

Challenges of Zakat Integration as Source of State Revenue

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Abstract

In the era of new public financial management, where society participation and cost sharing in public goods provision are inevitably pursued by government, some sources can still be explored such as zakat, infaq, and sadaqah as social awareness activities for Muslims that are prevalent in the community. There are also other donations on the basis of certain motivations which can reduce the burden of tax revenue to support public policy. The phenomenon of mutual cooperation and caring to help others through social donations emerged even more apparent when the Covid-19 pandemic entered a period of social restrictions. This study aims to examine the challenges faced in integrating zakat as an alternate state revenue. The method used is descriptive qualitative using primary data in the form of semi-structured interviews. Determination of the source of data on the interviewee is done purposively. They are chosen to represent zakat practitioners, representatives of government and taxation institutions, and academics. The results showed various challenges in integrating zakat as an alternative source of state revenue, namely uniting government programs with receivers, distribution process, strong zakat institutions, supervisory institutions, public trust, increased compliance, issues on state ideology, alignment of rules with other religious communities, revenue earmarking, and spending flexibility.

Keywords: State Revenue, Zakat, Taxation, Budget.

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I. Introduction

1.1. Background

Tax revenue had fluctuated from 2014 to 2018 in line with economic development. It grew high in 2015 at 8% when the economy at that time only grew 4.79%, fell to 3.6% in the following year coinciding with the implementation of tax amnesty, then rose sharply in 2018 by 13.2%. Tax revenue fluctuations will greatly affect the performance of the state budget in sustaining state spending. The thing to watch out for is when the revenue shrinks by the time the expenditure needs are high, because it will make the burden on the state budget even heavier. This condition was experienced in 2019 where tax revenue growth was only 1.4%. In 2020 it is also believed that tax revenue will still be depressed and may not even grow due to the impact of the Covid-19 pandemic.

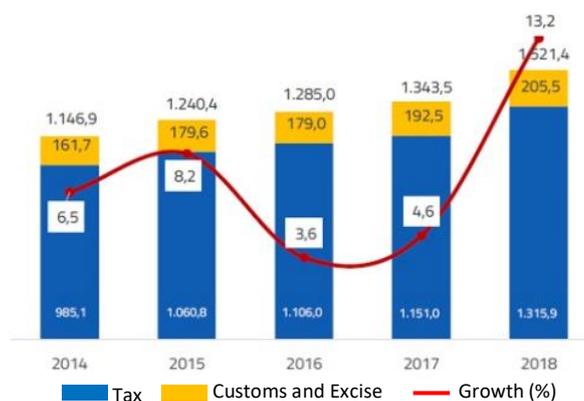


Figure 1. Tax Revenue and Growth (Trillions of Rupiah)

Source: Ministry of Finance, Macroeconomic Framework and Fiscal Policy 2020

Due to the unpredictable effects of the Covid-19 pandemic, poverty level in Indonesia is still relatively high. Although the government has managed to suppress it up to 9.22 percent (BPS, September 2019), but with its large population, Indonesia ranks first in ASEAN as a country that has extreme poverty in 2020 (World Data Lab, 2020).

Poverty is one important indicator to see the success of development of a country (Jonnadi, Amar, & Aimon, 2012). Poverty alleviation is also one of the targets of Sustainable Development Goals (SDGs). Thus, the government pays great attention to the problem of poverty alleviation. In Figure 2, we can see the poverty budget for the past five years, where the trend continues to rise in that period.

Meanwhile, the realization of tax revenue has been continuously falling short over the past five years (Figure 2). With a budget deficit policy, this condition

contributes to an increase in government debt. By not achieving the revenue target, the government will cut the budget which will result in reduced effectiveness of the objectives of the expenditure.

Based on this fact, the government should look for alternative sources of revenue outside those that have been used in the State Budget mechanism. Khan (2007) stated that there must be a source of revenue other than the public sector and the private sector to overcome the negative effects of poverty. In the era of new public financial management, where society participation and cost sharing in public goods provision are inevitably pursued by government, some sources can still be explored such as zakat, infaq, sadaqah as social awareness activities for Muslims that are prevalent in the community. There are also other donations on the basis of certain motivations which can reduce the burden of tax revenue to support public policy. The phenomenon of mutual cooperation and caring to help others through social donations emerged even more apparent when the Covid-19 pandemic entered a period of social restrictions.

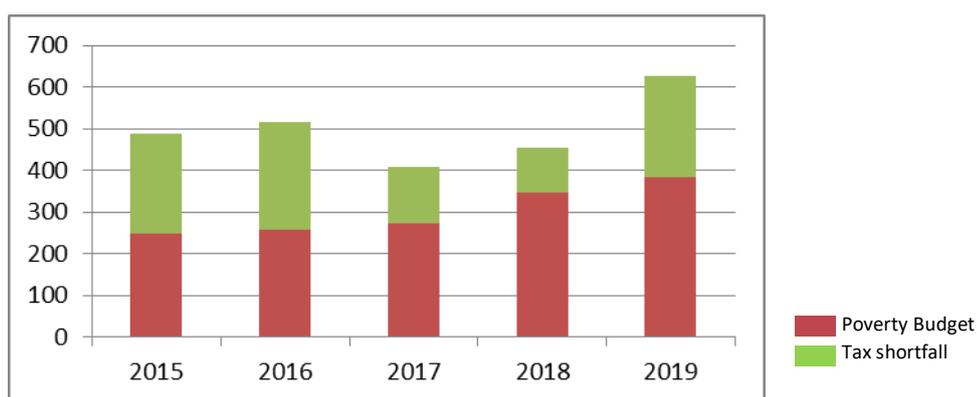


Figure 2. Poverty Budget and Tax Shortfall (Trillions of Rupiah)
 Source: <http://www.data-apbn.kemenkeu.go.id/> (data processed)

Several studies have revealed the role of zakat in economy in addition to its contribution to government account. All researchers agree that zakat could affect poverty alleviation as discussed by Khan (2007) and Atabik (2015). In terms of zakat fund to finance state budget, some researchers already discussed zakat integration from the view of legal aspect such as Subekan (2016), positive and Islamic law such as Tahir (2015), theoretical concept such as Kahf (1992), and Islamic jurisprudence such as Akbar and Kayadibi (2013). Most of them indeed focus on the legal and sharia discussion since zakat is borne within Islamic culture. This paper will complete the analysis of zakat integration within the framework of Indonesian experience and public financial management perspectives.

1.2. Objective

This research will examine various social facts developed around zakat integration by focusing on zakat mal, namely zakat imposed on assets with the terms and conditions set out in Islamic principles in supporting State finance. Zakat integration is definitely to include zakat as a source of state revenue to be managed according to the principles of state finance. By collecting experiences from practitioners in zakat, tax, budget, and public fund management, and verifying related literature, this research also attempts to reveal various challenges that may arise in the application of such integration.

The results of this study should be beneficial for Government of Indonesia in considering alternative sources of revenue derived from community contributions to religious obligations as a government portfolio in overcoming dynamic economic conditions. This research is also expected to contribute to academic studies related to the role of the use of donation instruments on religious awareness for state finances.

This research is organized in five sections. We start by elaborating the background, goals, and benefits of research, followed by theoretical ground and analysis of earlier studies. Qualitative data analysis will be outlined next as the method in this research, covering data sources, research instruments, data analysis techniques, and data validity tests. The results and analysis will come in the fourth section and the final section will cover conclusion and recommendations.

II. Literature Review

2.1. Background Theory

2.1.1. Charity Behavior

Although many studies place charitable behavior as a mystery, in some societies it is associated with tradition. Wang and Graddy (2008) called it part of the civil life of American society. This includes zakat which was originally paid voluntarily by each individual when the Prophet Muhammad was still in Mecca, but then became an economic obligation when he moved to Medina (Allami, 2015).

Allami's research (2015) also showed that there were 57 countries that applied zakat as a tax. However, in some countries such as Oman and

Morocco, zakat is still a charity activity. In these countries, there is no policy to compel individuals to pay zakat.

In reality, charity behavior appears as a social capital that raises voluntary behavior. Wang and Graddy (2008) mentioned that religious reason was one of the factors that influenced a person to donate and the amount he donated. This phenomenon of social capital can be attributed to the microeconomic concept of public goods that this type of goods can be available on the market not as a result of market mechanisms which rely on tradeoffs.

2.1.2. Zakat and Tax

Zakat and tax typically have many similarities. In the concept of zakat of property, zakat is withdrawn in a certain amount of wealth owned (Sabiq, 2005: 2), so long as taxes are collected from a certain percentage of taxpayers income (Big Indonesian Dictionary). In the event that the owner of the property falls into poverty or results in reduced assets, he may be freed from paying zakat (Sabiq, 2005: 29), as is the case that tax obligations will disappear automatically when a person's income falls below the prescribed taxable income limit (Regulation of the Minister of Finance No 101/PMK.010/2016).

Wittingly or not, taxes are an obligation for citizens. According to Adriani (2005: 2) tax is a contribution to the state (which can be forced) that is owed by those who are obliged to pay it according to regulations, with no achievement returned, which can be directly appointed, and whose use is to finance public expenditures in connection with governmental duties. Hosen (1990) and Soemitro (1988: 5) agree with Adriani's definition. This confirms that paying taxes is the obligation for every citizen whose results are used for the benefit of the administration of the State.

Meanwhile, zakat is obligatory for every Muslim individual who has fulfilled the requirements to issue zakat. One type of zakat is zakat mal which is part of a person's (also legal entities) assets that must be issued for certain groups, after being held for a certain period of time (haul), and surpassing a certain minimum amount (Kartika, 2006).

Recipient and issuer of zakat actually have special terms based on Islamic books. Muzakki is a person or institution that is required to issue zakat on certain assets. On the other hand, Mustahiq or often also called asnaf is a group of people who are entitled to get zakat as specified by the Koran. Among these groups are included the indigent and the poor.

2.1.3. The State's Role in Zakat

The institutionalization of zakat during the New Order period began with a speech by the President while commemorating Isra 'Mi'raj at the State Palace on October 22nd, 1968. In accordance with the President's recommendations in the speech, the Amil Zakat Infaq and Sadaqah (BAZIS) Board was formed, pioneered by the Regional Government of Jakarta Province.

In the reform era, Law Number 38 of 1999 concerning Management of Zakat was issued by the government. The government together with the House of Representatives (DPR) sought to advance the social and economic welfare of the nation by issuing the Act. Furthermore, the Decree of the Minister of Religion No. 581 of 1999 regarding the Implementation of Law No. 38 of 1999 and the Decree of the Director General of Islamic Community Guidance and Hajj Affairs Number D-291 of 2000 concerning Technical Guidelines for the Management of Zakat were issued. All of the laws issued above aimed to perfect the zakat management system in Indonesia.

In Law number 23 of 2011 concerning Management of Zakat, there are two organizations that are entitled to manage zakat, namely the National Amil Zakat Agency (BAZNAS) and the Amil Zakat Institution (LAZ). BAZNAS is an institution that manages zakat nationally, while LAZ is an institution formed by the community which has the task of assisting the collection, distribution and utilization of zakat.

Through the enactment of Law No. 38 of 1999 concerning Management of Zakat, government shows that, the rules of Islamic law have been transformed into positive state law. Thus, the rules of Islamic law in the field of zakat have become part of national law. Therefore, it is time to manage zakat professionally by applying transparency and accountability.

2.1.4. Zakat as State Revenue

Suparmoko (2002: 14) explained that state revenue was government revenue which includes tax revenue, revenue obtained from the sale of goods and services owned and generated by the government, government loans, money printing, and so on. State revenue both from within the country and from abroad is very important for the success of the national development process, especially government revenues from within the country in the form of tax and non-tax revenues as well as revenues from natural resources in the region.

Article 1 number 9 of Law No. 17 of 2003 concerning State Finance states that state revenue is money that goes into the state treasury. Article 1 of this

Law also emphasizes that everything in the form of money and in the form of goods that can be used as state property in connection with the implementation of these rights and obligations is part of the State's finances. Hence, state's obligation to advance public welfare as stated in Preamble of the 1945 Constitution combined with religious obligation that supports these goals (Atabik, 2015), ascertain zakat as state revenue. Using the current classification of state revenue, zakat can be included in the category of grants or can also be included as Non-Tax State Revenue. At present, state revenue can be divided into two, state revenue and grant and state financing (<http://www.data-apbn.kemenkeu.go.id/>).

2.2. Previous Studies

There are several studies that are aligned with the topic of this research. Some of them related their studies with public policy aspect such as poverty alleviation (Khan, 2007; and Atabik, 2015). Other studies discussed the integration of zakat funds as a source of state revenue. Subekan (2016) even stated that zakat had been part of state finance based on current Indonesian regulation in State Finance. In addition, Tahir (2015) proposed a concept of integration of taxes and zakat through legal transformation and the establishment of Directorate General of Tax and Zakat as regulator and supervisory body.

Moreover, Kahf (1992) examined zakat inclusion in State budget using seven assumptions and made several conclusions. Firstly, zakat could support budget revenue so that it could be used for other budgeting purposes. Secondly, indirect effect of zakat for government revenue included rising the potential for taxation through increasing community productivity, employment, and outputs produced and being policy tool to influence economic activity in society.

Research of Akbar and Kayadibi (2013) to some extent was close to the discussion in this paper. By using SWOT and Islamic jurisprudence for descriptive analysis, they argued that integration of zakat in government system should be realized.

In broader perspective, Miglietta et al. (2014) concluded that Civic Crowd Funding can be used as an effective tool for citizens to overcome the problem of budget deficits while monitoring the resources used for community projects. This paper then uncovered the broad resources of government revenue.

This research tries to grab all previous findings that have become consensus and settled. In one sense, this research supports the fact that zakat and poverty program by government cannot be segregated. We also recognize

that there are still ideological disagreements in society regarding zakat implementation which was exposed by previous studies (Akbar et al., 2013 and Tahir, 2015). As part of our major contribution, we add up the logic of government financial management which will finally influence the practice of policy to introduce zakat into the budget.

2.3. Research Framework

Based on the background and study of the literature presented, the research framework is illustrated in Figure 3 below. In this picture, the basis of zakat and tax is equally influenced by socio-economic conditions due to its relationship with people income. Tax revenue will grow as GDP grows and zakat collection will also grow in line with GDP growth. Besides, it is also influenced by perception of Muzakki and their beliefs (Firdaus et al., 2012). Zakat integration is expected to reduce the burden on the State Budget if integrated into poverty alleviation programs as stated by Khan (2007) and Atabik (2015). Including zakat as budget deficit reduction is supported by research of Kahf (1997) which took the case of Pakistan.

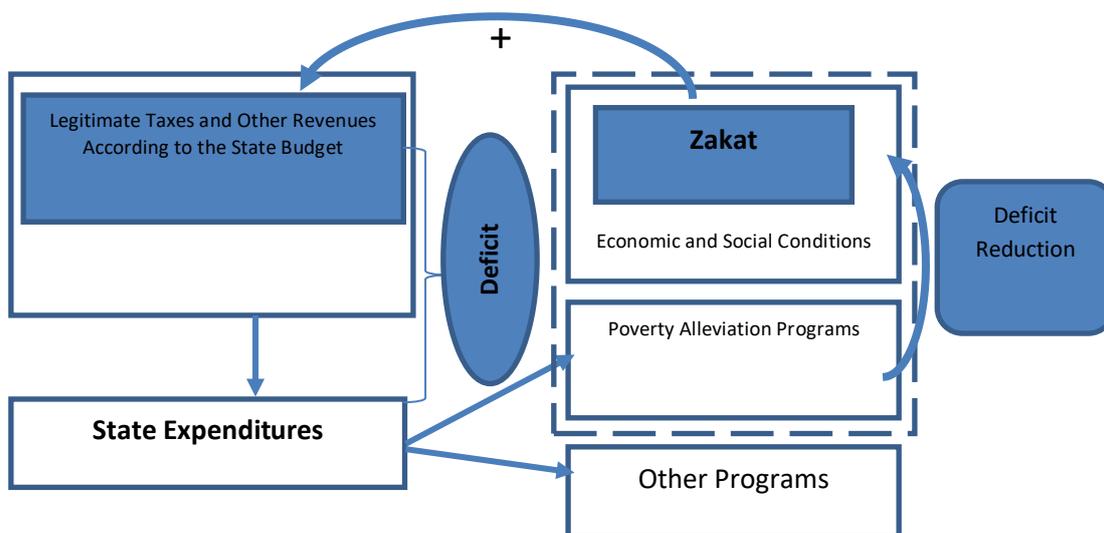


Figure 3. Research Framework
Source: Author

III. Methodology

3.1. Data

The first type of data used in this study is primary data in the form of semi-structured interview results. Determination of the interviewees was conducted purposively, selected with specific considerations and objectives, and presented as initials, namely: MHZ who is an Islamic economist and practitioner at a zakat body domiciled in Jakarta, SIBA who is an employee at the Fiscal Policy Agency, Ministry Finance, HA is a representative of a taxation institution, AS who is an academic at the Education and Training Agency of the Ministry of Finance, RHP who is academic of sharia finance in State Polytechnic in Jakarta and formerly worked for Directorate of Debt and Grant, Directorate General of Risk Management and Financing, Ministry of Finance, and Mrs. EA who is a pioneer of school of sharia finance and accounting trainer in State Polytechnic in Jakarta. Second, secondary data used includes laws, journals, theses, books or other literature from the website, including quantitative state budget data relating to zakat management and state revenue.

3.2. Method

The method used in this research is descriptive qualitative. The qualitative method is chosen because zakat integration as state revenue is still developing in Indonesia and needs to be explored in greater depth. Data mining is used to understand the problems that occur because of social life (Creswell, 2014: 41). In addition, there are many aspects related to the phenomenon under study such as social, legal, public administration, and religious aspects with diverse characteristics. Thus, qualitative methods are very suitable to be applied in order to fully absorb the phenomenon.

The nature of this research is descriptive. Neuman (2014: 38) explained that descriptive research was a research that aims to provide a clear picture of an event using words or numbers. The description of this study begins with the depiction of the fact of the integration of zakat into the ongoing state revenue where there are groups of data that are further analyzed into challenges that want to be revealed. This analytical approach is in accordance with the inductive approach, which according to Sekaran (2006: 36) is a process in which the researcher observes a particular phenomenon and finally arrives at the final conclusion (Neuman, 2014).

Based on the literature review, this research approach emphasizes the interpretation of the fact of the integration of zakat in Indonesia. The interpretivism approach, which according to Strauss and Corbin (2007) was the result of an in-depth exploration of real phenomena that were complex but rich in meaning, was emphasized by describing and explaining the dynamics of zakat integration as state revenue in Indonesia.

3.3. Data Analysis

Miles and Huberman (1994) stated that the qualitative data analysis was carried out interactively and continuously until the data is saturated. These activities include data reduction, data display, and conclusion drawing or verification.

Data reduction in this analysis is done by summarizing, choosing the main things, focusing on the important things, looking for themes and patterns. Data obtained in the field is written in the form of a detailed description or report. Data reduction helps researchers to get a clearer picture, and makes it easier for researchers to do further data collection and look for it if necessary.

Furthermore, the presentation of data (data display) is done using narrative text (Miles and Huberman, 1994). Finally, data obtained are categorized and searched for themes and patterns for drawing final conclusions. The initial conclusions put forward are still temporary and will change if no strong and supporting evidence is found at the next stage of data collection.

The validity of the study is also considered. Samples of selected informants who tend to be purposive are done by considering several things that are relevant to the problem of this study. Considering that the fundamental issue in this research is about zakat and state revenue, the determination of subject matter expert who masters Islamic law and the laws and practices of state finance as well is considered to guarantee the fulfillment of construct validity.

Internal validity was also carried out in this study by extending the observation, increasing perseverance, triangulation, and using reference material (Sugiyono, 2016: 270). For external validity, it is done by writing a research report with a detailed, clear, systematic and reliable description. Examination of the results also involves many parties, namely the review team consisting of three people.

IV. Results and Analysis

4.1. Results

4.1.1. View of Zakat as an Alternative to State Revenue

In Indonesia, zakat as state revenue undergoes a pro and a contra. SIBA did not give an argument to agree or disagree with the idea. He stated that to enter into state revenue zakat must be included in the State Budget (APBN). For the time being, the use of zakat funds is only for social spending and the zakat fund cannot be used for capital expenditure. This argument is supported by RHP who mentioned 8 asnaf as the channels of zakat spending.

There is a positive side if the amount of zakat revenue covers the magnitude of social spending needs. This means that there is state revenue other than taxes allocated for social spending such as subsidies, so that the portions of other state revenues can be spent on the other development programs. Even so, the government must also look again at the use of zakat in terms of religious law whether it matches the current expenditure model. Currently, government does not look to whom budget spending is channeled, whether to Muslims or non-Muslims. If the social expenditure of zakat is only allowed to be given to Muslims, the allocation of spending will be more complicated.

Furthermore, the interviewee HA said he agreed if there were other sources of revenue other than tax. He stated that in the past few years, the tax revenue had only been around 80%, and the support from other sources was inevitably required. RHP suggested that zakat could complement tax as state revenue since taxes are of several different characteristics to zakat. Generally people are obliged pay taxes because of the rules. On the other hand, zakat is actually willingness, just like people going on the pilgrimage, even though they pay dearly, they are willing to sacrifice voluntarily. This means that the obligation to pay zakat and the obligation to pay taxes are supported by different motivation that affects people's behavior. If we talk about sharia finance, Muslims are even encouraged to carry out zakat and waqf both in rich and in poor conditions and this becomes an advantage of zakat when tax revenue decreases due to economic conditions. Therefore, he agreed upon zakat integration and regretted that this potential has not been optimized by the government.

AS agreed upon HA statement, that zakat was used as an alternative to state revenue. In Subekan (2016), he explained the legal basis which could include zakat as state revenue. Article 2 letter i of Law No. 17 of 2003 reads that the wealth of other parties obtained using facilities provided by the government are included in the State finances. In the explanation of the Law, it is stated that the wealth of other parties as referred to letter i includes assets

managed by other people or entities based on government policy, foundations within the ministry and institution, or state and regional company. Meanwhile, BAZNAS is a body formed by the government to manage zakat. From this description it can be interpreted that zakat is a part of state finance.

AS's opinion was quite similar to EA's who also agreed upon zakat integration as state revenue, especially to help the poor and the needy. She argued that from the state law (constitution and zakat law) and Islamic law from Koran and Hadith, it is clear that there is no contradiction in this matter. Both support Muslims who are obliged to pay zakat. To protect its people as mandated by constitution, it is very appropriate that government uses zakat, one of which is for the poor. For that reason, it could be translated that zakat is government's right to collect.

MHZ as practitioners from the zakat body thought almost the same as HA and AS. He agreed that zakat became state revenue, but its use must remain in the corridor as managed by BAZNAS. In addition, he added, the recognition of zakat as state revenue must still pay attention to its principles. Zakat must be collected and redistributed in the same year. The use of zakat funds must also remain flexible as currently practiced by BAZNAS, it could not be treated like state budget mechanism which is considered rigid as it is today.

Based on the interviews conducted, the respondents had different opinions. They agreed with the idea of zakat as an alternative source of state revenue with certain conditions, especially in terms of utilization. The interviewees' answers can be summarized in table 1.

AS also asserted that the state might be involved in the management of zakat because one of the goals of establishing a state was to support the implementation of religious obligations carried out by citizens. This opinion was reinforced by Tahir (2015) which stated that without the intervention of the state, the implementation of zakat obligation became less effective.

Table 1. Zakat as State Revenue

Interviewees	Opinion	Challenge
MHZ	Agree	Spending flexibility
SIBA	Do not give opinions	Earmarking Revenue
HA	Agree	n/a
AS	Agree	n/a
RHP	Agree	Revenue Portfolio
EA	Agree	Government's Right to collect

Source: Author

4.1.2. Formulation of Zakat Regulation as State Revenue

Even though the rules of collecting zakat have already been mentioned in the Koran, to become a state revenue, special rules are still needed to regulate them. This requires the government as a regulator to make rules in its collection. The state can make zakat a compulsory levy like a tax because the government has the authority to make binding regulations on zakat funds. The need for this rule of law must be well planned by parties related to the collection, distribution, and administration of zakat.

According to SIBA, to make zakat a state levy, the collection must be regulated in a law. In the 1945 Constitution there is an article states that mandatory levies must be regulated by law. The parties involved in the process of drafting the law are the government as the executive and the House of Representatives (DPR) as the legislative body. The government as executive consists of the Ministry of Finance; as an agency that handles State finance, the Ministry of Religion, the Ministry of Social Affairs, and the Coordinating Ministry for the Economy.

In line with that, MHZ stated that the parties involved in zakat regulation were mainly the Ministry of Finance from state revenue point of view, which is also mentioned by EA. As for the program, it can involve the roles of the Ministry of Social Affairs, the Coordinating Ministry for the Economy, the National Development Planning Agency and the state institutions related to current the BAZNAS program. At present, BAZNAS has large programs that support government programs such as economic, humanitarian, educational and religious programs. The economic program can be integrated with the Coordinating Ministry for the Economy, the education program can be integrated with the Ministry of Education and Culture and the Ministry of Research, Technology and Higher Education, the health program can be integrated with the Ministry of Health.

AS said that those who should be involved in the process of drafting the Law for zakat integration are the government, Islamic community organizations, and Muslims themselves. Technically, the government is the Ministry of Finance, while the Muslim side is the body that is a manifestation of Muslims, namely the Indonesian Ulema Council (MUI). The MUI membership also consists of several sizable Islamic community organizations such as Nahdlatul Ulama, Muhammadiyah, and other Islamic community organizations.

According to RHP, the government could indeed regulate zakat through state budget law. In order to regulate the technicality, it must refer to the sharia principles and fatwa from the ulama so that the sharia principles are

maintained, because the competence to keep it in accordance with sharia rules is in the sharia experts, not in the government.

Observing these various opinions, there are at least three parties that need to be involved in the formulation of zakat regulations as state revenues as well as obligations for citizens. House Representatives, Ministry of Finance and other Ministries or Institutions that have the same program outcomes as BAZNAS, and other non-governmental institutions such as MUI and Islamic community organizations are among the required parties as summarized in Table 2. The zakat regulation must be in the form of a law, as stipulated in the 1945 Constitution article 23A that taxes and other levies that are coercive for the purposes of the state are regulated by law. So as such, political and legal issues become the next challenge of zakat integration in Indonesia.

Table 2. Zakat Regulation Formulation as State Revenue

Related parties	Role	Challenge
House Representatives	Regulation Establishment	
Ministry of Finance	Revenue and Expense Administration	
Ministry of Religion; Ministry of Social Affairs; The Coordinating Ministry for Economy;		
Ministry of Education and Culture; Ministry of Research, Technology and Higher Education;	Distribution of Zakat	Politics and law
Ministry of Health; Ministry of Law and Human Rights; National Disaster Management Authority		
BAZNAS	Zakat Collector and Distribution	
MUI and Islamic Community Organizations	Religious fatwa issuance	

Source: Author

4.1.3. Zakat Management Framework as State Finance

4.1.3.1. Zakat Management Mechanism as State Finance

Based on the 2019 National Budget, the total poverty budget is 382.4 trillion Rupiah (Figure 2) or 15.5% of the total expenditure budget. This value even exceeds the budget deficit in that year of 296 trillion. With the assumption that this poverty budget can be covered by the collection of zakat, there is great potential to further reduce the state budget deficit.

According to Subekan (2016) there are two mechanisms that can be used in managing zakat funds, namely through the State General Cash Account

(RKUN) and using the Public Service Agency (BLU) mechanism. In RKUN mechanism, zakat funds are treated as third party funds, which are deposited using zakat account codes. The second mechanism is that zakat funds are managed in the same way as BLU funds that has the discretion to use the funds it receives directly without having to deposit it in advance to the State Treasury Account.

In addition to business process discussed above, RHP reminded that withdrawal and spending of zakat must be directed to spending supported by a fatwa from the ulama. Therefore, government procedure must be combined with the scholars' argument (fatwa) to manage zakat spending comply with sharia.

Nowadays, in addition to BAZNAS, there are institutions that assist the process of collecting and distributing zakat, namely LAZ. Some LAZs have also been recognized by the government in Regulation of the Director General of Tax number PER-11/PJ/2017. The question that arises next is how the institutional status of LAZ when zakat has been integrated with State finances. In fact, LAZ is not a body formed by the government. According to AS, LAZ can be embraced by the government in the management of zakat. They could simply report and deposit funds received from muzakki, then an additional column titled transfer via LAZ can be added to the zakat deposit letter. Because zakat has been integrated with State finance, BPK (Supreme Audit Board) can audit the institution.

4.1.3.2. Distribution of Zakat Funds

Zakat is an economic instrument that can be used to reduce poverty. With the budget, government has prepared various ways for this goal including activities to help low-income people, poverty alleviation, and poverty prevention. The government provides an allocation of funds called the poverty budget. Programs included in the poverty budget include the family of hope program, food subsidies (rice for the poor), school operational assistance, health operational assistance, public health insurance, National Community Empowerment Program (PNPM) for urban and rural area, rural infrastructure, tourism, village funds, community business credit and cooperative empowerment, low-cost electricity programs, and low-cost housing programs (<http://www.apbn.kemenkeu.go.id>). From those various government poverty alleviation programs, there is compatibility with the groups that are entitled to receive zakat. Almost all of these poverty alleviation programs are in line with the expenditure orientation required for zakat. When the receipt of zakat is directed to spending aimed at asnaf then it is none other than social spending.

There are interesting things that we need to check out related to rural infrastructure spending. MHZ said BAZNAS had built infrastructure in the form of clean water facilities in Tegalwaru village. Until now the infrastructure that is allowed to be built from zakat funds is the construction of clean water and sanitation facilities. This was done following Fatwa Number: 001/MUNAS-IX/MUI/2015 concerning Utilization of Zakat, Infaq, Sadaqah, and Waqf for the Construction of Clean Water and Sanitation Facilities for the Community. If examined further, the development of clean water and sanitation is part of the 2015-2019 National Medium-Term Development Plan.

It can be seen that there is harmony between government programs and the use of zakat funds. In fact, the distribution of zakat funds does have its own limitations. MHZ said that the social programs under the government are still too complicated. Complete documents are needed in order to authorize cash disbursement. In addition, zakat has the principle of being accepted and distributed in the same year.

Responding to this situation, SIBA states zakat will be classified as earmarking since it can only be used on social spending. Proceeds from zakat funds will be earmarked to cover the portion of social spending in the budget. Earmarking is a government policy in using budgets whose revenue sources and expenditure programs will be specifically determined for their purpose.

In public policy theory, efficient use of the budget for the government is important. Earmarking is one step to achieve budget efficiency (<http://www.fiskal.kemenkeu.go.id>). One example of a country that uses earmarking is Turkey. The mass housing fund is the second largest spending budget in Turkey. These funds are obtained from imported goods taxes, supplementary value added taxes, and petroleum product taxes. The allocation of these funds is to provide credit for small housing and land acquisition (McLeary, 1991).

4.1.4. Integration in Increasing Collection of Zakat

4.1.4.1. Causes of Low Realization of Collection of Zakat

BAZNAS noted that zakat, infaq and sadaqah funds collected by government and private Amil institutions nationally in 2015 only touched IDR 3.7 trillion or only reached 1.3% of its potential. Mukhlis and Beik (2013) stated that the majority of the Muslim population in Indonesia were still reluctant and less motivated to pay zakat, especially zakat mal.

MHZ said that public awareness to issue zakat is still very low so that the current receipt of zakat does not reach 10% of the existing potential. Another

cause is no regulation obliges the payment of zakat for those who are rich. The existing Zakat Act does not yet integrate zakat as part of the State finances. In addition, the lack of socialization in the community is also the cause of the low collection of zakat.

According to AS and supported in part by EA, currently the government has not made regulations that regulate sanctions for non-compliance zakat payer. Even tax obligations that have clear sanctions are avoided by taxpayer. However, the government requisition of zakat will also raise the potential concern from the public if the zakat funds will be misused.

The same opinion was stated by HA, who said that although zakat is obligatory according to religion, there is still the issue of compliance in it. Thus, this pattern of behavior will be similar to the fact of tax revenue faced by the government, where the realization of revenue always misses the target set each year.

The data description above can show the causes of the low realization of zakat receipts. Among others, the management of zakat now is not maximally encouraging awareness of paying zakat. There are also lack of socialization and regulatory issues in zakat collection. This is in line with the findings by Mubarok and Fanani (2014) which stated that the low collection of zakat in Indonesia is influenced by the lack of public trust in Amil zakat institutions, low understanding in the calculation and distribution of zakat by Muslim community, and the absence of sanctions for anyone who does not pay zakat.

4.1.4.2. Efforts to Increase the Collection of Zakat

The low acceptance of zakat funds currently requires careful efforts in handling them. If later zakat is used as state revenue, adequate efforts are needed so that the receipt of zakat funds can be realized optimally to support the poverty program that is being run.

Various efforts have been made to increase the receipt of zakat at this time. MHZ alluded that INPRES Number 3 of 2014 concerning Optimization of Zakat Collection in Ministries/Institutions, General Secretariat of State Institutions, Secretariat General of State Commissions, Regional Governments, State Owned Enterprises, and Regional Owned Enterprises through National Amil Zakat Agencies, Civil Servants, Employees of State Enterprise and Regional State Enterprise as an appeal to pay zakat through BAZNAS is still considered ineffective. This is because the nature of INPRES does not strongly oblige and put sanctions for related institutions that do not implement it.

At present, BAZNAS is working on proposing more powerful regulation of zakat collection. In addition, BAZNAS also proposes that zakat can be a substitute for tax, whereas the current zakat payment position is only as a deduction from taxable income. According to him, if both proposals were accepted, the receipt of zakat would increase by 40 trillion rupiah.

Aside from the regulatory aspect, BAZNAS also seeks to strengthen public trust in the accountability side by conducting internal audits, external audits, and ISO standardization. Additionally, BAZNAS also always improves service, transparency of reporting, and professionalism of human resources in the management and distribution of zakat.

According to AS, to increase public awareness in paying zakat, the government needs to increase their trust in zakat management organizations. Furthermore, the government needs to expose as much detail as possible about the management of zakat to the public by the Islamic scholars. The scholars are easier to instill trust in the community compare to the government itself. Transparent zakat management is also an effort that can be done to increase public trust.

In line with all of that, HA believes that to increase public awareness to pay zakat while paying taxes, the Directorate General of Taxes (DGT) has cooperated with the scholars. The DGT entrusts the scholars to explain that tax is as important as zakat, and the payment of zakat can be used as a deduction from gross income.

From the three respondents' arguments, the government can perform its role to increase the receipt of zakat. First, government can increase public trust in zakat management institutions established by the government. These efforts include increasing transparency and accountability in the management of zakat. Mukhlis and Beik (2013) stated that public trust in zakat management organizations could be raised by increasing the professionalism of zakat institutions, improving the quality of services in terms of transparency in management, socialization, and administration whose impact will increase muzakki's compliance in paying zakat. With the increase in obedience and trust from muzakki to pay zakat at zakat institutions, the receipt of zakat will also increase along with its potential. Huda and Tjiptohadi (2013) stated that as an effort to increase the receipt of zakat, real actions were needed so that muzakki would pay their zakat to the zakat institution. The utilization of zakat funds will be more optimal by zakat institutions rather than giving directly to mustahiq.

Secondly, government needs to cooperate with Ulama (scholars) regarding zakat funds management. Syahrullah and Ulfah (2016) stated that one of the

causes of the low collection of zakat is the low understanding of the obligation of zakat by muzakki. Socialization of the obligation of zakat becomes a necessity to increase the receipt of zakat. The socialization on zakat does not only emphasize religious aspects, but also emphasize economic aspects and social responsibility especially for people in need. Efforts to influence muzakki to pay zakat through zakat institutions can also be applied to increase muzakki's understanding of zakat obligations.

The third effort that can be done is by strengthening regulations regarding zakat. As a consequence of the passing of the Zakat Law, the government from the central to the regional level is obliged to integrate the policy with these rules.

In Law Number 23 of 2011, the obligation to pay zakat has not yet been regulated. In that case, there are no sanctions that can be imposed on muzakki who does not pay zakat. In the Act there is an article that mentions facilities for muzakki to be able to reduce the taxable income of zakat that has been paid. The tax institution should be able to make optimal use of the facilities provided.

According to AS, until now the zakat infrastructure provided by the government is just exclusively in the formation of BAZNAS and BAZDA, but has not yet reached its collection. BAZNAS and BAZDA are considered underperform on the collection of zakat. As a form of worship, zakat has merit and sin consequences even though government does not provide maximum services to Muslim communities.

4.1.4.3. Zakat as a Tax Credit

Making zakat a tax credit is one step to prevent muzakki, who also become taxpayers, from the imposition of double levies. For Muslims, zakat and tax are two parallel obligations. Someone who has paid zakat to BAZNAS as an institution formed by the government is still burdened with a next obligation namely paying taxes on his income. Vice versa, someone who has paid taxes to the state with a nominal value that is higher than zakat, is still required to issue zakat on the object of the same assets and income.

The basis for calculating zakat on income is from gross income. This is specified in the Decision of the Chairperson of the National Amil Zakat Agency Number Kep.01/BP/BAZNAS/XII/2015 which states the level of income zakat is 2.5% of gross income. As an illustration, this study presents a simulation of two different treatments namely, treatment I of zakat as a deduction of income, while treatment II of zakat as a tax deduction in the following table 3.

In treatment I, as regulated by law No. 36 of 2008 and Law No. 38 of 1999, the zakat that must be issued is IDR 2,500,000.00 and the income tax liability that must be borne is IDR 2,175,000.00. Therefore, the total zakat and tax that must be paid is IDR 4,675,000.00. The impact of treatment I is that a person will be hit by two types of deductions on the same income object. In treatment II, the tax liability was amounted to IDR 2,300,000.00, while the taxpayer had paid zakat of IDR 2,500,000.00, so there was no tax payable even there was overpayment of IDR 200,000.00.

Table 3. Illustration of Zakat Treatment

Item	Treatment I	Treatment II
Gross income	100,000,000	100,000,000
Non-taxable income (PTKP)	(54,000,000)	(54,000,000)
Taxable income (PKP)	46,000,000	46,000,000
Zakat (2.5%) of gross income	(2,500,000)	
PKP after zakat	43,500,000	
Income tax payable (5%)	2,175,000	2,300,000
(Zakat)		(2,500,000)
Income tax due after zakat		(200,000)
		Overpayment

Source: Author

By making zakat as a tax deduction, the public can avoid double levies in the form of zakat and in the form of taxes. Government has an important role in efforts to increase the payment of zakat in society, one of which is through the zakat policy as a tax deduction before considering their personal perspectives towards this issue (Al-Mamun & Haque, 2015).

Regarding zakat as a tax deduction and its impact on state revenue, the interviewees have almost the same answer. AS and EA strongly agree if zakat is treated as a tax deduction. According to AS, there are several advantages if zakat is used as a tax deduction.

First, the public will try to pay zakat, because this will reduce the tax he or she has to pay to the state. Second, spiritually someone has carried out religious orders through payment of taxes. Zakat is a religious teaching that is different from tax as a consensus between the people and the government. In the Islamic perspective the basis of tax law is not as strong as zakat, even though the tax still has to be paid. The third advantage is that people will try to be more honest. At present the public tends to cover their tax obligations towards the state. If later the zakat is determined as a deduction from the tax, there will be a link between the income data on the zakat report and the tax report. The Directorate General of Taxes may cross-check between reported income data and deducted zakat. For people who sincerely carry out religious orders, he or she will try to provide correct data.

The same thing was expressed by MHZ that he also agreed to make zakat as tax deduction. According to him, Bank Indonesia has also stated that if zakat is used as a tax deduction, there will be an increase in tax revenue. This is because people who have paid zakat but are not monitored by the DGT will automatically be known. Malaysia has also proven the effectiveness of this practice from 2002 to the present. When the law stipulates that zakat can be used as a tax deduction, there is no decrease in the tax revenue even both zakat and tax revenue have increased.

SIBA states that if zakat is used as a tax deduction, it must be integrated with state finances. If it is not integrated with state finances, this condition can reduce tax revenues and narrow the government's fiscal space. If fiscal space becomes narrower, the more financing will be needed, and the interest burden will also be funded by tax revenue. If zakat is integrated with state finances there will be no change in state revenue, only tax revenues will go down. He added that there is a psychological possibility that if zakat enters state revenue, the public will increasingly believe in the government's credibility which is more in line with religious principles. If trust increases, they are not reluctant to pay their obligations as Muslims.

Related to this, HA stated that mathematically it might be possible that state revenue would increase if the taxpayer or muzakki realized that zakat could later be a tax deduction. It could occur if civil servants who have already paid zakat affirm by not utilizing overpaid status or not restoring it. But if everyone thinks of making a refund, there is a possibility that tax revenue will fall. If there is an increase in revenue, it may come from the multiplier effect.

Based on the respondent's answer, generally there will be no decrease in state revenue if zakat is integrated as a source of state revenue. On the contrary, integrating zakat will increase taxes as well as state revenue. This opinion is supported by Suprayitno et al. (2013) in his research on the role of zakat in Malaysia and its impact on tax revenue. He concluded that the existence of zakat as a tax deduction caused government tax revenue increased. As a tax deduction, zakat provides incentives for Muslim communities to be more honest and correct in filling their own tax burdens. Kahf (1992) also concluded that zakat will support taxation through increasing the productivity of the community, employment, and the resulting output.

From the arguments that have been described, it is very possible if zakat is treated as a tax credit. Meanwhile, according to HA, zakat is only known in Islam, so there must be certain comparable practice to stipulate it in a national legal rule.

4.1.4.4. Challenges in Zakat Integration as State Revenue

Some of the narratives above have revealed a number of facts about zakat integration as state revenue. Some of these challenges must be considered by the government to enact zakat as an alternative source of state revenue. These obstacles and challenges must first be resolved before the integration policy is implemented. Based on the information from the informants, they gave different opinions about these challenges.

MHZ stated, the first challenge was that the zakat program had not yet integrated with the government programs. Zakat programs are currently not included in the TNP2K (National Team for the Acceleration of Poverty Reduction). In fact, by its function, the zakat programs are very suitable to be a poverty alleviation program. The position of BAZNAS which is unclear in the government at present followed by low supervision by authorized body dilute confidence of the programs created by BAZNAS. Furthermore, MHZ also revealed that there is a fear that if zakat is used as state revenue, the allocation process of zakat funds may experience obstacles, because they have to go through the parliament.

According to AS, the first challenge of zakat integration is how the government increases public awareness. The second is the issue of regulation because the current Zakat Act does not yet integrate zakat as part of state finances. Third is socialization to the community and the fourth is the preparation of instruments and institutions that are given the authority to collect and distribute zakat.

The fifth challenge comes from Muslims themselves who might argue that zakat is not a state matter but a matter between him and his Lord. The sixth challenge is the Muslim faith towards regime in power is still fluctuating. According to him, this condition should not occur. Lastly is the challenge of jealousy from other religious communities who will feel Muslims are privileged if the rules of zakat are taken over by the State, even though the principle of our State does not explicitly refer to Islamic state.

SIBA stated that several issues could be the challenges of zakat integration. The first is political issue, such that there will be issues regarding the basis of the state if zakat is included as an obligation in the law. By calling zakat as state obligation, it can be indirectly perceived that our country is an Islamic state. The second challenge is that the government must have managerial skills that are free from corruption. The next challenge is in terms of administration where the government must add a special system of revenue and expenditure for zakat.

RHP stated in sturdy statement that there are no obstacles to integrate zakat as state revenue with the existing state budget conditions. The biggest obstacle is trust from the public to the government. Because even in terms of taxes which is in the government's domain, what do they want to use it for is still in doubt by public. If we talk about zakat, we really need to ask whether the government can convince the public. People needs assurance that government will carry out zakat according to the rules and it is not corrupted or something else utilized, otherwise they would be better channel it elsewhere. Thus, trust is the highest challenge.

In line with AS, EA revealed that the obstacle may exist, namely from the community itself. As a comparison, when the government issues cash waqf link sukuk, concerns and questions arise in the community of whether this will cause the waqf funds in mosques to be taken over by government. That is an example how to deal with zakat that has long been a social capital. However, EA disagrees if zakat integration could cause jealousy as mentioned by AS. She sees from the example of the issuance of sharia-based State Sukuk and even the government has formed an echelon II unit, namely the Directorate of Sharia Financing. All parties support this policy and there is no jealousy from other religions. This is because all government policies are well-intentioned and in order for the welfare of society.

According to HA, the first challenge of zakat integration lies in its use and how to make it mutually supportive with tax revenue. Furthermore, even though zakat is only known in Islam, arrangements in other religions must be sought for comparable instruments. The challenges outlined by the interviewees can be grouped into several themes. These groupings can be seen in Table 4.

Table 4. Challenges of Integrating Zakat (organized according to Theme clusters)

No	Obstacles	Theme
1	Unifying government programs with asnaf	Distribution
2	Distribution process	
3	Strong zakat institution	Institutional
4	Watchdog	
5	Public Trust	Socialization
6	Increased compliance	
7	State ideology	Regulation, politics, law
8	Alignment of rules with other religious communities	
9	Earmarking Revenue	Administration
10	Spending flexibility	

Source: Author

4.2. Analysis

This study has revealed various social facts around zakat integration from the aspect of state revenue administration. To be managed according to the principles of state finance we can see zakat integration challenges from the perspective of actors who experience hardship and aspects of administration and management of state organization. By using qualitative data analysis, findings are narrated from interviewees' answers. Major findings of this study are summarized in Table 4. Each challenge in the five themes that we state in the table is not new indeed, however we could present them in more details into ten areas of obstacles. These detail obstacles are considered significant factors to reach successful zakat integration.

All themes revealed in table 4 are considered mutually inclusive. The success of zakat integration into state finance is the combination of regulation, socialization, institution, distribution, and administration matters altogether. Findings of this study could complete what Subekan (2016) said that zakat had been part of state finance based on current Indonesian regulation in State Finance. Our state finance regulation which was born as spirit of reform has already claimed zakat as part of state revenue due to state revenue definition coverage. However, we see that his study is slightly limited to administration point of view. Social contribution from religious motivation should be managed differently and its integration into state matter needs further and comprehensive approach.

These findings also support the research of Tahir (2015) that proposed the establishment of institution to concurrently manage zakat and tax (second theme in table 4). What we find further is that strong zakat institution is achieved if it is under government body that occupies government power like Directorate General of Tax, not like BAZNAS right now. Even after it is established with strong authority, government can optimally supervise its operation with ex-post control mechanism by State Audit Board.

State finance is a system of social and economy including politics which support the welfare of a country. From this perspective, we believe that zakat as country resource delved from the social capital must be managed comprehensively by considering all five themes altogether. The current management of zakat in Indonesia faces several limitations since it only fits the theme of administration but we lack to execute other themes. To execute all these five themes, we can manage them gradually.

One of the stepping stone to integrate zakat that is really suitable with this pandemic situation is to implement zakat as a tax deduction. Even though Farid (2008) proved in his research that there were several obstacles to the application of zakat as a tax credit in personal income tax in Indonesia. These

constraints include institutional, no sanctions in the Zakat Act, lack of public trust, religious and administrative issues. In contrast, government could perform its tax credit policy to counter this issue. This policy is also a form of government socialization of tax benefit that recognizes zakat as an important social capital in society. As shown in Treatment II table 3, tax credit from zakat will give people an incentive to pay taxes. The existence of this incentive can increase community compliance in paying taxes in one side and enhance social altruism in other side.

Even with some significant results that we capture in this study, we recognize some limitation to generalize this result. The respondents indeed conform to the requirement for their experience and knowledge both in state finance and zakat, as we duly follow Creswell (2014) for narrative and phenomenology research. Even though we strongly satisfy with the result as initial information during the time limit, more data must be better. Further research should consider expertise of respondents including its number.

V. Conclusion and Recommendations

5.1. Conclusion

State Budget performance in sustaining state expenditure needs to be supported by alternative revenues that emerge from social capital in the community. The government can make zakat an alternative source of state revenue given its great potential and its compatibility with the poverty alleviation program that is being carried out by the government. The integration process will be greatly influenced by the conditions of the views of the community upon the State institutions and the mechanisms that operate within them. The integration of zakat as an alternative source of broad state revenue will experience several challenges, namely: uniting government programs with asnaf, distribution process, strong zakat institutions, supervisory institutions, public trust, increased compliance, state ideology, alignment of rules with other religious communities, revenue earmarking, and spending flexibility. The next challenge is the effort to increase the receipt of zakat if it has been integrated with state revenue. Efforts to increase the receipt of zakat are: increasing public trust by increasing the transparency and accountability of the zakat management body established by the government, increasing muzakki's understanding of the obligation to pay zakat through socialization, and making zakat as a tax credit.

5.2. Recommendations

The results of this study provide recommendations for more specific study of both state finance law and Islamic law for the allocation of zakat funds to the government's poverty budget. As a gradual process, government and zakat institution (which is basically controlled by government) should synergize in socialization of obligation of zakat on property through collaboration with Islamic scholars and community organizations, which could also be enhanced by serious accommodation in tax credit policy. Islamic scholars and community organizations will be more trusted by the public in conducting socialization in aspects beyond policy. Further research should analyze zakat as a tax credit with in-depth study on society behavior of its implementation in an effort to increase state revenue, accompanied by economic, social and religious approaches. Finally, government should establish integrated muzakki database and taxpayers or otherwise synchronized. Synchronizing this data will strengthen the tax base and zakat base which will make it easier for government institutions to coordinate and supervise and further enable all citizens to be facilitated by banking sector. The integration of zakat into tax revenue is also considered as opportunity for Islamic banks to grab great potential market of Indonesian Muslim citizens.

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