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Tax Incentive Mechanism and Zakat Compliance: Moderating Religiosity in a Behavioral Economics Framework

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Abstract

Research Background: Zakat is an important religious and socio-economic practice intended to prevent the concentration of wealth in the hands of a few. Zakat, as a reduction in taxable income, can influence compliance behavior, with religiosity playing a moderating role. Low zakat compliance is caused by a behavioral perspective, but there are other perspectives (economic). Intention and justice are also factors. **Introduction / Objectives:** This study will expand Fischer's model by integrating several new relevant factors, such as knowledge and culture. **Research Methods:** This study uses quantitative research methods with primary data. Zakat as a reduction in taxable income does influence zakat compliance behavior, with religiosity playing a moderating role. **Results / Findings:** Zakat as a taxable income reduction does influence zakat compliance behavior, with religiosity playing a moderating role. Research has shown that religiosity has a significant positive effect on compliance with zakat payments. However, the impact of religiosity on zakat payment compliance in formal institutions is relatively weak compared to other variables such as trust and credibility. In addition, the value of religiosity influences individuals' willingness and attitude towards zakat payments, which in turn influences their compliance with tax obligations. Furthermore, this study found that profit quality moderates the relationship between religiosity and zakat tax deductions. **Conclusions:** These findings suggest that zakat institutions should focus on increasing credibility and trust to improve compliance with zakat payments.

Keywords: Behavior; Religiosity; Tax_Compliance; Zakat
JEL Classification: M40; M41

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INTRODUCTION

Islam is a religion believed to be a blessing for all mankind. It provides complete guidance for life, which motivates its followers to practice its teachings in their daily lives. Islamic beliefs can play a crucial role in shaping decision-making. Awadh & Aziz (2020); Ahmad et al. (2017) state that one of the essential principles of Islam is to emphasize justice and shared prosperity, thus categorically opposing the concentration and circulation of wealth among a privileged few. Modern economics considers wealth concentration and inequality to be one of the root causes of the financial crisis and instability that have plagued almost all Muslim communities (Farooq et al., 2019).

Zakat is an important religious and socio-economic practice intended to prevent the concentration of wealth in the hands of a few. Zakat can perform some of the key functions of modern public finance, dealing with social security entitlements and social assistance grants in welfare states. However, this issue is largely under-researched, underscoring the growing call for Zakat research in Muslim countries (Bin-Nashwan et al., 2020a). Efficient Zakat administration and implementation can be a "silver bullet," yielding significant results in the social security systems of disadvantaged and underprivileged communities by combating poverty and achieving economic prosperity (Sohag et al., 2015). According to Bin-Nashwan et al. (2020a) and Heikal and Khaddafi (2014), it is estimated that Zakat funds worldwide could generate approximately US$600 billion annually if properly coordinated and monitored.

In countries that do not use the Islamic system, taxes are the largest potential source of income, for example in Indonesia in 2022 taxes funded the APBN by 76% (1,846.1T of the APBN of 2,436.9T), Ministry of Finance, (2022). However, in the APBN there is no zakat instrument, even though zakat is one of the solutions whose main function is modern public finance, social security rights and social assistance grants, reducing poverty, reducing social inequality, increasing welfare, (Johari et al. (2014); Bin-Nashwan et al. (2020a). Zakat is one of the potential sources of state revenue as seen from the zakat target in Indonesia, namely BUMN zakat 6.71T Agricultural zakat 19.79T, professional income zakat 139.07T livestock zakat 9.51T deposit zakat 58.76T total potential 233.84T, Puskasbaznas, (2022).

In reality, there is a wide gap between the ideal performance of Zakat collection and its reality, resulting in a significant loss of wealth that could positively contribute to poverty alleviation and the achievement of societal well-being. Such a scenario mirrors the fate of almost all Muslim countries, which share the same fate regarding the refusal of Zakat collection. It is evident that Zakat compliance remains consistently low and unsatisfactory across Muslim-majority countries. Cases of such losses exist, for example, in Malaysia (Abdullah and Sapiei, 2018); Saudi Arabia (Alosaimi, 2018); Yemen (Bin, Nashwan, et al., 2020b); Pakistan (Hass et al., 2019); Indonesia (Heikal and Khaddafi, 2014); and Nigeria (Saad and Farouk, 2019), as well as in Muslim-minority countries, such as the Philippines (Andam and Osman, 2019).

This suggests that low zakat compliance is due to a behavioral perspective, but there are other perspectives (economic) (Bin-Nashwan et al., 2020a). Intention and fairness are also factors (Alm, 1999). The elaboration of tax compliance theory in zakat compliance by Fischer et al. (1992) has successfully consolidated the influence of economic factors on compliance decision-making alongside socio-psychological factors in Fischer's well-known tax compliance model. However, compliance behavior cannot be explained by a single model (Alm, 1999), (Farouk et al., 2018).

This study will expand Fischer's model by integrating several new relevant factors, such as knowledge and culture (Chand et al., 2000; Chau and Leung, 2009; Hanifah, 1996; Farouk et al., 2017a; Nashwan, Azis, et al. (2020). Since the concept of Zakat is a type of taxation in Islam (Farouk et al., 2018), the tax compliance model can provide a further framework for Zakat compliance scenarios (Ahmad et al., 2011). The current study aims to complete a comprehensive understanding of Zakat payer compliance behavior by applying

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broad economic and socio-psychological perspectives drawn from Fischer's tax compliance model. This work can enrich the limited research by offering a platform and a springboard for future studies to predict Zakat payer behavioral issues regarding Zakat compliance. This effort may be the first of its kind to adapt the original Fischer model to suit the nature of Zakat compliance, adding new insights to the existing literature. This research proposes a model of Zakat payer compliance. Zakat by integrating several sensitive factors, such as Islamic religiosity and the moderating effect of trust in Zakat institutions, to highlight how these influence Muslim compliance with Zakat rules. To understand this clearly, this paper is divided into several further sections: Overview of Zakat, Zakat Accounting Standards, Zakat Practices in Several Muslim Countries, Nashwan, Azis, et al. (2020); (Aziz et al., 2019) However, more empirical testing is needed to prove this theory.

Behavior can also be seen from its intention, this is based on the theory of reasoned action (TRA), in predicting intention and behavior (Farouk et al., 2018) in many fields including Zakat (Ajzen, 2012; Saad and Haniffa, 2014; Teng et al., 2015; Nashwan, Azis, et al. (2020). However, many studies have shown concern about the limitations of TRA especially in context and time and have warned against generalizing the findings (Saad and Haniffa, 2014; Khamis and Yahya, 2015; Levine and Pauls, 1996; Orr, et al., 2013; Sniehotta et al., 2014; Yang, 2012, Rafouf, Saad (2019). This will be resolved by researchers from both religious and non-religious perspectives about the importance of intention in every aspect of human endeavor (Ajzen, 2012; An-Nawawi, 2014; Neyrinck et al., 2010). Thus, the root of every individual action can be traced to behavioral intention. This is the key to every reasoned action.

RESEARCH METHOD

This study employed a quantitative research method, utilizing primary data from respondents from business actors who are members of the Sukses Berkah Community (SBC), which were tested using statistical tools. The collection method was a one-step, cross-sectional approach, which involved collecting data simultaneously through questionnaires. The research location was in Greater Malang, within the Muslim entrepreneur community, the Sukses Berkah Community (SBC). This study used a combination of primary and secondary data as its data sources. Primary data was obtained through a survey by distributing questionnaires to the Muslim entrepreneur community members of the Sukses Berkah Community in Greater Malang. The primary data was obtained to illustrate the relationship between variables and their influence on answering zakat compliance questions. To reduce bias, compensation/souvenirs were provided to respondents. Data was obtained through a focus group discussion (FGD) to directly administer the questionnaire. Meanwhile, secondary data is data already published by the Muslim entrepreneur community, namely member data with information on business type, length of business, and financial reports/records.

Data collection techniques for quantitative analysis purposes include observation through tests, questionnaires, various images, and voice recordings. In conducting observations, there are guidelines or guides commonly called observation sheets that contain a list of types of observation activities; Interviews to assess a person's condition that is usually not answered if only through questionnaires. Interviews allow for more in-depth information to be obtained (in-depth interviews). Online interviews using Google

Forms research using questionnaires indirectly by distributing questionnaires in the form of Google Forms and questionnaires directly, through FGDs; Documentation of Research Instruments, such as books, magazines, diaries, artifacts, videos and so on. This instrument was developed in research with a content analysis approach. Therefore, it is usually used in research such as historical evidence, the legal basis of a regulation, and so on; as well as Focus Group Discussions (FGDs).

The population in this study were members of the Muslim business community who were members of the Sukses Berkah Community (SBC) in Greater Malang. The sample used in this study was the same as the sample, namely 178 members, with purposive sampling provisions, namely (1) having made zakat payments to the Zakat Collection Institution or Zakat Collection Agency, (2) having business legality/permits: NIB (Business Identification Number) and NPWP, (3) having fulfilled tax obligations.

All variables were measured using a 5-point Likert scale (Strongly agree, agree, neutral, disagree, strongly disagree). The initial data analysis stage was carried out using the Statistical Package for Social Sciences (SPSS), version 20.0. The analysis included data filtering, descriptive statistics, and normality tests. Structural equation modeling (SEM) was used with SmartPLS 3.0 to test the measurement and structural model. SEM allows for testing mediation and moderation (interaction) of the relationship between variables. to test the measurement and structural model, including Evaluation of the Measurement model, with the following stages: (1) Validity and reliability test, (2) Initial data analysis was carried out using the Statistical Package for Social Sciences (SPSS), version 20.0. The analysis included data filtering, descriptive statistics, and normality tests, (3) Structural equation modeling (SEM) was used with SmartPLS 3.0 to test the measurement and structural model. SEM allows for testing mediation and moderation (interaction) of the relationship. Evaluation of the structural model, namely the Path Coefficient (β) for the strength and direction of the relationship between latent variables, the Coefficient of Determination (R2), the Effect Size (f2), and the prediction accuracy. The moderating effect of Religiosity, with statistical values (Kurtosis and Skewness) within the recommended range (−2.5 to +2.5) and normally distributed. Evaluation of the measurement model: (1) Internal Consistency, (2) Indicator Reliability, Convergent Validity, (Convergent Validity), (Discriminant Validity).

RESULTS AND DISCUSSION

Sukses Berkah Community is a community of entrepreneurs who have the same goal, namely striving to become successful and blessed entrepreneurs. SBC was inaugurated in 2016 during the 3rd entrepreneur event in Malang city. The SBC community is a forum for alumni of Coach Ridwan Abadi's training from various programs and various cities since 2006. With the continuing growth of the number of training alumni to thousands, a forum was formed to continue communicating, learning and growing together. In addition, the SBC community is also a medium to realize the Vision to build a civilization of success and blessings. The vision and mission of SBC are Vision: Contributing to building a Civilization of "Success and Blessings" and its Mission is: (1) Producing Individuals, Entrepreneurs and Leaders with the Character of "Success and Blessings", (2) Building a Community that is

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capable of becoming an Ecosystem of Successful and Blessing Entrepreneurs, (3) Facilitating Training and Education as a medium for growing member businesses, (4) Catalyzing the Acceleration of member businesses with Synergy programs. The culture developed in SBC is written in the tagline "Berkah" (Sharing, Empathy, Consent, Capacity, Enthusiasm, Halal).

SBC has created a large work program called the national movement. The work program is as follows: (1) Revive the Sunnah, which can be done collectively or individually in an effort to maintain the values of the Sunnah which are the teachings of the Prophet Muhammad SAW. A.l: One Day One Juz, One Day One Hadith, Archery Practice, Horse Riding Practice, Swimming Practice and so on, (2) Shopping at Brothers, which can be done collectively or individually by prioritizing the use of products or services from businesses owned by fellow SBC members, during SBC events. Or for the daily needs of SBC members, (3) Time to Share, which can be done collectively or individually in an effort to help ease the burden on the community. Some applications can be through foster parent programs, or donations for disaster areas.

Then the business mentoring program that is given to members to try to develop their business together is: (Business Mentoring Group/KPB, KPB is one of the mentoring programs at SBC which is intended to be a medium for members to consult, discuss, and socialize, (2) Turn Around Program/TAP, TAP is one of the business mentoring programs at SBC, which is intended for SBC members who are experiencing obstacles in their business, (3) One Year Coaching/OYC, OYC is a mentoring program which, if given to professional clients, is a training program worth IDR 250 million, which is given FREE to SBC members, (4) Quantum Leap Program/QLP, QLP is an advanced mentoring program from OYC, the goal of which is to reach the "Scale Up" level, the highest level of achievement in the GROW process.

Table 1. Hypothesis Testing Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (|O/STDEV|)	P Values
Zakat Tax Reduction (X1) -> Zakat Compliance Behavior (Y)	-0,025	-0,038	0,066	0,377	0,706
Attitude (X2) -> Zakat Compliance Behavior (Y)	0,176	0,266	0,176	0,998	0,318
Subjective Norms (X3) -> Zakat Compliance Behavior (Y)	-0,073	-0,158	0,164	0,446	0,656
Legal System and Complexity (X4) -> Zakat Compliance Behavior (Y)	1,149	1,093	0,250	4,590	0,000
Law enforcement (X5) -> Zakat Compliance Behavior (Y)	-0,426	-0,476	0,221	1,929	0,054

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (|O/STDEV|)	P Values
Halal and Haram Aspects (X6) -> Zakat Compliance Behavior (Y)	0,070	0,112	0,176	0,399	0,690
Trust in Zakat Institutions (X7) -> Zakat Compliance Behavior (Y)	-0,230	-0,147	0,220	1,045	0,296
Religiosity (M) -> Zakat Compliance Behavior (Y)	0,116	0,103	0,084	1,390	0,165
Religiosity (M) x Zakat Compliance Behavior (X1) -> Zakat Compliance Behavior (Y)	-0,009	0,031	0,098	0,088	0,930
Religiosity (M) x Attitude (X2) -> Zakat Compliance Behavior (Y)	-0,017	-0,167	0,229	0,076	0,939
Religiosity (M) x Subjective Norms (X3) -> Zakat Compliance Behavior (Y)	0,032	0,157	0,210	0,151	0,880
Religiosity (M) x Legal System and Complexity (X4) -> Zakat Compliance Behavior (Y)	-0,317	-0,225	0,281	1,129	0,259
Religiosity (M) x Law enforcement (X5) -> Zakat Compliance Behavior (Y)	0,122	0,095	0,295	0,415	0,678
Religiosity (M) x Halal and Haram Aspects (X6) -> Zakat Compliance Behavior (Y)	-0,003	0,006	0,245	0,011	0,991
Religiosity (M) x Trust in Zakat Institutions (X7) -> Zakat Compliance Behavior (Y)	0,097	0,022	0,230	0,423	0,672

Source: data processed

The t-statistic of the influence of zakat tax deduction on zakat compliance behavior is smaller than the t-table (1.96) which is 0.377 and the p-value is greater than 0.05 at 0.706. The t-statistic of the influence of attitude on zakat compliance behavior is smaller than the t-table (1.96) which is 0.998 and the p-value is greater than 0.05 at 0.318. The t-statistic of the influence of subjective norms on zakat compliance behavior is smaller than the t-table (1.96) which is 0.446 and the p-value is greater than 0.05 at 0.656. The t-statistic of the influence of the legal system and complexity on zakat compliance behavior is greater than the t-table (1.96) which is 4.590 and the p-value is less than 0.05 at 0.000. The t-statistic

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value of the influence of law enforcement on zakat compliance behavior is smaller than the t-table (1.96) which is 1.929 and the p-value is greater than 0.05 at 0.054. The t-statistic value of the influence of halal and haram aspects on zakat compliance behavior is smaller than the t-table (1.96) which is 0.399 and the p-value is greater than 0.05 at 0.690. The t-statistic value of the influence of trust in zakat institutions on zakat compliance behavior is smaller than the t-table (1.96) which is 1.045 and the p-value is greater than 0.05 at 0.296.

The moderating effect of the t-statistic of the influence of religiosity moderating zakat tax deductions on zakat compliance behavior is smaller than the t-table (1.96) which is 0.088 and the p-value is greater than 0.05 which is 0.930. The t-statistic value of the influence of religiosity moderating attitudes towards zakat compliance behavior is smaller than the t-table (1.96) which is 0.076 and the p-value is greater than 0.05 which is 0.939. The t-statistic value of the influence of religiosity moderating subjective norms on zakat compliance behavior is smaller than the t-table (1.96) which is 0.151 and the p-value is greater than 0.05 which is 0.880. The t-statistic value of the influence of religiosity moderating the system and legal complexity on zakat compliance behavior is smaller than the t-table (1.96) which is 1.129 and the p-value is greater than 0.05 which is 0.259. The t-statistic value of the influence of religiosity moderating law enforcement on zakat compliance behavior is smaller than the t-table (1.96) which is 0.415 and the p-value is greater than 0.05 which is 0.678. The t-statistic value of the influence of religiosity moderating the halal haram aspect on zakat compliance behavior is smaller than the t-table (1.96) which is 0.011 and the p-value is greater than 0.05 which is 0.991. And the t-statistic value of the influence of religiosity moderating trust in zakat institutions on zakat compliance behavior is smaller than the t-table (1.96), namely 0.423 and the p-value is greater than 0.05, namely 0.672.

Zakat obedience is influenced by religiosity. Research has shown that religiosity significantly influences people's willingness to pay zakat (Thamrin et al., 2023). Furthermore, religiosity has been found to impact compliance with zakat payments in formal zakat institutions (Febrianti & Yasin, 2023). However, one study found that religiosity had no direct effect on muzakki's interest in paying zakat (Hamid & Hamid, 2020) (Mokhtara et al., 2018). Conversely, variables such as zakat literacy, altruism, institutional image, trust, credibility, and accountability were found to impact zakat compliance behavior (Maolia et al., 2022) and (Prawiro et al., 2023). It is important to note that the influence of religiosity on zakat obedience can vary depending on the specific context and variables considered in each study. Based on data analysis, it can be seen that the t-statistic of the effect of tax-deductible zakat on zakat compliance behavior is smaller than the t-table (1.96) which is 0.377 and the p-value is greater than 0.05 at 0.706. So it can be concluded that the effect of tax-deductible zakat on zakat compliance behavior is not significant. So in accordance with Tax-Deductible Zakat has a significant effect on Zakat Compliance Behavior. H1 is accepted, this is supported (Febriandika et al., 2023). The t-statistic value of the effect of attitude on zakat compliance behavior is smaller than the t-table (1.96) which is 0.998 and the p-value is greater than 0.05 at 0.318. So it can be concluded that the effect of attitude on zakat compliance behavior is not significant. So in accordance with Attitude has a significant effect on Zakat Compliance Behavior. H2 is accepted (Febriandika et al., 2023). The t-statistic value of the influence of subjective norms on zakat compliance behavior is smaller than the t-table (1.96), which is 0.446, and the p-value is greater than 0.05, which is 0.656. Therefore, it can be concluded that the influence of subjective norms on zakat compliance behavior is not significant. Therefore, in accordance with Subjective Norms, they have a significant effect on Zakat Compliance Behavior. H3 is rejected (Bonang et al., 2023).

The t-statistic value of the influence of the legal system and complexity on zakat compliance behavior is greater than the t-table (1.96) which is 4.590 and the p-value is smaller than 0.05 at 0.000. So it can be concluded that the influence of the legal system and complexity on zakat compliance behavior is significant. So in accordance with the Legal System and Complexity, they have a significant effect on Zakat Compliance Behavior. H4 is Accepted. The t-statistic value of the influence of law enforcement on zakat compliance behavior is smaller than the t-table (1.96) which is 1.929 and the p-value is greater than 0.05 at 0.054. So it can be concluded that the influence of law enforcement on zakat compliance behavior is not significant. So in accordance with Law Enforcement, it has a significant effect on Zakat Compliance Behavior. H5 is Accepted. The t-statistic value of the influence of halal and haram aspects on zakat compliance behavior is greater than the t-table (1.96) which is 1.399 and the p-value is greater than 0.05 at 0.690. So it can be concluded that the influence of halal and haram aspects on zakat compliance behavior is not significant. So in accordance with the Halal and Haram Aspects have a significant effect on Zakat Compliance Behavior. H6 is Accepted. The t-statistic value of the influence of trust in zakat institutions on zakat compliance behavior is smaller than the t-table (1.96) which is 1.045 and the p-value is greater than 0.05 at 0.296. So it can be concluded that the influence of trust in zakat institutions on zakat compliance behavior is significant. So in accordance with Trust in Zakat Institutions has a significant effect on Zakat Compliance Behavior. H7 is Accepted (S. A. A. Bin-Nashwan et al., 2020).

The t-statistic value of the influence of religiosity moderating zakat tax deductions on zakat compliance behavior is smaller than the t-table (1.96) which is 0.088 and the p-value is greater than 0.05 which is 0.930. The t-statistic value of the influence of religiosity moderating attitudes towards zakat compliance behavior is smaller than the t-table (1.96) which is 0.076 and the p-value is greater than 0.05 which is 0.939. The t-statistic value of the influence of religiosity moderating subjective norms on zakat compliance behavior is smaller than the t-table (1.96) which is 0.151 and the p-value is greater than 0.05 which is 0.880. The t-statistic value of the influence of religiosity moderating the system and legal complexity on zakat compliance behavior is greater than the t-table (1.96) which is 1.129 and the p-value is greater than 0.05 which is 0.259. The t-statistic value of the influence of religiosity moderating law enforcement on zakat compliance behavior is smaller than the t-table (1.96) which is 0.415 and the p-value is greater than 0.05 which is 0.678. The t-statistic value of the influence of religiosity moderating the halal haram aspect on zakat compliance behavior is smaller than the t-table (1.96) which is 1.011 and the p-value is greater than 0.05 which is 0.991. And the t-statistic value of the influence of religiosity moderating trust in zakat institutions on zakat compliance behavior is smaller than the t-table (1.96) which is 0.423 and the p-value is greater than 0.05 which is 0.672. So it can be concluded that the influence of religiosity in moderating the relationship between tax-deductible zakat, attitudes, subjective norms, legal complexity systems, law enforcement, halal-haram aspects and trust in zakat institutions on zakat compliance behavior is not significant. So in accordance with Religiosity in moderating the relationship between Tax-Deductible Zakat,

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Attitudes, Subjective Norms, Legal Complexity Systems, Law Enforcement, Halal-Haram Aspects and Trust in Zakat Institutions has a significant effect on Zakat Compliance Behavior. H8 Accepted, this research is supported by (Febriandika et al., 2023). (Prawiro et al., 2023).

Zakat as a taxable income reduction does influence zakat compliance behavior, with religiosity playing a moderating role. Studies have shown that religiosity has a significant positive effect on zakat compliance (Thamrin et al., 2023) and (S. A. Bin-Nashwan et al., 2020). However, the impact of religiosity on zakat compliance in formal institutions is relatively weak compared to other variables such as trust and credibility (Maolia et al., 2022). In addition, religiosity influences individuals' willingness and attitudes toward zakat payment, which in turn influences their compliance with tax obligations (Johan & Prasetyo, 2022). Furthermore, this study found that earnings quality moderates the relationship between religiosity and zakat tax reduction (Prawiro et al., 2023). These findings suggest that zakat institutions should focus on increasing credibility and trust to improve zakat compliance. Overall, religiosity plays an important role in zakat compliance behavior, but its impact can vary depending on the context and other influencing factors.

CONCLUSION

Zakat as a taxable income reduction does influence zakat compliance behavior, with religiosity playing a moderating role. Research has shown that religiosity has a significant positive effect on compliance with zakat payments. However, the impact of religiosity on zakat payment compliance in formal institutions is relatively weak compared to other variables such as trust and credibility. In addition, the value of religiosity influences individuals' willingness and attitude towards zakat payments, which in turn influences their compliance with tax obligations. Furthermore, this study found that profit quality moderates the relationship between religiosity and zakat tax deductions. These findings suggest that zakat institutions should focus on increasing credibility and trust to improve compliance with zakat payments. Overall, religiosity plays an important role in zakat compliance behavior, but its impact may vary depending on the context and other influencing factors. Zakat deduction, Attitude Subjective norms; Legal system and complexity; Law enforcement; Halal and haram aspects Trust; Trust in institutions all variables influence zakat compliance, including if there is a moderating variable, namely religiosity, except for the subjective norm variable. This limitation of the research sample is that the discussion and beliefs in measuring homogeneous religiosity are limited to Muslims in the Sukses Berkah community. Subsequent research should be developed with more heterogeneous subjects with varying beliefs.

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