

Zakat as a Tax Credit for Raising Indonesian Tax Revenue

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ABSTRACT

This study aims to select the most appropriate treatment of zakat and tax to maximize Indonesia taxation of the given three alternatives. The first alternative is zakat and taxes are not correlated. Second, zakat is used as deductions of taxable income. Third, zakat is used as a tax credit. The basic considerations for determining the rank of these three models are from the aspects of benefits, the costs, and the risks. The analytical tool used is ANP (Analytic Network Process). The research respondents are some experts and stakeholder of zakat and tax in Indonesia. Based on the result of this research, the first rank is zakat as a tax credit with a weight of 0,469. The second alternative is zakat as the deduction of Taxable Income with a weight of 0,385. The third or last alternative is zakat and tax has no direct relationship with the weight of 0,146. Based on this research, to increase tax revenue in Indonesia, zakat as a tax credit is advisable.

Keywords: Zakat, tax, credit, ANP, Indonesia

INTRODUCTION

Approximately 70 percent of the Indonesian State Budget revenue is from taxes. The government will continue to increase the tax revenue target until the tax ratio reaches 20 percent. The current Indonesia's tax ratio is 13.6 percent from the Gross Domestic Product, which is too low compared to other Asian countries, such as Malaysia, which has reached 20 percent, and 33 percent in developing countries. The number of registered taxpayers (WP) is also still small, i.e., 4 million people in 2007 compared to 210 million residents (Gusfahmi, 2007; Muktiyanto & Hendrian, 2008). This significant tax source is in the hands of the Muslim population who are also obliged to pay zakat. So, the issue has

been arising about a double burden for Muslims, which ultimately lead to counterproductive in increasing public participation and the amount of zakat and tax income.

Indonesia currently manages zakat only as a net cost reduction (Law No. 38 of 1999). The regulation only includes zakat income as a cost, consequently avoidance of double burden only effective maximum of 35 percent. That means the Muslim taxpayers have to win a double charge of 65 percent (Wajdi, 2008). Philosophically, zakat is not the cost of getting, collecting, and maintaining income. This is in line with PSAK 101 concerning the presentation of Sharia Financial Statements in Indonesia,

where zakat is not involved in the income statement (Kusumawati, 2005; Alchudri, 2010; Kurnia & Hidayat, 2009; Rahman, 2001; Purwanto, 2009). In practice, it is hard to apply Law No. 38/1999, because 52 percent of taxpayers do not know that zakat or religious donation is a deduction of taxable income (Muktiyanto & Hendrian, 2008, Fidiana & Ngumar (2015).

On the other hand, according to the government's point of view, there is no economic relation in terms of the subject and the object of zakat and taxes, so there is no such double burden for Indonesian Muslims, since the tax is a duty as a citizen, while zakat is a religious obligation. While the parties who use the paradigm have the same objects and functions on the zakat and taxes, argue that the tax credit is one of the best policies (Gusfahmi, 2007; Hafidhudhin, 2011; Hasan, 2006; Hamidiyah, 2007; Muktiyanto & Hendrian, 2008; Fidiana & Ngumar, 2015; Ma'mun, 2017; Suprayitno et al. 2013). It is also supported by a successful practice in Malaysia, where zakat and religious donations are treated as tax credits, or tax deductions up to 100 percent.

The key to success in the implementation of zakat as a tax credit in Malaysia is also caused by the internal management, which is from the state sultanate, where the community cannot freely implement the management of zakat. In other words, the role of government is very dominant. While in Indonesia, the case is on the contrary; people are more predominant in managing zakat, while the government regulates only the management (Setianingrum (2016)).

The policies applied in Malaysia also occurs in Puerto Rico. The acceptance of charitable donations in

Puerto Rico is practiced as a tax credit, which is reduced by up to one percent, which the upper limit raises to a maximum of 50 percent of a person's total income. From such a simulation, the policy will boost the acceptance of charitable donations, far exceeding the potential loss of state tax revenues. In other words, the value of this charitable donation will be higher than the amount of tax lost by corruption and other leaks (Boris, Cordes & Soto, 2010).

Based on the above description, there are three practices of essential policy between tax obligations and zakat, namely the first is zakat as tax credits, the second is zakat as deductions of taxable income and the third is taxes and zakat is not interrelated. With the vast potential of zakat in Indonesia reaching 2 percent of GDP (Ahmad, 2010), while the collected zakat only reaches 1.5 percent (IMZ, 2010), it is necessary to point the accuracy in determining the most effective treatment of zakat and taxes (Setianingrum, 2016). Early research is conducted to find out which treatments are the best input to increase public financial revenue in both sectors while strengthening the redistribution function that is the government's obligation.

From the background above, the following are some of the research questions;

1. What are the criteria and sub-criteria for consideration in the selection of tax and zakat as an integrated policy?
2. Which relationships can occur between one policy criterion with other policy?
3. How to weight each of the zakat and tax as an integrated policy?
4. Which is the best alternative of tax and zakat as an integrated policy based on the criteria and sub-criteria considered?

The above research questions are answered in this paper by using the analytic network process approach.

LITERATURE REVIEW

Bönke, Massarrat-Mashhadi, & Sielaff (2012) employed regression analysis to investigate charitable giving in the Germany welfare state, suggested; that in general tax incentives made by the Germany government can change the behavior of individuals positively in charitable giving. In the tax system in Malaysia, the tax credits other than prepaid taxes can also be credited with RM 350 for individuals whose incomes are under 35,000. All zakat *fitriah*, and religious obligations and some amounts paid to the government. Unlike Malaysia's policy, the application of tax credits in the tax system in Indonesia is only prepaid tax paid in the current year, such as income tax article 25 and foreign fiscal (Wadji, 2008).

Suprayitno et al. (2013) used panel data from 11 countries in Peninsular Malaysia in 2001-2009, with fixed effect model analysis, revealed that zakat has a positive and significant impact on tax revenues. The hypothesis that zakat will reduce tax revenue was rejected. In other words, the zakat integration policy based on sharia law and taxes under the income tax law, where zakah is paid 100 percent tax deductible. This gives a positive correlation to the acceptance of both sectors, as well as facilitate the government to control and reduce the avoidance and evasion of taxes.

In Indonesia, on the instructions for filling the SPT-OP (Annual Tax Return tax object), zakat on income is calculated at 2.5 percent rate, whereas the SPT-OP uses the date of the year of Lunar, meaning the rate is 2.575 percent (Kusumawati, 2005). Moreover, in line with PSAK 101, zakat post as a

deduction of PFM (Taxable Income) is also not included in the SPT-OP. The current law related to zakat as a reduction of PFM needs to be done immediately, because it is not in accordance with the accounting science integrated in sharia, and in literature review also shows that the concept of zakat calculations performed partially, which only see from the aspect of sharia only (Alchudri, 2010; Rahman, 2001; Setianingrum, 2014).

METHODOLOGY

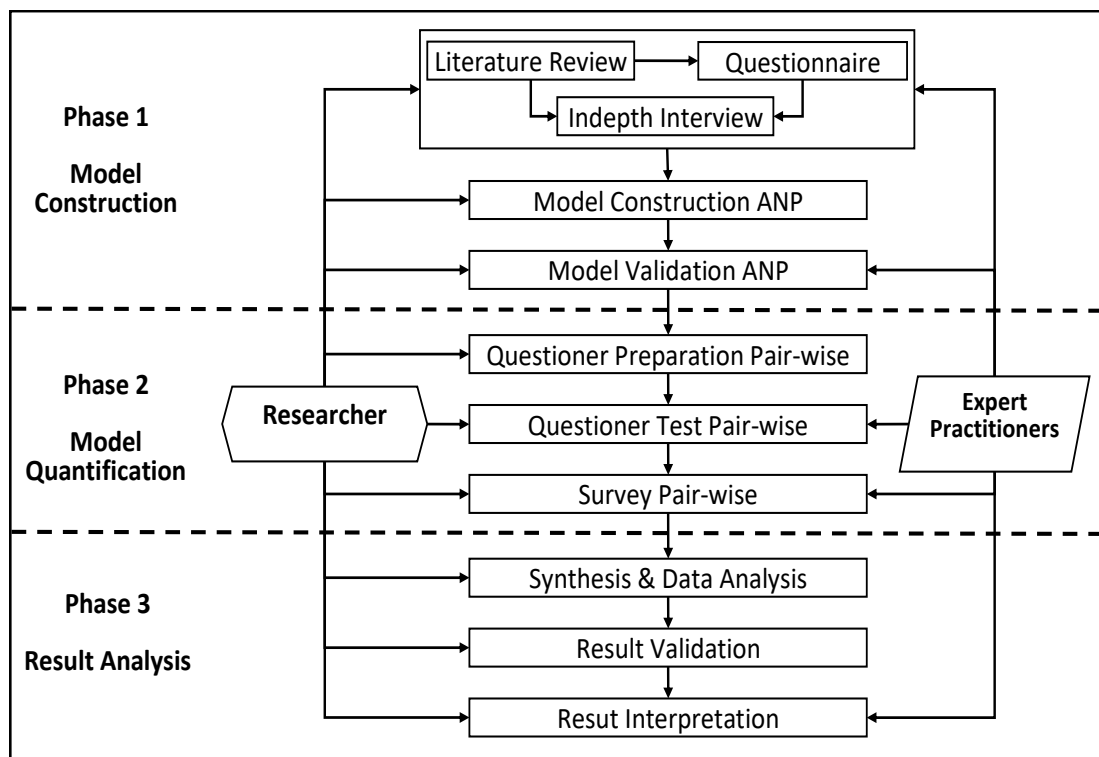
The analytical tool used is the ANP approach network approach Benefit Cost Risk (BCR) and processed by using software 'Super Decision' and Microsoft Excel. The data used is the primary data obtained from the in-depth interview with experts, practitioners, and academics, who are the stakeholder tax and zakat. Followed by filling the questionnaire at the second meeting with the respondents. The respondents selected in this survey were seven experts; one person from National Amil Zakat Board (BAZNAS), one person from the Fiscal Policy Board, five academics and researchers.

ANP has four axioms that theoretical basis, among others:

1. Reciprocal; This axiom states that if PC (EA, EB) is a comparative pair value of elements A and B, seen from its parent element C, indicating how many times more elements A have what belongs to element B, then $PC (EB, EA) = 1 / Pc (EA, EB)$. For example, if A is five times larger than B, then B is 1/5 of magnitude A.
2. Homogeneity; states that the elements that are compared in the ANP framework structure should not have too much difference, which can lead to

- greater errors in determining the assessment of the supporting elements that influence the decision.
3. Priority; i.e. the absolute weighting by using the interval scale [0.1] and as a measure of relative dominance.
 4. Dependence condition; it is assumed that the arrangement can be composed into the components that form the cluster part – The stages in the ANP method as of figure 1.

Figure 1. The Stage of Research



Source: Saaty and Sodenkamp (2008); Yuksel and Dagdeviren (2007); Cheng and Li (2004); Gencer and Gurpinar (2006); Saaty and Thomas (2001); Taslicali and Ercan (2006).

The model quantification stage uses the question in the ANP questionnaire in the form of pairwise comparison between the elements in the cluster to find out which of them is greater (dominant) and how big the difference is through numerical scales 1-9. The data is then collected and inputted through super decision software to be processed to produce output in the form of supermatrix. The results of each respondent will be inputted on a single ANP network.

Synthesis is the opposite of analysis. If analysis means to unravel material or abstract entity into its elements, then synthesis means to combine all parts into becoming one. Because complexity, it is an essential decision situation, or forecast, or allocated resource, often involves too much dimension for the human to be able to conduct synthesis intuitively. Therefore, we need a way to be able to synthesize from multi-dimension. Even though AHP/ANP facilitated analysis, the more important function in

AHP/ANP is its ability to help us in measuring and synthesis of several factors in the hierarchy or network. No other methodology has synthesis facility like AHP/ANP.

If $A_1, A_2, A_3, \dots, A_n$ is n element for a matrix in a hierarchy. Comparison of pair of elements (A_i, A_j) that we need to do reflected by $A = (a_{ij})$, matrix $n \times n$, which $i, j = 1, 2, 3, \dots, n$. Define a set of numerical weight $w_1, w_2, w_3, \dots, w_n$ which reflected comparison obtained, so it can be written as follows:

$$A = \begin{matrix} & \begin{matrix} A_1 & A_2 & \dots & \dots & A_n \end{matrix} \\ \begin{matrix} A_1 \\ A_2 \\ \cdot \\ \cdot \\ A_n \end{matrix} & \begin{bmatrix} w_1/w_1 & w_1/w_2 & \dots & \dots & w_1/w_n \\ w_2/w_1 & w_2/w_2 & \dots & \dots & w_2/w_n \\ \dots & \dots & \dots & \dots & \dots \\ \dots & \dots & \dots & \dots & \dots \\ w_n/w_1 & \dots & \dots & \dots & w_n/w_n \end{bmatrix} \end{matrix}$$

Because every line is fixed multiplication from the first row,

therefore A mean unit rank. With multiple A and weight vector w ,

$$Aw = nw \quad (3.1)$$

To obtain the scale of the matrix ratios, the system below must be solved:

$$(A-nI)w = 0 \quad (3.2)$$

In practice, using ANP methods in research varies widely in various fields, as delivered by Sipahi & Timor (2010), Lee (2010) and Ho (2008). In Islamic economics and finance research, ANP applications can be seen on Rusydiana & Devi (2018), Ascarya (2011), Setianingrum (2015), Rusydiana & Firmansyah (2017), and also Rusydiana (2016). To maintain the level of consistency index and facilitate the interview process with the respondents, the author uses the ANP questionnaire format developed from the original format of the questionnaire from the SuperDecision software. This questionnaire format is as of table 1.

Table 1. ANP Questionnaire Framework

<i>Criteria → Alternatives</i>	1	2	3	4	5	6	7	8	9
<i>Tax and Zakat not related</i>									
<i>Zakat as reduction of PFM</i>									
<i>Zakat as a Tax credit</i>									

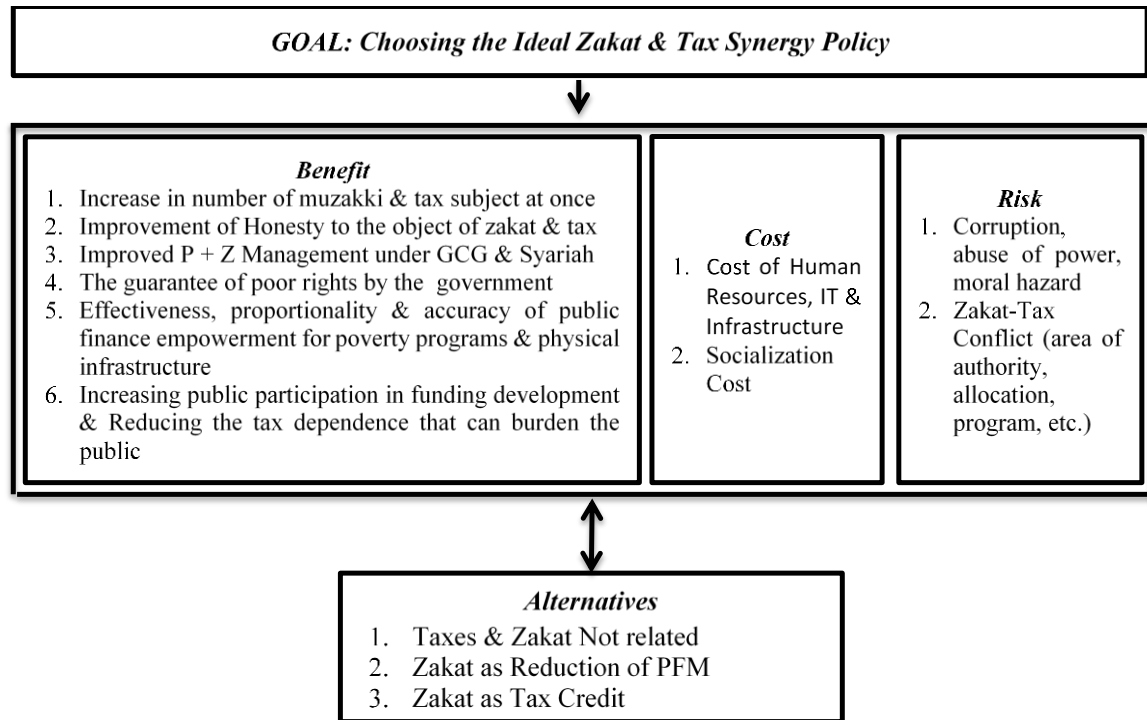
Source: Prepared by authors.

RESULTS AND FINDING

The construction of the ANP model is based on theoretical and empirical review literature, and questions asked to the zakat experts and academics and public policy. Based on the

identification of the above problems and solutions, then the network structure of ANP based on the BCR criteria on the issue of choosing the model of zakat and tax harmonization policy in Indonesia as follows:

Figure 2. Construction Model of ANP



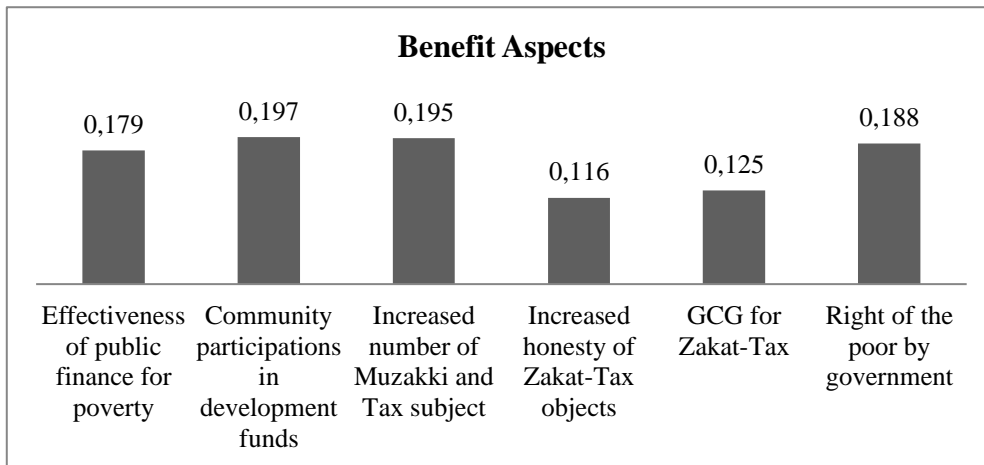
Source: Prepared by authors.

This study aims to select the best zakat and taxation treatment as an incentive to increase tax and zakat in Indonesia from 3 existing models. The first treatment alternative is zakat and tax are not interrelated, the second is zakat as deductions of taxable income, and the third is zakat as tax credits. The primary considerations for determining the ranking of these three treatments are aspects of benefits, costs, and risks. The analytical tool used is the ANP (Analytic Network Process) approach of network Benefit Cost Risk (BCR). The criteria of these three aspects were extracted from the literature study, Forum Discussion Group, and in-depth interviews with the respondents.

Based on the calculation, from the aspect of benefit in the framework

of choosing the zakat and tax integration model in Indonesia, the most critical benefit is the participation of the community in the development fund (0.197). Followed by an increase in the number of muzaki and tax subjects (0.195), the ensured rights of the poor by the government (0.188), and the effectiveness of empowerment of public finances for poverty (0.179). Meanwhile, two other benefits have a relatively small value of the increase of tax management and zakat by good corporate governance (GCG) and the shariah side (0.125) and increased honesty of zakah and tax objects (0.116). Below is a detailed picture of the priority element in the benefit aspect.

Figure 3. Priority Aspects of Benefit

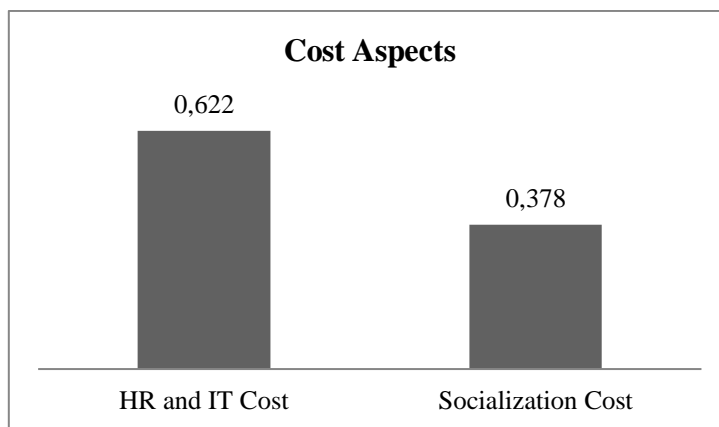


Source: Prepared by Authors

Based on the results of the calculations obtained from the total respondents, from the cost aspect in the framework of choosing the zakat and tax integration treatment in Indonesia, which became cost or the most considerable cost according to

respondents were human resources (HR), information technology (IT) means of infrastructure (0.622) followed by socialization costs (0.378). The following is a detailed picture of the priority element in the cost/cost aspect.

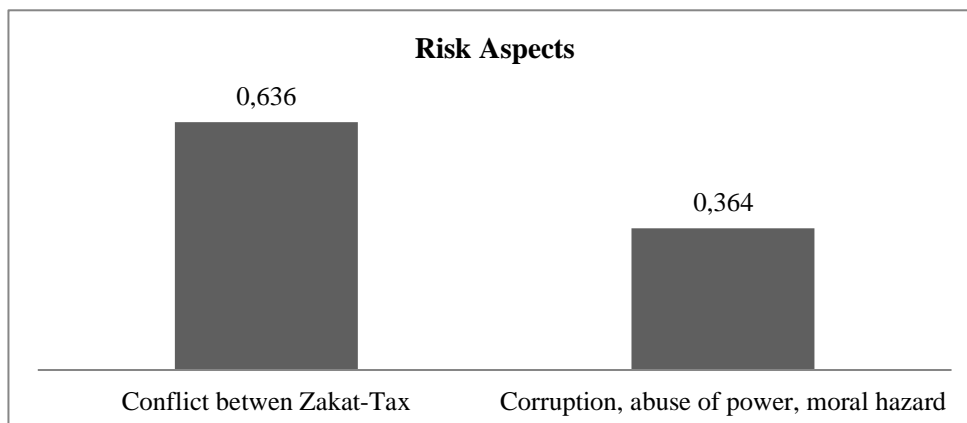
Figure 4. Priority Aspect of Cost



Source: Prepared by Authors

Based on the calculation result from all respondents, from the aspect of risk in the framework of choosing the zakat and tax integration policy model, which become the most significant risk, or risk according to the respondent is related to zakat conflict risk and tax on

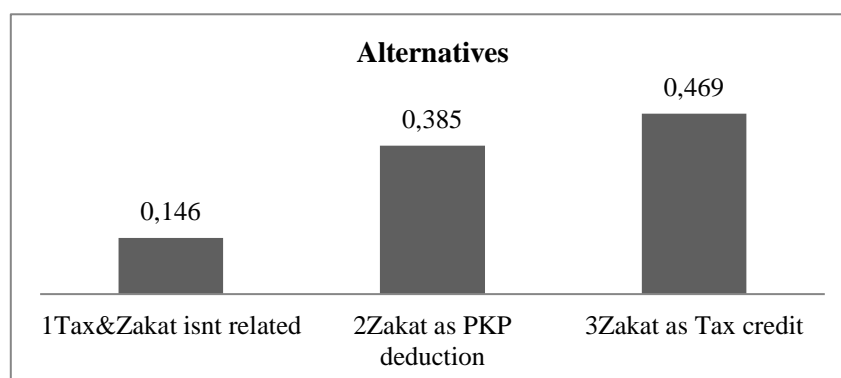
the area of authority, allocation, and others (0.636) followed by risks of possible corruption, abuse of power and moral hazard (0.364). The following is a detailed picture of the priority element in risk/risk aspects.

Figure 5: Priority Aspect of Risk

Source: Prepared by Authors

After obtaining priority result from each aspect Benefit, Cost, and Risk, then we get alternative priority in choosing the model of zakat and tax integration policy in Indonesia. This is the principal analysis obtained from the respondents' answers. Based on the calculations derived from the total respondents, considering the benefit, cost and risk aspects in the framework of choosing the best integration policy model as an incentive to increase in zakat and tax revenue in Indonesia, which is the main alternative is zakat alternative as tax credit with the weight of 0.469.

The next option in the framework of choosing the model of zakat and taxation policy in Indonesia is zakat as a deduction of taxable income (PKP) with a weight of 0.385. While the last alternative in the framework of choosing the model of zakat and taxation integration policy in Indonesia is that zakat and taxes have no direct relationship with the weight of 0.146. The following is a detailed picture of the alternative priority selection of the zakat and tax integration policy models in Indonesia.

Figure 6: Alternative Priorities

Source: Prepared by Authors

CONCLUSIONS AND SUGGESTIONS

Based on the calculation of ANP, considering the benefit, cost and risk aspects, the best form of treatment as an incentive to increase tax revenue, the result is the main alternative is zakat as a tax credit with a weight of 0.452. The next choice is zakat as a deduction of taxable income with a weight of 0.440. Meanwhile, the last option is that zakat and taxes have no direct relation to the weight of 0.109. Thus the most potential zakat treatment to be the best incentive in raising taxes in Indonesia is zakat as a tax credit. The findings are also in line with PSAK 101: Presentation of Sharia Financial Statements, where sharia and accounting principles complement each other and strengthen the position of zakah as tax deductions, not as a deduction of net income currently applied in Indonesia. The findings are also in line with policies in various developed countries, where social and religious donations are already treated as tax credits.

From the research on zakat and tax as an integrated policy, there are several suggestions;

1. We need the enhancements of communication and coordination of zakat authority, tax, and related institutions, to improve taxpayer and muzaki database and the integrated system with information technology support.
2. The policy of zakat and taxation integration should be consistent among sharia principles, accounting principles, and justice and benefit principles.
3. We have to deepen the research by exploring the same problem, such as by expanding the respondents from zakat and taxpayers stakeholder, so that

the depth of the issue and the quality of the solution more excavated.

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