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The Influence of Perception towards Legal and Ethical Obligations on Compliance Behavior of Income Zakat in Kedah

Yusuf Haji-Othman^{1*}, Mohd Sholeh Sheh Yusuff², Masri Azrul Nayan¹

¹ Centre for Islamic Finance Education and Research, Sultan Abdul Halim Mua'dzam Shah International Islamic University, Kuala Ketil, Malaysia

² Kulliah of Usuluddin and Quranic Sciences, Sultan Abdul Halim Mua'dzam Shah International Islamic University, Kuala Ketil, Malaysia

*Corresponding Author: dryusufhajiothman@unishams.edu.my

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Abstract: *Zakat is not only a religious obligation that must be complied with by all eligible Muslims but also plays a very important role in the Islamic fiscal system. However, the issue which arises is that zakat compliance including income zakat is still low which hinders the effectiveness of zakat in playing a more significant role in the state of Kedah, Malaysia. Therefore, this study attempts to examine the influence of perception towards legal and ethical obligations on compliance behavior of income zakat to gain more understanding of the determinants of income zakat. This study reveals that perception towards ethical obligations has significant relationships on the intention to comply with zakat payment. However, there is no significant relationship between perception towards legal obligation and intention to comply with zakat payment. This study is able to provide empirical evidence that is in line with findings of previous studies as well as new findings that expand the boundary of knowledge in the area of compliance behavior of zakat. The important contribution of this study is that the factors identified as significant determinants of compliance behavior of income zakat such as perception towards legal and ethical obligations could be useful as a guide for relevant authorities and policymakers to formulate suitable strategies to increase zakat collection in the future.*

Keywords: Legal Obligation, Ethical Obligations, Perception, Zakat, Malaysia

1. Introduction

Income *zakat* is a religious levy on personal income derived from sources or activities where labors are involved which includes professional fees, labor compensation, salaries, wages, bonuses, grants, gifts, dividend income and the like (Abu Bakar, Ibrahim, & Md Noh, 2014). Notwithstanding the fact that employment income *zakat* contributed the highest percentage in the overall *zakat* collection in Malaysia (Wahid et al. 2006), *zakat* on income was still an issue because of low collection amongst Muslims who were eligible to pay income *zakat* even though a religious decree making it compulsory to pay *zakat* on income has been long issued, yet evidence indicated that only 35 percent of Muslim public servants paid employment income *zakat* in Kedah (Kamil, 2002). These issues, therefore, motivate this study to examine the determinants of compliance behavior of *zakat* in Kedah, Malaysia because previous studies so

far have come up with inconclusive and mixed evidence regarding the motivations of paying income *zakat*. Thus, this study attempts to examine the influence of perception towards moral obligation and legal obligation on the intention to comply with income *zakat* payment to gain more understanding of the motivations for paying income *zakat* in Malaysia.

This study is hoped to shed some light on the influence of perception towards law and ethical obligation on intention which could expand our understanding of compliance behavior of income *zakat*. By understanding the compliance behavior of income *zakat* payment by Muslim teachers, it could shed some light on suitable policies to be formulated to increase income *zakat* payment. Authorities could formulate suitable policies that focus on empirical evidence provided by this study. It is important to understand the determinants of compliance behavior of income *zakat* before any suitable policies could be planned, strategized and implemented for improving *zakat* collection in the future.

2. Literature Review

There are numerous studies that have incorporated perception towards legal obligation with mixed and inconclusive results. Among the studies are Davis et al. (2003), Murphy (2008), Benk, Cakmak, & Budak (2011), Cummings, Martinez-Vazquez, & Michael (2001), Cummings, Martinez-Vazquez, McKee, & Torgler (2009), Carnes & Englebrecht (1995), Mohd Rizal (2010), Niemiowski et al. (2003), Zainol (2008), Haji-Othman, Nazjmi, Fisol, & Faisal, (2019), Haji-Othman, Sheh Yusuff, & Abd Latib (2018), and Mohamed Sareye Farah, Haji-Othman, & Mohamed Omar (2017).

There are some studies which investigated the role of perception towards moral obligation on compliance such as Armstrong (2006), Omar, Abdul Majid, & Johari (2013), Ahmed, Chung, & Eichenseher (2003), Braithwaite, Reinhart, & Smart (2006), Alm & Torgler (2006), Alm & Torgler (2011), Halla (2010), Kirchler, Muehlbacher, Kastlunger, & Wahl (2007) and Torgler (2004). The evidence so far is still inconclusive and there exist some grey areas in this field.

3. Methodology

This study employs a quantitative method to answer research questions and research objectives for the purpose of providing empirical evidence to accept or to reject the research hypothesis. This study uses a survey method using questionnaires in order to collect data. This method is considered suitable because units of analysis (respondents) are scattered around the state of Kedah. The advantage of the survey method using questionnaires is the information can be obtained effectively, concisely and fast (Zickmund, 2003). A total of 386 questionnaires were collected from a sample of public servants in the state of Kedah, Malaysia.

Hypotheses

The perception of legal obligation plays an important role in the compliance behavior of *zakat*. Mohd. Ali (1989) stressed that it is important to ensure that individuals comply with the law. Kamil (2002) and Zainol (2008) found that perception towards legal obligation was a significant factor related to *zakat* compliance behavioral intention. This study constructs the following hypothesis:

H₁ Perception towards law enforcement has a positive significant influence on the intention to pay income *zakat*.

Perception towards ethical obligation is defined as a duty to pay income *zakat*, arising out of ethical considerations of right and wrong. It is included in this study because people’s personal beliefs about what is morally right and wrong could influence their intention to pay income *zakat*. There are studies such as Braithwaite et al. (2006), Torgler (2004), Alm & Torgler (2006), Alm & Torgler (2011) and Halla (2010) which tested the influence of perception towards ethical obligation on intention.

Braithwaite, Reinhart, & Smart (2006) provided evidence that low moral obligation leads to noncompliance towards tax payment. Alm & Torgler (2006) verified that individuals in the United States had high tax morale. This finding is supported by Alm & Torgler (2011) who discovered that tax morale was significant in influencing people to evade tax. This finding was reinforced by Halla (2010) who attested that tax morale could be used to alter tax evasion. This finding was further supported by Kirchler, Muehlbacher, Kastlunger, & Wahl (2007) who found that moral appeal significantly influenced tax compliance. However, these findings contradicted Torgler (2004) who examined the effects of moral persuasion on tax payment and evidenced that moral suasion did not have a significant effect on taxpayers’ compliance behavior.

This study hypothesizes the following:

H₂ Perception towards ethical obligation has a positive significant influence on the intention to pay income *zakat*.

4. Findings and Discussions

The assessment of the structural model provides evidence on the magnitude and significance of relationships between variables. It is worth mentioning that coefficients of determination values range from -1 to +1. Values of -1 and +1 represent perfect negative and positive relationships between two variables, respectively. If the value of the coefficient is 0, it indicates that there is no relationship between the two variables (Pallant, 2010; Hair et al., 2014).

By running PLS-SEM bootstrapping technique, this study obtains the structural relationships which indicate hypothesized relationships among constructs in the theoretical framework of the study. The result of the PLS-SEM bootstrapping technique gives path coefficients as shown in Table 1.

Table 1: Estimated Path Coefficients

Path	Coefficient	P-Values
Perception towards Legal Obligation -> Intention	-0.051	0.117
Perception towards Ethical Obligation -> Intention	0.247	0.000

Table 1 indicates that perception towards ethical obligation has a positive and significant relationship with intention since the coefficient, t-statistics, and p-value are 0.247 and 0.00, respectively. It could be inferred that a person with a strong perception of ethical obligation is more likely to have the intention to pay income *zakat*. This evidence is consistent with Braithwaite, Reinhart & Smart (2006), Halla (2010) and Kirchler et al. (2007) who found that perception towards ethical obligation significantly influenced tax compliance. It is worth mentioning that perception towards ethical obligation dependent upon one’s belief about what

is right and wrong (Alm & Torgler, 2011). In the context of income *zakat*, a Muslim having perception towards ethical obligation has an intrinsic motivation to pay *zakat* because doing so is the ethical thing to do which would end up helping other Muslims. This finding indicates that intrinsic motivation is likely to lead to intention to pay income *zakat*. The implication of this finding is that Kedah State *Zakat* Board (KSZB) needs to increase the intrinsic motivation of potential *zakat* payers by being more proactive to reach them by spreading awareness to pay *zakat* by way of diversifying promotional methods.

However, this study reveals that perception towards *zakat* legal obligation does not have any significant relationship with intention to pay employment income *zakat*. This is not unexpected since legal enforcement regarding *zakat* is still rather weak in the state of Kedah. Despite the fact that the National Fatwa Council agreed upon a consensus on the 22nd June 1997 that income *zakat* is compulsory for every Muslim individual who has fulfilled the conditions of perfect title, *nisab*, and *hawl* and the fact that the obligation to pay employment income *zakat* to Kedah State *Zakat* Board (KSZB) has been gazette, the legal enforcement has been weak. This is probably due to the fact that a proper mechanism to trace non-*zakat* compliant still does not exist. Unlike the Inland Revenue Service (IRS) which has taxpayers' reference numbers assigned to taxpayers, Kedah State *Zakat* Board (KSZB) still has not come up with the idea of assigning reference numbers to *zakat* payers.

The implication is that Kedah State *Zakat* Board (KSZB) should have a computerized system where all income earners whether employment income earners or self-employed income earners are assigned employment income *zakat* reference numbers similar to the Inland Revenue Service (IRS) which has taxpayers' reference numbers assigned to taxpayers. This measure is very important in order to trace all income earners who are compliant as well as noncompliant in order to be legally proper actions according to the gazette by Kedah State *Zakat* Board (KSZB) which mentions that it is obligatory to pay income *zakat* to the Kedah State *Zakat* Board (KSZB).

5. Conclusion

This study finds that perception towards ethical obligation has a significant relationship with the intention to pay income *zakat*. However, there is no significant relationship between perception towards legal obligation and intention. Therefore, it is important that the Kedah State *Zakat* Board pays close attention to these factors because there is a strong link from intention to behavior. Kedah State Department of *Zakat* must plan, strategize and implement an effective intervention by providing accurate and powerful new information to Muslims who have fulfilled the conditions of paying income *zakat* in general and Muslim teachers in particular, which could change their beliefs about the impact of their compliance with income *zakat* payment. The information that this study provides could prove to be a useful tool in planning, strategizing and implementing measures, strategies and policies suitable to be used for the purpose of improving employment income *zakat* collection in the state of Kedah as well as Malaysia at large in the future.

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