

THE IMPORTANCE OF BUSINESS ZAKAT AS A FINANCIAL VEHICLES ON ECONOMIC AND SOCIAL WELLBEING: THE EMPIRICAL STUDY IN KELANTAN

Siti Maziah Binti Ab Rahman ^{1*}

Md Khairu Amin Ismail ²

Azahar Yusof ³

^{1,2,3} Senior Lecturer, Faculty of Business and Management, Universiti Teknologi Mara, Malaysia (UiTM) Cawangan Kelantan, Malaysia

*Corresponding author; maziah650@uitm.edu.my

² (Email: mkai01@uitm.edu.my)

³ (Email: azahar098@uitm.edu)

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Abstract: *Business zakat plays a crucial role in promoting economic and social well-being within Islamic finance. It serves as a financial vehicle that redistributes wealth, supporting community welfare and poverty alleviation. By mandating a 2.5% contribution from business profits, zakat encourages ethical business practices and enhances corporate social responsibility. This practice not only fosters economic stability but also strengthens social cohesion by addressing inequalities. Ultimately, business zakat contributes to sustainable development goals, aligning financial success with moral obligations in society, thereby enhancing overall community welfare and resilience. Business zakat is essential for fostering economic growth and social equity within Islamic finance. This practice encourages ethical business operations and corporate social responsibility, aligning financial success with moral obligations. Additionally, business zakat strengthens community ties and promotes sustainable development by addressing income disparities. By integrating zakat into business practices, companies not only fulfill religious duties but also contribute to broader economic stability and societal well-being. This study explores the significance of business zakat as a financial vehicle for enhancing economic and social wellbeing in Kelantan, Malaysia. It examines the effective zakat distribution can alleviate poverty, empower small and medium enterprises (SMEs), and promote social justice. The research identifies barriers to zakat compliance among entrepreneurs, including lack of awareness and technological access. By focusing on e-zakat adoption, the study aims to propose strategies that can improve zakat collection and utilization, ultimately fostering sustainable economic growth and improving the quality of life for marginalized communities in Kelantan.*

Keywords: *Business zakat, economic growth, Social Wellbeing, Financial Vehicles, Kelantan,*

Introduction

Every Muslim who is *mukallaf* and satisfies the requirements outlined in the Islamic pillars is required to pay *zakat*. Muslims who are engaged in business must also fulfill similar responsibilities. According to the Federal Territory Zakat Collection Center's (PPZMAIWP) 2020 Annual Report, the total business *zakat* collection increased by 7.76% in 2019 to RM112,947,206.23 from RM114,096,123.42 in 2020. According to category-specific statistics, however, *zakat* collection in businesses was still unable to exceed the total amount of *zakat* income collected, which was RM471 million in 2019 and RM511 million in 2020 an increase of 8.34%. In contrast to the increase in total *Zakat* income payments, which increased by only 9.16% in the same year, the total *Zakat* payments of businesses demonstrated a notable increase of 47.08% in 2020. Kelantan is one of the good natures in business because of the culture of society as an entrepreneur. This situation provides various interpretations among the community on the role of *zakat* in business in contributing to the economic catalyst of the Ummah. *Zakat*, as one of the main pillars of Islam, plays an important role in helping the needy and creating social justice in society.

Kelantan is one of the states in Malaysia that has a long history of practicing the *Zakat* system. Since the beginning, the community in Kelantan has practiced the custom of giving and helping others, especially through the institution of *Zakat*. However, in the last few years, there has been a significant increase in the awareness and implementation of business *zakat* among the business community in Kelantan (AF et al., 2015).. In the state of Kelantan, Malaysia, business *zakat* has emerged as a topic that is getting more and more attention. This article will discuss the development of business *Zakat* in Kelantan, highlighting its impact on economic growth and social well-being in this region. *Zakat* is one of the important pillars of Islam that has a big role in maintaining social justice and helping the needy. In Kelantan, one form of *zakat* that is getting more and more attention is business *zakat*. Business *zakat* is part of the business property that must be issued by entrepreneurs to help those in need, as well as to advance the economy of the community (Yusoff & Hanapi, 2016). By looking at this phenomenon, we can understand how the practice of business *Zakat* is an important tool in strengthening the community economy and improving the quality of life of the people of Kelantan overall.

Business Zakat in Kelantan

Zakat is one of the pillars of faith in Islam that emphasizes the socio-economic development. Any discussion on *Zakat* in the context of worship cannot be disconnected from the socio-economic factor, especially in aiding the underprivileged based on the *Maslahat* concept (Hambari et al., 2020). Further, *Zakat* also brings gratitude and thankfulness to Allah for the bounties that He bestows on us. Allah has bestowed on humans spiritual and material bounties. Prayers and other physical worships express gratitude for the grace of creation, while *Zakat* and other financial worships express gratitude for the material grace of Allah. How disgraceful is he who sees the obvious needs of the poor and does not graciously give one-fourth of a tenth of his wealth, or thank Allah who gave him enough bounty to remove him from the misery and pressure of poverty? *Zakat*, as one of the five pillars of Islam, has obliged certain people to contribute part of their wealth to the new convert. *Zakat* has also become an important financial source, especially in dense Muslim population countries. *Zakat* fund could act as an incentive for the new convert as part of the effort to assist them to become economically productive recipients if the fund is channelled in a sustainable form. Moreover, the *Zakat* fund could free the recipients from poverty and improve their living standards (Johari et al., 2013). The primary purpose of *Zakat* is to redistribute the wealth of society among the poor. *Zakat* is not purely welfare-oriented and relies on the contribution of the giver but is an obligation that must be

carried out to qualified recipients. Therefore, it is pertinent that the management of *Zakat* should be made efficient to ensure that the rights of the recipients and the society, in general, will not be put in jeopardy. History has confirmed that one of the reasons that led to the fall of the Umayyad dynasty was its government's failure to manage the Baitulmal successfully. Business *Zakat*, also known as business property zakat or business property *zakat*, is one of the types of *Zakat* in Islam. Business *Zakat* is a small part of the profit or business capital that must be issued by the owner or manager of the business to the needy (Ali et al., 2017). The purpose of business zakat is to balance wealth and help those who are less fortunate in society. This also aims to ensure that profits from business activities are channelled back to the community and used for social welfare purposes.

Zakat is an element of Islamic social development that can provide economic stimulation in an integrated manner to improve the quality of life of Muslims. *Zakat* gives great meaning in the Islamic economic system, especially to strengthen socio-political and economic institutions among Muslims. (Othman, Y., Yusuff, M., Sauf, M.S., & Hafsha, S., 2017). The implementation of *Zakat* in business by Muslim entrepreneurs is a responsibility that must be fulfilled apart from paying taxes set by the government. The payment of *Zakat* is the effect of the hard-earned proceeds of development and performance in the business. The business must be halal and *Shariah* compliant and grow to help the economic development of the ummah. The business is not only for the benefit of the Muslim community but also for the well-being of the entire ummah. It is hoped that the payment of business *Zakat* can also help the government in implementing the development of the ummah in a better ways and integrated manner (N. S. Abdullah et al., 2023). In practice, business *Zakat* is calculated based on a certain percentage of business capital or profit that has been obtained. The amount that must be released varies depending on the value of the property or profit owned by the business owner.

Business *zakat* was distribute to the poor, orphans, and people in need, or for social and economic activity projects that benefit the community. Modern public finance can use *Zakat* in business to lessen poverty in society. *Zakat* in business can also assist the government in lowering operational costs for paying salaries, providing housing for the homeless, and supporting food, clothing, and education. Consequently, in order to support the *asnaf* who are entitled to zakat assistance, it is crucial to understand the significance of business *Zakat* payments made by Muslim traders. In this context, the primary obstacle is informing Muslim traders about the significance of and advantages enjoyed by zakat recipients as a result of Muslim traders' *Zakat* payments (A. Abdullah et al., 2021). *Zakat* in business is one of the methods of purification of property and soul among *Zakat* payers. Therefore, the distribution of business *Zakat* in business can directly increase the purchasing power of the *asnaf* to buy necessities and can directly guarantee the economic prosperity of the recipients involved. Business *Zakat* can also help the *asnaf* who carry out entrepreneurial activities to increase working capital, purchase business equipment, increase the source of capital flow to manage the business well. However, efforts and campaigns to encourage more Muslim entrepreneurs to contribute to the payment of business *Zakat* is an agenda that needs to be strengthened from time to time (Hussain et al., 2021).

It is important to note that business *Zakat* is a religious obligation for every Muslim who owns a business or has property invested in the business world. The fulfilment of business *zakat* is one form of worship and is also an effort to build a more just and prosperous society. Business *Zakat* helps foster social harmony in society. It promotes positive interaction between the business community and those in need. Through the process of *Zakat*, a stronger relationship is

forged between various layers of society. Giving business *Zakat* gives incentives to entrepreneurs to develop their businesses (Ali et al., 2017). Those who are successful in business will feel satisfaction because part of their profits is used to help the less fortunate. Through the implementation of business zakat, the economy of the community can be strengthened. Funds collected from business zakat can be used to finance economic and social projects that benefit the local community. Business *zakat* in Kelantan has experienced significant development in the last few years (Ab Rahman, SM et al., 2021). This phenomenon reflects the increasing awareness among the business community of their social responsibilities as well as the desire to support the well-being of society more comprehensively.

One of the main factors in the growth of business *Zakat* in Kelantan is the efforts made by zakat bodies and local authorities to increase awareness of the importance of zakat in the business context. Through educational programs, seminars, and workshops, entrepreneurs are given a deeper understanding of the concept and benefits of business zakat. In addition, the application of technology and electronic payment facilities have also simplified the process of business zakat collection and distribution. These initiatives help speed up and facilitate access for entrepreneurs to fulfil their zakat obligations.

The importance of business zakat is also reflected in its use to finance economic and social projects that benefit the local community. Funds collected from business zakat can be directed to sectors such as education, health, and infrastructure development, all of which contribute to the improvement of social welfare in Kelantan (Suprayitno, 2019). With increased participation and commitment from the business community, business zakat in Kelantan has great potential to continue to grow and make a significant contribution to economic growth and social well-being in this region. By utilizing the potential of business zakat wisely, Kelantan can step towards a more just and prosperous society (N. S. Abdullah et al., 2023).

Findings

Although there is an increase in the implementation of business zakat, there are some challenges that are still faced. Among the challenges include a lack of awareness about the importance of business zakat, reluctance to issue zakat, and ignorance about how to calculate zakat correctly (Abu Bakar & Abdul Rahman, 2007; Ahmad & Wahid, 2017; Ben Said et al., 2020; Endut et al., 2020; Hussin et al., 2013; Noor et al., 2017; Ramli & Abdul Ghadas, 2019). To overcome this challenge, local authorities and zakat bodies can increase awareness and disclosure programs about business zakat. Training programs and workshops can also be held to give entrepreneurs a deeper understanding of the concept and importance of business zakat (Maziah et al., 2021). Due to their adaptation, the majority of entrepreneurs these days would rather pay taxes than zakat. This is mostly because of Malaysian laws that strictly mandate that corporations and businesses that fail to pay taxes will be punished; however, this does not apply to businesses or firms that fail to pay zakat, as they will not be subject to any legal repercussions (Rahman et al., 2019).

Zakat is a mandatory business expense for Muslim entrepreneurs, particularly those who fulfil the requirements, as per Islamic laws and regulations (Dr. Yahanan, 2020). In addition, zakat awareness training is necessary in the workplace since institutions need to know why they are obliged to pay zakat. Third-party encouragement has the potential to indirectly encourage Muslim entrepreneurs to pay zakat while also gauging their level of awareness regarding the Islamic obligation to do so. According to Rahman et al., (2019) the primary objectives of zakat are to mitigate hunger, safeguard the vulnerable and indigent, and maintain a stable

socioeconomic equilibrium within the nation. For this reason, it is imperative that Muslim business owners become more aware of zakat. Furthermore, zakat is one of the required instruments for purifying a Muslim's wealth and instructing Muslims on how to lead modest lives in order to receive the blessing (Abdullahab et al., 2021). Additionally, workplace zakat awareness is necessary because institutions need to know why they must pay the zakat. Encouragement from outside sources may indirectly persuade Muslim business owners to pay zakat while also gauging their degree of awareness regarding the Islamic requirement that they do so. The primary objectives of zakat are to mitigate hunger, safeguard the vulnerable and indigent, and undoubtedly maintain equilibrium within the nation's socioeconomic landscape (Rahman et al., 2019). For this reason, it is essential to increase Muslim entrepreneurs' awareness of zakat.

Conclusion and Recommendations

Business zakat plays an important role in economic development and social well-being in Kelantan (Abdullahab et al., 2021). Through effective implementation and increased awareness among the business community, business zakat can be a powerful instrument to strengthen the ummah's economy and help the needy. With the joint efforts of the community and the authorities, business zakat in Kelantan can continue to grow and benefit all parties. In this study, it has been explained about the development of business zakat in the State of Kelantan.

This phenomenon reflects the increasing awareness and commitment of the business community towards social responsibility and the desire to support the well-being of society as a whole (Atah et al., 2018). The efforts of zakat bodies and local authorities in raising awareness about the importance of business zakat have yielded positive result (N. S. Abdullah et al., 2023)s. Educational programs, seminars, and workshops have provided entrepreneurs with a deeper understanding of the concept and benefits of business zakat. The importance of business zakat is also reflected in its use to finance economic and social projects that benefit the local community. Funds collected from business *zakat* can be directed to key sectors such as education, health, and infrastructure development, all of which contribute to the improvement of social welfare in Kelantan (Abdullahab et al., 2021). With increased participation and commitment from the business community, business *zakat* in Kelantan has great potential to continue to grow and make a significant contribution to economic growth and social well-being in this region. By utilizing the potential of business *zakat* wisely, Kelantan can step towards a more just and prosperous society.

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