
A Critical Investigation of the Impact of Religiosity, Perception towards Facility, Service Quality, and Tax Rebate on Compliance Behavior of Income *Zakat*

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Abstract: Despite a religious decree on the compulsory position of *zakat* on employment income in Malaysia, many Muslims still fail to fulfill their religious obligation to pay income *zakat*. The Office of the Secretary of the State of Kedah (SUK) has directed Muslim public servants who have fulfilled the conditions of perfect title, *nisab*, and *hawl* to pay *zakat* to Kedah State Zakat Board through a monthly salary deduction scheme. However, some Muslim public educators working in Kedah are not compliant with the directive. Furthermore, the studies so far have provided mixed and inconclusive evidence regarding the factors that determine the income *zakat* compliance behavior. Therefore, this study critically investigates the impact of religiosity, perception towards facility, service quality, and tax rebate on compliance behavior of income *zakat* in Kedah, Malaysia. This study employs a quantitative method using questionnaires to determine significant determinants of compliance behavior of income *zakat*. This study provides empirical evidence that religiosity, perception towards facility, service quality, and tax rebate are significant determinants of compliance behavior of income *zakat* in Kedah. This study strives to provide evidence that could be used as guidance for suitable policy and measures by Kedah State Zakat Board to improve *zakat* collection in the future.

Keywords: Religiosity, Facility, Service Quality, Compliance Behavior, *Zakat*, Kedah.

INTRODUCTION

The National Fatwa Council agreed upon a consensus on 22 June 1997 that income *zakat* is compulsory for every Muslim individual who has fulfilled the conditions of perfect title, *nisab*, and *hawl* (Abdul Aziz & Abdullah, 2013). However, *zakat* collection in Malaysia is still low, including income *zakat*. While most of the employees paid income tax which is a legal

obligation, they did not comply with *zakat* payment which is a religious obligation (Saad et al. (2010); Bidin et al. (2009); Bidin & Md Idris (2009).

Kedah, one of the states in Malaysia, gazette the compulsory *zakat* employment income on 19 April 1986 under section 38(2) of the Kedah Islamic Law of Administration 1962 of the Government Bill No. 146 (Tarimin, 1995). Yet, a study by Haji-Othman et al. (2019) provides evidence that only 58 percent of Muslim workers paid salary *zakat* in Kedah. Despite a religious decree on the compulsory position of *zakat* on employment income in Malaysia, many Muslims still fail to fulfill their religious obligation to pay.

Even though employment income *zakat* contributed the highest percentage in the overall *zakat* collection in Malaysia (Wahid et al. 2006), *zakat* on employment income was still an issue. The issue is a low collection amongst Muslims eligible to pay income *zakat* even though a religious decree making it compulsory to pay *zakat* on employment income has been long issued (Haji-Othman, Cheumar, Abdullah, & Dorloh, 2020).

As of April 2016, out of 13,089 Muslim public educators, the total number who paid *zakat* through monthly salary deduction to KSZB was 9,794 (Haji-Othman, 2017; Abdul Hadi, 2016). It means that 74.83 percent of them paid *zakat* through a monthly salary deduction. This data implies that the percentage of Muslim public educators who paid *zakat* through monthly salary deduction is high compared to the percentage of Muslim federal staff in Kedah. The Office of the Secretary of the State of Kedah (SUK) has directed individual Muslim public servants, who have fulfilled the conditions of perfect title, *nisab*, and *hawl*, to pay *zakat* to Kedah State Zakat Board through a monthly salary deduction scheme. However, the data indicates that 25.17 percent of Muslim public educators working in Kedah are not compliant with the directive. Studies on *zakat* compliance have shown mixed and inconclusive evidence regarding the determinants of income *zakat* compliance. Therefore, this study critically investigates the impact of religiosity, perception towards facility, service quality, and tax rebate on compliance behavior of income *zakat* in Kedah, Malaysia.

The scope of this research consists of Muslim public educators in Kedah. The selection of Muslim public secondary school teachers is because they are part of public employees and share common characteristics in that they are involved in education. Also, the number of income *zakat* payers among public employees in Kedah is still relatively low.

LITERATURE REVIEW

Religiosity and Compliance Behavior

There have been limited studies that have examined the influence of religiosity on *zakat* compliance. Haji-Othman, Sheh Yusuff, et al. (2018) proposed that religiosity, subjective norms, and perceived behavioral control influence compliance behavior.

Md Idris et al. (2012) constructed quantitative Islamic religiosity measurement from an Islamic perspective. The study examined whether the Islamic religiosity measurement plays a significant role in the compliance behavior of *zakat*. The study used questionnaires as instruments with a sample size of 227. The study concluded that the measurement of the component of religiosity

has four dimensions. This study found that highly religious business owners are also more likely to comply with zakat law and that religiosity plays a vital role in zakat compliance behavior.

Haji-Othman, Sheh Yusuff, et al. (2017) provided evidence that Islamic religiosity has a significant influence on compliance behavior to pay employment income zakat. Haji-Othman, Alwi, et al. (2017) revealed that three variables explain the compliance behavior of income zakat: religiosity, subjective norms, and perceived behavioral control.

Islamic religiosity, however, did not show any significant influence on zakat compliance (Mohamed Sareye Farah et al., 2017). However, Zainol (2008) found that religiosity was an important factor that relates positively to zakat compliance behavioral intention.

Perception towards Facility and Compliance Behavior

Hairunnizam, Sanep, & Mohd Ali (2007) explored factors that motivated the payment of income zakat in Malaysia and attested that facilities such as paying *zakat* through salary deduction were significant factors that influenced *zakat* payment compliance. Ram Al Jaffri (2010) supported this finding when it revealed that the *zakat* payment facility had a significant positive relationship with the intention to comply with *zakat* payment.

Perception towards Service Quality and Compliance Behavior

Perception towards service quality refers to people's perception of service quality offered by institutions to perform a particular behavior. It relates to consumer's expectations of actual service performance (Parasuraman, Zeithaml, & Berry, 1985). In the context of *zakat*, it refers to people's perception of the quality of service offered by *zakat* institutions to facilitate *zakat* payers to pay *zakat*. Perception towards service quality is among the measurements that have been used in many studies on compliance behavior of tax and *zakat*. Among the studies that have examined perception towards service quality on compliance behavior include Kamil (2002), Amin & Isa (2008), Zainol (2008), Ram Al Jaffri (2010), Alm, Jones, Cherry, & Mckee (2011), Alabede, James O. (2011), Alabede, Zaimah, & Kamil (2011) and Alm, Cherry, Jones, & McKee (2010).

Perceived service tax quality significantly influences tax compliance behavior (Alabede, Zainol Affrin, et al., 2011). Alabede, James O, (2011) and Alabede et al., (2011) used perceived service tax quality as one of the variables explaining low tax compliance in Nigeria. The studies verified that perceived service tax quality played a significant role in influencing tax compliance behavior. Correspondingly, though in a different environment, Amin & Isa (2008) showed that service quality influenced customers' satisfaction on Islamic banking in Malaysia.

In the *zakat* context, Kamil (2002) verified that service quality was among the significant variables influencing *zakat* payment among public servants in Kedah. Zainol (2008) supported this finding when it revealed that service quality was a significant factor in *zakat* compliance behavioral intention.

Tax Rebate and Compliance Behavior

Several studies have demonstrated that tax rebates influenced particular behavior. Agarwal, Liu, & Souleles (2007) attested that consumers in the United States at first saved some tax rebates by increasing their credit card payments and decreasing debt. However, they subsequently increased their spending in response to the tax rebate. Bertrand & Morse (2009) supported the finding when they discovered a persistent decline in borrowing following the receipt of the tax rebate. Agarwal, Liu, & Souleles (2007) revealed that consumers increased their spending in response to the tax rebate. Broda & Parker (2008) verified that low-income and low-asset households increased their spending at nearly double the average household rate and supported this finding. Broda & Parker (2008) also showed that shoppers spent most of their rebates in hypermarkets. Epley, Mak, & Idson (2006) supported this evidence, which substantiated that tax rebates increased consumer spending.

Thus far, there is limited literature on the role of tax rebates on the compliance behavior of *zakat*. In the context of the compliance behavior of *zakat*, Ram Al Jaffri (2010) tested the compliance behavior of business *zakat* and evidenced that tax rebate was one of the determinants which influenced intention, which in turn influenced compliance behavior of business *zakat*.

RESEARCH METHOD

This study uses a quantitative approach using questionnaires to answer the research objective. This quantitative method of this study can be classified as causal because this method examines the cause-and-effect relationship between variables in the theoretical framework of the study.

This study uses a survey method using questionnaires to collect data. This study considers this method as suitable because units of analysis (respondents) scatter around the state of Kedah. The sampling frame of this study consists of 13,089 Muslim public educators in Kedah. Based on the Table of Krejcie & Morgan (1970), this study selects a sample size of 372. This study chooses a stratified random sampling procedure as sampling procedure because the respondents scatter around the state of Kedah, and it is less costly and more manageable.

Theoretical Framework of the Study

The theoretical framework is adapted and adopted from Ajzen (1991) and based on deductive reasoning. There are four independent variables: religiosity, perception towards the facility, perception towards service quality, and tax rebate, while compliance behavior is the dependent variable.

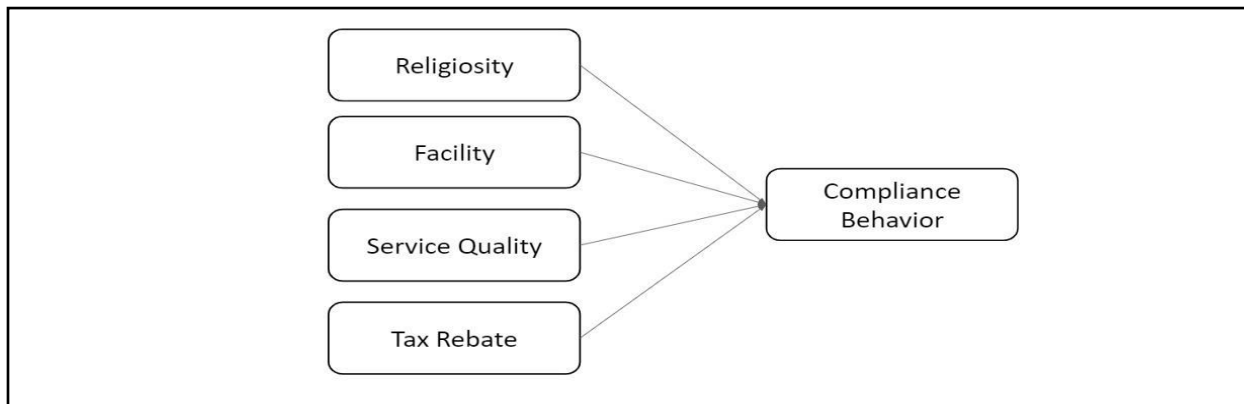


Figure 1. Theoretical Framework of the Study

Data Collection

This study uses a survey method using questionnaires to collect data. This method is considered suitable because units of analysis (respondents) scatter around the state of Kedah. This study population consists of public educators who are eligible to pay income *zakat* located in Kedah.

Data Analysis

Data analysis of the study involves several stages. The first stage consists of assessing the measurement model to identify the underlying structure of the variables involved (Hair, Hult, Ringle, & Sarstedt, 2014). In the second stage, this study performs the structural model assessment; that is, the data is run using the structural equation model (SEM). This study conducts the measurement model using the validity factor analysis to validate the measurement scale (Hair et al., 2014). Variables that pass this analysis test are then applied to structural model analysis to examine the relationships between the endogenous variables and the exogenous variables of the study.

FINDINGS AND DISCUSSIONS

Table 1 reveals the finding of the study based on 372 randomly selected public educators in the state of Kedah using structural equation modeling SMART PLS Version 3.

Table 1. The Effects of Religiosity, Perception towards Facility, Perception towards Service Quality, and Tax Rebate on Compliance Behavior of Income *Zakat*

Path Relationship	Coefficient	t- Statistics	P Values
Religiosity -> Compliance Behavior	0.239	6.438	0.000
Facility -> Compliance Behavior	0.299	5.846	0.000
Service Quality -> Compliance Behavior	0.074	1.523	0.128

Tax Rebate -> Compliance Behavior	0.168	3.363	0.001
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This study provides empirical evidence that Islamic religiosity plays a significant role in influencing the compliance behavior of income *zakat* in Kedah. This finding implies that Islamic religiosity is one of the most significant determinants determining whether Muslim educators pay income *zakat* or not to Kedah State Zakat Board (KSZB). The higher the religiosity of the Muslim educators, the more likely they will pay income *zakat*. The law and law enforcement regarding the payment of income *zakat* in Kedah is still low. Therefore, KSZB still depends on the religiosity factor and employs persuasion using religious sentiments to encourage *zakat* payers to perform their duty of paying income *zakat*.

In addition, this study revealed that perception towards facility is a significant determinant of compliance behavior of income *zakat*. This study confirms Kamil (2002), Zainol (2008), and Ram Al Jaffri (2010), who proved that the facility had a significant positive relationship with the intention to pay income *zakat*. This finding indicates that perception towards a facility that improves their perceived easiness influences whether they pay income *zakat* or not.

However, this study also revealed that perception towards service quality is not a significant determinant of compliance behavior of income *zakat*. This finding implies that perception of service quality is not significant to convince the respondents to pay income *zakat*. This finding contradicts Alabede, Zaimah, & Kamil (2011b), Alabede, Zaimah, & Kamil (2011a), and Alabede, James (2011), who found that perceived service quality played a significant role in influencing tax compliance behavior. This study also opposes Amin & Isa (2008), who provided evidence that service quality influenced customers' satisfaction with Islamic banking in Malaysia. This finding implies that perception towards facility is more important to public educators than perception towards service quality in influencing their decision to pay income *zakat*. The implication is that *zakat* institutions should plan, strategize, and implement efforts to improve the facility to attract Muslims to pay income *zakat* in the future.

This research also indicates that tax rebate is a significant determinant of compliance behavior of income *zakat* in Kedah. The tax rebate given by the government encourages Muslim educators to pay income *zakat* since their disposable income remains the same after paying income *zakat* due to the tax rebate.

CONCLUSION

Despite a religious decree on the compulsory position of *zakat* on employment income in Malaysia, many Muslims still fail to fulfill their religious obligation to pay. Even though employment income *zakat* contributed the highest percentage in the overall *zakat* collection in Malaysia, income *zakat* collection was still low. The issue is a low collection amongst Muslims eligible to pay income *zakat* even though a religious decree making it compulsory to pay *zakat* on employment income has been long issued. The issue which arises is that *zakat* collection, including income *zakat*, is still low, which hinders the effectiveness of *zakat* in playing a more significant role in the state of Kedah. This study critically investigates the impact of religiosity,

perception towards facility, service quality, and tax rebate on compliance behavior of income *zakat* in Kedah, Malaysia.

This study provides empirical evidence that religiosity, perception towards the facility, and tax rebate are significant determinants of compliance behavior of income *zakat* in Kedah. However, this study reveals that perception towards service quality is not a significant influence on paying income *zakat*. The findings of this study are based on the compliance behavior of public educators in Kedah, where Kedah gazetted the obligation of paying *zakat*. Therefore, future studies should expand the horizon by examining other types of employment income, such as private employment income or self-employment income. Furthermore, future studies should explore other states that have not yet gazetted the *zakat* obligations. Nevertheless, this study is hoped to provide evidence that could guide suitable policy and actions by the Kedah State Zakat Board to improve *zakat* collection strategies in the future.

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