owners.
- H<sub>3</sub>: There is a positive relationship between perceived behavioral control and zakah compliance intention amongst individual business owners.

## METHOD AND FINDINGS

The study focuses on individual business owners in the Governorate of Hadhramout, Yemen. By using the questionnaire instrument adapted from previous study [17], data of this study were collected from individual business owners registered with the Hadhramout Chamber of Commerce and Industry. A total of 480 questionnaires were distributed randomly to individual business owners. The numbers of useable returned questionnaires were 202, giving a net response rate of 42.1%. All three independent variables, namely, attitude toward business zakah (5 items), subjective norms (4 items) and perceived behavioral control (5 items), together with business zakah compliance intention (5 items) were measured by way of five-point Likert scale ranging from “1 as strongly disagree” to “5 as strongly agree”. In terms of reliability, all independent variables have a Cronbach alpha of above 0.86, while for dependent variable, one item has been dropped to increase the alpha coefficient from 0.68 to 0.86. Factor analysis fulfilled validity consideration with factor loading for each item exceeded 0.70 and the value of Kaiser-Mayer-Olkin (KMO) also above 0.70 for all variables.

Respondents and Business Profile. Analysis of profile indicates that large majority of respondents are male (96.5%). Most of the respondents were aged between 30 and-50 years (52%) and another 47% comprising the group of respondents with age of less than 30 years old. As for educational level, more than half of respondents have up to secondary school certificate,

representing 58% of the respondents. In term of business length, most of the respondents stated that their duration of business were less than 5 years representing 45.5% of respondents, followed by 5 to 10 years (42%) and the remaining respondent are belong to group of business period from 11 to 15 years (5%) and those with more than 15 years in business (7%). In terms of business category, the highest percentage came from retail traders (42%), followed by wholesale traders (24%) and the remaining respondents comprised from industry sector (9%), service sector (8%), farmer (6%), livestock (6%) and others (5%). In terms of paying zakah, the majority of the respondents (89%) indicated they had paid business zakah previously, while the remaining 11% had never paid business zakah before.

**Descriptive Statistics and Multiple Regression.** The average mean score for all variables are ranged between 4.39 and 4.58 (out of 5.00) with corresponding standard deviation of each variable are less than 0.50. Specifically average mean score of attitude, subjective norm and perceived behavioral control is 4.43, 4.58 and 4.39 respectively, indicating that respondents view positively towards all the three measured variables. Meanwhile, mean score for intention to pay business zakah of 4.45 demonstrates high business zakah compliance intention among respondents. As for multiple regression analysis, finding indicates that all three variables (attitude, subjective norm, perceived behavioral control) were significant and collectively has explanatory power of 41.5% ( $F = 48.47$ ;  $p = 0.00$ ) of their business zakah compliance intention. All three hypothesis are accepted as the p-value are less than 0.01, indicating that attitude towards zakah compliance has a positive relationship with business zakah compliance intention (hypothesis 1), that there is a positive relationship between subjective norm and intention toward zakah compliance (hypothesis 2) and that perceived behavioral control has a positive influence on intention to comply with zakah on business (hypothesis 3). The result also shows that the attitude factor ( $\beta = 0.364$ ) has the most vital effect on the intention of paying zakah on business among individual business owners in Hadhramout Governorate, followed by subjective norm ( $\beta = 0.312$ ) and lastly, perceived behavioral control. ( $\beta = 1.66$ ).

## **DISCUSSIONS AND CONCLUSIONS**

The present study examines zakah business compliance intention behavior among individual business owners in the Hadhramout Governorate, Yemen. The main

objective of this study was to determine the relationship between attitude, subjective norm, perceived behavioral control and the intention to pay zakah on business and also to identify the most important factors among the three independent variables the current study applied the TPB theory in examining the compliance intention behavior towards business zakah. The findings of the current study indicated that the explanatory power of TPB model is 41.5%, which reflects that TPB theory is appropriate to illuminate the factors that influence the intention of zakah compliance behavior among the individual business owners in Hadhramout Governorate. The findings of the current study consistent with those previous research findings in various fields conducted elsewhere [12, 22, 25]. Specifically, all the three factors have a significant effect on business zakah compliance intention behavior. Hence, the hypotheses on the relationship between attitude, subjective norm and perceived behavioral control are accepted. It is also found that the attitude factor emerged as the most important factor that influences the intention of paying business zakah. This result is consistent with the results of specific studies on zakah as well, but on different types of zakah [9, 11, 19]. Accordingly, it is recommended that the GDZO should seek to enhance business owner's opinion and belief about paying zakah on business. Also, it must motivate and educate them to pay zakah on their business. As for subjective norm, it is also has a strong association with intention of business zakah compliance attitude. This result was consistent with previous studies on other types of zakah [9, 11, 18, 19, 22]. This showed the intention of individual business owners to pay zakah on their business is also influenced by social pressure, such as parents, spouse, friends and co-workers and religious teacher. Thus, the more positive the views of the social pressure the more positive the intention to comply with zakah on business. Finally, the influence of perceived behavioral control toward intention of paying zakah on business also indicated a positive relationship. This result also was consistent with previous findings on zakah [10, 18, 20, 22].

The findings of the current research will be valuable to the zakah authority especially in encouraging and managing effectively and efficiently zakah collection among individual business owners. Zakah authority could play an important vital role in educating individual business owners to have better understanding of business zakah. The zakah authority should have a good relationship and interaction with zakah payers through organizing effective programs consistently for the society in order to enhance the belief and increase the knowledge

on zakah among zakah payers. Lack of knowledge may result in of zakah payers ignorance of assistance and advisory provided by the authority. It is advisable that pamphlets, brochures or fliers on the right procedures of zakah should be dished out to those who are eligible for zakah payment. From a theoretical point of view, this study adds to the existing zakah compliance literature from the perspective of Yemeni business zakah payers. It is important to note that the scope of the study is limited in terms of coverage (Hadhramout Governorate), types of zakah (business zakah) and zakah payer (individuals), thus cautioned to be exercised in generalizing these findings into other context. Future study on sample covering various types of zakah and zakah payer in other Governorates as well is highly recommended. It is desirable that future research efforts are also concentrating on identifying other economic, social, psychological and cultural factors that may influence zakah payers' compliance intention.

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