

Zakat Accounting for Investment in Malaysia: A Case of Islamic Unit Trust Fund

Mohd. 'Adli Zahri¹, Nurul Ilyana Muhd Adnan^{2*1}, Norbahiyah Awang³, Fatin 'Alia Zahri⁴, Norafzan Awang⁵ and Nik Abdul Rahim Nik Abdul Ghani⁶

¹Operation Division, BUJ Technology Enterprise Sdn. Bhd. Malaysia

²Research Centre for Sharia, Faculty of Islamic Studies, Universiti Kebangsaan Malaysia, Malaysia

³Faculty of Computer and Mathematical Sciences, Universiti Teknologi Mara, Melaka, Malaysia

⁴School of Social Sciences, Universiti Sains Malaysia, Penang, Malaysia

⁵Faculty of Economic and Management, University College Bestari, Terengganu, Malaysia

⁶Research Centre for Sharia, Faculty of Islamic Studies, Universiti Kebangsaan Malaysia, Malaysia

ABSTRACT

Zakat accounting means the process of identifying assets required for zakat, determining the conditions of assets, confirming the applicable zakat rates, and assessing the zakat on the related assets. The rate of payable zakat was determined at 2.5 per cent. However, it is argued if zakat were imposed on the shares' capital value. Is it fair and sensible if zakat based on physical asset is imposed solely on the income generated by the asset? Data were collected from documents analysis. The data then analyzed by content analysis. As a result, on 7th July 2011, Selangor government has issued the fatawa that zakat for unit trust would be based on 'urudtijarah (trade goods). Meaning, zakat is imposed on the value of the shares and the income generated from the share. Based on content analysis of secondary data, the result shows that the zakat accounting for IUTF must be based on the intention of owning the shares in IUTF.

Keywords: zakat accounting, investment, mutual fund, Islamic Unit Trust Fund, Malaysia

1. INTRODUCTION

Investment means turning an asset into funds with the expectation that it will generate positive income and/or preserving or increasing its value (Smart, Gitman & Joehnk, 2014). Investment can be made either in physical assets or in financial assets. Physical assets can be a tangible asset such as land, buildings, vehicles, gold and silver and meanwhile, financial assets are bonds, shares and trust funds.

Investment can be divided into two types. Firstly, long-term investments with instruments on real assets such as land, buildings, office equipment, vehicles, investments in stocks and bonds. Secondly, short-term investments are investments in current assets

¹ * Corresponding author

such as cash, accounts receivable, inventory, and securities (Kusumaningrum, Isbanah& Paramita, 2019).

A unit trust is considered one of the most common investment vehicles to generate capital among investors. Most of the investors consider risk return spectrum, flexibility and liquidity as key factors for their investment in mutual fund. Muslim investors normally would choose Islamic Unit Trust Fund (IUTF) for their investment since it is not contravening with Islamic principles. Therefore, in the IUTF, investors can generate, accumulate and preserve their wealth following a Shariah-compliance investment (Aziz, Hassan, Salman & Lincoln, 2019).

IUTF is a Shariah compliant trust fund supervised by Shariah Supervisory Board (SSB). SSB will supervise and offer advice to ensure that Shariah based IUTF is managed under the guidelines and demand of the Shariah law. SSB therefore, will safeguard that Islamic financial institutions perform their operations according to the Shariah requirements.

Any investment in the IUTF is under the zakat jurisdiction. For example, on 7th July 2011, the Selangor government has issued the fatwa that zakat for unit trust would be based on '*urudtijarah* (trade goods). The rate of payable zakat was determined at 2.5 per cent. In other words, when unit trust fund is classified as '*urudtijarah*, zakat is imposed on the value of the shares and the income generated from the share.

But Khan (2005) argued, if two persons have one million dollars each. One person invests by buying shares; another person bought a house for leasing and earned income through rental. If zakat was imposed on the shares' capital value and not on the house's capital value, an anomaly would occur. Consequently, if we zakat the dividend income of the one and rental income of the other, we shall be consistent.

Therefore, is it fair and sensible if zakat based on physical asset is imposed solely on the income generated by the asset? For example, income generated from renting houses and buildings. The houses and the buildings are exempted from zakat. The investment zakat is imposed on the income generated from the asset, or the value of the assets. For example, the dividend income and the value of the traded shares. This article tries to answer these issues.

2. LITERATURE REVIEW

Generally, a unit trust fund can be defined as a collective investment scheme that pools investor's money, invests it with a specific objective, and, most importantly, managed by a professional fund manager (Ripain& Ahmad, 2018). Therefore, a unit fund is a common pool of money that investors place their contributions in different security types. Funds are the preferred investment avenue for most customers. They help diversify the investments wherein professional fund managers manage the investments and the investors would not be continuously updated with the market happenings, and the investors would not spend much time researching stock (Mary Jasmine & Basariya, 2018).

Investment in the trust fund is fundamentally different from investing in market share. This is exemplified in four conditions, as explained by Ibrahim and Zainudin (2017). Firstly, investors in trust funds are not businesspeople, and probably have zero knowledge of market share business.

Secondly, in a trust fund investment, the shares' buying and selling are 100 per cent thoroughly conducted by the employed trust fund manager. Thirdly, those who invested in a trust fund are looking for long-term investment, and they bear no wish to deal in market share business.

Fourthly, the profit generated on the trust fund investment will depend on the amount of the capital and the investment length. This is different from the profit generated by selling and buying shares in the market investment. In selling and buying market shares, small capital investment can generate manifold profit in a short period.

Unit trust funds continue to be the largest component of the Malaysian Collective Investment Schemes (CIS) industry, with a total net asset value (NAV) of RM 482.09 billion as recorded as on 31st December 2019, an increase of 13.12% from RM 426.18 billion last year. Thirty nine locally incorporated unit trust management companies were approved to offer unit trust funds based on the record on 31st December 2019. The percentage of the total NAV of the unit trust funds industry against Bursa Malaysia's market capitalization is 28.16% (2018: 25.06%).

Table 1: Islamic Unit Trust Fund

Year	2018	2019
Islamic Unit Trust Fund (UTF)	236	224
Total Industry	685	650
NAV of Islamic UTF (RM billion)	107.32	83.45
NAV of total industry (RM billion)	482.09	426.18
% NAV of Islamic to total industry	22.26%	19.58%

Table 1 shows the annual report for 2019 commissioned by the Securities Commission Malaysia (SC), the number of Islamic Unit Trust Fund (IUTF) listed by the commission has increased 5 per cent, from 224 funds in 2018 to 236 funds in 2019. The Net Asset Value has increased by 29 percent, from RM 83.46 billion to RM 107.32 billion. The percentage of Net Asset Value has decreased from 22.26 per cent in 2018 to 19.58 per cent in 2019.

The IUTF fund list did not include the fund from Amanah Saham Nasional (ASN) and Amanah Saham Bumiputera (ASB), the two trust funds managed by Perbadanan Nasional Berhad (PNB). ASN and ASB are supposed to be categorized under IUTF. This notion was finalized during the 80th Committee meeting by the Council of the National Fatwa for Islamic Matters on 1 - 3 February 2008. The fatwa council has proclaimed that the law of investing in ASB and ASN is permissible.

The Kelantan Council of Religion and Malay Custom (MAIK) has decided that ASB investment, ASN and other forms of trust funds are permissible. The matter was decided during a meeting of the Ulama' Jumaah Ulama of the Councils on the 27th of December 2009. The same proclamation was made by the Selangor Islamic Councils on 27th April 2017, and Penang Islamic Councils on 15th August 2017.

The decision was founded on two justifications. The first justification was an investment in ASB, ASN and other trust fund is permissible based on the necessity or *darurah* state of the Malay's economic standing in Malaysia. The *darurah* state was concluded based on the overall Muslims' economic standing in Malaysia, not on the individuals standing.

Secondly, the investments are conducted in more halal-based schemes than the haram-based schemes. The law of investing in most halal sectors is permissible. Prophet Muhammad and his comrades had dealt in businesses with the non-Muslim businesspersons, and they were aware that these people were conducting questionable business dealings. Meanwhile, conducting transactions with a person who owned more haram based assets than the halal-based asset is makruh, under the condition that the value of the unlawful assets or dealings is unknown.

The Shariah Advisory Council (SAC) of the Securities Commission Malaysia (SC) had its 219th meeting on 25th April 2019 and classified the Shariah status for securities listed on Bursa Malaysia annually. SAC received input and support from the SC in gathering the companies' information through their annual reports and the company's latest available annual audited financial statements and additional information obtained from the companies. SAC adopted two screening approaches, i.e., quantitative and qualitative. For the quantitative approach, SAC adopted a two-tier quantitative approach, which applied: (i) The business activity benchmarks; and (ii) The financial ratio benchmarks.

For the business activity benchmarks, SAC updated its decision relating to the business activity benchmarks from four benchmarks, 5%, 10%, 20%, and 25%, to two benchmarks, 5% and 20%. The 5% benchmark applies to businesses/activities such as conventional banking and lending, conventional insurance, and gambling. The 20% benchmark applies to businesses/activities of share trading, stockbroking business, and rental received from Shariah non-compliant activities (Zahri, Awang & Awang, 2020).

3. METHODOLOGY

This article to apply the case study in explaining the issues in depth and in the empirical study on the current situation (Yin, 2003). Consequently, this study is seen to meet the purposes and characteristics outlined in a case study. This research is used to look at the zakat accounting for Islamic Unit Trust Fund. Is it fair and sensible if zakat based on physical asset is imposed solely on the income generated by the asset?

In addition, compatibility with the data types of qualitative, the data in this study were analyzed using method of content analysis. It is one of the techniques of gathering and analyzing the content from text (Neuman, 2003). The text is referring to any type of written material such as thesis, dissertation, book, magazine, diary, letters, meeting minutes, field notes and transcripts of interviews (Othman Width, 2009).

4. RESULTS AND DISCUSSIONS

ZAKAT ACCOUNTING FOR ISLAMIC UNIT TRUST FUND

Zakat accounting means the process of identifying assets required for zakat, determining the conditions of assets, confirming the applicable zakat rates, and assessing the zakat on the related assets. Hamat (2002) stated that previous Muslim scholars had divided the asset base into three classifications: the types of property, the cost of production, and Prophet Muhammad's practices (PBUH). Each method holds a unique accounting criterion.

The first method is by type of property, whether it is a fixed asset or a current asset. The property can be formulated into two categories, as follows:

- i. Zakat on asset is imposed on income earned from fixed assets at 5 per cent or 10 per cent. Fixed assets were used to extract a benefit such as from vehicles, factories, and buildings.
- ii. Current assets are subjected to zakat, based on the assets and property's income at a rate of 2.5 per cent. Atiyah (1995) stated that current assets are cash, inventory for sales, and other readily convertible assets to cash.

The second method is based on the cost of production and formulated as follows:

- i. Based on the cost of production, either high cost or low cost, as mentioned by Ibrahim (1997) and Shahatah (2003), crops are traditionally cultivated using natural resources like rainwater are eligible for zakat at 10 per cent rate, while high tech production using expensive technology is eligible for zakat at 5 per cent rate.

The assessment method can be based on capital, either from the capital gain, assessed together or separately. Atiyah (1995) and Shahatah (2003) stated that if the capital and profits are assessed together, the zakat rate is lightened to 2.5 per cent.

The third method is based on the practice of Prophet Muhammad (pbuh) who divided the assets into three categories:

- i. Zakatable to the assets only, such as gold and silver, and tradable goods, was charged at 2.5 per cent.

- ii. Zakat is imposed on the assets and income derived from the assets, such as livestock and the rate were determined by the Prophet Muhammad (pbuh),
- iii. Zakat is imposed only on income derived assets agricultural income at either 5 per cent or 10 per cent, and the income derived from the bowels of the earth is at 20 per cent,

Therefore, for business zakat, a few rates can be used to assess the zakat amount. If the business income is qiyas to agricultural income, then the 5 per cent rate can be used on the gross income (Hamat, 2002). When zakat is charged together with the capital, a lightened rate of zakat at 2.5 per cent is used (Atiyah 1995; Shahatah 2003). This is the rate used by zakat authorities in determining business zakat in Malaysia.

Shares zakat accounting is a process of determining the shares that are compulsory for zakat, determining the rate of zakat and estimating the payable zakat by the owner. Although most zakat experts agree that zakat is compulsory for shares, there are differences in opinion between them, especially regarding the shares' assessment (Hamat, Endut & Hanapi, 2017).

Hamat, Endut, and Hanapi (2017) have debated the zakat accounting for shares as follows. Firstly, Shahatah and Fayyadh (2004) argued that zakat accounting for shares should be according to the duration and the purpose of owning the shares. If owning the shares is short term, and the purpose is to trade, the shares zakat accounting method is qiyas to zakat on business goods. In comparison, if the duration of owning the shares is long term, and the purpose is to obtain the yearly dividend, the zakat accounting method is the same as zakat for *mustaghallat* assets.

Secondly, according to 'Atiyah (1995), shares can be divided into two categories of assets. First, the fixed assets when shares are bought to get the yearly dividend. Zakat is compulsory for the shares' dividends received at 10 per cent qiyas to agricultural yields. Second, the current assets, when shares are bought for trading, such as business goods. Zakat is compulsory for the shares dividend received, and the price of the shares at 2.5 per cent.

Thirdly, Khan (2005) suggested that shares are a form of investment. Thus, zakat is only imposed or made compulsory on the profit of the investment. The rate for zakat is five per cent, or 10 per cent, like zakat imposed on the agricultural yield or a building lease.

This guideline is in line with most contemporary ulama's opinions such as Muhammad Abu Zuhrah, Abdul Wahab Khallaf, Abdul Rahman Hassan, Yusuf al-Qaradāwī and Mustafa al-Zarqa. They felt that *mustaghallat* zakat should be determined like the agriculture zakat either 5 per cent or 10 per cent from the collected crops (Ibrahim & Zainudin, 2017).

In Malaysia, some states have outlined that trust funds are eligible for zakat. In Selangor, zakat is based on the qiyas capital of business assets, regardless of its purposes, either for business or savings. In Malaysia, several states have enforced the law that a trust fund unit is eligible for zakat. The Committee of Fatwa for the Selangor state has decided that zakat imposed on the shares market must be based (qiyas) on its business goods regardless of the investment's aim, whether it is for business capital or savings. Shares in the form of savings are eligible for zakat at a 2.5 per cent rate. The rate is based on the value of the shares at the end of the year. For business shares, zakat is imposed at the 2.5 per cent rate. The market share price determines the rate at the end of the year plus the profit made on the year and after the brokerage charge's deduction (Selangor Fatwa Committee, 2011).

Since the method of calculating zakat might lead to confusion among the public, many scholars in Malaysia felt that the intention of buying shares would determine the method of calculating the zakat based on the shares (Hamat, Endut & Hanapi, 2017). For example, one scholar has concluded that the method of calculating zakat based on shares is as below:

“...the method of accounting for zakat must be differentiated based on the aim and intention of buying such shares.”

This statement showed that the intention behind buying the shares would influence the accounting of the imposed zakat. Therefore, the assumption of all shares is solely meant for business purposes is unreasonable. Another assumption that states that all shares are meant for investment or savings are also untrue. It has been demonstrated that not all shares are kept procuring profit, as not all shares are solely meant for business purposes.

Therefore, the reasonable outline for zakat accounting should be based on two categories of assets which are: fixed assets and traded assets. Fixed assets are assets that are used to get continuous benefits. The zakat rate based on the assets' income accountable either at 5 per cent, 10 per cent, and 20 per cent. Trade assets are easily traded into business goods, or other assets quickly trade to cash. Zakat based on trade assets is imposed on the assets and income from the assets, at a rate of 2.5 per cent (Atiyah, 1995).

Based on Atiyah's (1995) framework, the method of accounting for zakat will be influenced by the intention of procuring the IUTF itself. IUTF is not for the business, and therefore IUTF is categorized as a fixed asset. The accounting for zakat is based on profit and annual dividend.

5. CONCLUSION

According to JAWAHAR's manual and the State Fatwa Committee, it showed that zakat accounting for shares is divided into two methods, for traded shares and not for traded shares. Zakah accounting for traded shares is based on the value and profit of the shares. However, zakat accounting not for traded shares is solely based on yearly profits or dividend. If the intention was used to determine the accounting method for IUTF, zakat should be imposed solely on profit or annual dividend. Because IUTF is categorized as *'urud al-tijarah*, JAWHAR, who has the authority at the national level, must reconsidered the accounting method for IUTF zakat. It is recommended that the zakat accounting for IUTF must be based on the intention of owning the shares in IUTF.

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