

FAITH-BASED MODEL (FBM): ENHANCING THE ECONOMY THROUGH MODIFICATION OF ZAKAT, WAQF, AND TAXES

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Abstract: *This conceptual paper addresses the fiscal policy of Islamic practice which includes taxes, Zakat and Waqf in Malaysia. Hence, the purpose of this article is to provide an overview on the most suitable modification of fiscal policies on taxes, Zakat and Waqf in order to enhance Malaysia's economy. Besides, it also provides an overview on previous tax policy that has been changed from sales and services (SST) to good and services tax (GST). Hence, it then proposes a significant framework to modify the Zakat and Waqf system in Malaysia based on the faith-based model that relies on the divine and fair rules of standard operation.*

Keywords: *Zakat, Waqf, Tax, economy, fiscal policy, and faith-based model (FBM)*

Introduction

Islamic economic activities such as taxes, Waqf, Sadaqah, and Zakat are meant for the betterment in life and improve the standard of living. They also support the needy in acquiring their basic necessities. These activities help to assist the government in countless state responsibilities to develop the nation and contribute to the development of the Ummah; which will eventually, fulfill the needs of the Ummah. In economy, the process of wealth redistribution is significant for the well-being of the society.

Zakat is a source that contributes revenue to the federal government. However, Zakat is only imposed as an obligatory act onto the Muslims, which is one of the five pillars of Islam. Zakat is defined as the purification process of one's wealth. It is an action in which people purify their belongings by giving away some portions of them to the Amil or the Zakat collector. In

Islam, Zakat is meant to achieve equality in term of wealth and it is also a tool to alleviate poverty among the members of society.

Taxes refer to certain portion of money paid by business entities or individuals based on their income which provide revenue to the federal government. In Malaysia, the Inland Revenue Board (LHDN) is the responsible body that manages tax collection and assessment matters. In Arabic, tax is defined as '*dharibah*' which means burden or trouble. Taxes have a significant function in determining the direction of economy and social system of a country (Shaari, Ali, & Ismail, 2015). Governments fully rely on tax revenues due to the economic benefits that they bring. Thus, it is the responsibility of governments to develop and implement fiscal policies in regulating the distribution of income and wealth, accelerating economic growth and reducing inequalities of income and wealth. Fiscal policies also act as a control mechanism in managing the wealth and health of a country's economy.

Islam is a religion that encourages the development and wealth of individuals and communities. Hence, the teachings of Islam stress on the importance of assisting one another in all aspects of life, may they be social or economy. This is where the concept and practice of Waqf comes in. It is designed to achieve the purpose of assisting one another and uniting the community and at the same time, Waqf serves as form of our obligation and worship to Allah. Waqf is used in the Islamic Law to hold certain property and preserve it for the benefits of the ummah and prohibit any use or disposition of it outside its specific objective (Kahf, 2003). As a practice, it is submission of property to the ownership of Allah permanently. Waqf can be a great mechanism and instrument in the Islamic public finance because it can generate a great financial source to the state and for the social needs by not depending on the state's budget (Magda, 2013).

At present, it can be said that the health of the economy in Malaysia is deteriorating. This is due to decrease in the value of our currency and the inconsistent price of petrol. There have been many instances in which the government has to withdraw the subsidy of prices of foods and goods in coping with the downturn of the country's economy. Another factor that is causing the health of our economy to deteriorate is the misconduct of the public funds and corruption that are rampant among the public sector servants. All factors mentioned affected the revenue collection in the first half of 2016 (Asian Review, 2016). In addition, the fragile oil prices globally had affected the dividend payment made by the Petroliaam Nasional to the federal government in which it was only 37% out of RM16 billion as agreed (Tan, 2016). This would definitely affect certain government expenditure and many allocations for certain quarters such as the education sector, agriculture sector and public servants' annual bonus and claims were slashed down. Besides, according an international credit assessment agency, the country's projected debts increased in 2016 at 9.7% compared to the year 2015 (Moody's, 2016). To ensure that our country would continue to be in a healthy economy state, all debts must be managed and paid. This would also avoid any economy dispute between Malaysia and other country and ensure that the local economy growth would be well managed and taken care by the government. As to what has been reported in Asian Review (2016), without any major fiscal reform and modification of existing policy and framework Malaysian may not achieve zero deficits as targeted in 2020.

Strategy in Enhancing the Economy

The health of economy of a nation implies the efficiency of the government in managing the resources in developing the nation. Any economy deficiency can be reflected in the way the resources are managed. For example, any misconduct in managing a public fund can result in an economy dip. To illustrate, a corruption can cause the depleting in trust among foreign investors to invest in development projects and collaborate with government agency involved. When this happens, the people can experience the economy and social effects like lack of job opportunities, the rising of social ills and political unrest. This would definitely cause some problems to the ruling government as it has to address all these ills and this would mean extra expenditure needed to be fork out. With the limited revenue and increasing expenditure, the government has to strategize the most effective ways of getting more income and managing the expenditure effectively. So, in doing these, some policies or governance structures need to be improved or changed to eventually spur the growth in productivity. As suggested by Aiyar (2013), both macro and micro economic reforms can lead to improvement in a country's sources, productivity and growth. Social and economy reforms can be done among government bodies and the people. When these bodies and people are transformed, better economy and social health scenarios can be achieved. Among the government bodies, reform can be in the forms of changes or modifications in policies, implementations of new taxes, new regulations, principles or rules. New governance structure can also be a reform among government bodies. Among the people, changes in attitude, mindset and behaviour can be the forms of reform in achieving better economy and social scenarios. It is even better that these reforms can take place by using less of the government's limited resources and income.

The Changes of Tax Policy

Taxes are one of the highest revenue contributions to the government. Taxes collection allows the government to carry out development projects, and provide payroll among the government servants. Adam Smith says that tax is the most equitable method to raise the revenue of the state (Rahman, 2007). We can say that tax collection is crucial. In addition, taxes collections can be spend on security aspects and military expenditures. Other than that, they can also be utilised for the poor, needy and wayfarers. The other benefits of taxes would be developing and maintaining infrastructures for the Ummah such as public roads, schools, universities, hospitals, mosques, water supplies and other utilities.

Being farsighted, in April 2015 the Malaysian government changed the sales and services tax into goods and services tax or GST. GST was perceived as a reform to alleviate any further risk (Aiyar, 2013). GST was meant for the long term benefits of the people as to what had been implemented among other neighbouring countries such as Singapore. In April 1994, Singapore implemented GST after one year of planning as mentioned by Loi (1994) who had listed several rationales behind the implementation of GST there. First, GST was not imposed on the investment and saving. GST was self- policing, it could reduce any tax evasion and avoidance. Besides, GST helped to raise certain amount of revenue with minimum economic alteration.

In order to cater for future economy failure and downturn, the former federal government decided to implement GST in 2015. This was because GST was proven to be a better tax system as it was more effective, efficient, transparent, and business friendly and could spur economic growth as well as increased competitiveness in the global market. Moreover, the implementation of GST can be seen through the other countries that have successfully implemented it in the last decade. The objective of the government implementing the GST was

to reduce the fiscal deficit as the government tax revenue would be increased from the collection of GST. Thus, it could be said that the government's move on changing SST into GST was a good one.

Modification of Waqf Framework and Strategy

Historically, Waqf is one of the tools to improve the income of the society members. Waqf is done by surrendering valuable assets to the authority so that the public can benefit from them. Some people might not see Waqf as a tool to improve and generate income. The concept of Waqf is an Islamic way of doing charitable purchase or development of an item for the benefit of the community at large. Waqf is a permanent donation. Once a Waqf is created, it can never be donated as a gift, inherited, or sold.

There are various categories in which Waqf can be classified. Kahf (1998) categorizes Waqf as religious, philanthropic, and private. Religious Waqf, in any society and for any religion, adds to the social welfare of the community because it helps to satisfy the religious needs of people and reduce the direct cost of providing religious services for any future generation. The interesting part in the Islamic religious Waqf is that the Shariah does not give any religious bodies, persons, or leaders the privileges or beneficiary rights on any religious grounds. The second kind of Waqf is philanthropic Waqf. It aims at supporting the poor segment of the society and all activities that are of interest to people at large such as public utilities, the poor and needy, libraries, scientific research, education, health services, care of environment and animals, roads, bridges, parks, dams, lending to small businessmen, etc. Family or posterity Waqf is the third kind of Waqf. Some of those put a condition that the fruits and revenues of their Waqf must first given to their own children and descendants, and only the surplus should be given to the poor (Kahf, 1998).

Waqf is an important tool for the economic development since the period of Madinah to boost the economic growth. Besides, Waqf can provide a large financial support in the development and establishment of the educational institutes. For example, in Turkey, there are over 60 universities that provide free or fair fees of education for the members of the society. This can be done because of the successful management and handling of the Waqf contributions especially cash waqf. The management is handled by foundations such as the *Sabani* Foundation. This has proven cash Waqf plays an important role in providing sound financing assistance to the development other than the allocation from the government. This foundation is created from a good system of cash Waqf through the corporate Waqf (Magda, 2013). As what has been mentioned by Nadiah et al (2015), Waqf is very important in providing the financial assistance in the areas of education, health and physical development of a state. In addition, it can help the macroeconomic of a country by reducing the government expenditure, reducing the deficit budget, and reducing the debt in financing development projects.

As in Malaysia, Waqf is quite new especially the cash Waqf. It is a new concept among many in the society. At the same time the level of awareness is very low because the understanding on the concept is relatively low (Nadiah et al, 2015). Furthermore, there has been a wrong perception among people about Waqf, in which Waqf only involves an immovable asset like land, and not cash. This may be due to lack of promotion or information on cash Waqf in the mainstream and social media. Therefore, in order to seize the opportunities in the Waqf system, the regulator or the government should come out with the right strategies in gaining maximum benefits from practicing the cash Waqf.

Therefore, as a strategy to be employed by the government, modification and improvement of the model in Waqf needs to be done to receive more income from this. Currently, the most famous model that is used in Malaysia is Waqf shares scheme and corporate cash Waqf. Corporate Waqf share has been practiced in Johor and it has been successful that other states such as Negeri Sembilan, Selangor and Sarawak are fully geared in implementing those types of Waqf. By having cash Waqf, corporations or companies can provide financial assistance to the projects which are implemented by the government or the respective authority. Therefore, by having different types of cash Waqf schemes such as deposit cash product scheme, cooperative Waqf scheme, compulsory cash Waqf scheme and deposit cash Waqf scheme, the Malaysian government is not being burdened to use their limited revenue. Thus, (Magda, 2013) has suggested a framework in managing cash Waqf scheme. The authority body such as the government, The Islam Religion Council (Majlis Agama Islam), Malay Rulers and even individuals should take the cash Waqf opportunities seriously by establishing a Cash Waqf Financial Institute (CWFI). This institute will manage the cash that has been Waqf by people. The possible marketing efforts can be taken as to attract more people to Waqf their cash money. The framework suggests that the pool of Waqf cash is invested and it should be *Shariah* compliant. The method that CWFI can adopt is by investing either in low- risk investment or in high-risk investment. The low- risk investment can be the *murabahah*. Meanwhile, for the high-risk investment CWFI can use either *mudharabah* or *musharakah*. *Mudharabah* is a mode of investment where the institution can provide a financial assistance to entrepreneurs to manage profitable project. When the project has finished, the profit will be shared by both capital providers (CWFI) and the entrepreneurs. The proportion of ratio is determined in the agreement. Any loss will be borne by the capital provider, thus in order to manage the project and get a handsome profit, the capital also needs to be monitored along the development of the project. As for *musharakah*, it is a mode of operation where the capital provider (CWFI) and the entrepreneur will share both profit and loss based on pre- agreed ratio. Any profit from both investment will be channeled the same as in *murabahah*.

Strengthen the Policy of Zakat

Literally, the definition of zakat is to grow or to increase (Qardhawi, 2000). The technical meaning of zakat is cleansing or purifying of something from dirt. Theologically it brings the meaning of spiritual purification resulting from giving alms or Zakat. Specifically, zakat is transferred of ownership of specific property to specific individual under specific conditions. Zakat is obligatory to Muslims who are eligible to pay it because it is one of the five pillars of Islam. In the surah of At- Taubah:60 it has specified the eight beneficiaries who receive zakat, namely the poor, the needy, *amil*, converters, slaves, debtors, those who are going for *jihad fil sabilillah* and the wayfarers. The main objectives of Allah s.w.t imposing Zakat among the Muslims are to achieve social-economic justice besides seeking the pleasure from Allah. The Zakat collections are able to help the authority in minimizing the hardships of life among those who are in needs or the poor, eradicating poverty, ensuring and helping the growth of the economy (Wahab & Rahman, 2011).

Practically, the distribution of Zakat is very important especially among the poor and the needy. The positive impact of Zakat is the supply of labor can be achieved through the improvement of health and nutrition, and other poor condition. At the same time, it will increase productivity. Other than that, Zakat is also one of the tools to eradicate poverty by increasing the investment of the rich to accumulate the wealth, then the disbursement of the revenue generated to the Zakat institution. Therefore, the regulators, individuals, corporate and other potential party

must collaborate in order to preserve and have a better distribution and collection of Zakat money.

In Malaysia, every state has its own Zakat council and each state manages its own Zakat system. So, each system of Zakat management depends on the type of management decided by each state government. Thus, the Federal government of Malaysia must promote good governance among the Zakat institution to ensure financial and managerial accountability of the Zakat collection and distribution. Rahman (2003), also suggested to the Malaysian Government to have and introduce a standard for accounting and auditing standard on Zakat. There should also be annual report so that this would attract more Zakat payers to pay their zakat. Huduyati (2010) stated that Zakat management should be centralized. When the Zakat institution is centralized, it will make the implementation of Zakat and fiscal policy to be easier, and the management of Zakat may be added into the government's fiscal policy. Training, education and monitoring of Zakat projects can be made more effective and efficient when it is centralized. The distribution of Zakat collection may also be more systematic and reach the targeted group more effectively.

In addition, giving cash for those who are the eligible recipients of Zakat may not enough for them to survive over the year. Therefore, the Zakat institute may have to think about helping them in the long run such as providing them with the financial assistance to start a business. This can be done by preparing them by providing the knowledge and training in setting up their business. Constant monitoring and giving advice on the traits of business management is crucial in helping them, as what has been highlighted in a study conducted by the Lembaga Zakat Selangor or the Selangor Zakat Board that reported many Zakat recipients who have received financial assistance failed in doing successful business due to lack of monitoring and advice from the right authority (Fuadah, Ahmad & Muhammad, 2015). Thus, it is high time for the government to think outside the box in term of managing and monitoring zakat collection so that the management of Zakat can be more competent, transparent and suitable with the society members nowadays (Ahmad, 2006).

Faith-Based Model (FBM)

Other than taxes, Zakat and Waqf, another structure of economy governance that can be implemented among the majority of Malaysians is the faith-based model (FBM). The faith-based model is proposed as an ultra-conventional mechanism for tackling poverty and other socio-economic problems among the Muslim Majority Nations (Raimi, 2012). Unlike the conventional model, FBM is a religious-oriented construct built on Islamic Economic Principles designed to enhance the general wellbeing of the people (Raimi & Mobolaji, 2008). As for the FBM, new element of corporate social responsibility (CSR) is added in which it is a program driven by the private sectors, and collaborated with the Zakat and Waqf institutions in order to curb poverty problem, and developing the nation. The simple model is illustrated below (Raimi, Patel & Mobolaji, 2013)

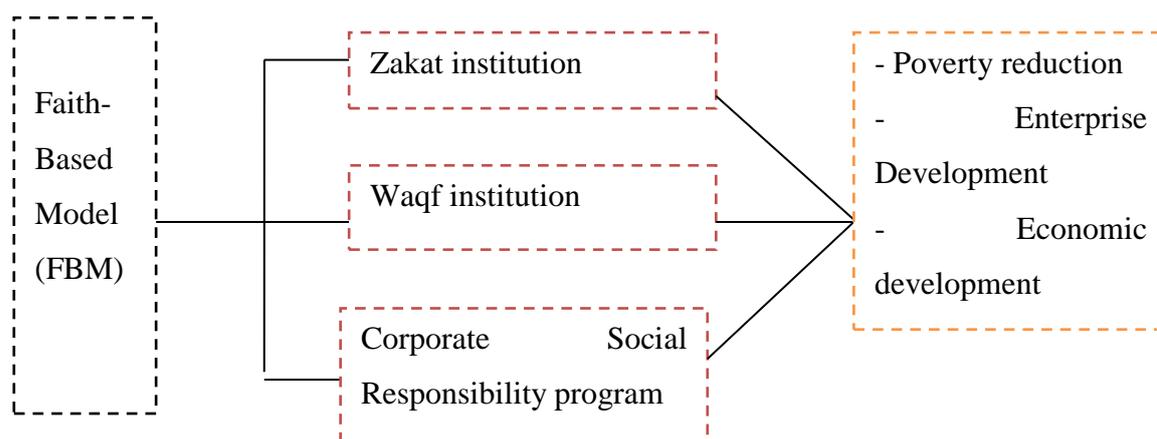


Figure 2: Faith-based model (FBM)

Conclusion

It is important for the government to have a strategy in enhancing the economy especially when it is not in a favorable condition. As in the current economy state, it can be said that our economy is not in good condition due to the depletion in value of our currency and the increasing number of unemployment among the people. So, the government needs to take preventive measures. As a regulator, the government has the authority to introduce and regulate new policy like Cash Waqf Financial Institution (CWFI) and improve the management and standard of the Zakat institution. It may benefit the government and also the citizen. This is because when Zakat and Waqf are fully utilized for the betterment of the needy, then the government can use its revenue to take care of other pressing issues or quarters without having to slash down any allocation for the needy or the poor. The establishment and the effective management of the Zakat and Waqf systems can enhance the country's economy and the well-being of people. Therefore, taxes, Zakat and Waqf should be the government's focus now so that the people could be ensured that their quality of life can be improved and the government could use these as lucrative sources of income for the country.

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