



# PROCEEDINGS

## The 4<sup>th</sup> International Conference on Sustainable Innovation (ICoSI) 2020

Cutting Edge Innovations for Sustainable Development Goals

Universitas Muhammadiyah Yogyakarta (Indonesia)

October 13 - 14 2020

<https://icosi.umy.ac.id/>

## Focal Conferences



- ✔ (ICPU) The 2nd International Conference on Pharmaceutical Updates
- ✔ (ICOMS) The 6th International Conference on Management Sciences
- ✔ (ICLAS) The 9th International Conference on Law and Society
- ✔ (ICMHS) The 4th International Conference Medical and Health Sciences
- ✔ (ICAF) The 6th International Conference for Accounting and Finance
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- ✔ (ICONURS) The 2nd International Conference on Nursing
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- ✔ (IConARD) International Conference on Agribusiness and Rural Development
- ✔ (ISHERSS) The 2nd International Symposium on Social Humanities Education and Religious Sciences
- ✔ (ICONPO) The 10th International Conference on Public Organization
- ✔ (DREAM) The 5th Dental Research and Exhibition Meeting
- ✔ (ICHA) The 5th International Conference on Hospital Administration
- ✔ (ICOSA) The 3rd International Conference on Sustainable Agriculture





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## Preface by the Chairperson of the 4<sup>th</sup> ICoSI 2020



**Dr. Yeni Rosilawati, S.IP. S.E., MM.**

Assalamu'alaikum Wr. Wb.

All praise is due to Allah, the Almighty, on whom we depend for sustenance and guidance. Prayers and peace be upon our Prophet, Muhammad SAW, his family and all of his companions.

On behalf of the organizing committee, it is my pleasure and privilege to welcome the honourable guests, distinguished keynote & invited speakers, and all the participants.

With the main theme of “Cutting-Edge Innovations on Sustainable Development Goals (SDGs)”, the 4<sup>th</sup> International Conference on Sustainable Innovation (ICoSI) 2020 serves as a forum to facilitate scholars, policy makers, practitioners, and other interested parties at all levels from Indonesia and abroad to present their novel ideas, promote cutting-edge research, and to expand collaboration network. The conference has about 1373 participants participating from more than 8 countries 4 continents all over the world, making this conference a truly international conference in spirit.

This multidisciplinary conference was first held in 2012 and has undertaken various changes and adopted to the current technological trends of our education system. From having this conference with just 175 participants back in 2012 we have come a long way in making the conference a huge success with more than 1373 participants participating in this two-day conference.

Formerly, this conference consisted of only 9 (nine) focal conferences. This year, there are 14 focal conferences from various disciplines, namely: 1) The 2<sup>nd</sup> International Conference on Pharmaceutical Updates (ICPU), 2) The 6<sup>th</sup> International Conference on Management Sciences

(ICoMS), 3) The 9<sup>th</sup> International Conference on Law and Society (ICLAS), 4) The 4<sup>th</sup> International Conference Medical and Health Sciences (ICMHS), 5) The 6<sup>th</sup> International Conference for Accounting and Finance (ICAF), 6) The 2<sup>nd</sup> International Language and Education Conference (ILEC), 7) The 2<sup>nd</sup> International Conference on Nursing (ICONURS), 8) The International Conference on Information Technology, Advanced Mechanical and Electrical Engineering (ICITAMEE), 9) The 2<sup>nd</sup> International Conference of Agribusiness and Rural Development (IConARD), 10) The 10<sup>th</sup> International Conference on Public Organization (ICONPO), 11) The 2<sup>nd</sup> International Symposium on Social Humanities Education and Religious Sciences (ISHERSS), 12) The 5<sup>th</sup> Dental Research and Exhibition Meeting (DREAM), 13) The International Conference on Hospital Administration (ICHA), and 14) The 3<sup>rd</sup> International Conference on Sustainable Agriculture (ICoSA).

Accordingly, We are proud to announce that this year, the 4<sup>th</sup> ICoSI 2020 breaks the Museum Rekor-Dunia Indonesia (MURI) record as the Virtual Multidisciplinary Conference with the Largest Number of Area of Fields in Indonesia

In addition, this year, this conference holds special value since this is the first conference in the history of our university where the entire conference is taking place remotely on a digital platform through the use of advance technologies due to the Covid-19 Pandemic.

I would take this opportunity to express my highest respect to the Rector of Universitas Muhammadiyah Yogyakarta, Dr. Gunawan Budiyanto who gave approval and ensured the maximal support from all the faculty members of Universitas Muhammadiyah Yogyakarta (UMY) that made this event a big success. In addition, my appreciation goes to all the support teams who have provided their valuable support and advice from planning, designing and executing the program.

Let me conclude my speech by encouraging the delegates to participate with an increasing number in all the activities and discussions through the digital platforms for the next two days. I wish everyone a successful, safe, and fruitful conference.

Thank you!

Wassalamu'alaikum Wr. Wb.

Yogyakarta, Indonesia, 14 October 2020





## Welcoming Remarks by the Rector of Universitas Muhammadiyah Yogyakarta



**Assoc. Prof. Dr. Gunawan Budiyanto**

Innovation is the beginning of the development of technology, and technology is a development machine that is expected to provide benefits to humans and provide the smallest possible impact on environmental quality. In the concept of sustainable development, development must improve the quality of human life without causing ecological damage and maintain the carrying capacity of natural resources.

International Conference on Sustainable Innovation (ICoSI) is an international conference which is an annual conference held by the University of Muhammadiyah Yogyakarta (UMY), Indonesia. In 2020 this raises the issue of "Cutting-Edge Innovations on Sustainable Development Goals." Therefore, on behalf of all UMY academics, I would like to congratulate you on joining the conference, hoping that during the Covid-19 Pandemic, we can still provide suggestions and frameworks for achieving sustainable development goals.

# About The 4<sup>th</sup> International Conference on Sustainable Innovation (ICoSI) 2020

## *Cutting Edge Innovations for Sustainable Development Goals*

The 2030 Agenda for Sustainable Development is enacted by the United Nations as a shared blueprint for peace and prosperity for people and the planet, now and into the future. It consists of strategies to improve health and education, reduce inequality, and spur economic growth while also conserving natures by 2030.

This year, however, at the first one-third of its timeline, the SDG Reports shows that the outbreak of COVID-19 did hinder the achievement, or at least decelerate the progress of achieving the 17 goals. In fact, according to the report, “some number of people suffering from food insecurity was on the rise and dramatic levels of inequality persisted in all regions. Change was still not happening at the speed or scale required”, accordingly.

Therefore, in this event of pandemic, the quantity and quality of research, innovation, and more importantly multi-disciplinary collaboration are indispensable. Furthermore, there needs to be clear ends of those works. That is how those research are applicable and benefits directly to the society. That is how those research is incorporated as the drivers of policy making, and used practically in the society. Hence, the stakeholders especially the triple helix of higher education institution, government, and industry must be re-comprehended and supported to reach the common goal of the SGD.

International Conference on Sustainable Innovation (ICoSI) has been essentially attempting to strengthen this regard since its first establishment. One of the goals of ICoSI is to provide primarily a platform where scholars, practitioners, and government could grasp the development and trends of research. Hopefully, meeting these actors altogether would result in stronger collaboration, sophisticated and advantageous research, and brighter ideas for further research. Based on these reasoning, this year, the 4th ICoSI 2020 UMY is themed ‘Cutting-edge Innovations for Sustainable Development Goals’.

Improving from last year conference which brought nine focal conference, this year ICoSI 2020 UMY brings 14 disciplines, from social sciences, natural sciences, and humanities. ICoSI 2020 received as much as 1005 papers. The paper works submitted in ICoSI 2020 UMY will be published in Atlantis Proceedings, IOP Proceedings, National/International Journals, and ICoSI ISBN-indexed Proceedings.

Nevertheless, ICoSI believes that publication is only the beginning of research dissemination. The publications will enhance the chance of the research known by wider audience, and then used, applied, and incorporated at either system, institutional, or personal level of human lives.



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# TRACK ECONOMICS, LAW, EDUCATION, SOCIAL, AND HUMANITIES



# A Comparative Analysis on the Recognition of Zakat in the Taxation Systems of Malaysia and Indonesia

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## ABSTRACT

Zakat is a tool under the ijtimaie sector apart from waqf, sadaqah and infaq that can be used to share wealth among the Muslims. To a Muslim, paying zakat is equally important as paying tax as a good citizen since both produce positive impacts to the societies. In modern days, the zakat and taxation systems run in parallel in many countries with huge Muslims populations or even with low number of Muslims population. This practice can be seen in countries like Malaysia, Indonesia and Singapore. This practice poses the question, whether or not the Muslims are being burdened by double payment in the form of zakat and taxation. Despite the importance of zakat and taxation, many studies in zakat have not attempted to discover how zakat is being recognized in the tax systems. In view of the foregoing, this article discusses how zakat is being recognized in the taxation systems of Malaysia and Indonesia. The analysis indicates that both taxation systems in Malaysia and Indonesia recognize the importance of zakat. However, the treatment of zakat is different in Malaysia and Indonesia which produces different tax impact to the taxpayers who at the same time paying zakat. The findings are beneficial to the taxpayers in both countries in understanding the tax treatment of zakat in taxation especially if they are interested to generate income in Malaysia or Indonesia.

**Keywords:** Zakat, Taxation, Malaysia, Indonesia, Comparative analysis

## INTRODUCTION

In forming an Islamic economic system, there are three aspects which have equal importance which are siasi (government sector), ijtimaie (welfare sector) and tijari (commercial sector). Zakat for example, is a tool under the ijtimaie sector apart from waqf, sadaqah and infaq that can be used to share wealth among the Muslims or public. The sharing of wealth in Islam is important to ensure justice in distribution of income and encourages Muslims to practise taqwa to Allah. Taqwa which is the central concept in Islam, leads Muslims to have a balanced life between the present life (al dunya) and the hereafter.

Meanwhile, paying zakat is equally important as paying tax. Both produce positive impacts to the societies. The funds from zakat and tax are used to develop the country and enhance the quality of life of the public. As a Muslim, it is compulsory to pay zakat once he or she meets certain conditions. Indeed paying zakat is one of the five Islamic pillars. As a citizen, Muslims also have to comply with the taxation law legalized by the government. In Islam, Muslims are required to comply with the law of the country unless it is against the teaching of Islam. In the issue of collecting taxes, classical and contemporary Muslim scholars such as Ibnu Khaldun and Sheikh Yusuf al-Qardawi have discussed the fatwa on collecting taxes which permit the collection

of taxes by the government with certain stipulated conditions [3].

Therefore, paying zakat and taxations are not only means to translate the faith in Islam and being a good citizen who comply with the law, but also because of the impact the funds from zakat and taxation could help to build the society. For instance, Lembaga Zakat Selangor in Malaysia has distributed more than RM230 Millions to assist the asnaf in the state of Selangor during the Restricted Movement Order (RMO) due to Covid-19 pandemic recently[5].

In modern days, the zakat and taxation systems run in parallel in many countries with huge Muslims populations or even with low number of Muslims population. This practice can be seen in countries like Malaysia, Indonesia and Singapore. Due to the importance of zakat and taxation, this paper discusses how zakat is being recognized in the taxation systems of some selected Southeast Asian countries, namely Malaysia and Indonesia.

To further understand the recognition of zakat in the taxation systems of Malaysia and Indonesia, this paper presents the zakat systems in these two countries before discussing the relevant tax laws which recognize zakat in the respective countries. The final section concludes the discussions.



## ZAKAT IN ISLAM

### *The Position of Zakat in Islam*

Zakat is an obligation to Muslims who have fulfilled the conditions to pay. It is the 3<sup>rd</sup> from the 5 pillars of Islam. It is mentioned in the Holy Quran together with performing salah. For instance, Allah s.w.t stated in the Holy Quran (2:43), “And establish prayer and give zakat and bow with those who bow [in worship and obedience]” [1]. The hadith also emphasizes the importance of paying zakat. It is always perceived as an act of worship that has important effects to the society. Literally, zakat means cleansing or purifying of something from dirt or filth, praise, growth and increase. Theologically, it is spiritual purification resulting from paying zakat and legally, zakat means transfers of ownership from specific wealth to specific individual (s) under specific conditions [3].

Zakat aims to translate our worship to Allah for all His bounties to mankind by assisting the poor and the needy and act as a mechanism to distribute wealth. It purifies one’s heart and self from being stingy.

### *Types of Zakat*

Basically, there are two types of zakat, which are zakat Fitr and zakat on mal (wealth). Zakat Fitr is due from the starting of Ramadhan and ends before the Eid’ fitr prayer. Zakat on wealth is imposed on wealth that a person has and due based on the types of wealth. For instance, certain types of wealth may not be subject to haul to be payable such as zakat on agricultural produce. The zakat on wealth can also be divided into traditional sources of wealth and new sources of wealth. Zakat on traditional source of wealth can be imposed from agricultural produce, reared animals, business and gold and silver. The new type of wealth that can be imposed zakat comes from various forms of wealth, depending on the consensus of the contemporary Islamic scholars such as zakat on employment income, professional income and rental income [3].

### *Categories of Beneficiaries*

There are 8 beneficiaries of zakat in Islam. They are the poor (masakin), the needy (fuqara’), individuals or organizations which have the authority and responsible to collect zakat (Amil), people who become Muslims (mualaf), to free the captives (ar-riqab), for the purpose of helping the wayfarer (ibnu sabil), to assist those in debt (Gharimin) and for deeds accomplished in the cause of Allah s.w.t. (fisabilillah) [3].

### *Methods to Determine Zakat*

According to [3], there are a few methods to determine zakat. The first method is Qiyas. It is a method that will be used by the Islamic jurists and scholars in determining the shariah practice if the subject /case is not

mentioned in the Holy Al-Quran or Hadith. Qiyas is a practice to imply a subject with an existing shariah treatment. The use of Qiyas in zakat is encouraged and it has been widely practised by the Islamic jurists. For instance, employment income is subject to zakat because it is similar to gold and silver. Therefore, the rate and the haul are equivalent to the rate and haul of zakat on gold and silver.

The second method is wealth which was taken from several hadiths. For instance, as narrated by Mu’az bin Jabal, the holy Prophet s.a.w had instructed his amil to inform the Yemen people that zakat must be paid by the wealthy people to be distributed to the poor and the needy. Due to this, there is an opinion that says zakat is payable on all wealth, irrespective of the physical form of the wealth.

The third method is al-nama binafsih. This is a method to zakat wealth based on the concept of “productive wealth expansion”. Those wealth or property which could in nature expand or grow by themselves for instance the agricultural produce such as paddy will fall under this category of wealth. There is no haul condition to be fulfilled for this type of wealth. Zakat is payable once the wealth is gained and the quantity is enough to meet the nisab. Imam Nawawi and some Islamic scholars such as Ibn Abbas, Ibn Mas’ud and Muawiyah for instance suggest that zakat on employment should follow the method of al-nama binafsih. Thus, according to them zakat on employment income is payable on the day it is received provided that it meets the nisab. The zakat is imposed based on the method it is gained and not the type of wealth (even though the wealth is received in the form of money).

The next method is al-mal al-nami. This is another method to zakat wealth based on the concept of “productive wealth expansion”. However, it is imposed on wealth which is gained from property or wealth which could not grow by itself for instance like business wealth. Therefore, zakat is only payable when it meets the haul and the nisab. For instance, zakat on business income will only become payable if it meets the haul and nisab.

The last method is the method that favour to the poor and needy. This principle is being used by the scholars if there are two arguments from two different schools of thought to pay zakat on the same wealth at the same time. Therefore, the approach is to choose the method that will favour the poor and the needy. For instance, when there is an argument due to similarity or ambiguity between two wealth such as should the rate of zakat for money be based on qiyas on gold or qiyas on silver, then the method that favour the poor and the needy will be chosen.

## THE ZAKAT SYSTEMS IN MALAYSIA AND INDONESIA

Southeast Asian countries consist of 11 countries of which Malaysia and Indonesia are members to the Association of Southeast Asian Nations (ASEAN). This regional association is established to promote economic, political and security cooperation among its members. Malaysia and Indonesia are chosen in this discussion to represent emerging economics in the ASEAN with majority Muslim populations. Indeed, Indonesia has the largest number of Muslim populations in the world. The differences and similarities among these two countries provide an interesting and worthwhile platform for discussions.

### *The Zakat System in Malaysia*

Malaysia consists of 14 states, is a multi-ethnic and multi-religious country of which Muslims formed the majority of the population. The country obtained its independence from the British in 1957 and formed the Federation of Malaysia in 1963 including Singapore. In 1965, Singapore left the federation and established its own nation. The influence of British administration still exists in the current Malaysian administration, for instance, the separation of power on matters related to Islam and Malay culture from the federal government. Therefore, matters such as zakat is governed by the Islamic Council of each state led in general by the Sultan as the Head of Islamic affairs of the respective state.

Since zakat is governed by the respective Islamic Council Authority of each state, there are no standard procedures and a uniform legislation for zakat in Malaysia. Different states for instance have different methods to determine the nisab for zakat or recognition of asnaf. The amount being collected for each state is also differs perhaps due to different economic activities being carried out in each state.

### *The Zakat System in Indonesia*

Indonesia is a multi-ethnic and multi-religious country which obtained its independence from the Dutch in 1949. It is considered as a new industrialized economy and in 2018, ranked 16th largest economy by nominal Gross Domestic Product (GDP) in the world [10]. The Dutch influence can still be traced for instance in the legal system. Certain law codes for example are only available in Dutch.

The zakat collection in Indonesia is performed by the BAZNAS (zakat management agency) at the national, regional or district level. Unlike Malaysia, Indonesia has a uniformed Act on Zakat Management, Perspective of Law No 23/2011. The Act stipulates the planning, organizing, implementing and supervising activities on the collection and distribution of zakat in Indonesia. In Indonesia, it can be seen that the zakat management is

performed by the private agency or semi-government agency but facilitated by the government through a uniform tax law [9].

## THE POSITION OF TAX IN ISLAM

According to [8], the opinions of the permissibility to collect taxes in Islam could be divided into two school of thoughts. The first opinion is not to permit the collection of tax. The second opinion is to allow the collection of taxes by the government subject to certain conditions. In a similar view, Jabatan Kemajuan Islam Malaysia (JAKIM) in a review published in 2014, concludes that Islamic scholars who agreed that tax can be collected emphasized on four aspects before collecting taxes [4]. They are:

1. Tax system must be based on a fair and justice system and imposed on wealthy people.
2. Tax should be imposed on a minimum rate and does not burden the public.
3. Tax is only collected when the government does not have enough fund.
4. The tax should be imposed only for the purpose of giving benefit to the public.

## RECOGNITION OF ZAKAT IN THE TAX SYSTEMS OF MALAYSIA AND INDONESIA

This section explains the tax treatment on zakat in Malaysia and Indonesia.

### *Zakat in Malaysian Tax System*

The modern taxation system in Malaysia was introduced by the British administration during the colonization era. Basically, the taxation system in Malaysia is formed by direct and indirect taxes which are governed by the Ministry of Finance under different agencies. Throughout the years, the taxation system in Malaysia has undergone various reformations. The significant reformation for direct tax started in the year 2000 which introduced the current year basis to tax income, which became the foundation to self-assessment system for direct taxes. As for indirect tax, Malaysia reverted to Sales and Service Taxes in May 2018 from the Goods and Service Tax which was introduced in April 2015[6].

Zakat in Malaysian taxation system is recognized in the direct tax category based on the different types of taxpayers [6]. It is recognized as tax incentives given to taxpayers in the forms of zakat rebate or allowable expenses.

Since 1978, individual Muslim resident taxpayers can claim zakat rebate under Section 6A (3) of the Malaysia Income Tax Act, 1967. Ironically, a study by Samad,

Ariff and Nassir indicates that on average only 0.916% of zakat rebate was claimed in the tax calculation as compared to the amount of tax collected for the period 2004 until 2014 in Malaysia [7]. It can be translated as either those taxpayers who pay zakat did not claim the amount of zakat paid as rebates or they paid zakat but did not declare their income to the Malaysian Inland Revenue Board.

As for companies, co-operatives, LLP, trust bodies and societies resident in Malaysia, they can claim the zakat on business as allowable deduction against the aggregate income of their company or organizations. However, the allowable deduction is restricted to 2.5% of the aggregate income of the company. This incentive has been given since year of assessment 2015. Labuan offshore companies in Malaysia enjoyed 3% deduction from the net profit or RM20,000 from year assessment 2004 as incentive for zakat on business [6]. Below are some examples on the tax treatment of zakat in the Malaysian tax system.

Calculation of rebate for resident individual taxpayer

	<i>RM</i>	<i>RM</i>
Total chargeable income		55,000
The first RM50,000	2,400	
The next RM5,500 @ 16%	880	
Less: Zakat rebate (actual amount paid)	(1,200)	
Net tax payable		2,080

Calculation of rebate for resident company taxpayer

	<i>RM</i>	<i>RM</i>
Aggregate income		50,000
Less: Rebate on zakat <sup>a</sup>	(800)	
Total income		49,200
Total tax payable @ 24%		11,808

Actual amount of zakat paid should not be more than 2.5% of the aggregate income. Assuming actual zakat paid is RM800.

Calculation of rebate for resident company taxpayer

	<i>RM</i>	<i>RM</i>
Aggregate income		50,000
Less: Rebate on zakat <sup>b</sup>	(1,250)	
Total income		48,750
Total tax payable @ 24%		11,700

Actual amount of zakat paid should not be more than 2.5% of the aggregate income. Assuming actual zakat paid is RM5,000.

### Zakat in Indonesian Tax System

The tax law in Indonesia allows the actual amount paid on zakat by the taxpayer to the BAZNAS to be deducted against the taxable income of the taxpayer [9]. The tax is paid on income after zakat has been deducted (net income after zakat payment). Zakat is paid on the gross income of the taxpayer. Valid supporting evidence from the BAZNAS need to be produced. The incentive is also given to zakat paid from business income [2].

comparison of tax payable with and without zakat

	<i>With zakat</i>	<i>Without zakat</i>
	Rp	Rp
Gross income	734,000,000	734,000,000
Less: Deductions	(18,000,000)	(18,000,000)
Less: Zakat (actual amount paid)	(18,350,000)	0
Taxable income	697,650,000	716,000,000
Over Rp500,000,000 @30%	209,295,000	214,800,000

### CONCLUSION

The review indicates that different countries in the Southeast Asian region namely Malaysia and Indonesia have some similarities and differences in zakat practices as well as how the zakat paid is being recognized by each country's tax system. While some may argue that zakat payers do not seek for tax incentives while paying their zakat, the tax incentives can also be perceived as the recognition by the government towards zakat in helping the government building the nation. It is beneficial especially for Muslim companies or individuals which or who have the tendency to have business in Southeast Asian countries. This study also enhances our understanding on the tax policy of Southeast Asian countries particularly when these countries have agreed to a consensus for a more open market among Southeast Asian countries. Future studies should compare whether zakat rebate or zakat deduction has impact on the intention to pay zakat among taxpayers in Malaysia and Indonesia especially during Covid-19 pandemic when many people have lost their jobs or have less income.

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