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ZAKAT AND SUSTAINABLE DEVELOPMENT GOALS: A REVIEW ON ZAKAT COMPUTATION AND DISCLOSURE AMONG ISLAMIC BANKING INSTITUTIONS IN MALAYSIA

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Abstract: *The most crucial step in reaching the sustainable development goals (SDGs) is reducing poverty, and zakat as a wealth distribution mechanism has an impact on this goal. Islamic banks' zakat payments contributed significantly to lowering poverty levels. As a result, Islamic financial organisations that satisfy the requirements must fulfil their corporate zakat responsibilities in accordance with standard given. Additionally, the bank needs guiding principles, including the zakat calculating procedure, for assessing commercial zakat. Hence, the purpose of this study is to look into how Islamic banking institutions in Malaysia compute and disclose their zakat currently. The study initially employs content analysis of the annual report. The annual report of 16 Islamic banks for the year 2021 are used to analyse the current zakat computation method. Using the content analysis technique, this study discovered that the growth method is the most desired method, used by six banks, followed by the working capital method, used by five banks. According to the study, the methodology employed by Islamic banks to calculate zakat vary from year to year, with some banks seize up to utilise a consistent system. This study will not only improve comprehension of Islamic accounting literature, specifically zakat computation methods, but will also provide useful insights for practitioners and relevant authorities. Each Islamic bank should have a clear policy in place for assessing accurate commercial zakat, including the zakat computation methods.*

Keywords: Zakat, Islamic Banks, Computation, Disclosure

1. Introduction

Islamic banking is a banking system that provides financial services and facilities to Muslims based on Islamic law, commonly known as Shariah. It differs from traditional banking in that it seeks to adhere to Islamic economic and financial principles such as avoiding transactions with excessive uncertainty (*gharar*), gambling (*maysir*), or interest (*riba*). Since its inception in the 1990s, Malaysia's Islamic banking business has grown swiftly and has emerged as a formidable competitor to traditional banking. As of December 2019, the assets of Malaysia's Islamic banking sector reached USD 254 billion, accounting for 38.0% of the total deposits held in the country's banking sector (Bank Negara Malaysia, 2019). This growth in assets and market share demonstrates the increasing popularity and importance of Islamic banking in Malaysia.

Each bank that provides Islamic banking services must form a Shariah committee to guarantee that all activities and operations are in accordance with Shariah standards. This committee is in charge of making Shariah-related decisions and ensuring that the bank's functions are in accordance with Shariah regulations. It is crucial to remember that Islamic banking rules extend beyond simply avoiding transactions that require *gharar*, *maysir*, and *riba*.

Islamic banking encompasses all elements of a bank's operations and has both long-term and short-term implications for the banking business. This includes the need to pay company zakat, which is equivalent to a Muslim's obligation to give zakat fitrah. Zakat is an important institution in an Islamic economic system for alleviating poverty and promoting economic well-being. Poverty is often higher in Muslim majority nations, a large portion of which are in Asia and Africa (Shaikh and Ismail, 2017). Food instability and hunger are also significant issues in Muslim majority countries. Due to a lack of a permanent source of consistent income, the Muslim population confronts increased poverty.

Ending poverty and hunger is a fundamental priority of the future development agenda. As a result, decreasing poverty is the most important step towards achieving the SDGs, and zakat, as a wealth distribution mechanism, has an impact on this aim. Zakat payments made by Islamic banks made a substantial contribution to poverty reduction.

By paying zakat, Islamic banks perform their responsibilities under Islamic law and contribute to societal well-being. As a result, the establishment of a Shariah committee and adherence to Shariah principles by Islamic banks play a critical role in guaranteeing Islamic banking's compliance with Islamic law and performance of its societal responsibilities. Business zakat is one of these institutions' responsibilities in adhering to Shariah principles (Pusat Pungutan Zakat, 2020). In Malaysia, Islamic banks typically pay zakat on the recommendation of their Shariah Committee. The amount of zakat payable is computed by relevant ministries and publicly publicized in financial documents. As a result, financial statements are viewed as one of the channels for visibility of zakat activities.

As a result, financial statements are viewed as one of the conduits for zakat activity visibility (Mohd. Ariffin and Osman, 2022). In terms of zakat computation, the methodologies used by an Islamic bank are normally reported in the financial statements. In general, there are two techniques to computing corporate zakat: the equity perspective and the asset perspective.

Hence, the purpose of this research is to evaluate the current practice for zakat computation methods in the annual reports of Islamic banks in Malaysia and to establish which method is more commonly used by them. As a result, the research will improve knowledge and comprehension of zakat computation in the field of Islamic accounting. The study can provide significant insights for practitioners, such as accountants and auditors, as well as relevant authorities, such as regulators and policymakers, by studying and comparing the methodologies employed by various Islamic banks. These findings can be used to inform future practices and decision-making in the field, resulting in greater uniformity and accuracy in zakat computation. This research can help to further the growth of Islamic accounting literature and understanding in the subject.

The remainder of this paper is organised as follows. Section 2 explains the zakat and sustainable development goals. Section 3 elucidates on zakat regulations for Islamic Banks in Malaysia. Section 4 reviews the literature and publications in the field of zakat computation and zakat disclosure. Section 5 explains the methodology of the study. Section 6 provides findings and discussions of this study. Section 7 concludes the paper with a summary, limitations, implications and avenues for future research.

2. Zakat and Sustainable Development Goals

Combating hunger, poverty, and inequality, fostering peace, and conserving the environment are important to the *Maqasid Shariah*, or core Islamic ideals. Zakat is a wealth distribution method that has an impact on poverty reduction, which is the most significant factor in reaching the SDGs. Zakat thus strongly corresponds with a number of SDGs, including no poverty (SDG 1), zero hunger (SDG 2), and decreased inequalities (SDG 10). The SDGs, which were started by the United Nations (UN), are a global development plan that has gained the support of 193 governments worldwide, including Malaysia.

The SDGs are a collection of transformative goals that have been agreed upon and implemented for all (universal) UN member countries, including poor, developing, and developed countries since 2016 (Suriani, Nurdin, and Riyaldi, 2020). As the successor to the Millennium Development Goals (MDGs), the SDGs reflect a bigger intergovernmental agreement to promote broad-based development action spanning economic development, human development, and environmental sustainability (Shaikh and Ismail, 2017). There are 17 broad goals in which several targets had been set which are to be achieved by 2030. Namely (1) No Poverty; (2) No Hunger; (3) Healthy and Prosperous Life; (4) Quality Education; (5) Gender Equality; (6) Clean Water and Proper Sanitation; (7) Clean and Affordable Energy; (8) Decent Work and Economic Growth; (9) Industry, Innovation, and Infrastructure; (10) Reducing Gaps; (11) Sustainable Cities and Settlements; (12) Responsible Consumption and Production; (13) Climate Change Management; (14) Ocean Ecosystems; (15) Land Ecosystems; (16) Peace, Justice and Strong Institutions; and (17) Partnerships to Achieve Goals.

Religious institutions with a socioeconomic focus can also be used to create synergistic efforts to achieve the Sustainable Development Goals, particularly in Muslim majority countries. The first goal of sustainable development is to eliminate poverty by 2030. When the zakat institution was examined, it was discovered that the payer and receiver of zakat come from two different income classes. The zakat payer is not destitute and has excess wealth above *nisab*. Zakat recipients, on the other hand, are typically poor people with no surplus money exceeding *nisab* (Shaikh and Ismail, 2017). The Quran specifies eight categories of zakat-eligible uses, including assisting the poor and needy, refugees and displaced persons, and releasing those enslaved. Working with zakat donors and administrators exemplifies the spirit of collaboration towards the goals (SDG 17).

The effect of zakat can be experienced not only by someone who is paying zakat, but also by the recipients of zakat. Zakat for the zakat payer is a type of servitude (*ta'abbudi*) to Allah SWT by putting aside one's riches to help others, thereby manifesting the purity of the soul from being stingy and ensuring the sanctity of the property. Zakat, on the other hand, aids in poverty alleviation for zakat recipients (Suriani, Nurdin, and Riyaldi, 2020). Zakat and Islamic finance are based on a philosophy that promotes socially responsible development and is linked to a large network of organisations that promote peace, progress, and tolerance. In other words, zakat is a type of worship that combines the aspects of a servant's relationship to Allah SWT (*hablumminallah*) and a human-to-human relationship (*hablumminannas*). Thus, the *nisab* threshold of wealth distinguishes between payer and recipient and aids in accomplishing targeted income and wealth transfer to persons who are often impoverished (Suriani, Nurdin and Riyaldi, 2020) .

The second sustainable development goal is to eliminate hunger. According to the Food and Agricultural Organisation (FAO), around 800 million people suffer from hunger and are food insecure on a daily basis. Most impoverished countries lack the fundamental resources needed to jump-start growth and invest in health and education. Because these critical services are produced and marketed on a commercial basis in the global market economy, simple scientific solutions to health and education concerns solve the supply side problem but not the demand side problem (Shaikh and Ismail, 2017). Thus, resource redistribution is critical to increasing income as well as the capacity to earn sustainable incomes, which necessitates income support programmes, basic health and education, and microfinance to build small companies.

Another crucial sustainable development goal is good health and well-being. Nearly half of those living in extreme poverty are under the age of 18. This further demonstrates that a sizable section of our global population would not have a fair start in achieving socioeconomic mobility. To minimize illness, stunting, and loss of skills for independent productive functioning in adulthood, good nutrition, basic medicines, and immunizations are required (Shaikh and Ismail, 2017). Some life-saving medications cost less than a dollar, however they are underutilized due to commercial considerations. Unless and until effective redistribution occurs, purchasing power cannot be increased, which is required to afford even the most basic commodities today, such as food, water, and medicines.

The sustainable development aim of quality education is critical for attaining lasting poverty exit, skill and capacity enhancement, and ensuring upward social mobility. Once people have adequate assets and expertise for the venture, financial institutions can come to their aid. However, even earlier in life, people require survival and human capital development (Shaikh and Ismail, 2017).

The most important sustainable development goal is to achieve a sustainable reduction in poverty and to ensure upward socioeconomic mobility. On the one hand, zakat from surplus households (those with more wealth than *nisab*) to deficiency households can aid in the provision of income support and affordability for skill training programmes. Zakat could also be utilised to fund educational and health institutions, so contributing to human capital development and the creation of respectable jobs. Zakat, on the other hand, would secure the circulation of money in productive activity, moving capital to the real sector of the economy rather than lying idle in the hands of wealthy individuals (Shaikh and Ismail, 2017). Physical indicators of economic development success include the addition of industrial output, infrastructure improvement, an increase in the quantity of assets, and an increase in manufactured items (Lahuri *et al*., 2021).

Zakat distribution, in addition to strengthening the economy, should be able to increase the asnaf's quality of life (Suriani, Nurdin, and Riyaldi, 2020). Because zakat is designed at relieving poverty and guaranteeing social justice, it can be a source of financial support. In Islam, human well-being is defined not only by the equitable distribution of income and riches, but also by the fulfilment of spiritual and non-material needs. As a result, zakat can be one of the strategic instruments used to achieve the ummah's economic development while meeting the SDGs.

Based on the previous definition of zakat, it can be stated that if zakat is managed properly and correctly, it can be one of the tools of economic development that can solve problems and one of the measures to achieve the SDGs.

3. Zakat Regulation for Islamic Banks in Malaysia

There are numerous zakat requirements to which all banks must adhere. There are four: (i) BNM's Financial Reporting for Islamic Banking Institutions; (ii) AAOIFI Reporting Standard No.39 and Shariah Standard No.35; (iii) JAWHAR's Zakat Management for Banking Manual; and (iv) Malaysian Accounting Standards Board (MASB) - Technical Release i-1: Accounting for Zakat on Business. The MASB technical release gives recommendations on accounting treatment for zakat-paying entities. As advised by JAKIM in *Panduan Zakat di Malaysia, 2001*, each Islamic bank must choose one of two techniques to determining zakat base. Specifically, the adjusted working capital or adjusted growth technique (MASB, 2006).

When it comes to calculating zakat, Malaysian Islamic banks have various choices. The Adjusted Working Capital Method is preferred by the majority over the Adjusted Growth Method. However, other circumstances may affect each bank's decision to choose one strategy over the other. This can result in differences in how balance sheet items are recognized and, ultimately, the amount of zakat that each bank is required to pay. The lack of standardized zakat calculation practices might lead to inconsistencies in the amount of zakat paid each year.

Banking institutions are among the business institutions in Malaysia. Therefore, these institutions are required to pay business zakat if they meet certain criteria. Business zakat is a type of zakat on wealth levied on a company's net current assets. Business zakat is essentially a tax that must be paid on the income from business assets such as manufacturing, consumer goods, hotels, commerce, banking services, takaful services, or other commercial services. Business zakat accounting entails determining the property on which zakat is obligatory, calculating the rate of zakat, making the necessary payments, and preparing a report using the accounting equation formed from the evaluation of all components of non-current assets, current assets, liabilities, and owner's equity, in accordance with Malaysian Accounting Standard Board accounting standards.

Banks play an important role in a country's economic growth by connecting lenders and borrowers; thus, regulation of their activities, including zakat computation criteria, is critical. Islamic banks in Malaysia are regulated and controlled by Bank Negara Malaysia under the Islamic Financial Services Act (IFSA), which includes many accounting rules for zakat computation. In Malaysia's Islamic banks, zakat computation guidelines include Bank Negara Malaysia's Financial Reporting for Islamic Banking Institutions (BNM, 2022), Accounting and Auditing Organization for Islamic Financial Institutions' Financial Reporting Standard No.39 (AAOIFI, 2021) and Shariah Standard No. 35 (AAOIFI, 2008), the Manual from Department of Waqf, Zakat, and Hajj (JAWHAR) on Zakat Management for Banking (JAWHAR, 2010), and the Malaysian Accounting Standards Board's Technical Release i-1: Accounting for Zakat on Business (MASB, 2006).

The Bank Negara Malaysia (BNM) has established criteria for Islamic banking institutions' financial reporting, which includes reporting on the institution's responsibility to pay zakat. If an Islamic financial organization does not pay zakat, it must report this in its financial statements, according to these standards. If it does pay zakat, it must also disclose its responsibility for paying zakat, whether on behalf of the business or its shareholders, the method used to calculate the zakat base, such as the Growth Method or the Working Capital

Method, and the beneficiaries of the zakat fund, such as *Baitul Mal* or the poor. This aims to ensure that these zakat institutions, which are deemed crucial, are transparent and accountable.

Through its standards and rules on accounting, auditing, governance, ethics, and Shariah, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has produced criteria for financial reporting in conformity with Shariah principles. Financial Accounting Standard 39 "Financial Reporting for Zakah" and Shariah Standard 35 "Zakah" are two essential zakat standards. FAS 39 concerns the presentation and disclosure of zakat in financial statements and applies to both obligated and non-obligated organizations. The requirements for institutions that are not required to pay zakat are minimal, whereas those for institutions that are required to pay zakat are more extensive and include details on the method used to determine the zakat base, relevant authoritative guidance, and a reconciliation of the zakat liability and expenses presented in the budget.

FAS 39 also specifies specific rules for payments to a single individual or charity organisation, voluntary zakat payments, and disputes with applicable Zakat agencies. Shariah Standard 35, on the other hand, focuses on the zakat computation method, including measurement, and states that there are two methods for calculating the zakat base, the net asset method and the net invested fund method, with the final amount of zakat payable remaining the same regardless of the method used.

The Malaysian Accounting Standards Board (MASB) was founded in 1997 to supervise and issue accounting standards for financial statement preparation in Malaysia. MASB issued Technical Release i-1 (TRi-1) in 2006, which outlines the accounting treatment for company zakat, including techniques of computation, recognition, measurement, presentation, and disclosure. TRi-1 recommends two zakat computation methods: the Adjusted Working Capital technique and the Adjusted Growth approach, which provide an asset and equity perspective, respectively. TRi-1 further emphasizes the importance of entities disclosing zakat-related information in their financial statements. TRi-1 is not an authoritative standard, and its suggestions are general and applicable to all corporate entities. The Waqf, Zakat, and Hajj Department (JAWHAR). The guidebook contains five examples that demonstrate how to calculate zakat using the financial statement components. The procedures given in the manual are similar to the net invested fund method and the net asset method, and are based on the now-superseded AAOFI FAS 9.

4. Literature Review

Looking back at previous research on the zakat business technique, Tajuddin *et al*. (2017) discovered three alternative models for computing zakat in business in Malaysia. The study examined data from three different Malaysian zakat institutions and discovered that the size of the business (small or medium), sector of business (manufacturing or services), and type of business entity (sole proprietorship, partnership, or company) may all influence the choice of different business zakat methods.

Several studies have been undertaken to better understand zakat calculation in Malaysian Islamic banks. The study by Zuha Mohd Abbas et al. (2018) looked into the payment of zakat by Islamic banks in Malaysia. The authors examined and contrasted the various zakat computation methodologies utilised by banks. The study discovered that most Islamic banks employed either the *urfiyyah* method (also known as the Adjusted Growth Capital Method) or the *shar'iyyah* method (Adjusted Working Capital Method) utilising data from 2013 to 2017. Both strategies produced comparable results.

Furthermore, Zaaba and Hassan (2020) conducted another study that focused on zakat information available in Islamic banks' financial accounts. According to the study, which used data from 2018 and 2019, Islamic banks are becoming more transparent as more banks provide zakat information in their financial statements. Furthermore, two banks were excluded from paying zakat throughout that time period. The authors find that most Malaysian Islamic banks calculate zakat using the Growth Method rather than the Working Capital Method.

Meanwhile, Mohd. Arifin and Osman (2022) conducted an annual report content analysis. To address the study question, semi-structured interviews with relevant bank officers are conducted. The current zakat computation technique is examined using the annual reports of 16 Islamic banks and 6 development financial organisations for the year 2020. According to the findings, the Growth Method is the most commonly utilised in zakat computation. It has also been discovered that some banks reported greater zakat information in both the Shariah Committee report and the Notes to the Financial Statements. To some extent, the strategy used is determined by the issues that these institutions face. Five of those are deliberated such as window dressing, the implication of zakatable amount upon adhering to some of Bank Negara Malaysia requirements, the different applications and interpretations of the zakat rate, the shareholdings' issues, and the different distribution practices.

5. Research Methodology

The study seeks to comprehend the zakat computation mechanism used by Malaysian Islamic banks. The study takes a qualitative approach, with the author analyzing annual reports from several banks, comparing the results to past studies, and drawing conclusions. The study's population is Malaysian Islamic banks, with a sample of 16 banks chosen from a list of licensed Islamic financial institutions provided by Bank Negara Malaysia (BNM). The study analyses the information in the Shariah Committee Report and Notes to the Financial Statements portions of these banks' annual reports for the fiscal year 2021. The annual reports are available online.

Furthermore, the author evaluated four alternative standards for computing zakat to ensure that the standard being employed is the most recent standard available. The following regulations were investigated: I BNM Financial Reporting for Islamic Banking Institutions; (ii) AAOIFI Reporting Standard No. 39 and Shariah Standard No. 35; (iii) JAWHAR Manual on Zakat Management for Banking; and (iv) Malaysian Accounting Standards Board (MASB) - Technical Release i-1: Zakat Accounting for Business.

List of Malaysian Islamic banks	
1.	Affin Islamic Bank Berhad
2.	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
3.	Alliance Islamic Bank Berhad
4.	AmBank Islamic Berhad
5.	Bank Islam Malaysia Berhad
6.	Bank Muamalat Malaysia Berhad
7.	CIMB Islamic Bank Berhad
8.	HSBC Amanah Malaysia Berhad
9.	Hong Leong Islamic Bank Berhad

10.	Kuwait Finance House (M'sia) Berhad
11.	MBSB Bank Berhad
12.	Maybank Islamic Berhad
13.	OCBC Al-Amin Bank Berhad
14.	Public Islamic Bank Berhad
15.	RHB Islamic Bank Berhad
16.	Standard Chartered Saadiq Berhad

Table 1: List of Malaysia Islamic Banks

6. Findings and Discussions

According to Awang and Abdul Rahman (2003), the Working Capital Model considers a company's current assets by deducting current liabilities and making any necessary modifications. The methodology for this technique is simple: remove current liabilities from current assets while accounting for any necessary changes. The Growth Model Method, also known as the Adjusted Growth Capital Method, examines ownership equity by adding Equity and Long-Term Equity, then deducting Fixed Assets and Non-Current Assets and making required changes. Both techniques seek to give a method for calculating the amount of zakat payable by a company.

The procedures utilized by 16 Islamic banks to compute and pay zakat were examined in this study. Individual banks provided the information. This study builds upon previous research done by Zaaba and Hassan (2020) and Mohd Ariffin and Osman (2022) which conducted earlier research in 2018 and 2022, respectively. It is worth noting that two banks, HSBC Amanah and Standard Chartered Saadiq, have been exempted from paying zakat until 2021. Furthermore, Al-Rajhi Bank's zakat information was not available for study because it was the duty of its holding company or primary shareholders.

List of Malaysian Islamic banks		Computation Method	Legend
1.	Affin Islamic Bank Berhad	Working Capital Method	1
2.	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Not Stated	6
3.	Alliance Islamic Bank Berhad	Asset Growth Method	2
4.	AmBank Islamic Berhad	Profit And Loss Method	3
5.	Bank Islam Malaysia Berhad	Growth Capital Method	2
6.	Bank Muamalat Malaysia Berhad	Growth Model Method	2
7.	CIMB Islamic Bank Berhad	Adjusted Growth Method	2
8.	HSBC Amanah Malaysia Berhad	Not Obliged	5
9.	Hong Leong Islamic Bank Berhad	Net Asset Method	1
10.	Kuwait Finance House (Malaysia) Berhad	Opening Reserve Method	4
11.	MBSB Bank Berhad	Working Capital Method	1
12.	Maybank Islamic Berhad	Equity With Adjustment	2
13.	OCBC Al-Amin Bank Berhad	Growth Capital Method	2
14.	Public Islamic Bank Berhad	Profit And Loss Method	3
15.	RHB Islamic Bank Berhad	Working Capital Method	1
16.	Standard Chartered Saadiq Berhad	Not Obliged	5

Table 2: Zakat Computation Method used by Islamic banks

Guideline	Legend	Frequency
Adjusted Working Capital/ Net Assets	1	4
Adjusted Growth/ Net Invested Fund	2	6
Profit and Loss	3	2
Opening Reserve	4	1
Not obliged	5	2
Not stated	6	1

Table 3: Frequency of used computation method

Table 2 in the study shows the methods used by Islamic banks in Malaysia to calculate Zakat in 2021, which was obtained from the banks' annual reports or Shariah committee reports. The methodologies employed were then classified in accordance with the Malaysian Accounting Standards Board (MASB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) principles. Table 3 presents a summary of the findings. Because the MASB and AAOIFI criteria are comparable, the MASB Adjusted Working Capital Method was placed in the same category as the AAOIFI Net Assets method. Similarly, the Adjusted Growth Method and Net Invested Fund Method were similarly classified. Some banks calculated their zakat base using the profit and loss approach or the opening reserve, but others were not required to pay zakat or the method used was not mentioned.

According to the study's findings, six Islamic banks, namely Alliance, Bank Islam, Bank Muamalat, CIMB Islamic, OCBC Islamic, and Maybank Islamic, employed the Adjusted Growth Method to compute their zakat. Affin Islamic, Hong Leong Islamic, MBSB Bank, and RHB Islamic Bank are the four banks that used the Adjusted Working Capital Method or Net Assets Method. Ambank Islamic and Public Islamic Bank both used the Profit and Loss Technique to calculate Zakat. The Opening Reserve Method was exclusively employed by Kuwait Finance House. Standard Chartered and HSBC Amanah were excluded from paying Zakat, while Al-Rajhi Banking did not disclose its calculation technique. Moreover, the study found that the methods used by Islamic banks to calculate zakat can change from year to year, with some banks not using a consistent method. One example is Affin Islamic bank, which switched its method of calculation from a Growth Method to a Working Capital Method in 2021, compared to the Growth Method it used from 2017 to 2020. This study also found that the number of banks using the Working Capital Method has increased from 2 to 4, compared to previous studies by Zaaba & Hassan (2020) and Mohd Ariffin and Osman (2022). Meanwhile, the number of banks using the Growth Method has decreased from 7 in 2020 to 6 in 2021.

The study discovered that in 2021, Malaysian Islamic banks favor the Growth Method or Net Assets Method in calculating their zakat basis. This is consistent with AAOIFI and MASB recommendations. However, no explanation is offered in the financial accounts of banks that used the Opening Reserve Method or the Profit and Loss Method to calculate zakat.

7. Conclusion

This study provides information on the methods used by Islamic banks in Malaysia to calculate zakat in the year 2021. However, the study has limitations in terms of providing a clear reason for each bank's method of choice. Future studies should undertake interviews with each bank to acquire a better understanding of the decision-making process. This would contribute to a better understanding of the subject by shedding light on the factors that impact technique selection. It is also worth noting that the study only looked at Islamic banks in Malaysia and did not look into Takaful firms or non-financial institutions. Future studies would benefit from broadening the scope of their research and examining these organizations in Malaysia and other countries to obtain a more thorough grasp of zakat computation practices across the industry.

Subsequently zakat on business refers to the portion of zakat levied on enterprises and their assets. It is applicable to a wide range of business sectors, such as banks, industrial, consumer, construction, plantation, infrastructure, trading, and service-based organizations. This zakat is determined based on the business's net wealth at the end of an accounting period, regardless of whether the business is profitable or losing money. When the prerequisites for paying zakat are met, the company is compelled to pay the sum owed.

According to the findings of this study, the Adjusted Growth Method is the most commonly used method in zakat computation among Malaysian Islamic banks, with 6 banks using the Adjusted Growth Method, 4 using the Adjusted Working Capital Method, 2 using the Profit and Loss Method, and 1 using the Opening Reserve Method. Meanwhile, Standard Chartered and HSBC Amanah were excluded from paying zakat, and Al-Rajhi Banking did not specify how they calculated it.

The study also discovered that some institutions, like as Affin Islamic Bank, may modify their zakat calculation method from year to year. However, no information was found in the annual report or Shariah committee report to indicate why each bank chose the manner they did. Future studies could involve interviews with each bank to further understand the reasons for their selection. Furthermore, the study only looked at Islamic banks in Malaysia in 2021, thus future research should look into Takaful companies and non-financial institutions in Malaysia and other countries.

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