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Utilization and Accounting of Zakat for Productive Purposes in Indonesia: A Review

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Abstract

Zakat regulation in Indonesia ruled that zakat could be utilized for productive purpose in order to handling the poor and improving the quality of the people. This study aims to review utilizing and accounting of zakat for productive purpose as well as practiced by zakat institutions. Zakat for productive purpose is usually associated with a loan or revolving funds. It caused the controversy among scholars. The different concept of zakat led to controversy about property rights and the treatment of zakat. This paper offers an alternative of utilization of zakat or infaq/sadaqat from fiqh consideration and accounting perspective.

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Keywords: loans; productive zakat; zakat accounting; zakat distribution; zakat utilization.

1. Introduction

Zakat accounting studies are usually based on the issuance of zakat regulation or standard of accounting zakat. For examples, Abu Bakar (2007) critically reviewed *The MASB Technical Release i –1: "Accounting for Zakat on Business*. Abu Bakar (2007) argued that Accounting as a medium of computing zakat, thus has a role in determining a proper and fair assessment of payable zakat. The importance of accounting is in fact not only limited to zakat

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obligation, but also to other aspects of human life. Then, Adnan and Abu Bakar (2008) reviewed critically *Financial Accounting Standard* (FAS): 9 which was released by AAOIFI.

Hamat (2009) analyzed the potential "double tax" between zakat and tax for the business entity with business zakat accounting enactment. Meanwhile, Khan (2003) examines the application of zakat accounting and auditing in Pakistan and Sarea (2012) investigated the level of adherence (compliance) to the zakat accounting standards of AAOIFI in Bahrain. Current, Hamat (2014) initiated the accounting on sustainable zakat in Malaysia.

In 2011, The Goverment of Indonesia released Zakat Act Number 23 about zakat management and The Indonesian Institute of Accountant issuanced zakat accounting standards in statement of financial accounting standard (SFAS 109): Accounting For Zakat. Zakat regulation provides an opportunity of zakat utilization for productive (business) purposes and the accounting standard only manages the accounting for infaq/shodaqah (charity) as a revolving fund (loan). Zakat for productive purposes is identical with loans.

The practices of zakat in Indonesia almost has utilized zakat as productive zakat . For example, the National Body of Amil Zakat (Baznas) has formed Baytul Qiradh which functioned as micro-financing institution. Treatment of zakat or infaq/sadaqat as loans for recipients or amil's receivable leads controversy in the principle of accounting and the ownership of zakat or infaq/sadaqat. It is improper recognition as receivable account because receivable denotes business assets in the form of money owed to a business by customers or clients (http://www.thefreedictionary.com). Zakat is not business assets, recipients of zakat is not customers or clientsof amil, and the relationship between amil and recipients is nor business relationship. Based on the arguments, this study intends to review accounting of infaq/shodaqah as a revolving fund (loan) and formulate accounting treatment on utilization zakat and infaq/sadaqat for productive purposes based on the concept of zakat ownership.

2. Zakat Inovations and The Ownership of zakat

The original meanings of zakat are purity, growth, blessing, increase (Bouheraqua 2012; Sarif & Kamari 2009). Zakat management innovations include: (1) the concept of muzaki (tax payers) between the individual and the corporate (legal entities), (2) the expansion of compulsory zakat (zakat subjects) because of the growing range of high-income professions or so-called zakat on income of profession, (3) the distribution of zakat between grants and loans (Dakhoir, Luth, Ruba'i, & Syafa'at, 2014), as well as variations of corporate assets are grouped into zakatable assest and non zakatable assets (Hamat, 2014).

Issue about Islamic corporate (legal entities) as the subject of zakat and zakat distribution in the form of grants and loans have become intensive attention for Islamic yuridist and Islamic economist. Legal entities as zakat subjects disputed that related to religion status of legal entities and distribution of zakat as grants and loans debated in the ownership of zakat funds.

Study on legal entity as zakat subject had conducted by Bouheraqua (2009) and Dakhoir et al. (2014). According to Bouheraqua, there are two opinions about legal entities in islamic law. The first opinion rejects the concept of legal entity based on argument that it is purely hypothetical construct; thus it does not refer to something with actually exists. Second opinion considers legal entity is forced by the law and therefore, it is eligible to take on rights and obligations. Bouheraque himself is agreed with the second opinion and conclude that legal entity was subject of zakat. He concluded, there was no difference of opinion among scholars that corporations and islamic financial institutions that are entirely privately owned entity. They must pay zakat.

The zakat innovation is related to distribution for consumptive or utilization for productive purposes. The following issues of it about treatment of zakat utilization to recipients as grant or loan. Zakat funds as grants are no obligation to repayment of funds. Distribution of zakat to the zakat recipients in the form of grants are such as shopping needs or food. This scheme is known as consumptive zakat. Zakat as loans obligates repayment of the funds because the distribution of zakat funds is for venture capital and help the recipients of zakat (zakat recipients) increase yields income. This scheme is classified as productive zakat.

Other schemes of zakat distribution such as scholarships, health care and free medical treatment, education, and training cannot be classified as productive or consumptive. According to Sarif & Kamri (2009), this program is called gradual shift from consumptive distribution to productive utilization of zakat. Zakat innovation requires professional

management of zakat in administration and accountability. The role of amil is very important to manage the innovations of zakat.

Zakat innovation is source of fund for reducing poverty because of any property (assets, wealth) and earnings (income) is the object of zakat. Hafidhudhin & Beik (2010) argued that zakat development and innovations could reduce the poverty. Their study proved that zakat programs in BAZ DKI could help reducing the incidence of poverty by an average of 16.97 percentage points. There are two types of programs from BAZ DKI for zakat distribution that are consumptive based and productive based. Productive based program provided financing source for small and micro entrepreneur and Baitul Qiradh is as micro-financing institution.

Najib (2008) stated that zakat and infaq/sadaqat, especially zakat, will be the investment capital and is able to alleviate poverty and improve living standards recipients if managed efficiently in the form of productive and sustainable utilization. In fact, Oran (2009) states that amil should be directly or indirectly responsible for investing funds on behalf of recipients, Thus, management zakat and infaq/sadaqat by amil include fund raising of zakat payers, managing funds (resources) that exist within the organization (investment management) and distribute it to empower them

Sarif & Kamri (2009) argued that utilization of zakat program for the poors and needy in the form of loans and obligate repayment of zakat fund more responsible for recipients than the form of grants. Even, without pressure to repay, grants may misuse or pure use of the funds. They had reminded that zakat for grants will create permanent class of dependants with no motivation to works. Grants are most appropriate given to zakat recipients who may not be empowered with loans or productive purposes because effort and repayment can not afford it. But they gived note that the form of zakat distribution as loans only for productive recipients and economic activities that can generate income. For unproductive recipients, zakat distribution is the form of consumptive in nature. Zakat as a loan leads between fiqh and empowerment.

3. Fiqh Issue

Modern scholars are still not in full agreement the use of zakat for loans as it is considered a burden upon the needy. Another opinion states that zakat can be as interest free loan (al qard) and are paid off in the case of insolvent. Provision of zakat distribution is based Al Qur'an at Tauba: 60,

> “As Sadaqat (here it means zakat) are only (innamaa) for (li) poor and he poor and those employed to collect (the funds) and for to to attract the hearts of those who have been inclined (towards Islam) and to (fii) free the captives and for those in debt and for Allah’s Cause (those fighting in the holy wars), and for wayfarer (a traveller who is cut off from everything), a duty imposed by Allah. And Allah is all Knower, all Wise”.

Nadzri (2009) pointed that the words of "innamaa" means "hashr" (restriction) and the alphabet of "lam" in lilfuqoro means "lam al milk" that shows absolute right to ownership of zakat. By having an absolute right to ownership of a property, it means that the owner has absolute control over the asset. If zakat has been paid the ownership of such property belongs to zakat recipients and the amil does not have the right anymore to assets that have been paid. based on hujjah zakat assets only become eight Ashnaf rights.Sarif & Kamri (2009) viewed zakat ownership with concept of at Tamlik. At Tamlik means to transfer individual zakat ownership rights of payer to the recipient authorized by the lawmaker unless there is a hitch. Referring to the Al Qur’an at Tauba: 60. Based on their study from islamic scholars, the usage of the preposition "li" and "fi" is the difference in how the zakat should be distributed to them (Sarif & Kamri 2009). They cited from Hambalis and Shafiis, the first groups (with the preposition "li") where physical wealth must be transferred to recipients with absolute ownership. The second groups (with the preposition "fii", denotes that the ownership is restricted only for specific purpose. The recipients merely act as a keeper for the real owner.

Dakhoir et al (2014) explains that at Taubah; 60 grouping zakat recipients into two groups: the first begins with the word "lii" there are four groups. The word "lii" is addressed for the distribution of zakat directly. The second group uses the word "fii" Also there are four groups. fii”, is intended to utilization or indirect distribution. Furthermore,

Dakhoir et al. (2014) explained that the distribution of the four priority groups that the first for consumption and should not be used in the form of revolving loans, fixed assets or other facilities.

4. Accounting of Zakat or Infaq/sadaqat And Concepts of The Ownership

Based on some explanations above, islamic scholars tend to agree with zakat could utilized to recipients for productive purposes but it is not treated as a loan of recipients. Therefore, it is not permissible to utilization of zakat for productive purposes with the loan agreement (aqad) by giving requirement to recipients to repayment by a certain time. Therefore, zakat should not be treated as a debt/ investment by amil.

Meanwhile, statement of zakat accounting standard (SFAS 109) in Indonesia recognize loans mechanism or revolving fund for infaq/sadaqat. The standard states that the distribution (utilization) infaq/sadaqat is in the revolving fund scheme is recognized as a receivable account of infaq/sadaqat and so does not reduce the funds . By recognizing receivables then there are consequences to be returned. Results of fund management are recognized as an addition to infaq/sadaqat. It is improper recognition as receivable account because receivable denotes business assets in the form of money owed to a business by customers or clients (http://www.thefreedictionary.com). Zakat is not business assets, recipients of zakat is not customers or clientsof amil, and the relationship between amil and recipients is nor business relationship.

Zakat act 2011 gives an opportunity for utilizing of zakat for productive purposes. Practices show that the institutions of amil zakat utilize zakat funds to productive purposes in the form of qard al hasan (wisdom loans). The recogniton of zakat as loan is not regulated in the accounting standard of zakat. The moral message of this standard is zakat should distribute to recipients and it is not obligated to repayment of the funds. The acknowledgment is also reflected in the presentation of financial statement for Islamic entities governed by SFAS 101 that separates the statement of source and use zakat fund and the statement of the source and use qard funds. Qard fund is derived from infaq/sadaqat. Qard means that the funds are distributed to recipients in the form of loans.

From an accounting perspective and fiqh consideration, this paper offers an alternative of treatment of zakat or infaq/sadaqat also accounting recognition by amil institutions on utilization zakat or infaq/sadaqat for productive purposes that fulfill two conditions, it should be repayment but not as a loan. There are two alternatives of the mechanism;

The first mechanism, the source of fund for recipients is from the amil fund. SFAS 109 recognize that zakat or infaq/sadaqat received by amil as amil fund and zakat fund. The Ownership of amil's fund is an absolute ownership of amil because amil is one of zakat recipients. It is not problem because the ownership of funds is amil. These funds can utilized in the form of productive or consumptive and in the form of grants or loans. Therefore, properly the utilization of Zakat funds in the form of loans is funded from amil fund. When amil distributes zakat or infaq/sadaqat as loan, it will be recognized as receivable account on recipients. The recipients is not limited mustahiqs.

The second is saving fund mechanism. Zakat or infaq/sadaqat are distributed to recipients in the form of productive purposes with contract/provision gradually return to save i.e. each week. The mechanism will decrease zakat or infaq/sadaqat but its return funds from recipients are treated as saving account not a loan account. This mecahanism does not shift the ownership of zakat or infaq/sadaqat from recipients to amil even amil utilized it with productive mechanism. The fund in the saving account is owned by recipients.

Amil can manages and utilizes the saving fund for financing other recipients or that not limited al qardh scheme but also like murabaha (trading mecahnism) or musharaka (profit sharing mecahinsm). The mechanism of saving fund from zakat return gradually is predicted more empowering the recipients than a loan mechanism in zakat for productive purpose. The amil can recognize the accounting treatment of savings fund that are used for trading mechanism (murabaha) as murabaha receivable account and profit sharing mechanism as musharaka financing account as well as shariah (financial) entities.

5. Conclusion

Zakat regulation gives an opportunity for utilizing of zakat for productive purposes. Zakat for productive purposes are more advantages than consumptive especially for empowerment purpose. But most of intitutions of amil zakat utilize zakat for productive purposes in the form of qard al hasan (loans). Standard of zakat accounting (SFAS 109)

in Indonesia recognize loans mechanism or revolving fund for infaq/sadaqat. Islamic scholars tend to disagree with zakat (infaq/sadaqat) received by recipients as loans. *Therefore, it is not permissible* to utilization of zakat for productive purposes with the loan agreement (aqad).

This study offers two mechanisms and accounting recognition as middle way both the ownership of zakat and infaq/sadaqat for productive purposes and fiqh consideration; The first mechanism, zakat or infaq/sadaqat is for (owned) amil as the source of fund for recipients and the second, saving fund mechanism for recipients. This study suggests that standard of zakat accounting (SFAS 109) should be reviewed from fiqh view point and developed with the mechanism of shifting zakat or infaq/sadaqat fund to saving fund and its accounting treatment

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