A Review of Zakat Practices of Islamic Financial Institutions in Malaysia

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Abstract: The practice of Islamic social finance components needs to be strengthened for the revival of Islamic social finance in the contemporary time. In this regard, zakat as the most important component and Islamic financial institutions (IFIs) as the payers of zakat deserves an immediate attention. The research has examined the financial reporting disclosures of 16 Islamic banks and 10 takaful operators. The research found that the IFIs in Malaysia have adopted a diverse range of zakat calculation methodologies, the applicable zakat rates are different, application of 2.5% lunar rate for solar calendar year, application of 2.5% in statement of profit or loss approaches, a mixed understanding of zakat on business or on shareholders, some do not pay zakat, and overall there is a lack of disclosures on zakat policy. Based on the above observations of financial reporting disclosures as well as discussions with market observers, the study has identified and elaborated on 11 related issues. The recommendations put forward by this research opens the avenue for further discussion among the industry players, regulators and academia. Further research needs to be conducted in addressing each of the identified issues.

1 INTRODUCTION

Malaysia is a pioneer of global Islamic finance industry with its well-developed infrastructure, regulatory frameworks, governance and supervision systems. It has undertaken several initiatives in the standardisation of zakat calculation practices of the Islamic financial institutions (IFIs). For instance, Malaysian Accounting Standards Board (MASB) has issued a technical release on accounting for zakat on business in 2006. Jabatan Wakaf, Zakat dan Haji (JAWHAR – Department of Waqf, Zakat and Hajj) has published a manual on zakat calculation in 2007. JAWHAR has issued another manual specifically for the banking industry in 2010. Each of the fourteen states of Malaysia also has their own guidelines for zakat calculation.

Despite the standardisation efforts, the calculation of zakat of IFIs remain an area of debate. This might be due to major changes in the financial reporting standards since the issuance of the guidelines, and it may not be practical anymore to adhere to the guidelines fully. The Shariah committees of the IFIs may have their own resolutions on zakat calculation, which may also result in different practices.

With this background, this research aims to review the current practices of zakat calculation of the IFIs in Malaysia. This research focuses on the applications of zakat calculation and its distribution in the IFIs in Malaysia. The findings of this research will open the avenue for further research on the identified issues.

2 LITERATURE REVIEW

Several bodies are involved in issuing fatwas or guidelines for zakat calculation in Malaysia. In 2006, MASB has issued Technical Release-I 1: Accounting for zakat trading businesses. The issued standard was based on the decision of the National Fatwa Council, the Zakat Guide for 2001 issued by the Islamic Development Department of Malaysia (JAKIM) and the Zakat Accounting Standard No. 9 issued by AAOIFI among others. The board suggested two approaches, namely; the adjusted working capital approach and adjusted growth approach.

The adjusted working capital approach calculates zakat based on net current assets; then the amount is adjusted in accordance with items that do not meet the

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conditions of zakat assets or liabilities. The adjusted growth approach calculates zakat based on long-term equity and liabilities, excluding the one related to land, plant and equipment and non-current assets, the amount is then adjusted in accordance with items that do not meet the zakat assets and liabilities as determined by the relevant zakat authorities. The adjusted working capital approach and the adjusted growth approach are generally similar to AAOIFI's (a) net assets method, and (b) net investment assets method respectively.

In 2007, JAWHAR has published a manual on Zakat calculation, followed by a comprehensive manual on Zakat management for banks, along with some selected Shari'ah opinions chosen by JAWHAR. JAWHAR uses the same two approaches and terminology used by the MASB. The manuals and opinions published by JAWHAR are in line with AAOIFI. However, there are still some differences regarding the zakatable assets such as the sukuk and shares for sale.

Malaysia consists of fourteen thirteen states and three federal territories. According to the Malaysian law, the collection and distribution of zakat in each state are under the authority of the Islamic religious council of that state. It is found that each of the Islamic religious councils has its own guidelines on how to calculate zakat. For example, the Islamic Religious Council of the Federal Territory - Zakat Collection Centre (Pusat Pungutan Zakat that is known by PPZ) offers three ways of calculating Zakat in commercial companies. Two of them are in line with the approaches issued or used by MASB, JAWHAR and AAOIFI, while the third approach is quite different. The third approach is the profit and loss approach (PPZ, n.d.). According to this approach, the company is required to pay zakat only if the company receives a net profit at the end of the fiscal year. Otherwise, no zakat is due on the company. This issue will be discussed in more detail later.

It shall be noted that the Islamic Religious Council of the Federal Territory has a very important and influential position in Malaysia. This is because most of the IFIs' headquarters are in Kuala Lumpur, which is a federal territory.

The research adopts a qualitative method supported by simple data collection and analysis. The secondary data extracted from the annual reports are used to identify the zakat methodology adopted by the IFIs. This is also supported by semi-structured discussions with the industry practitioners. The findings include the issues and challenges in zakat calculations as well as the proposed solutions are highlighted and presented before the industry players, scholars and academicians during the 13th International Shari'ah Scholars Forum and the MUZAKARAH-12 in 2018.

This section identifies the zakat calculation practices of IFIs in Malaysia, based on financial statements and disclosures of 10 takaful operators and 16 Islamic banks. This will allow identification of issues related to zakat calculation practices.

3 ANALYSIS MODEL

The research has identified 11 issues related to zakat calculation practices of IFIs in Malaysia. These are provided below.

3.1 Inadequate Disclosure about Zakat Calculation

The disclosures provided by the Islamic banks and takaful operators in Malaysia is inadequate. The information provided in the annual reports is not enough to allow a third party to reliably estimate the acceptability of the zakat calculation practices of these IFIs. For example, the classification of current and non-current assets in relation to zakat calculation are not disclosed.

3.2 Diverse Zakat Calculation Methodologies

Table 1 identifies a variety of zakat calculation methodologies adopted by the IFIs in Malaysia. A few have adopted a statement of profit or loss-based approach, whereas the majority have adopted a statement of financial position-based approach. The extent of similarity or differences among these methodologies cannot be established based on the very minimal disclosures the IFIs have provided.

Table 1: Zakat calculation methodologies.

	Methodology	No. of *takaful* operators	No. of Islamic banks	Total
Statement of profit or loss approach	Profit before tax	2	-	2
	Net profit after tax	-	1	1
	Profit and loss method	-	1	1

Table 1: Zakat calculation methodologies (cont.).

	Methodology	No. of *takaful* operators	No. of Islamic banks	Total
Statement of financial position approach	Working capital	1	1	2
	Adjusted working capital	1	-	1
	Net asset method	3	1	4
	Current assets method	1	-	1
	Growth method	-	1	1
	Asset growth method	-	1	1
	Adjusted growth method	1	2	3
	Capital growth computation method	-	1	1
	Growth capital method	-	1	1
	Opening reserve method	-	1	1
Mixed approach	Higher of: Growth model method, and Profit before tax	-	1	1
	No method identified	1	4	5
Total		10	16	26

Source: Financial statements and related disclosures of IFIs

Three approaches for zakat calculation can be identified from the presented table. There may or may not be any significant difference between "working capital" and "capital growth" approaches, but certainly "net profit" approach significantly differs from the other two. Furthermore, the details of the first two approach are not clear due to the lack of necessary disclosures.

3.3 Net Profit Approach for Corporate Entities

The Islamic Religious Council of the Federal Territory – Zakat Collection Centre (Pusat Pungutan Zakat known as PPZ) is the only authority that adopts the Net Profit approach to calculate zakat. However, PPZ mentions that this approach is only suitable for small enterprises/businesses that do not have accounts or financial data. Its website states that "this approach is appropriate for businesses with no accounts or financial data like small shops, retailers, wet markets, night markets, bazars, restaurants, Food and beverages kiosks and other related businesses (PPZ, n.d.). This advice seems to be neglected by at least two takaful operators who are surely not small-businesses. Some re-takaful operators use this approach as well.

Application of net profit approach for corporate entities has essential shortcoming and raise important Shariah issues. For instance, this may entail that an entity will not be a subject of zakat if it reports a loss. It has been observed that out of 14 instances of non-payment of zakat by the takāful operators, in 7 instances profit before tax method was applied.

From Shariah perspectives, three questions need to be discussed: (1) Is this approach accurate and does it fulfil the requirements and objectives of business and properties zakat? (2) Does the person/legal entity still have to pay zakat if the net profit is negative? (3) What is the rate of zakat that should be used with this approach?

While the third question represents an independent issue that will be discussed separately, we try to answer the first two questions in the following few paragraphs. It is well established in Shari'ah that a trader has to pay zakat for his trading by calculating his capital and profit together. As far as the sum of his wealth exceeds the nisab, then he/she is obliged to pay zakat. Even if a businessman who invested RM 100 million, losses a RM 99 million due to a devastating fire, he still has to pay zakat as he has RM 1 million left. This is because his net wealth is still exceeding the nisab. Therefore, losing 99% of capital does not necessarily make zakat undue.

Similarly, if the businessman lost all his properties in a robbery for example, he would still need to pay zakat if he has savings more than nisab. This is because he is a wealthy man from an Islamic perspective. The presented arguments are also supported by AAOIFI. In fact, its standard no 35 clearly stipulates that the statement of profit or loss should not be the base for calculation of zakat whether the zakat is due or not, even in the event of loss, zakat is still applicable except when the liabilities absorb all the assets (AAOIFI, 2015, p. 872).

It shall be highlighted that the impact of following net profit approach on Zakat amount is found to be significant. Taking one of the takaful operators who use Net Profit approach as a case study for instance. The operator reports a loss of RM 15.8 million, and hence reported zero zakat payment based on net profit approach. However, the operator still has equity of RM 99.4 million. This equity can be in forms of cash or current assets or other forms of zakatable assets. Therefore, despite the losses, using the Working Capital approach (Net current assets approach) or Equity approach will probably oblige the operator to pay zakat because still there are zakatable assets that exceed the nisab.

3.4 Different Zakat Rates

Table 2 identifies that the majority of the IFIs do not disclose the rate they have applied for zakat calculation. Among the disclosed, most of the IFIs apply 2.5% for zakat calculation. One IFI applies 2.5775% and one other applies 2.575%.

Table 2: Zakat rates applied by IFIs.

	2.5%	2.5775%	2.575%	Not identified
No. of *takaful* operators	6	-	-	4
No. of Islamic banks	4	1	1	10
Total	10	1	1	14

Source: Financial statements and related disclosures of IFIs

Among 26 Islamic banks and takaful operators in Malaysia as mentioned earlier, only one uses the 2.5775% rate. Both AAOIFI and JAWHAR mentioned that zakat rate of 2.5% shall be used only if the lunar (Hijri) year which may have 354 days is used. Otherwise, if the solar year which may have 365 days is used, then a modification should be done to count for the differences in the number of days. The modification implies using a rate of 2.5775% to account for the extra days in the 365 days solar year usually used in Malaysia. In fact, while AAOIFI requests 2.577%, the MASB and PPZ mentioned only the rate of 2.5% per annum according to the resolution of National Fatwa Council (AAOIFI, 2015, p. 874; JAWHAR, 2011 and MASB, n.d.). As such, the issue of using 2.5% seems to be not only an issue at practice, but more of an issue at regulatory and standard-setting level.

The 2.5% rate is suitable for a lunar calendar year. Whereas, the financial statements of IFIs are prepared following a solar calendar year. Hence, applying 2.5% for a solar calendar year results in a lower zakat-payable amount due to 10 days difference between the two calendars (i.e. number of days in solar calendar is ten days more than in lunar calendar).

This application of 2.5% is following the requirements of PPZ. Whereas, international standard setters like AAOIFI requires 2.5775% if an entity calculates zakat based on a solar calendar year.

3.5 Application of 2.5% in Statement of Profit or Loss Approach

The 2.5% zakat rate is applied irrespective of statement of profit or loss approach and statement of financial position approach. This may entail that an entity will not be a subject of zakat if it reports a loss. Appendix 5 shows that out of 14 instances of non-payment of zakat by the takaful operators, in 7 instances profit before tax method was applied.

As highlighted before the net profit approach in calculating zakat is not allowed by AAOIFI, Zakat House in Kuwait, Malaysian standards or religious councils of Malaysian states except for PPZ. Therefore, none of the mentioned standards can be used to answer the question regarding the rate that shall be used to calculate zakat if the net profit approach is adopted. Only the opinions that allow using the mentioned approach shall be used.

Suppose that Abdullah is a trader. He has a capital of RM1 million. He spent RM900,000 to buy goods and spent RM100,000 for rentals, transportation and other expenses. If Abdullah sold the goods after one year with 1 million RM, his total revenue and capital would still be RM 1 million. However, the net profit of Abdullah's business is zero because the income was just equal to the total expenses. Yet, as far as the zakat is concerned, Abdullah is still considered wealthy because he owns more than the nisab for a one ḥawl. The rate of 2.5% then shall be applied to the total value of his wealth (goods sold mixed with unsold goods if any).

Alternatively, considering the net profit approach, the calculation could be as follows. Since he sold the goods by RM1 million, then the zakat payable will be RM1 million × 2.5% without deducting expenses and costs. If Abdullah has sold his goods for RM2 millions, then he would have had an RM2 million for one year; hence, the zakat payable would have been RM2 million × 2.5% regardless of the expenses and costs paid before in the process (al-Qaradawi, 2000, pp 332-339). In other words, the rate of 2.5% is applied to the total revenue; not on the net profit as suggested by PPZ.

The other option is to use 5% to 10% as zakat rate — this suggestion is found to be applicable for service-based businesses. According to scholars like Yusuf al-Qaradawi and Muhammad al-Ghazali (1917-1996), these rates can be used for the employee who earns a salary from his employer. It is also applicable for a freelance who provides services and gets a fee in return. These persons should pay zakat between 5% to 10% without waiting for the ḥawl (one lunar calendar year used in calculation zakat). This opinion is found to be supported by the practice of some companions of the Prophet (SAW) like Ibn Abbas and Ibn Masoud and Muʿawiah and Umar bin Abdul Aziz among others (al-Qaradawi, 2000, pp 499-503 and al-Qaradawi, 2006 v. 1: 480; 485). The practice also resembles the zakat of plantations and fruits, which is a percentage of the total revenues from selling the crops. The percentage is 10% if the crops are irrigated by natural rain water without incurring irrigation expenses and 5% if the crops are irrigated otherwise. However, it is important to keep in mind that 5% or 10% are paid normally from the gained proceeds, not from the net profit. As an exception, al-Qaradawi approved deducting costs and expenses and daily basic needs if the farmer has no other source of income (al-Qaradawi, 2000, p. 517). However, if the farmer or service provider has another source of funds or savings; then he/she should pay both types of zakat, namely; the zakat al-māl al-mustafād (the wealth that newly acquired) which is 5% to 10% from the received return, and zakat of savings which is 2.5%. As such a commercial or service company (i.e. a lawyer) shall pay 5% to 10% as zakat of return and 2.5% as zakat of savings.

3.6 Muslim and non-Muslim Shareholders

Most IFIs calculate zakat according to the percentage of Muslim shareholders. In other words, the initial zakatable amount calculated is multiplied by the percentage of Muslims equity before multiplying it with the zakat rate. This approach of calculating zakat depending on the religious status of the shareholders is found to be used by PPZ.

Zakat is a pillar of Islam, and Muslim is the one who should pay zakat. Being a Muslim is a condition for zakat payment; therefore, if Muslims participate with non-Muslims in a company, only the part related to the Muslim partner is the zakatable. This seems to be a reasonable argument. However, it raises many questions in implementation. Institutions have an independent legal entity with sometimes a complicated ownership structure. The following are just a few questions referring to some examples. How to get the Muslim shareholders' percentage for a public listed company? What would be the zakat for an institution owned by government or by a private party and a government subsidiary? What would be the zakat of an Islamic bank that is owned by a conventional bank?

Let us take the example of PruBSN takaful in Malaysia. The company is owned by Prudential PLC (49% of the shares) and BSN Bank (51% of its shares). While Prudential PLC is a conventional insurance company, BSN is owned by the government. Taking the approach of differentiating between Muslim and non-muslim shareholders as suggested by PPZ and others, shall the government be considered a Muslim party? Does it have to pay zakat? Shall Prudential PLC, being a conventional insurance company, be considered as a non-Muslim entity; and hence no zakat on it or shall we check the religion of its shareholders?

Another example is Etiqa takaful. Etiqa is owned by Malaysian Banking Berhad that is a Shari'ah non-compliant corporation, where 20% of its shares are owned by PNB, a governmental investment agency that uses Muslim funds. According to PPZ approach for zakat calculation, what is the zakat rate that should be used by Etiqa takaful?

3.7 Zakat of Shares, Sukuk and other Securities

The approach that is followed in Malaysia regarding the zakat of shares, sukuk and other securities is based on differentiating these securities according to their purpose. Therefore, if the purpose of acquiring them is trading within the same financial year, then they are considered a zakatable asset. On the other hand, if they are acquired to be sold after more than one year or for getting dividends or return attached with them, then they are not considered zakatable assets and no zakat of any amount will be paid for them. JAWHAR mentioned in the guideline of zakat of banks: "the certificates of shares in other companies, bonds and investment certificates, shares, allowances, goodwill, patents and other securities are considered as a performing fixed asset if they are not intended for trading as merchandise (JAWHAR, 2011, p. 30).

The above statement implies that no zakat will be paid on a "share held to maturity" by the company or IFI as it is viewed like a building or any other type of fixed assets. This view differs from AAOIFI view. According to AAOIFI, if shares are bought for purposes other than trading, then one needs to refer to the assets of the company issuing the share to investigate what the share is representing. Shari'ah standard no.35 issued by AAOIFI mentions that: "For investments in shares with the aim of retaining them (Nama'): If it is possible to know through the company what is the exact amount of Zakatable assets (cash, articles of trade and repayable debts) per share, zakat can be levied on that amount, otherwise Zakat is to be levied on the portion of zakatable assets per share, which has to be reached through estimation. If the company has no zakatable assets, Zakat is obligatory on the remaining part of the net income at the end of the year." As far as the shares for trading purposes are concerned, the Malaysian approach is in line with AAOIFI. Both would consider such shares as zakatable current assets (AAOIFI, 2015, p. 875, 879).

Similar to shares, Malaysian practices seem to differentiate between the sukuk held for investments and sukuk held for liquidity purposes in calculating the due zakat. Islamic banks may hold Sukuk either as a long-term investment or as a short-term asset to satisfy Basel requirements for liquidity management, for example. While Islamic banks seem to exclude the long-term investment instruments including sukuk in calculating the zakat, someone may ask why not to apply zakāt al-mustaghallāt on them? As such, at least zakat would be imposed on the yields upon liquidation or in each financial year like rentals of a building. On another hand, investigating the types of sukuk before applying any rule could be important. Zakat on sukuk murābahah for instance might not be the same as sukuk muḍārabah or ijarah.

Discussing the Shari'ah views regarding zakat on shares, sukuk and other securities requires a separate research, but apart from the mentioned above issues, an important implication attached with the Malaysian approach that considers the purpose of holding the shares as a sole factor to differentiate between zakatable shares and non-zakatable shares. This approach opens the door widely for manipulation and zakat evasion.

3.8 Different Standards of Zakatable and non-Zakatable Assets

There are differences among the local and international standards regarding some types of assets whether shall be considered zakatable assets or otherwise. Examples of such assets include, but are not limited to, the raw materials used in manufacturing, the semi-manufactured goods or under-manufacturing goods, various reserves and provisions especially in IFIs. For instance, for manufacturing goods, JAWHAR, PPZ and Selangor Zakat Council agree that these raw materials should not be considered as zakatable assets. "The final goods are considered zakatable asset, while the inventory of raw materials and works under processing are not" (SZC, n.d.). On the other hand, AAOIFI considers them zakatable assets.

Furthermore, in calculation, AAOIFI clarifies that current assets including finished goods, goods under manufacturing process and raw materials shall be valued at market price. The cost could be considered only if it is impossible to get the market price. "commodity stocks prepared for Trade, raw materials in their different forms, and goods for sale in their original form or after being manufactured by adding them to other materials: To be valued for Zakat purposes at selling market price… Goods in process: To be valued for Zakat at their current market price on the day of Zakat accrual, and if it is not possible to know their market value, they could be valued at cost" (AAOIFI, 2015, p. 880-881).

As far as reserves and provisions are concerned. It is found that they are highly controversial issues and each IFI in practice seems to have its own opinion, application and justification regarding this.

3.9 Zakat of Assets in Takaful Operators

Regarding the zakat on Takaful and particularly the zakat for takaful participants (takaful certificates holders) on investment funds under takaful, many questions could be raised.

For instance, if the approach of intention or purpose of ownership is used to differentiate between zakatable and non-zakatable assets, what are the purposes to be considered in such cases? Moreover, can the intention of the participants be used although they may not have full control over the participant investment fund? In other words, do the participants have full ownership that obliges them to pay zakat on the funds or otherwise?

Participants have no right to dispose with the money in the fund until maturity or termination of contract. Usually, investment funds are managed by a fund-manager under the takaful operator or the program similar to ordinary investment fund units. These funds may contain cash, banks current accounts, shares, ṣukūk and other Shari'ah-compliant securities. For long-term products (such as life Islamic insurance), the intentions of takaful participants and intentions of fund manager may differ. Participants intend to save money and invest the funds to multiply their savings for their coming years. So, the purpose for them could be perceived as non-trading. On the other hand, fund-managers may purchase assets on behalf of participants for trading. Normally, they trade them to obtain gains or maintain the fund's net asset value. Shares and securities are purchased for selling them and add value to the fund. Following JAWHAR, paying zakat is required on the proceeds from assets only as far as they are purchased for long-term saving purpose, and that's after the passage of the ḥawl. On another hand, AAOIFI clearly stated that "Investment Funds in their different forms: Zakat has to be paid on the basis of the underlying assets of the fund, and as indicated in this Standard" (AAOIFI, 2015, p. 878).

3.10 Disbursement of Zakat

The study found that most of IFIs in Malaysia have no fixed rules regarding the disbursement of zakat funds. Methods of disbursement and distribution are mostly done by a suggestion from those in charge, and then approved by the Shari'ah committee of the same institution. Since almost all IFIs' head-offices are in KL, one particular issue in Malaysia is to decide whether to priorities Kuala Lumpur federal territory in the disbursement of zakat or to disburse the due zakat to all states through the respective state religious councils or otherwise. Furthermore, what would be the best approach in deciding the relevant proportions?

The research found one relevant rule of distribution is followed by at least one of the Islamic banks. The bank divides zakat funds among all zakat management offices in the 14 Malaysian states according to the deposits received by the branches of the bank in those states within the same financial year. This is based on the idea that the income for the bank comes from those states, and therefore, zakat funds should go back to those states as channels. This opinion is based on a hadith of the Prophet Muhammed (SAW) saying: "Let them know that Allah (SWT) imposed on them a charity that is taken from their wealthy to their poor".

3.11 The Roles and Duties of Shari'ah Committees

Many financial statements of IFIs show that the zakat calculation approach was approved by the Shari'ah committee of the IFI, without mentioning the details of calculation approach.

As accounting rules are not easy, accounting approaches and terminologies differ significantly from Shari'ah approaches and methods. Thus, there is a concern that Shari'ah committee may not understand what has been approved entirely, especially regarding its financial impact. According to a study conducted on the zakat calculation in IFIs, one weakness point of some Sharia committee is limited accounting knowledge; hence, they leave the issue of accuracy of the used approach to the accountants (al-Khulaifi, 2017). Though the research did not perform a survey to confirm such result in relation to the Shari'ah committees of IFIs in Malaysia, the initial investigation tends to indicate that there is a worldwide need to enhance the knowledge of Shari'ah committees on accounting.

4 CONCLUSIONS

This research investigated the existing international and national standards and guidelines in relation to zakat of IFIs. It is further investigated the practices of IFIs in Malaysia. Eleven issues are found to be unresolved. While some issues require actions to be rectified, other issues are found to require comprehensive dedicated researches to be resolved.

Overall, the study concludes that the status of zakat in Malaysia generally and within the IFIs especially needs urgent tackling and corrections. It suggests to the relevant authorities to form a special committee consisting of highly skilled and experienced persons from Shari'ah, accounting, law and finance backgrounds to tackle the abovementioned issues. As mentioned in the introduction, this study represents initial findings for the current studies, and some findings require further research and to be tested practically.

In addressing the identified issues, the research recommends the following:

(i) Stipulating minimum disclosure requirements by standard setters and regulators.
Standard-setting bodies like MASB and religious authorises can set a minimum requirement for the information and data that should be disclosed within the annual reports in relation to zakat calculation. In addition, Bank Negara Malaysia can enforce IFIs that operate under its supervision, like Islamic banks and takaful operators, to adequately disclose information about zakat calculation. This is in line with the Value-Based Intermediation (VBI) which is conceived to be the strategic position of IFIs in the near future to ensure the proper fulfilling of religious and social duties by these institutions.

(ii) Establishing a national committee comprising Shariah and industry experts.
Like taxation that is normally clear and unified in any country, zakat's standards and rules should be clear and unifies as well. Zakat is a financial obligation that should be paid to the authorities, or at least, it is paid under the supervision of authorities. Therefore, regulators can form a special committee to look in details on the basic rules of zakat calculation which are applied worldwide. This committee shall issue clear and detailed standards to be approved and

checked by the relevant authorities and then enforce the IFIs to follow it. It is important that these standards are tested by IFIs before the final endorsement. Besides, the committee should consist of eligible and well-educated Shari'ah experts that have wide experience in accounting, next to accounting, legal, banking and takaful experts. Some member with zakat practices should also be there. Moreover, this committee should be given adequate time (not less than one year) to conduct field experiments.

(iii) Calculation of zakat of IFIs applying 2.577% or 2.5775% rate.
This study argues that the more accurate and Shari'ah-based zakat rate is based on the lunar (Hijri) year, and thus, it is 2.5%. In fact, using the solar year opens the door for many differences in the calculation. For example, the person who owns the nisab of zakat for 354 days is eligible to pay zakat. However, there is a possibility that he may have less than the nisab before reaching the 365th day if he used the 365 days solar year calendar. In other words, if he followed the lunar year, he should pay zakat because he has already reached nisab and ḥawl. However, if he followed the solar year, he is not obliged to pay zakat because he does not own enough nisab when the ḥawl is reached. This case is the opposite of another case where the person does not have the nisab of 354 days, but in the 365th day, he is already acquiring the nisab. Therefore, if he follows the lunar year, his due zakat is zero, but if he follows the solar year, he is obliged to pay zakat because he reached the nisab. If nisab was RM14,772, then it should be multiplied by 2.577% and thus he is obliged to pay not less than RM380.

As such, it would be recommended to stick to the lunar (hijri) calendar in calculating zakat. Nevertheless, in the context of IFIs in Malaysia which follow the regular financial cycle that is based on solar year (usually 31st Dec or 30th Nov or 31st March of each year), such recommendation would be difficult to be applied. Therefore, IFIs in Malaysia have no option other than using 2.577% or 2.5775%. Using 2.5% will result in paying less zakat than should be. In fact, using 2.5% for the currently used solar calendar year implies that in 36 years, those institutions will miss paying zakat for a full one year. That is because every 36 solar years are equivalent to 37 lunar years.

(iv) Avoiding net profit approach in zakat calculation of IFIs.
The research argues that net profit approach is not appropriate for IFIs. It also raises Shari'ah concerns. It is highly suggested to revise the approach and strongly advise IFIs to avoid using it. The supporters of net profit approach argue that the company assets shall be preserved in value to ensure running of the business. In case of loss, any zakat payment would imply reducing their values as well as the capital that shall be preserved to meet the supervisory requirements. The reply to this argument is the fact that zakat is required according to the type of properties. If the company owns any zakatable property, it should pay the zakat on that asset regardless of its purpose. An owner who has money more than the nisab is considered wealthy even though his business was not profitable.

(v) Revisiting the zakat rules of net profit approach. If the profit approach is to be adopted as the. Shariah allows it in certain cases, the rate and the method suggested by PPZ needs to be revised for it to be suitable for IFIs.

(vi) Enhancing expertise of Shariah committee members.
Shari'ah committees play a significant role in ensuring compliance of different zakat calculation approaches with Shari'ah rules. It is highly recommended to encourage Shari'ah committee members to attend trainings on accounting.

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