

COMPARATIVE ANALYSIS OF BUSINESS ZAKAT COMPUTATION OF ISLAMIC FINANCIAL INSTITUTIONS IN MALAYSIA AND SAUDI ARABIA

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ABSTRACT

There has been an increasing need for principle-based financial reporting standards of Islamic Financial Institutions (IFIs) including business zakat reporting. In meeting the requirement of the shariah governance framework, business zakat computation is one of the aspects that must be disclosed and presented by IFIs on the face of their financial statements. The disclosure is vital in further promoting transparency and continuous development of IFIs within the tax and zakat environment. The objective of this study is to identify to what extent of business zakat computation among IFIs are in compliance with reporting requirements and rules in Malaysia and Saudi Arabia. In the light of the Malaysian regulatory and legal framework, a new policy document on Financial Reporting for Islamic Banking Institutions has been issued by Bank Negara Malaysia (BNM) in 2019. The Kingdom of Saudi Arabia (KSA) General Authority of Zakat and Tax (GAZT) has published the rules for computing zakat by IFIs also in 2019. A qualitative research approach is adopted in this study by analyzing the annual reports for the financial year ended 2020 of four public listed IBIs in Malaysia and four public listed IBIs in Saudi Arabia. Content analysis procedure was conducted to identify the zakat expenses recognition, measurement for assets and liabilities for zakat, presentation and disclosure of zakat on business. The outcomes of this study highlight the similarities, differences and current state of business zakat computation of the IBIs in Malaysia and Saudi Arabia. Since Saudi Arabia has released the new zakat by-law in 2019, having a priori knowledge of this function will be helpful in assisting Malaysian IFIs towards promoting best practices and highest efficiency. Besides that, business zakat reporting would be able to provide a comparable and reliable financial information of IFIs.

Keywords: Business Zakat Computation, Zakat reporting, Islamic Banking Institutions, Shariah Compliance and Zakat Law.

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INTRODUCTION

Zakat obligation on business was only originally imposed on tangible products. As the scope of products have been broadened and redefined by jurists, zakat imposition on financial products and services are becoming obligatory to Islamic financial institutions (IFIs) which comprising Islamic banking system, Islamic money market, takaful industry, Islamic capital market and the specialised financial institutions (BNM, 2005). The rapid progress and growth

in Islamic financial system has demanded for greater accountability through full disclosure, transparent and high quality of business zakat reporting by IFIs all over the world. This is crucial for IFIs for promoting towards continuous development and sustainable business environment. Therefore, it is of critical importance to consider business zakat reporting through regulation and legal framework.

There is a demand for principle-based zakat reporting standards of IFIs in meeting the requirement of the shariah governance framework. In recognizing this need, authority bodies have to come out with zakat regulation and legal framework. It is interesting to note that there are two countries which are Malaysia and Saudi Arabia have been published rules and regulations for IFIs pertaining to zakat matters in 2019. BNM has issued a new policy document on Financial Reporting for Islamic Banking Institutions (IBIs) at 27 September 2019. The ultimate objective of the policy document is to clarify and set minimum expectations for the application of the MFRS to an IFI. In addition, this policy document aims to ensure adequate disclosures by an IFIs in the financial statements to improve comparability for users of financial statements and better facilitate the assessment of an Islamic financial institution's financial position, performance and Shariah compliance. On 14 March 2019, the Kingdom of Saudi Arabia (KSA) General Authority of Zakat and Tax (GAZT) published the rules for computing Zakat by banks and finance companies licensed by the Saudi Arabian Monetary Authority (SAMA). The provisions apply to accounting periods commencing on or after 1 January 2019. The introduction of specific zakat rules such as a policy document of Financial Reporting for Islamic Banking Institutions in Malaysia and zakat by-law for financial activities in Saudi Arabia has proved that the trend of business zakat reporting among IBIs is increasing towards promoting and enhancing the Syariah governance practices.

Business zakat reporting shall disclose zakat rate, zakat base, presentation and disclosure of zakat expense, zakat paid and provision for zakat, recognition and measurement of zakat obligation. The Shariah Advisory Board or Committee plays an important role in monitoring the compliant level of IFIs activities with the Shariah requirements. Business zakat computation is one of the aspects that must be disclosed and presented by IFIs on the face of their financial statements. With regard to the zakat computation disclosure, IFIs are required to disclose the responsibility towards payment of zakat either on the business or shareholders or on behalf of depositors. The disclosure is presented in the annual report under the Report of Shariah committee of IFIs. Zakat reporting disclosures are encouraged among the IFIs as to give clear picture on how business zakat is assessed, what methods used and what is the zakat expense or zakat payable amounts within one accounting period (Noor et al., 2011).

Zakat computation must be disclosed and presented by IFIs on the face of their FSs in meeting one of the requirements of shariah governance framework. The disclosure is vital in further promoting transparency and continuous development of IFIs within the tax and zakat environment. The objective of this study is to identify to what extent of business zakat computation among IFIs are in compliant with reporting requirements and regulations in Malaysia and Saudi Arabia. Several documents have been referred to including a policy document, *Financial Reporting for IBIs* issued by BNM, technical release *Tri-1: Accounting for Zakat on Business* issued by MASB, *MR2215: Specific Zakat Rules for Financial Activities*, *MR2216: New Zakat By-Law*, and *MR2218: Cost of Zakat/Tax on Bonds and Sukuk* issued locally by Ministry of Finance is borne by the Government issued by GZAT in order to review what have been regulated on business zakat matters. A qualitative research approach is used in this study by analyzing IBIs' business zakat reporting which comprised four public listed in Malaysia and Saudi Arabia respectively. By using content analysis method, the annual reports of the IFIs have been systematically analyzed by four main concepts namely recognition of zakat expenses, measurement for assets and liabilities that subject to zakat, presentation and

disclosure of zakat items on Financial Statements both in Malaysia and Saudi Arabia. The gap identified between what has been regulated and what have been reported in the IBIs annual reports is the main motivation for conducting this study.

The paper is arranged as follows. The first section starts with introductory on business zakat computation in Islamic financial institutions. The subsequent section provides a discussion on business zakat accounting and reporting of IFIs both in Malaysia and Saudi Arabia. The next section presented the literature on enhancing governance through regulatory and legal framework and followed by research methodology. Lastly, the paper concludes with some policy implications and suggestions for future studies.

BUSINESS ZAKAT REPORTING OF ISLAMIC BANKING INSTITUTIONS IN MALAYSIA

In Malaysia, zakat administration is under the responsibility of the Islamic Religious Council of each state in the country. There are 14 zakat institutions established in Malaysia with the main aim to administer the collection and distribution of both zakat al-mal and zakat al-fitr. Each state has provided a basic guideline on zakat computation on each type of zakat including business zakat. Zakat on business is one type of zakat al-mal that has been implemented in many states a long time ago. Once the zakat conditions are met, then zakat obligation becomes compulsory to be discharged. Although in recent past there has been an attempt to synchronize the practice of zakat in all states by the Federal Government, somewhat divergent modes of collection and distribution are still a basic phenomenon in Malaysia.

Recently, BNM has issued a new policy document on Financial Reporting for Islamic Banking Institutions (IBIs) in September 2019 with the aim to ensure adequate disclosures by an IFIs in the financial statements. The policy is applicable to licensed Islamic banks, licensed banks and licensed investment banks approved to carry on Islamic banking business; and financial holding companies commencing from 1 January 2019. The policy sets minimum expectations for the application of the MFRS to an Islamic financial institution. In regards with business zakat computation, there are two main requirements outlined in the policy documents namely i) Regulatory Requirements; and ii) Publication Requirement.

Paragraph 11 of a policy document outlined the minimum disclosure requirement which refer specifically to disclosures which form part of the financial statements. As stipulated in paragraph 11.4, in meeting the requirement in paragraph 2.9 of the Shariah Governance Framework for IFIs with respect to the state of compliance with Shariah principles, an IFI shall disclose the Shariah Committee's Report as part of the Annual Report, signed by not less than two Shariah Committee members. The Shariah Committee's Report shall contain the zakat computation information. Besides that, the explanatory notes related to zakat obligation need to be disclosed in the annual financial statements of an Islamic financial institution. However, there is no further discussion on to what extend the zakat computation information shall be disclosed. For this part, this study is referring to Technical Release i-1 Accounting for Zakat for Business that has been implemented since 2006.

Under paragraph 11.6 (b), An IFI shall disclose the recognition and measurement accounting policies particularly on zakat obligation. An IFI's obligation on zakat shall be disclosed in Shariah Committee's Report or which may alternatively be disclosed under the Director's Report. For any IFIs that do not pay zakat must also disclose a statement to that effect in the financial statements. An Islamic financial institution that pays zakat shall disclose additional information regarding:

- (i) its responsibility towards zakat payment either on the business, and/or behalf of the shareholders;

- (ii) method applied in the determination of zakat base e.g. growth method, working capital method; and
- (iii) the beneficiaries of zakat fund e.g. Baitul Mal, the poor, etc;

PUBLICATION REQUIREMENTS

For publication requirements, paragraph 15 has set up for preparing full set of the annual Financial Statements and published the audited annual Financial Statements. As far as zakat information is concerned, items such zakat expense, zakat paid and provision for zakat must be prepared and presented on the face of Financial Statements accordingly. Generally, zakat expense is presented on the face of the Statements of Comprehensive Income. Zakat paid is shown on the Statement of Cash Flows as it involved outflow when zakat is paid; and finally, the disclosure of the provision for zakat liability are presented on Statement of Financial Position.

Presentation and Disclosure

In presenting the business zakat discharged by IFIs, para 15 specified that the amount of zakat assessed for the current period shall be presented as a line item on the face of the income statement. For disclosing the zakat obligation, Para 16 stated that an entity shall disclose in the notes accompanying the financial statements the (a) method used in the determination of zakat base; (b) its responsibility towards payment of zakat on business; and (c) major components of zakat. Further, para 17 described the components of zakat may include: (a) current zakat expense; (b) zakat payment; (c) zakat liability; and (d) any adjustments recognized in the period for zakat of prior periods. The analysis on presentation and disclosure of business zakat obligation is discussed in details in the discussion part.

Zakat base is not discussed in details in the latest policy document of Financial Reporting for IBIs. It is only stated that an Islamic financial institution that pays zakat shall disclose additional information regarding method applied in the determination of zakat base either using growth method or working capital method. Therefore, Technical Release i-1 Accounting for Zakat on Business Issued by Malaysian Accounting Standard Board (MASB) is referred to discuss about determination of zakat base. Zakat base is the net adjusted amount of zakat assets and liabilities used for or derived from business activities (MASB, 2006). There are two methods recommended by JAKIM in determining zakat base. The adjusted working capital method calculates zakat base as net current assets, adjusted for items that do not meet the conditions for zakat assets and liabilities. The adjusted growth method calculates zakat base as owners' equity and long-term liabilities, deducted for property, plant and equipment and non-current assets, and adjusted for items that do not meet the conditions for zakat assets and liabilities as determined by the relevant zakat authorities. Then, zakat on business shall be calculated by multiplying zakat rate with zakat base.

Recognition and Measurement

Paragraph 11.6 specifically stated that an Islamic financial institution shall disclose the recognition and measurement accounting policies on an Islamic financial institution's obligation on zakat, which may alternatively be disclosed under the Director's Report. An Islamic financial institution that does not pay zakat must also disclose a statement to that effect in the financial statements. An Islamic financial institution that pays zakat shall disclose additional information regarding: (i) its responsibility towards zakat payment either on the

business, and/or behalf of the shareholders; (ii) method applied in the determination of zakat base e.g. growth method, working capital method; and (iii) the beneficiaries of zakat fund.

TECHNICAL RELEASE I-1: ACCOUNTING FOR ZAKAT ON BUSINESS ISSUED BY MALAYSIAN ACCOUNTING STANDARD BOARD (MASB)

In 2006, MASB issued a technical release i-1 that deals only with financial reporting issues related to zakat on business. It sets out the overall considerations and provides guidance on the application of generally accepted accounting principles to the recognition, measurement, presentation and disclosure for zakat on business in the financial statements (MASB, 2006). This technical release is applicable to zakat paying entities including IBIs. Since there is no accounting pronouncement issued by the IASB yet, the technical release used AAOIFI entitled Financial Accounting Standard 9, (FAS 9) Zakah as the main base of reference. In addition, the technical release spells out that an entity shall refer to the relevant State Islamic Religious Council or its relevant zakat authorities for any issues relating to zakat on business such as zakat chargeability of an entity, calculation of zakat, determination of zakat base, and zakat eligibility of assets and liabilities.

Recognition

Para 3 of the Tri-1 stated that zakat for the current period shall be recognised when an entity has a current zakat obligation as a result of a zakat assessment and an outflow of resources embodying economic benefits will be required to satisfy the zakat obligation. The amount of zakat assessed shall be recognised as an expense in the period in which it is incurred. When an entity pays zakat on its business assets, such amount of zakat is recognised as an expense and included in the Statements of Profit or Loss and Other Comprehensive Income when it is incurred.

Recognition on assets and liabilities is another important step before zakat is calculated. However, the recognition on current assets which are subject to zakat and recognition on current liabilities that are not subject to zakat is not in uniformity among the business entities (Zahri, 2014). Thus, it leads to different treatment on current assets and current liabilities that subject to zakat. Consequently, the business zakat computation will be misleading and inaccurate. It is suggested that thorough discussions among practitioners and zakat amil are conducted as to achieve a consensus in treating the current assets and current liabilities items.

Measurement

Measurement of assets and liabilities are made on the date zakat is assessed. An entity shall measure zakat assets and liabilities on the same measurement basis as used in the preparation of its financial statements. One of the conditions of business zakat to be fulfilled by an entity is a haul completion. Zakat shall be assessed when the entity has been in operation for at least 12 months. Then, zakat on business shall be calculated by multiplying zakat rate with zakat base. In Malaysia, National Fatwa Council has determined that the rate of zakat on business 2.5% of zakat base. Zakat base is referring to the net adjusted amount of zakat assets and liabilities used for or derived from business activities. An entity is advised to refer to the relevant zakat authorities for further guidance in determining the net adjusted amount of zakat assets and liabilities.

In determining zakat base, an entity may apply one of the following methods as recommended by the Malaysian Islamic Development Department (JAKIM) in *Panduan Zakat*

di Malaysia, 2001:(a) Adjusted Working Capital method; or (b) Adjusted Growth method. The adjusted working capital method calculates zakat base as net current assets, adjusted for items that do not meet the conditions for zakat assets and liabilities. The adjusted growth method calculates zakat base as owners' equity and long-term liabilities, deducted for property, plant and equipment and non-current assets, and adjusted for items that do not meet the conditions for zakat assets and liabilities as determined by the relevant zakat authorities. Adjusted working capital model is accepted as the most closely complied with the Shariah principles and it has been supported by several jurists (al-Qaradhawi, 2000, Rohila & Mohd Zulkifli, 2012, Zahri, H., 2014 & Ahmed et al., 2016).

BUSINESS ZAKAT REPORTING OF ISLAMIC BANKING INSTITUTIONS IN SAUDI ARABIA

The Kingdom of Saudi Arabia is an Islamic country that derives its laws and legislations from the Quran and the tradition of the Prophet (PUBH) according to its Basic Law (Sawmar & Mohammed, 2019). Zakat is regarded as a form of taxation (AlLami, 2015) and the imposition of zakat has long been articulated in its Basic Law. The General Authority of Zakat and Taxes (GZAT) is responsible for collecting the zakat and taxes from taxpayers according to relevant regulations, rules, and instructions in Saudi Arabia.

On 14 March 2019, the General Authority of Zakat and Tax (GAZT) published the rules for computing zakat by banks and finance companies licensed by the Saudi Arabian Monetary Authority (SAMA). The provisions apply to accounting periods commencing on or after 1 January 2019 as to be in line with Saudi 2030 vision and continuous development and transparency in the tax and zakat environment in KSA. GAZT has published three Ministerial Resolutions rules for computing zakat by banks and finance companies:

- MR 2215 by which the specific Zakat rules for financing activities have been released.
- MR 2216 by which new Zakat By-Law has been issued replacing the existing Zakat By-Law.
- MR 2218 has been stipulated the cost of Zakat/tax due on investments in bonds and Sukuk issued locally by the Ministry of Finance “MOF” is borne by the Government.

MR 2215: Specific Zakat Rules for Financing Activity

- Among other definitions, the MR has defined the financing activities as follows: “Banks, and finance companies licensed by the Saudi Arabian Monetary Agency (SAMA).”
- Zakat-payer who carries out financing activities is subject to these Rules and the provisions of the Zakat By-Law except for what has been stated in the Zakat By-Law issued by MR 2216 regarding certain items, including but not limited to: funds subject to Zakat, Deductions from Zakat base unless otherwise stated by the rules ...etc.
- The Zakat base of financing activities is the Zakat-payer’s sources of funds utilized in his Zakat-able assets and this shall be calculated according to certain formula.
- The sources of funds of financing activities that are subject to Zakat are subject to certain limitations.
- According to these rules the values shown in the audited financial statements at the end of the Zakat-able year are in net when calculating the Zakat base for financing activities except for the Shareholders equity.
- The provisions of Zakat rate regarding the length of the Zaka-able year and Zakat base as mentioned in the new Zakat By-Law are also applicable to the financing activity.

- The rules states that lower end and cap for Zakat base in the cases of: recognizing net profit, recognizing only gross profit and in case of not recognizing gross profit.
- In case the Zakat payer subject to these rules is owned by other Zakat payer who is entitled to file consolidate Zakat return according to the new Zakat By-Law, it is not permissible for the Zakat payer subject to these rules to be consolidated with other Zakat payer.

MR 2216: New Zakat By-Law

- On March 14, 2019, His Excellency the Minister of Finance has issued the Ministerial Resolution No. 2216 by which a new Zakat By-Law has been released.
- The new Zakat By-Law is applicable to the fiscal year commencing January 1, 2019 onwards for Zakat payers who are filing their Zakat returns based on accounting records.

The new Zakat By-Law has provided remarkable changes including but not limited to the following:

1. Providing definitions for the general terms used in the By-Law.
2. Listed companies are subject to Zakat if the founders or those who considered as founders are Saudis / GCC nationals.
3. Permanent establishment of the non-resident Saudis or those who are subject to the same treatment as Saudis is subject to Zakat, provided that certain criteria are met, noting that, the By-Law is not stating a definition of the PE.
4. Zakat shall be levied at 2.5% of Zakat-base for respective Hijri year.
5. Where Zakat-payer's fiscal period does not match Hijri year, Zakat shall be calculated on daily basis (i.e., daily rate is 0.00007%), therefore, Zakat rate for Gregorian year (i.e., 365 days) will be 2.578%, unless the Zakat base is the net adjusted profit, Zakat rate is 2.5% regardless the fiscal period's duration.
6. In case of the first fiscal period or transfer of ownership, Zakat rate is prorated to the number of days, noting that Zakat is not applicable to the last fiscal period if it's less than 354 days.
7. Important updates on the Zakat base computation have been added, including but not limited to the following:
 - a. Liabilities are subject to Zakat if they are outstanding or expected to remain outstanding for a period of 354 days.
 - b. If the liabilities are outstanding for a period of 354 days overlapping 2 periods, they should be added to the Zakat base prorated to the days related to each respective period.
 - c. Zakatable year (Al Hawl) for the borrowings is NOT interrupted by any of the following:
 - i. Renewal of the borrowings.
 - ii. Rescheduling the borrowings with the same debtor.
 - iii. Replacing the borrowings with other borrowings / financing instruments to finance the same item/s that were being financed by the replaced borrowings
 - d. Investments outside the Kingdom, other than those for trading purposes, are allowed for deduction from Zakat base if certain criteria are met.
 - e. Any funding to the investee through debt instrument is not allowed for deduction from Zakat base.
 - f. Developed property (real estate) for the sale purpose are deductible from Zakat base subject to certain criteria.
 - g. Statutory deposit for insurance and re-insurance companies are allowed for deduction from Zakat base.

- h. Zakat should be paid for the complete year in which one of the partners deceased or substituted by other shareholders if the activity is continued.
8. The Zakat By-Law has allowed the Governor of GAZT to propose special rules for the computation of Zakat-base, registration, filing, examination and assessment on certain activities, such rules should be approved by the Minister.
9. Also, important updates on the computation of the net adjusted profit for Zakat purposes have been added, including but not limited to the following:
 - a. Prior years' expenses are allowable for deduction, if certain requirements are met.
 - b. It is not allowed to deduct the excess in the value of the materials and services provided by a related party or controlling party who can influence the decisions and actions of the Zakat payer either directly or indirectly, comparing the value of the same transaction/s between independent parties, this is in line with the recent Transfer Pricing By-Law.
 - c. Zakat treatment of the differences in exports between the value of the foreign purchases as per the Zakat return and as per the Customs Bayan of the Zakat payer for the same year after allowing the imports of the fixed assets is stated, in general this may result in additional Zakat burden.
10. GAZT has the right to compute Zakat on estimation basis in several cases including the following among others:
 - a. Failure to file the Zakat return within the statutory period.
 - b. Zakat payer didn't provide the required documents in Arabic including the financial statements within the statutory period.
11. Filing consolidated Zakat return and consolidated financial statements for the entitled Zakat payers is not mandatory.
12. The new Zakat By-Law has clearly stated the statute of limitation as follows:
 - a. 5 years following the statutory filing deadline to correct errors in applying the provisions of the By-Law or related regulations.
 - b. 10 years following the statutory filing deadline to correct mathematical errors, reporting wrong number instead of the correct number and similar errors.
13. The statute of limitations may be extended to 10 years to correct any error (applying the provisions of the By-Law or related regulations or mathematical) in certain cases.
14. At any point of time GAZT has the right to reassess the Zakat based on new correct information within 5 years following the date in which GAZT became aware of such information.
15. Certain provisions regarding the objection (appeal) and appellate procedures are set including the following among others:
 - a. Zakat payer has the right to file an appeal with GAZT against its assessment within 60 days from the date of being notified by the assessment.
 - b. GAZT should conclude on the appeal within 90 days from the appeal filing date.
 - c. In case the appeal has been rejected by GAZT or the 90 days have elapsed without decision from GAZT, it is allowed for the Zakat payer to file a memorandum with the Resolution Committee within 30 days from the of GAZT's notification or the elapse of the 90 days.
 - d. Unlike the current practice, in order for the appeal to be accepted from formality perspective, Zakat payer should pay the part of the disputed amount not less than 10% and not more than 25% of the disputed amount or file a letter of guarantee for at least 50% of the disputed amount.

- e. Considering all the above, the Zakat payer can request to settle the dispute in front of the settlement committee in GAZT at any stage of the dispute review according to the rules organizing the committee's operation.

MR 2218: Cost of Zakat/Tax on Bonds and Sukuk issued locally by Ministry of Finance is borne by the Government

- On March 14, 2019, His Excellency the Minister of Finance has issued the Ministerial Resolution No. 2218 by which the tax and Zakat on investment in the Sukuk and bonds issued locally by the Ministry of Finance in Saudi Riyals is borne by the Government.
- The Resolution has the following 5 main provisions:
 1. The tax and Zakat on investment in the Sukuk and bonds issued locally by the Ministry of Finance in Saudi Riyals shall be borne by the Government.
 2. The tax and Zakat are borne by the Government according to certain criteria. Zakat burden to be borne by the Government is calculated according to specific calculation.
 3. The Income Tax burden to be borne by the Government is calculated according to specific calculation.
 4. This is applicable to the fiscal year commencing on January 1, 2019 onwards, while starting from January 1, 2020 the Government shall not bear the burden associated with any governmental debt instrument except Sukuk issued according to the Sukuk issuance program in Saudi Riyal by the Ministry of Finance.
- Zakat burden to be borne by the Government should be computed through computing two Zakat bases for the Zakat payer, from one of them the Sukuk and bonds will be deducted from while disallowed from the other, then, the difference between both bases will be multiplied by the Zakat rate stipulated in the new Zakat By-Law and accordingly, the outcome is the amount borne by the Government except for specific.

(Source: PwC Middle East, 2019)

ENHANCING GOVERNANCE THROUGH REGULATORY AND LEGAL FRAMEWORK

The need for a sound accounting and reporting system for IFIs has been called since 1990s as to meet the Shariah requirements and be relevant to be practiced. One of the main financial reporting disclosures aimed on zakat obligation to be discharged by IFIs (A. R. Abdul Rahman, 2003). However, there is a low compliance of zakat disclosures among Shariah compliance companies including IFIs. The information disclosed is very limited and some of the explanatory notes are absent. If the business has fulfilled their zakat obligation, then they should disclose the related zakat information on their annual report (Noor et al., 2011).

The requirement for an accounting standard for zakat becomes the main concern nowadays. However, no separate Islamic accounting standard is needed, instead the option need to be within the IFRS framework with the collaboration work of AAOIFI and the IASB (Mohammed et al., 2015). The convergence between Islamic and conventional accounting particularly concerning on zakat reporting will produce complete and transparent financial reporting. Previous studies highlighted that harmonization between zakat assessment and zakat accounting is highly needed (Abdullah Ibrahim, Abdul Kadir, & Syed Adwam Wafa, 2012) and (Mohammed et al., 2015). Ismail, Tohirin, & Ahmad, (2013) added that applying zakat for

business is still a long way to arrive at a consensus or agreement among the stakeholders including Islamic banking sector business.

The computation of zakat on business is still remain the same as per calculation reported by Abu 'Ubayd, (1991). In today's modern business environment, adjustments on certain items of business's assets and liabilities are needed as to arrive at accurate business zakat payable and in compliance with Shariah principle. However, the recognition on current assets which are subject to zakat and recognition on current liabilities that are not subject to zakat is not in uniformity among the business entities (Zahri, 2014). Thus, it leads to different treatment on current assets and current liabilities that subject to zakat. Consequently, the business zakat computation will be misleading and inaccurate. It is suggested that thorough discussions among practitioners and zakat amil are conducted as to achieve a consensus in treating the current assets and current liabilities items.

RESEARCH METHODOLOGY

This study aims to identify to what extent of business zakat computation among IFIs are in compliant with reporting requirements and rules in Malaysia and Saudi Arabia. In Malaysia, a policy document on Financial Reporting for IBIs has been published by BNM in 2019. The document has outlined that in meeting the requirement of the Shariah Governance Framework, IBIs shall disclose the expression of Shariah Committee's opinion on zakat computation under the Shariah Committee's Report or Director's Report. In Saudi Arabia, IBIs is subjected to zakat in accordance with the regulations of the GAZT that shall be disclosed under the companies' income statement. The GAZT published rules for computing Zakat on banks and finance companies licensed by Saudi Arabian Monetary Authority (SAMA). By comparing the zakat computation information disclosed under annual reports with the zakat regulations, the gap between them could be identified and the current state of disclosure of zakat information would be known.

This study employs a qualitative research approach in order to achieve its objectives. Qualitative research contributes to an understanding of the human condition in different contexts and of a perceived situation. The method of content analysis enables the researcher to analyse a bulk of textual information and systematically identify its properties (Sekaran and Bougie, 2016). As for this study, content analysis is the most suitable method employed to analyse the disclosure level of business zakat information. Specifically, content analysis procedure was conducted to identify the business zakat computation method, zakat rate and zakat base, presentation and disclosure of zakat expense, zakat paid and provision for zakat on the annual reports of four IBIs in Malaysia and Saudi Arabia respectively. The four IBIs in Malaysia are Affin Islamic Bank Berhad, Alliance Islamic Bank Berhad, Bank Muamalat Malaysia Berhad and Bank Islam Malaysia Berhad. The four IBIs in Saudi Arabia are Al Rajhi Bank, Alinma Bank, Bank Aljazira, Bank Albilad. These IBIs have been selected in this study because the availability of their annual reports for the year ended 31 December 2020 that were obtained from the companies' websites. The scope of analysis is focused on the business zakat information. The discussion and summary of the findings are presented in the following section.

FINDINGS AND DISCUSSION

Presentation and Disclosure

In terms of presentation and disclosure of zakat base and zakat rate, six out of eight IBIs (62.5%) have shown their zakat base methods and only two IBIs (25%) have disclosed their zakat rate on the face of Financial Statements. Affin Islamic Bank Berhad presented in the summary of its significant accounting policies on zakat base under para (R). It is clearly stated that bank pays zakat based on 2.5775% of the prior year's working capital method, to comply with the principles of Shariah and as approved by the Shariah Committee. The Bank does not pay zakat on behalf of the depositors. In the financial year under review of Alliance Islamic Bank Berhad, pursuant to the Bank's Zakat Policy and Procedures, the Bank has fulfilled its obligation to pay zakat on its business to the eligible recipients. The zakat amount was computed using Growth method. The Bank Muamalat Malaysia Berhad pays zakat on its business to the state zakat authorities based on growth model method as approved by the Shariah Committee. The bank does not pay zakat on behalf of the shareholders or depositors, unless upon request by depositors. In the financial year ended 31 December 2020, the Bank Islam Malaysia Berhad has fulfilled its obligation to pay zakat on its business to state zakat authorities by adopting the growth capital computation method, in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji (JAWHAR). The Bank paid the zakat on the Bank's portion i.e. shareholders' fund as well as other funds received by the Bank exclusive of depositors' fund and Investment Account holders' fund. The computation, payment and distribution of business zakat are in compliance with the Shariah rules and principles. It can be concluded that even though all IBIs under studied have discharged their zakat obligations, the presentation and disclosure of zakat base and zakat rate are still insufficient.

Table 1: Presentation and Disclosure of Zakat Base and Zakat Rate by IBIs in Malaysia and Saudi Arabia

Bank	Malaysia				Saudi Arabia			
Item	Affin Islamic Bank Berhad	Alliance Islamic Bank Berhad	Bank Muamalat Malaysia Berhad	Bank Islam Malaysia Berhad	Al Rajhi Bank	Alinma Bank	Bank Aljazira	Bank Albilad
Zakat base	Working capital method	Growth method	Growth model method	Growth capital method	Zakat is calculated based on income and value of possessions	Not stated	Not stated	Not stated
Zakat rate	2.5775%	2.575%	Not stated	Not stated	Not stated	Not stated	Not stated	Not stated

Source: Annual Reports 2020

Based on analyses of annual report of selected IBIs, most of the institutions have included in the statement stating that the computation of zakat is in compliance with Shariah principles in the Shariah Committee's Report. Most of the IBIs under studies have been fully presented major components of zakat which are zakat expense, zakat payment and zakat liability.

Majority of the IBIs presented the amount of zakat assessed for the current period as a line item which is zakat expense on the face of the Statements of Profit or Loss and Other Comprehensive Income. On their Statements of Cash Flows, zakat paid for the year is disclosed. Disclosure on the provision for zakat liability are also presented on Consolidated Statement of Financial Position. This study provides suggestions for a business zakat reporting standard to provide a comparable and reliable financial information of IBIs. It also promotes transparency and completeness of business zakat assessments for the stakeholders.

The summary of the findings on presentation and disclosure criteria for zakat reporting is shown in the following table:

Table 2: Presentation and Disclosure of Zakat Item in the Financial Statements by IBIs in Malaysia

Bank	Presentation and Disclosure of Zakat Item in the Financial Statements
Affin Islamic Bank Berhad	Zakat expense has been presented on the face of Income Statement for the Financial Year ended 31 December 2020. Zakat paid also shown under the operating activities of Statement of Cash Flows. However, there is no explanatory notes accompanied for zakat expense and zakat paid for that year. Provision for zakat is presented as other liabilities on the face of Statement of Financial Position. There is no further information on the provision for zakat except that mentioning that the Bank does not pay zakat on behalf of the depositors.
Alliance Islamic Bank Berhad	The management of the Bank's zakat is governed by the Bank's Zakat Policy and Procedures. The Bank has fulfilled its obligation to pay zakat on its business to the eligible recipients. The zakat payment does not cover the zakat obligation by the depositors. The bank reported that zakat contribution made is part of its corporate social responsibility as presented under the business review. There are 5 members of Shariah Committee have been appointed by the Bank for the financial year 2019/2020. The zakat payment does not cover the zakat obligation by the depositors. The zakat computation is endorsed by the Shariah Committee. Payment of zakat on business is made to zakat authorities and eligible recipients is recommended and approved by Shariah Committee and the Board of Directors respectively. Zakat expense is not clearly stated under any statement. Perhaps it is treated as other operating expenses. However, zakat paid is presented on the face of Statement of Cash Flows under the operating activities. Provision for zakat is presented as other liabilities on the face of Statement of Financial Position.
Bank Muamalat Malaysia Berhad	Zakat represents business zakat payable by the Group and the Bank to comply with the principles of Shariah and as approved by the Shariah Committee. The Bank only pays zakat on its business and does not pay zakat on behalf of its depositors or shareholders. Zakat expense is clearly stated under Statement of profit or loss. Zakat paid for the year is presented on the face of Statement of Cash Flows. Provision for zakat is presented as other liabilities on the face of Statement of Financial Position. Zakat provision is calculate based on capital growth model method. It is found that there is overprovision of zakat in prior year.

Bank Islam Malaysia Berhad	This represents business zakat that is paid on the Bank's portion. It is an obligatory amount payable by the Group and the Bank to comply with the rules and principles of Shariah. Zakat expense is clearly stated under Statement of profit or loss. Zakat paid for the year is presented on the face of Statement of Cash Flows. Provision for zakat is presented as other liabilities on the face of Statement of Financial Position. Several zakat authorities had mandated distribution of a portion of the zakat paid by the Bank on the based on their agent (wakil) for distribution to eligible beneficiaries (asnaf) as guided by the Business Zakat Guideline.
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Source: Annual Reports 2020

Table 3: Presentation and Disclosure of Zakat Item in the Financial Statements by IBIs in Saudi Arabia

Bank	Disclosure of Zakat Expenses
Al Rajhi Bank	The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the consolidated statement of income. Zakat is not accounted for as income tax, and as such no deferred tax is calculated relating to zakat.
Alinma Bank	The Bank is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat expense is charged to the consolidated statement of income. GAZT has prescribed new criteria for calculation of Zakat effective January 1, 2019. Due accruals have been made for the obligation as at December 31, 2020. Zakat is not accounted for as an income tax and as such no deferred tax is calculated relating to Zakat.
Bank AlJazira	The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat is charged to the consolidated statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to Zakat.
Bank AlBilad	The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat. Profit distribution policy: 1. Zakat due on the Bank's shareholders is calculated and paid by the Bank to the competent authorities. 2. No less than 25% of the remaining net profit shall be transferred after Zakat deduction to the statutory reserve till such reserve becomes at least equal to the Bank's paid-up capital. 3. An amount no less than 5% of the paid-up capital is allocated from the remaining profits, after deducting the statutory reserve and Zakat, is to be distributed to the shareholders, according to the Board's proposal and the decision of the General Assembly. If the remaining profit rate accrued to shareholders is not enough to pay this percentage, the shareholders cannot claim payment during the year or the following years, and the General Assembly is not allowed to decide the distribution

	of a percentage of the profits exceeding the percentage proposed by the Board of Directors. 4. After allocating the amounts mentioned in Clauses 1, 2, and 3, the remaining would be used as per the Board of Directors' recommendation and the General Assembly's decision.
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Source: Annual Reports 2020

CONCLUSION

Recently, zakat accounting and reporting has gained interest of many industries players, zakat institutions and scholars. The most recent and prominent ones is the publication of specific zakat rules namely a policy document of Financial Reporting for Islamic Banking Institutions issued by BNM, Malaysia and zakat by-law for financial activities issued by GZAT, Saudi Arabia. It demonstrates that business zakat reporting has been prioritized by authority bodies in meeting the requirements of shariah governance framework. Moreover, the promulgation of zakat accounting standard is highly needed in assisting IBIs in the preparation and publication of their annual reports. Standards and guidelines are very useful to ensure adequate disclosures, completeness and to enhance the comparability over time and among institutions. At the same time, by having a proper zakat accounting standard, it would encourage IBIs for continuous development and promote towards sustainable business environment locally and internationally.

Overall, even though the presentation and disclosure criteria on zakat base and zakat rate is set as minimum requirements, the business zakat reporting is considered inadequate disclosures and insufficient. Majority of the IBIs were not even met the minimum reporting requirements for presentation and disclosure criteria. This is now a well understood problem as evidenced by the gap identified between what have been regulated and what have been reported. Future study is suggested to rectify the root causes of inadequate disclosures business zakat reporting by public listed IBIs. This finding indicated a contradictory result with previous study on zakat reporting. If the business has fulfilled their zakat obligation, then they should disclose the related zakat information on their annual report (Noor et al., 2011).

In terms of presentation and disclosure criteria for major components of zakat that comprise zakat expense, zakat payment and zakat liability, most of the IBIs under studies have been fully presented all the major components of zakat items on the face of their Financial Statements. They have presented the amount of zakat assessed for the current period as a line item which is zakat expense on the face of the Statements of Profit or Loss and Other Comprehensive Income. These findings have answered the objectives of this study which is to know the current state of business zakat reporting are in compliant with reporting requirements and regulations.

It is a high time for accounting standard for zakat on business being developed and practiced by businesses especially IBIs. In order for IFIs to perform the role effectively, accounting standards must be complied with by IFIs (Abdul Rahman, 2010). With rapid growth of IFIs all over the world, the convergence between Shariah principles and accounting is proved to be useful in developing objective, transparent and complete accounting standard for zakat on business. In addition, accounting standard would improve the quality of zakat reporting disclosure in the financial statements and improve the comparability of reported financial information on zakat of the IFIs. By providing complete and transparent of business zakat reporting to public, it would be able to encourage more businesses to fulfil their zakat obligations. Previous studies have documented that law enforcement is critical factor in

determining compliance behaviour of zakat (Bin-nashwan et al., 2019) (Mohd Rahim & Che Yahya, 2015).

As far as Malaysia is concerned, the efforts towards establishing a proper zakat law are still progressing. As an Islamic country, it is high time to make it compulsory to impose zakat law on business to all Muslim business owners in Malaysia. By introducing zakat law, zakat on business can be imposed and assessed by using methods that suit to their businesses' principal activities and characteristics. Enforcement of zakat law should no longer be delayed. This argument is on the basis that zakat on business is an obligatory and not an option. Overall, the disclosure practices on business zakat computation by IFIs in Malaysia and Saudi Arabia are still at minimal level. The disclosure of zakat reporting should be promoting to Muslim business environment. It gives value-added to the business entities by enhancing the transparency of the entities, producing a good governance and strengthening the shariah capabilities and engagement through zakat.

It is interesting to note that the new zakat by-law issued by GAZT has allowed the organization to estimate business zakat computation for businesses when the law is implementing commencing from 1 January 2019. The estimation is made for businesses that failed to file the zakat return within the statutory period or in a situation whereby zakat payer did not provide the required documents in Arabic including the financial statements within the statutory period. As such, zakat payable amount that has been estimated will be the responsibility of the business owners to discharge. This has been the lesson learned especially for zakat institutions in Malaysia. It is possible for zakat institutions to make an estimation on business zakat payable once business entities have fulfilled all the conditions for business zakat. By doing so, collection of zakat from business could be increased and more businesses will come forward to perform their zakat obligation voluntarily.

This study concludes with some recommendations in order to improve the quality of business zakat reporting among IBIs. Accounting standard should be developed within the international financial reporting conceptual framework and must be in line with shariah requirements. There is no need for stand-alone Islamic accounting standard in order to enable the standard being applied globally. The presentation, disclosure, measurement and recognition criteria have to be maintained with additional requirements to full disclosure for paying zakat entities. This is crucial towards promoting best practices and highest efficiency of IBIs.

For future research, it is suggested that face-to-face interviews are conducted among the Shariah committee members, preparers or officers who are highly involved in preparing financial statements of IFIs. This aims for identifying the gap between zakat regulatory framework and current zakat reporting practices among IBIs in Malaysia and Saudi Arabia. With more adequate presentation and disclosures, it would be able to better facilitate the assessment and computation for business zakat accurately and fairly.

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