

Strengthening Corporate Zakat Policy in Indonesia

58

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Abstract

Zakat is one of five pillars in Islam. As the biggest Moslem population country, Indonesia should consider zakat as potential pathway to reduce poverty. At the state of stable economic condition in which companies periodically earn profits, zakat entity plays an important role in prosperity improvement. However, the regulation of business zakat in Indonesia is insufficient. Regulation of Zakat relies solely on Zakat act No.23-year 2011 that doesn't cover the issue of business zakat. Another regulatory body is the Indonesian Accounting Institution that established sharia accounting standard, namely PSAK 101 which obliged sharia entities to provide business zakat report. Furthermore, the Indonesia Stock Exchange has launched Indonesia Sharia Stock Index (ISSI) and Jakarta Islamic Index (JII) for entities that trade sharia stocks in the capital market. The aim of the research is to discuss the form of policies to support business zakat application in Indonesia. Literature survey is mainly used as methodological approach to conduct this research. Fiqh literatures and sharia accounting standard are explored to support regulation of business zakat in Indonesia. Policies by regulatory bodies with regard to business zakat are also discussed in order to support business zakat implementation in Indonesia. Empirical data from corporates that are indexed by ISSI or JII in Indonesia Stock Exchange are collected to provide the potency of business zakat. This paper initiates policies to be applied in supporting business zakat implementation in Indonesia.

Keywords:

Business zakat, Regulation of business zakat, Sharia accounting standard, ISSI/JII, Potency of business zakat.

INTRODUCTION

Until recently poverty is an overwhelming problem in Indonesia whereas the rich enjoy some positive economic growth. Unequal prosperity in this country need to be addressed so the number of the poor can be reduced gradually. According to the Millennium Development Goals (MDGs), the target of poverty reduction in Indonesia was up to 7.5% from total population, unfortunately the goal has not been reached. From the statistics of Indonesia,



it is seen that from year 2013 to year 2015 the poverty rate in Indonesia is ranging in around 11% of total population (Beik & Pratama, 2017).

An effective strategy to eradicate poverty is by integrating local culture, beliefs and religious called zakat (Irfan Syauqi Beik, 2010). Zakat program helps to distribute wealth from the rich to the poor and this program accordingly may reduce the unequal prosperity. An empirical research shows that in 2006 zakat potential in Indonesia reached 217 trillion rupiahs or equal to 3,4% of GDP. Of the total amount, zakat potency of manufacture/ other industries and zakat potency of state-owned enterprises reached Rp 22.084.649.982 and Rp2.419.117,3, respectively (Firdaus, Beik, Irawan, & Juanda, 2012). The research shows how business zakat might be a potential instrument to overcome poverty problem in Indonesia.

Given that Indonesia is a country with huge Moslem population, using zakat as a strategic program might be well appreciated by the citizens. Some regulations concerning zakat are established by the government of Indonesia, however business zakat is not yet included in the regulation. The zakat act no.38 which was established in 2003 was amended by zakat act no.23 in 2011 (RI, 2011). The later act supports the improvement of zakat management; however, only individuals (who possess the required *nishab*) are obliged to pay zakat. In Zakat act No.23, companies are not subject to the law; as a result, zakat potential is not in its optimum level. If only companies were obliged to pay zakat, more fund would be collected and distributed.

On the other hand, a regulation concerning the report of presentation of zakat fund has been established by the association of Indonesia Accountant (IAI). Such regulation exists in the statement of financial accounting standard (PSAK) No.101. It is stated in the standard (paragraph 10 point e and f) that sharia entities are obliged to present set of financial reports includes "Consolidated Statement of Sources and Uses of Zakat and Charity Fund (qard)" (IAI, 2017). However; recognition, measurement, and calculation of zakat is not an issue in the standard.

It is known that the activity in capital market showed growing number of sharia stocks trading. The Indonesia Stock Exchange (IDX) reported an increasing number of sharia-based products in 2016 which reached 61% of total listed stock (Hermansyah, 2016). The IDX has launched the ISSI/JII index for sharia stocks traded in the capital market (later it may be stated as ISSI/JII companies in this paper). However, it is not clear whether or not companies trade sharia stocks are classified as sharia entities. As a result, it is

likely that companies trade sharia-based products do not comply with PSAK No.101.

Meanwhile, both the government of Indonesia and the Indonesia Ulema Council (MUI) have not established any regulation concerning business zakat. In addition, companies are not bound by regulation nor by *fatwa* to pay zakat. The absence of regulation and *fatwa* of business zakat result to companies that neglect to pay zakat.

This research is looking for the best model of integrated regulation in supporting the implementation of business zakat in Indonesia. Another target of this research is to calculate the potency of business zakat of companies listed at the ISSI/JII index. This paper is organized as follow: a review on fiqh of zakat is firstly presented, in which it discusses some opinions from Moslem scholars. Some previous studies with regard to business zakat are also discussed in this section. The next section discusses implementation of business zakat across countries. The methodology approach is explained afterwards. Furthermore, the possibility of business zakat implementation in Indonesia is briefly discussed. The calculation of business zakat potency is also conducted. An alternative step to implement business zakat is displayed in the final section.

LITERATURE REVIEW

Fiqh and Zakat

In the terminology of Quran and Sunnah, zakat is defined as part of wealth that has to be spent in the will of Allah (M. Imran Ashraf Usmani, 2000). As one of five pillars in Islam, zakat plays very important role in Moslem's life. Zakat is mentioned repeatedly, up to 32 times in Quran indicating the importance of zakat in Islamic teaching.

It is clear that zakat is an obligatory for any Moslem individual who owns a specific amount of wealth or saving that meets certain criteria. Yet, the view of asset subject to zakat has developed and some Moslem scholars have agreed to also oblige companies to pay zakat. Research by Ismail & Tohirin stated that business zakat is obligatory and must obey the basic rule to exclude fixed asset from assets subject to zakat. As a consequence, all items that are included into working capital is subject to zakat (Ismail, Tohirin, & Ahmad, 2013). The holy Quran reference assets subject to zakat is rather general. In Surah At Taubah (9:103) the word "amwal" is mentioned as subject to zakat.

Another surah (Al Baqarah:267) mention it as “what you have earned”. Hence, in the early period of Islamic era, Prophet Muhammad (may peace be upon Him) suggested that assets subject to zakat include gold, silver, camel, sheep, agricultural output and goods designated for trade. According to Yusuf Al Qardhawi (2014) assets subject to zakat should be a growing type or should have the potential for growth . Almost none of classical fiqh discuss about business zakat. However, as time passes and business activities grow more complicated, various opinions have been formulated to define what zakatable asset actually is.

Recent time, Moslem scholars offer some opinions in regards to zakatable assets. Some groups said that only items specifically prescribed in the Quran and the Sunnah are subject to zakat, for example: dates, raisins, wheat, camels, sheep, assets acquired on purpose of resale. However, another group of ulemas, excellently brought to light by Al Qardhawi and other contemporary jurists agree to include wages, salaries, professional income, shares and obligation as zakatable assets. Considering Professor Abu Zahra, Abdur Rahman Hasan, and Khallaf, Qardawi said that shares and bonds are like trading goods, therefore they are subject to zakat. 2,5% of the value of shares and bonds (and dividend if any) is assessed as zakat. On the other hand, another statement from Qardawi agrees to calculate business zakat at 10% from profit/revenue (Al-Qaradawi, 2013). Considering opinions by the contemporary scholars above it can be concluded that corporates are subject to zakat.

Furthermore, whether or not firms are subject to zakat has actually been discussed in the first conference (muktamar) in Kuwait which was held on the 30'th of April, year 1984. Scholars in the Muktamar agreed to decide corporates as subject to zakat (Hafidhuddin, Zakat Dalam Perekonomian Modern, 2002). The decision was made considering the concept of legal personality where the firm has right of ownership like using the assets, selling them, and to make those assets available for attachment by its creditors. Like a person, a company is an artificial personality and has its own life, existence, duties, liabilities and obligations. A company also has right to enter a contract, to own its own properties, to delegate authority to agents, to sue or being sued in its own name (Kraakman, 2009). Furthermore, concept of separate patrimony (as stated in the website of <http://www.simarddesrochers.ca/newsletter/the-separate-patrimony-of-a-legal-person/739>) may also be considered, where shareholders, members or managers of a corporation are not personally liable for the corporation's obligation. In addition, based on

the premise above, firms might be obliged to pay zakat even if without any permissions from the shareholders (Wijayanto, 2007).

Considering fatwa from the first Mukhtamar in Kuwait, it is assumed that applying business zakat is allowed as long as some conditions (as follow) are fulfilled:

1. The existence of regulation of zakat obligation for companies
2. The article of association of the firm mentions the statement regarding zakat payment
3. General meeting of shareholders agrees to make a commitment in regard to zakat payment.
4. As in separate patrimony concept, the shareholders agree to allow the board of directors (who act as a firm) to manage the zakat payment (Hafidhuddin, Panduan Zakat Bersama Didin Hafidhuddin, 2003)

Application of business zakat in some countries

Some countries have pointed out firms as subject to zakat. However, only few countries have made business zakat compulsory, they are including: Saudi Arabia, Pakistan and Kuwait. Furthermore, some researchers found that business zakat has been implemented only by firms in Islamic bank sector. In many countries zakat law is somewhat general in nature and sets out the specific regulation to be formulated by designated organization (Obaidullah, 2016).

Another research was looking for the practices of business zakat across countries, i.e: Bahrain, Saudi Arabia, United Arab Emirates, Dubai, Pakistan, Malaysia and Indonesia. It was seen that only few countries had implemented business zakat, they are Bahrain, United Arab Emirates and Malaysia. Furthermore, the research found that the implementation of business zakat in Islamic Bank entities was vary (Ismail, Tohirin, & Ahmad, 2013).

Malaysia is one of few countries that introduced a guideline on zakat business. The Malaysian Accounting Standard Board (MASB) issued the Technical Release *i-1* "Accounting for Zakat on Business" which was applicable since July 2006 (Adnan & Bakar, 2009). Hence, the implementation of business zakat in Malaysia, like other religion issues in Malaysia, is the responsibility of each state. As a result, the regulation regarding business zakat displays great diversity (Obaidullah, 2016). Unfortunately, another research shows that the number of companies that paid and declared zakat to the authorities in Malaysia is very small. Companies that fulfill their zakat

obligation are those with majority Moslem shareholders and directors (Said, Md.Daud, Radjeman, & Ismail, 2013)

Meanwhile, Saudi has integrated regulation of zakat and tax. Government of Saudi established Department of Zakat and Income Tax (DZIT) under the Ministry of Finance where all entities are registered. As a consequence, every registered entity is liable to pay zakat. It is seen that business zakat is mandatory in Saudi regulation. In addition, Accounting Standard for Zakat (AS-013) was also established by Saudi Organization of Certified Public Accountant (SOCPA) in 1999. It is stated in the standard that every company which classified as profit enterprise must apply the AS-013 (Obaidullah, 2016). Furthermore, it is stated that company who is liable to pay zakat in Saudi is company that owned by Saudi or Gulf Cooperation Council (GCC) nationalities/companies (Ernst&Young, n.d.)

Government of Sudan made zakat compulsory by issuing the Zakat act no.2001 (article.16-1). However, obligation to pay zakat is mandatory only for individual of Sudan citizens. There is no evidence of regulation on corporate zakat in Sudan (UII, 2017)

Furthermore, Kuwaiti established law no.46, 2006 that integrates zakat and law together. The Law stated that all Kuwaiti public and closed shareholding companies should apply zakat and it is computed at 1% of annual profit before Board of Director's remuneration. Companies that refuse to pay their dues or companies that falsify data in order to avoid zakat payment will be punished. The punishment is either a maximum 3 years imprisonment or a maximum 5000 Dinars

Meanwhile, in Pakistan zakat has been made compulsory since 1980. In the nature of financial assets zakat was deducted at 2,5% of rate on specified assets (Obaidullah, 2016).

Bahrain is the country that fully supports the implementation of business zakat. Bahrain is the founder of The accounting standard setter for Islamic Financial Institution, namely the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI). The Financial Accounting Standard (FAS. No.9) of the AAOIFI clearly explains the issue of recognition, measurement, presentation and disclosure in regard to business zakat. However, only Islamic Financial Institution (IFI) is bounded by the regulation.

In determining basis of business zakat some opinion can be taken into consideration. As discussed previously, some contemporary scholars

have shed some lights on determining and calculating business zakat. For example, Qardawi stated that sample of assets subject to zakat are business inventory, exploited assets, minerals and sea products, wages and salaries, also shares and bonds (Al-Qaradawi, 2013). Unfortunately, the AAOIFI in Bahrain and the IAI in Indonesia focused on zakat of IFI only. In contrast, IFI is not the only industry that is subject to zakat. Every sector of business might be determined as subject to zakat. Moreover, if the companies trade both sharia stocks and sharia obligations (sukuk), obliging such companies to pay zakat is somewhat relevant.

METHOD

This research is conducted by using literature survey as the main methodological approach. Besides, interviews with some regulators and scholars were managed to get opinions and useful info with regard to business zakat. Fiqh literatures and existing regulations regarding zakat in Indonesia are explored in order to offer an integrated regulation to support business zakat implementation in Indonesia. Notwithstanding business zakat is defined as zakat on all type of business, this research is focused on companies that trade sharia stocks in the IDX. Furthermore, implementation of business zakat across countries is also discussed as a comparison.

In order to calculate zakat potency of the ISSI/JII companies, the list of companies released by the National Sharia Board (DSN) is gathered from the IDX website. The net profit of the companies was then multiplied by 2,5%, so that potency of business zakat can be estimated. Empirical data from Islamic banks in Indonesia were also gathered to inform application of business zakat report.

RESULTS AND DISCUSSION

Findings on business zakat's regulation in Indonesia

Considering the growing issue of business zakat in the world, implementing zakat on business is a plausible program in Indonesia. Support from regulatory bodies is an important factor to implement the program. Here are some findings about current regulations of business zakat in Indonesia:

1. Government of Indonesia through the establishment of the law of business zakat.

Currently, law of zakat no.23 has been promulgated by the Indonesian's government in 2011. According to Beik (2012), this type of regulation is

classified as partial model because zakat payment is not legally obliged (Firdaus, Beik, Irawan, & Juanda, 2012). The zakat act primarily discusses the issue of zakat management, directs zakat institutions in the area of collecting, distributing and reporting of zakat, sadaqah and infaq fund. It is stated in the general provision of the act, chapter 1, article 1, item (5) that zakat payer is an individual Moslem or company. Unfortunately, no further instructions deal with business zakat at the act. In contrast, on the previous zakat act No.38 year 1999, chapter IV, article 11 item (2.b) states that trading and companies are subject to zakat.

2. The Indonesian Accounting Institute (Ikatan Akuntan Indonesia, IAI) through the establishment of accounting standards in regard to business zakat.

The IAI has issued a standard concerning report of zakat fund. The Sharia accounting standard No.101 (PSAK No.101) states that sharia entities are mandated to present report of zakat and charity (qard) fund (IAI, 2017). Furthermore, this standard bounds sharia entities only. Research on compliance of Indonesian Islamic banks to the PSAK No.101 shows that the banks neglected the standard (Andriani & Rakhmawati, 2014).

3. Indonesia capital market sector through the Capital Market Supervisory Agency (BAPEPAM) and the Indonesia Stock Exchange (IDX) through the establishment of regulation in stock market in regard to business zakat.

As an official agency established by the government, the BAPEPAM issued the capital Market Law No.8 year 1995 (BAPEPAM, 2015). Chapter VIII, article 69 of the act presents two important points as follow:

- (1) Financial reports that are submitted to BAPEPAM must be prepared in accordance with generally accepted accounting principles
- (2) Notwithstanding the requirement in *item (1) BAPEPAM* may establish accounting rules with respect to the Capital Market

The statement at point 1 above shows that each company having transaction in capital market must present standardized set of financial reports. In addition, it implies that the sharia entities must present their financial reports in accordance with the PSAK No.101.

Besides, the IDX has issued two types of sharia indices namely sharia Islamic index (ISI) and Jakarta Islamic index (JII). In order to support sharia transaction in the IDX, the director of the IDX and the MUI has taken plausible action to issue a regulation called fatwa of National Sharia Board (DSN) in 2011. The fatwa No.80/DSN-MUI/III/2011 entitled "Implementation of Sharia Principle in the Mechanism of Share Trading at Regular Stock Exchange". The fatwa briefly discusses technical guidance in doing sharia stocks transaction, so it is guaranteed that the auction mechanism is suitable with sharia principle. Unfortunately, neither the Fatwa nor the legal foundation discusses business zakat issue (Sadewa, Rahwani, & Andriani, 2015). There is an opportunity to charge corporates trading sharia stocks to fulfill its social responsibility namely zakat.

Findings on Estimation of Zakat Potential by using the ISSI/JII companies

As discussed in the previous chapter, the ISSI and the JII index has been launched for corporates that meet certain criteria by the DSN which were then allowed to trade sharia stocks in the capital market. The listed corporates are evaluated every 6 months to determine if they still meet the certain conditions or not. Of the total 355 ISSI companies that are listed in the first period of year 2017, 64 corporates are excluded either because of data unavailability or loss occurred.

By including the ISSI/JII companies as subject to zakat, the zakat potential is estimated using this formula: $2,5\% \times \text{net profit}$. The sum of net profit was calculated at 983.583.745.663.529 rupiahs which was then multiplied by 2,5%. Finally, the potential of business zakat of companies listed at the ISSI index in mid of May 2017 was calculated at 24.589.593.641.588,20 rupiahs. The amount of zakat potential of corporations listed at the ISSI index shows that Indonesia might address the poverty problem using business zakat program.

An alternative concept in Integrating Regulation on business Zakat

According to Beik there are two types of zakat implementation, namely *wajib shar'i* and *wajib siyasi*. *Wajib shar'i* is a religious obligation. Notwithstanding the absence of zakat act in the country, every Moslem must obey the obligation of zakat payment. Meanwhile, *wajib siyasi* is legally obliged. In the later type of zakat implementation, the zakat act exists, and punishment may be applied to those who neglect the obligation (Irfan Syauqi Beik, 2010).

Among the four models of zakat regulations: Model Type I (comprehensive model), Model Type II (partial model), Model Type III (secular model), and Model Type IV (impossible model) (Irfan Syauqi Beik, 2010), Indonesia has applied the partial model or Model Type II.

In order to implement business zakat in Indonesia, the integrated regulation concept needs to involve the regulatory bodies as stated before. From discussions with regulator from the Financial Service Authority/Otoritas Jasa Keuangan (OJK) it can be concluded that willingness from the government is the most important factor to establish regulation concerning corporate zakat. Another discussion with a member of DSN stated that the idea of implementing corporate zakat in Indonesia would be an effective way to reduce poverty. Furthermore, another important step is about managing the collected fund so that it benefits the poor in Indonesia.

It is probably a plausible move by the Indonesia house of representative to mandate companies that trade sharia stocks to pay zakat. By issuing the regulation of business zakat, one of conditions that has been approved in the first Mukhtamar in Kuwait is fulfilled (Hafidhuddin, Panduan Zakat Bersama Didin Hafidhuddin, 2003). It's probably not an easy step to create such regulation. However, Indonesia needs to start to implement the idea. The first thing we might be able to do is by inviting Moslem scholars to discuss business zakat issue. As a result, the fatwa concerning business zakat can be launched.

It is seen that The Indonesian Ulama Council (MUI), has started to discuss the issue in 2009. The discussion then resulted to an agreement among the participants to religiously oblige companies to pay zakat. The agreement, however, was not result in Fatwa. Hence, the congress is a good starting point in implementing business zakat in Indonesia.

Furthermore, tax regulation also needs to be taken into consideration. By integrating regulation of zakat and tax, business zakat payment might be tax deductible. As a consequence, companies that have paid zakat might deduct its profit by zakat payment so that tax liabilities will be reduced.

Meanwhile, as previously discussed, there are companies that trade sharia stocks in the IDX. The IDX has launched two indices for this type of companies namely Jakarta Islamic Index (JII) and Indonesian Sharia Stock Index (ISSI). It is seen through the IDX website that to be classified at the ISSI index two conditions need to be fulfilled namely business criteria and financial criteria. The business criteria are served based on the lawful (halal)

of the business, both halal on the substance (product) and on the process. While the financial criteria oblige company to have not more than 45% ratio of total debt to total assets and the ratio of non-halal income to total income is limited to 10 % only (Sadewa, Rahwani, & Andriani, 2015).

The IDX website also provides fatwas and regulations that have been launched by the National Sharia Board (DSN) of Indonesian Ulama Council (MUI). Since the year 2001, the DSN has launched 14 fatwas related to sharia capital market and since the year 2006 three regulations concerning Islamic securities have been issued by the BAPEPAM-LK. Another regulation was enacted in year 2008 concerning Sharia Government Securities. The fatwas and regulations provided by the DSN, the IDX and the BAPEPAM-LK show serious commitment of the regulatory bodies to implement sharia principle in the stock exchange (Indonesia Stock Exchange, 2014). Unfortunately, both the regulations and the fatwas concern on the technical practices only, none of them discusses the philanthropy obligation. In contrast, charity and philanthropy is the third pillar in Islam, namely zakat. Considering zakat as one of pillars in Islam, adding philanthropy issue in the fatwa is a plausible action. Hopefully, Business zakat is not only a discussion but also an implementation in Indonesia.

Estimation Of Zakat Potential by using the ISSI/JII companies

As discussed in the previous chapter, the ISSI and the JII index has been launched for corporates that meet certain criteria by the DSN. The corporates then allowed to trade sharia stocks in the capital market. The listed corporates are evaluated every 6 months to determine if they still meet the certain conditions or not.

It is seen that at the first period of year 2017 there are 335 companies and 30 companies listed at the ISSI and at the JII index respectively. However, only the ISSI companies is included in this research because it is likely that companies that listed in the JII index are already listed in the ISSI index. Of the total 355 ISSI companies, 64 corporates are excluded either because of data unavailability or loss occurred.

By including the ISSI/JII companies as subject to zakat, the zakat potential is estimated using this formula: $2,5\% \times \text{net profit}$. The sum of net profit was calculated at 983.583.745.663.529 rupiahs which was then multiplied by 2,5%. Finally, potential of business zakat of companies listed at the ISSI index in mid of May 2017 was calculated at 24.589.593.641.588,20 rupiahs. The amount of zakat potential of corporations listed at the ISSI index

shows that Indonesia might address the poverty problem using business zakat program.

Our discussion with some scholars results to an agreement that some issues need to be tackled in order to oblige such companies to pay corporate zakat. The first problem is difficulties in identifying the owner of the companies. If the company is fully owned by Moslem, obligation to pay corporate zakat is a relevant idea. On the other hand, if company is also owned by the non-Moslem, the idea to pay corporate zakat is somewhat impossible.

Another issue is the assessment of corporate zakat. Currently, some firms in Syariah Industrial Banking in Indonesia have paid its corporate zakat. The Indonesian Islamic Banks using profit as basis of the calculation. In contrary, some researchers stated that using profit as basis of corporate zakat assessment is not handling the issue of corporate zakat in a comprehensive manner (Obaidullah, 2016). Obaidullah agree that using current assets as basis of zakat assessment is more rationale. In fact, using assets as basis zakat will result to higher amount of zakat payment which will likely be resisted by companies.

Accounting standard in Indonesia regarding business zakat

Business zakat regulation need also be viewed from the reporting issue. Reporting of business zakat in Indonesia exists in the PSAK No.101 that has been issued by Indonesia Accountant Association (IAI). The PSAK No.101 states that presentation of sharia entities financial report consist of 5 elements, i.e: (1) statement of financial position, (2) statement of comprehensive income, (3) statement of cash flow, (4) statement of changes in owners' equity, (5) statement of reconciliation of income and revenue sharing and notes to the financial statement. An additional set of financial reports must be presented by sharia entities, namely: (1) statement of sources and uses of funds in the zakat and charity fund, and (2) statement of sources and uses of funds in the *qard* fund. The last two reports reflect the entities' role as a philanthropic organization. Furthermore, Haniffa (2001) stated in her research that to achieve the goal of sharia Islamiah, the concept of Islamic accounting perspective should be considered. The concept agrees to include measurement and disclosure of zakat as companies' responsibility to society (Haniffa & Hudaib, 2001).

In year, 2014 it was seen that some Islamic Banks in Indonesia neglected the PSAK No.101. Of ten Islamic Banks in Indonesia only 8 banks presented the statement of sources and uses of funds in the zakat and charity fund and

the statement of sources and uses of funds in the qard fund. Incompliance with the standard was likely happen because the absence of fatwa by Moslem scholars to oblige entities to pay zakat (Andriani & Rakhmawati, 2014). Consistently, in 2017 similar result was showed by Islamic banking in Indonesia. From 13 Islamic Banking, only 11 Banks or 84% presented zakat report in their financial report.

One possible reason is probably because of some gaps in the standard. The first point is seen in the statement of Conceptual Framework for the preparation and presentation of Islamic financial institutions. The last sentence of paragraph eight stated:

“Conventional entities having sharia transactions do not necessary to prepare a complete set of sharia financial report but only to report sharia transactions as stated in the sharia accounting standard for conventional financial report,” (IAI, 2017)

The statement above clearly implies that if the ISSI/JII companies are not classified as sharia entities, they do not need to present report of Statements of Sources and Uses of Zakat Funds and Qard Hasan Fund.

The next question is how a company can be classified as sharia entity? Paragraph one, the objective of the PSAK No.1 stated that the standard is applied for sharia entities only. Furthermore, it is stated in paragraph three that sharia entities are defined as “entities having sharia transactions as its operational activities that are stated in its articles of association” (IAI, 2017). Such statement reflects that a company can only be classified as sharia entity if it is stated in its articles of association. Whether or not the company trade stocks is not taken into consideration. As a consequence, the JII/ISSI companies neglect the PSAK No.101

The critical question is on the definition of sharia entity. I believe it is a plausible move to evaluate the definition by broaden the criteria of sharia entity. The definition should not only look at the articles of association but also by look at the type of transactions held by company.

Furthermore, critical evaluation can also be discussed on the conceptual framework of the PSAK No.101. As stated previously, the JII/ISSI companies are companies having transactions on sharia stocks. Yet, the definition of sharia transaction is not clearly stated. On the other hand, the framework stated that sharia transactions should be conducted based on the principle of: brotherhood (*ukhuwah*), justice (*‘adalah*), prosperity (*maslahah*), balance (*tawazun*), and universalism (*syumuliyah*).

Furthermore, paragraph 24 of the framework stated that the balance (*tawazun*) principle essentially discusses the balance in some aspects, namely: material and spiritual aspect, private and public aspect, financial and real aspect, business and social aspect. The last aspect implies that in doing sharia transactions, companies do not concern on business profit only but also consider philanthropy issue. In addition, the objective of the companies is not to concern to the shareholders only but for the community's prosperity as well.

Considering the statement in the paragraph 24 above, such companies have to apply the *tawazun* principle. In addition, obliging companies that trade sharia securities in the capital market to pay zakat is somewhat feasible. By implementing business zakat program, the ISSI/JII companies may share their profit to the needy. Different with tax, as stated in the Quran (At Taubah:60), the beneficiaries of zakat fund are divided in to 8 categories. As a consequence, the benefit of zakat payment may directly goes to the recipient.

CONCLUSION

To summarize, in order to create a comprehensive regulation model concerning business zakat, some actions might be taken in to consideration: It is necessary to religiously obliged companies to pay zakat by issuing Fatwa with regard to business zakat. However the fatwa needs another set of regulation. Evidence from Saudi and Kuwait can be taken in to consideration, where the government established rules to oblige zakat for companies that is fully owned by Moslem.

The current zakat act No.23 year 2011 needs to be abrogated by inserting a new article that clearly obliges companies to pay zakat. However, punishment on this matter is probably not necessarily. Following Beik's view, Indonesia may stay in the model type II of zakat implementation, the partial model. Integrating zakat and tax regulation will also beneficial hence the amount of tax payment will be decreased. By paying zakat, companies would be allowed to deduct their profit so that the amount of tax liabilities would be reduced.

The PSAK No.101 needs to be discussed further, especially in defining "sharia entity". Considering the ISSI/JII companies, the IAI should broaden the definition of sharia entity. Identifying sharia entity merely from its articles of association is not sufficient. Doing sharia transactions in stock exchange should also indicate the company as sharia entity thus liable to present set of

financial statement as stated in the PSAK No.101. The accounting standard board needs to establish a new standard that specifically discuss the issue of business zakat. So that with the new standard, each company can use a uniform method in assessing corporate zakat.

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