

## Opportunities for the Application of Zakat as a Deduction for Individual Taxable Income as an Alternative Fiscal Policy in Indonesia

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**Abstrak:** This study aims to explore the feasibility of implementing zakat as a deductible component from individual taxable income, proposing it as an alternative fiscal policy for Indonesia. Employing a qualitative descriptive method with a library research approach, this research analyzes regulatory frameworks, fiscal policies, and zakat potential in Indonesia. The findings reveal that Indonesia's substantial Muslim population—87.02%—combined with the consistent 30.02% annual growth in zakat collection, presents a significant opportunity to institutionalize zakat as part of the national fiscal framework. Integrating zakat into the tax system could alleviate the dual financial burden on Muslim taxpayers while simultaneously enhancing fiscal equity and social welfare. The specific contribution of this research to the international discourse lies in offering a practical model for harmonizing religious financial obligations with modern taxation systems in Muslim-majority countries. It provides empirical insights and policy recommendations applicable to other nations seeking to leverage faith-based financial instruments within formal fiscal systems.

**Keywords:** Zakat Tax Deduction, Fiscal Policy, Islamic Public Finance, Indonesia

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## Introduction

Based on Law of the Republic of Indonesia Number 28 of 2007 amending Law Number 6 of 1983 concerning general provisions and tax procedures, Article 1 paragraph 1 states that tax is an obligation that must be fulfilled to the state by individuals or entities by force in accordance with statutory regulations, without getting direct rewards, and used for the benefit of the state for the maximum prosperity of the people. In paragraph 2, it is explained that taxpayers include individuals or entities, including tax collectors, deductors, and distributors, who have taxation rights and obligations in accordance with the provisions stipulated in tax laws and regulations.

According to Soemahamidjaya, taxes are obligations that must be fulfilled by the community, both in the form of money and goods, which are collected by the authorities based on legal norms to cover the costs of producing goods and services and to improve the welfare of the community. It can be concluded that taxes have the meaning of dues that can be implemented and taxes have an impact without direct reward services.<sup>1</sup>

In Indonesia, taxes are known as the largest source of state revenue, as seen from the data in the State Budget (APBN) which is regularly published by the Ministry of Finance. The information shows that the contribution of the taxation sector to state revenue is quite significant, and from year to year, the realisation of tax revenue always increases in accordance with the predetermined target, namely from 2019-2020 the tax achievement increased by 4.71%, from 2020-2021 the tax achievement increased by 13.52%, from 2021-2022 the tax achievement increased by 9.42%. From this data, it is clear that the tax contribution made by the community has provided a significant increase in state revenue.

One of the biggest taxes collected by the government is income tax. According to Law of the Republic of Indonesia Number 36 of 2008 concerning income tax, it is explained that income tax is an obligation that must be collected from individuals and companies based on the amount of income received during one year. One of the tax subjects in this case is the individual, which is defined as an individual who resides in Indonesia for more than 183 days in a 12-month period, or an individual who resides in Indonesia for one tax year with the intention to settle in Indonesia.

The tax potential in Indonesia is very large because every year it increases due to public awareness of taxes, especially if the tax instrument that is still a burden on a Muslim can be centralized into one, namely enough with zakat because the Muslim community in Indonesia is very large and the majority.

In terms of language, the word 'zakat' is a *maṣḍar* word from 'zakā', which means growth, cleanliness, and goodness. When someone is called 'zakā', it means that the person is good. Meanwhile, the root word 'zakat' in the context of language means holy, growth, blessing, and praiseworthy. In terms of terms, zakat is an act of worship that has two important dimensions: as a form of obedience to Allah almighty and as a social obligation to fellow human beings.<sup>2</sup>

Zakat is an act of worship related to public finance that has an important and strategic position, both in the view of Islam and in the context of the development of people's welfare. Every Muslim who owns wealth and has reached the *niṣāb* is obliged to pay zakat, which is given to the poor or other eight groups of zakat recipients, in accordance with the conditions set out in Islamic teachings. *Aṣnāf* is defined as a group

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<sup>1</sup> Sotarduga Sihombing and Sibagariangsusy Alestriaana, *Perpajakan Teori Dan Aplikasi*, Widina, vol. 44 (Bandung: Widina Bhakti Persada Bandung, 2020).

<sup>2</sup> Sony Santoso and Rinto Agustino, *Zakat Sebagai Ketahanan Nasional* (Jakarta: Deepublish, 2018).

that meets certain criteria recognised in Islam. This group has been given special treatment in Islamic law and one of them is the qualification to receive zakat funds.<sup>3</sup>

A person who has fulfilled the provisions of tax obligations is required to complete his obligations and in Indonesia it has been determined by the government regarding these two different obligations, namely zakat and tax, which have been explained in Law Number 23 of 2011 concerning zakat management stating in Article 22 that zakat or religious donations paid to the Agency or 'Āmil zakat institution that has been approved by the government can reduce taxable income. It is then strengthened by the Regulation of the Director General of Taxes Number 6/PJ/2011 which explains that payment and making proof of payment for zakat or religious donations that are mandatory can be deducted from gross income.

In Indonesia, the Muslim community is the fact of the largest population and is the majority compared to other religions, this shows the potential or opportunity for the Muslim community to minimise the double obligation so that there is a meeting point between paying taxes and zakat can be used as one to minimise expenses and burdens imposed on the Muslim community. The government provides a solution related to Law Number 36 Year 2011 on Income Tax through the Minister of Finance Regulation Number 254/PMK.03/2010. Article 1 paragraph 1 of the regulation explains that zakat on income paid by individual taxpayers adhering to the religion of Islam and/or by domestic corporate taxpayers owned by adherents of the religion of Islam can be given to 'Āmil zakat agencies or 'Āmil zakat institutions established or ratified by the Government. Furthermore, Article 2 stipulates that zakat or religious donations paid by individual taxpayers and/or by domestic corporate taxpayers can be deducted from the relevant gross income.

The regulation is expected to make it easier for Muslims in Indonesia to fulfil their zakat and tax obligations without having to choose one or the other, by paying zakat through official institutions such as BAZNAS. Socialisation of zakat as a tax deduction will encourage *muzakkī* to pay zakat, increasing the number of *muzakkī* and taxpayers. History records zakat as a source of state fiscal revenue during the time of the Prophet, which can improve the welfare of society if managed properly. Zakat as a comprehensive fiscal system, with rules on subject, object, rate, *niṣāb*, and distribution, has the potential to be an effective fiscal instrument in a Muslim-majority country like Indonesia. The zakat instrument has strong support to be implemented in the national fiscal system, with the hope that the Muslim community can be more motivated to fulfil their obligations as citizens who obey their religion and nation. Zakat has a high transcendence value because it covers two important dimensions: as an act of worship to Allah almighty and as a form of doing good to fellow human beings.

Research conducted by Suryadi entitled Zakat as a Taxable Income Deduction. This research aims to make the people of Pekanbaru aware of the existence of the zakat program as a deduction for personal income tax and to the government to aggressively socialise the application of zakat as a deduction for taxable income. This research uses a descriptive qualitative method. The results of this study indicate that zakat as a deduction for Taxable Income (PKP) eases the payment of zakat and taxes, increases

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<sup>3</sup> Ikmal Hafiz Jamal et al., "The Asnaf Zakat Entrepreneurship Research Trend: A Systematic Literature Review," *Journal of Pharmaceutical Negative Results* 13, no. 9 (2022): 5890–99, <https://doi.org/10.47750/pnr.2022.13.S09.707>.

awareness of zakat, and increases *muzakkī* and state revenue. The government is advised to aggressively socialise this policy.<sup>4</sup>

Another research by Rahmah entitled Effectiveness Analysis of Zakat Policy as Taxable Income Deduction. This research aims to discuss zakat as taxable income deduction by raising a case in BAZNAS of Balikpapan City. This research uses qualitative methods by using primary and secondary data. The result of this research shows that the policy of zakat as a taxable income deduction has been implemented in accordance with Director General of Taxes Regulation No. PER-6/PJ/2011. However, this policy has not been effective due to the lack of knowledge of *muzakkī* about the use of *Bukti Setor Zakat* (BSZ) to reduce gross income.<sup>5</sup>

Furthermore, research by Ismawati, Muchran, Khaliq and Wahyuni with the title Application of Zakat as a Deduction for Individual Taxable Income (Study at Baznas Bulukumba Regency). This study aims to determine the application of zakat as a deduction for personal taxable income at Baznas Kab. Bulukumba. This research uses a qualitative descriptive method with a field approach. The results of this study indicate that Zakat can reduce PKP if paid to BAZNAS. However, inhibiting factors include low awareness of paying zakat, lack of interest in zakat institutions, and lack of socialisation about zakat as a taxable income deduction.<sup>6</sup>

In some of the studies above, it shows that researchers only focus on one subject in their area related to the application of zakat as an income tax deduction. Based on this, the author is interested in knowing and researching nationally about the opportunity to apply zakat as a deduction for personal taxable income and become an alternative solution for fiscal policy in Indonesia. So that later the central government can integrate the taxation and zakat system nationally to grow the economy in Indonesia. There are several problems that can be identified by researchers, namely as follows; (1) How is the potential of zakat in Indonesian society, (2) How is the process when zakat is applied as a deduction for personal taxable income as an alternative fiscal policy in Indonesia.

## Research Methods

This research is a type of library research with a descriptive qualitative approach. Data was obtained from searches using Google Scholar and others. The research process involves collecting library data, reading, recording, and processing relevant information to answer the problem formulation. The criteria for research materials are explained in the results and discussion section. This research is presented in the form of text data, not events, where the researcher only interacts with sources that are already available in the library or ready-to-use data. The data analysis technique follows the model of Miles and Huberman, which includes data collection, data reduction, and conclusion drawing.<sup>7</sup>

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<sup>4</sup> Nanda Suryadi, "Zakat Sebagai Pengurang Penghasilan Kena Pajak," *Jurnal Rumpun Ekonomi Syariah* 4, no. 2 (2021): 83–98, <https://doi.org/10.35836/jakis.v3i1.43>.

<sup>5</sup> Fitria Rahmah, "Analisis Efektivitas Kebijakan Zakat Sebagai Pengurang Penghasilan Kena Pajak," *Juni 2021/169 BORNEO ISLAMIC FINANCE AND ECONOMICS JOURNAL* 1, no. 1 (2021): 169–80.

<sup>6</sup> M Muchran et al., "... Pengurang Penghasilan Kena Pajak Orang Pribadi Pada BAZNAS Kab. Bulukumba: Penerapan Zakat Sebagai Pengurang Penghasilan Kena Pajak Orang Pribadi ...," *Al-Buhuts* 18, no. 16 (2022): 241–49, <https://journal.iaingorontalo.ac.id/index.php/ab/article/view/2894><https://journal.iaingorontalo.ac.id/index.php/ab/article/download/2894/1553>.

<sup>7</sup> Muftahatus Saadah, Yoga Catur Prasetyo, and Gismina Tri Rahmayati, "Strategi Dalam Menjaga Keabsahan Data Pada Penelitian Kualitatif," *Al-'Adad: Jurnal Tadris Matematika* 1, no. 2 (2022): 54–64, <https://doi.org/10.24260/add.v1i2.1113>.

In this preliminary stage, researchers collected data by selecting, focusing, simplifying, abstracting and transforming raw data in written notes. With the aim of obtaining findings which later became the focus of this research. Furthermore, the data is reduced and then displayed to provide an understanding of the data so that it can determine the next stage. After the data reduction and display are carried out, conclusions or conclusions are drawn on the data studied, from these conclusions new findings are presented from the research that has been carried out.

In this study, researchers collected data related to public awareness, the difference between zakat, tax regulations, the impact of zakat on the economy, and challenges in zakat management that can be categorised and coded for further analysis. After the researcher writes in the discussion, the researcher will draw conclusions which are part of the operational concept, as well as part of the problem formulation that the researcher will examine.

## **Literature Review**

### **Zakat**

Zakat is one of the social fund instruments in Islam that is mandatory. According to Imam Hanafi, zakat is defined as the expenditure of part of a person's property that has reached its *niṣāb*, which is then distributed to those entitled to receive it in accordance with Islamic sharia, namely the eight groups of *aṣnāf* which are determined by the Islamic Shariah.<sup>8</sup>

In essence, zakat is a distribution of Muslim wealth that aims to reduce the gap between the rich and the poor. As a social instrument, zakat is believed to alleviate poverty. According to Islamic teachings, zakat is supposed to be collected by the State or government as a representative to take the rightful share of the wealth of the rich and then distributed to those who are entitled to receive it.<sup>9</sup>

Paying zakat has been obliged by Allah almighty in His al-Qur'ān, as found in Surah al-Taubah verse 103, which means "Take zakat from some of their wealth, with zakat you clean and purify them and pray for them. Indeed, your prayers will give them peace of mind, and Allah is All-Hearing and All-Knowing." Thus, there are several types of wealth for which zakat is obligatory, namely zakat mal (wealth) on property that is owned or controlled by a person, whether it is property that is fully owned, being controlled, or property that provides benefits.<sup>10</sup>

Zakat in general can be interpreted as part of the assets that must be issued by every Muslim who meets certain conditions in accordance with the rules and guidelines of Islamic law. Law Number 23 Year 2011 Article 1 Paragraph 2 explains that zakat is an asset that must be issued by a Muslim or business entity to be given to those entitled to receive it in accordance with the provisions of Islamic law.<sup>11</sup>

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<sup>8</sup> Bakhrul Huda, "Analisis Keabsahan Penyaluran Harta Zakat Dalam Bentuk Al-Qardh Al-Hasan: Studi Atas Materi Ijtima' Ulama Komisi Fatwa MUI 2021". *Management of Zakat and Waqf Journal (MAZAWA)* 3 no. 2 (2022):66-86. <https://doi.org/10.15642/mzw.2022.3.2.66-86>.

<sup>9</sup> Minati Maulida and Aulia Ulfah, "Peluang Dan Tantangan Pemberlakuan Undang-Undang No. 23 Pasal 22 Tahun 2011 Tentang Zakat Sebagai Pengurang Pajak Penghasilan," *JIOSE: Journal of Indonesian Sharia Economics* 2, no. 2 (2023): 191–208, <https://doi.org/10.35878/jiose.v2i2.903>.

<sup>10</sup> Aris Kurniawan Ridho and Sri Herianingrum, "Dampak Pembayaran Zakat Terhadap Perilaku Konsumsi Pegawai Negeri Sipil Di Departemen Agama Kota Surabaya," *Jurnal Ekonomi Syariah Teori Dan Terapan* 6, no. 6 (2020): 1228, <https://doi.org/10.20473/vol6iss20196pp1228-1241>.

<sup>11</sup> Hary Djatmiko, "Re-Formulation Zakat System as Tax Reduction in Indonesia," *Indonesian Journal of Islam and Muslim Societies* 9, no. 1 (2019): 135–62, <https://doi.org/10.18326/ijims.v9i1.135-162>.

The command of zakat is also conveyed in the hadith of the Prophet PBUH, where when Muadz bin Jabal and Abu Musa al-Ash'ari were sent to Yemen to spread the message of Islam, the Prophet PBUH emphasized the important steps that must be taken. In addition to the concept of *tauḥīd/shahādah* and the obligation to pray five times, the next thing to be conveyed is the obligation to pay zakat. He explained that zakat is taken from the rich and distributed to the needy (poor) among them.<sup>12</sup>

Law Number 23 Year 2011 regulates zakat in article 1 and article 2 which states: 'Zakat is an asset that must be set aside by a Muslim or a body owned by a Muslim in accordance with religious provisions to be given to those entitled to receive it, and every Indonesian citizen who is Muslim and capable or a body owned by a Muslim is obliged to pay zakat'.

The conditions for someone who wants to give zakat, according to Islamic jurists, are as follows: 1) Be of the Islamic religion. 2) *Bāligh* (adult under Islamic law) and of sound mind. 3) Owning assets for a period of more than one year (*haul*) and owned in full. Meanwhile, the requirements for assets owned by a Muslim who will be zakah are as follows: 1) Ownership is certain, meaning that the property is fully owned by the individual both in power and benefits. 2) Growing, meaning that the value of the property increases both naturally (*sunatullāh*) and due to human effort or endeavour. 3) Exceeding basic needs, meaning that the value of the property has exceeded the basic needs needed for daily life. 4) Clean from debts, meaning that the property does not have debts or claims from other parties. 5) Reaching the *niṣāb*, meaning that the asset reaches the minimum amount determined by Islamic law to be obliged to pay zakat. 6) Reaching *haul*, meaning that the asset has reached a certain time limit according to the type of asset owned, usually once every twelve months or after harvesting or reaping, in accordance with the rules stipulated in Islamic law.<sup>13</sup>

The payment of zakat is one of the five pillars of Islamic principles that promote state development. Zakat plays an important role in social security and harmony, as well as helping to reduce the gap between the rich and the poor and strengthening the economic independence of the Muslim community. Apart from being an important source of finance for Islamic states along with taxes, zakat also plays a role in fuelling economic activity by increasing people's purchasing power and ultimately reducing poverty. Zakat funds can be used to improve the quality of life of low-income households.<sup>14</sup>

Zakat management is important to help Muslims fulfil the third pillar of Islam and to establish the main function of zakat as a means to alleviate poverty, the effectiveness of zakat is important as a catalyst in improving the lives of the poor and needy. High trust is very important to be maintained between Muslims and zakat institutions, so it must be maintained because prospective *muzakkī* will determine where they will pay and when they have to pay their zakat to institutions rather than directly, for example to the poor or the needy, rather than through zakat institutions.

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<sup>12</sup> Ahmad Fahmi Abdurrahman and Sri Herianingrum, "Implementasi Pengelolaan Dana Zakat, Infak, Sedekah (Zis) Pada Rumah Singgah Pasien (Rsp) Lembaga Amil Zakat (Laz) Inisiatif Zakat Indonesia (Izi)," *Jurnal Ekonomi Syariah Teori Dan Terapan* 6, no. 9 (2020): 1909, <https://doi.org/10.20473/vol6iss20199pp1909-1923>.

<sup>13</sup> Abdurrahman and Herianingrum.

<sup>14</sup> Ram Al Jaffri Saad, Norazita Marina Abdul Aziz, and Norfaiezah Sawandi, "Islamic Accountability Framework in the Zakat Funds Management," *Procedia - Social and Behavioral Sciences* 164, no. August (2014): 508–15, <https://doi.org/10.1016/j.sbspro.2014.11.139>.

On the other hand, it is also important for zakat management to demonstrate professionalism and trust to safeguard the interests of zakat recipients.<sup>15</sup>

### **Income Tax**

According to Law Number 28 of 2007 concerning the Third Amendment to Law Number 6 of 1983 concerning General Provisions and Tax Procedures, Article 1 explains that Tax is an obligation that must be fulfilled to the state by individuals or entities that are compelling in nature in accordance with the Law. This tax does not provide direct rewards to the payer, but is used for the benefit of the state to achieve the greatest welfare of the people. Income tax is one type of tax in Indonesia that is a source of state revenue, regulated by Law of the Republic of Indonesia Number 17 of 2000 concerning the Third Amendment to Law Number 7 of 1983 concerning Income Tax. This tax is imposed on individuals or entities on income received or obtained during one tax year.<sup>16</sup>

In accordance with the new legislation, the tax collection system is carried out with a Self Assessment approach, where taxpayers are given the confidence to calculate, pay, and report the amount of tax to be paid themselves. In this system, the role of taxpayers is very important because they are directly responsible for fulfilling their tax obligations. The Self Assessment system is an implementation of the spirit of national mutual cooperation, where every citizen has the same rights and obligations to participate in national development and enjoy the fruits of that development.

In Islam, *ḍarībah* or tax is part of the *mu‘āmalah* system that occurs in an economic structure where each individual has an obligation, in addition to his or her rights, to make a direct contribution to the state. This contribution is used by the state to meet the financial needs or state treasury as well as to improve the welfare of the people and fulfil the public interest. At the time of the Prophet Muhammad PBUH, the concept of personal income tax as it exists in modern economics has not yet emerged. Individual income tax is a phenomenon that has developed in the modern economic era. Personal income tax has similarities with one of the obligations of Muslims, namely professional zakat for those who have reached the *niṣāb* or meet the requirements. Both are derived from the income earned by individuals from the work or services they perform.<sup>17</sup>

### **Fiscal Policy**

Fiscal policy comes from the word ‘fiscal’ which comes from the Latin ‘Fiscus,’ which refers to the main financial authority in Ancient Roman times. According to the Big Indonesian Dictionary (KBBI), fiscal is explained as everything related to state revenue or tax affairs. Fiscal policy was first conceptualised by Keynes in the 1930s, meaning that fiscal policy can help countries achieve economic and business stability by adjusting state expenditure to the revenue raised from taxes. Thus, fiscal policy is an economic strategy used by the government to manage the economy towards better

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<sup>15</sup> Naz’aina, “The Effect of Internal Control System and Amil Competence on the Financial Reporting Quality at Zakat Management Institution Active Member of Zakat Forum in Special Capital City Region Jakarta and West Java Provinces,” *Procedia - Social and Behavioral Sciences* 211 (2015): 753–60, <https://doi.org/10.1016/j.sbspro.2015.11.100>.

<sup>16</sup> Dina W Fitriani and Putu Mahardika Adi Saputra, “Analisa Faktor-Faktor Yang Mempengaruhi Jumlah Penerimaan Pajak Penghasilan Orang Pribadi (Studi Kasus Di Wilayah Kerja Kantor Pelayanan Pajak Batu),” *Journal of Indonesian Applied Economics* 3, no. 2 (2009): 2–2009, <https://doi.org/10.21776/ub.jiae.2009.003.02.3>.

<sup>17</sup> Qorien Arifah Elhany Mahaka, Havizon Havizon, and Lucy Auditya, “Analisis Pelaksanaan Pajak Penghasilan Orang Pribadi (Pph21) Menurut Ekonomi Islam,” *Journal of Economic, Bussines and Accounting (COSTING)* 5, no. 2 (2022): 1208–17, <https://doi.org/10.31539/costing.v5i2.3359>.

conditions by regulating government revenues and expenditures.<sup>18</sup> In economic theory fiscal policy can be defined as government activities related to the effort (collecting) state revenues and spending them at this time as well as investment for social needs and the allocation of transfers, to the community at the national and regional levels.<sup>19</sup>

Designing an optimal fiscal policy to support the macroeconomy is important. First, fiscal policy should be countercyclical to stabilize growth during a crisis. Second, fiscal policy should be sustainable through a stable and transparent long-term framework. And third, fiscal policy should not be an additional source of volatility through changes in spending or taxes that do not respond optimally to economic conditions.<sup>20</sup>

### **Application of Zakat as Tax Deduction in Other Countries**

Saudi Arabia is known as the country with the most ancient legal system of zakat. In this country, zakat is collected as tax. The regulation on zakat management was officially implemented in 1951, which was previously regulated based on the Royal Court Decree Number 17/2/28/8634 on 7 April 1951. The decree established the obligation of zakat in accordance with the principles of Islamic law, which all individuals and companies who are Saudi citizens must comply with. Other countries that have also implemented similar policies, where zakat is levied as a tax, according to Powell, include Pakistan, Libya, Sudan, Malaysia and Yemen.

Among these countries, Malaysia stands out as the most unique in implementing a compulsory model of zakat collection. Despite having more than 60 per cent Muslim population, Malaysia does not explicitly mention Islamic law as the basis of its state; however, its constitution recognises all Malays as Muslims and establishes Islam as the official religion.<sup>21</sup> In Malaysia, zakat management has existed since the arrival of Islam and continues to grow, although there are differences in its management in each leader. Payment of zakat can reduce tax liability by up to 100%, so people who pay zakat do not have to pay tax, preventing double taxation. This actually increases the government's tax revenue, as it encourages Malaysian Muslims to be more honest in reporting their taxes. Which means that the higher the zakat collected, the higher the government's tax revenue, so the concern that zakat will reduce tax revenue is unfounded.<sup>22</sup>

### **Result**

In Indonesia, the largest source of tax is obtained from Muslims because most of Indonesia's population is Muslim with a population according to BPS data in 2022 of 277,749,673 people with a percentage of Muslim communities of 87.02% and based on the tax achievement data above proves that awareness of paying taxes continues to strengthen, but this will cause a problem because Indonesian people, especially

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<sup>18</sup> Susi Dwiyantri et al., "Kebijakan Fiskal Dalam Perspektif Islam," *Ekonomikawan: Jurnal Ilmu Ekonomi Dan Studi Pembangunan* 23, no. 1 (2023): 109–18, <https://doi.org/10.30596/ekonomikawan.v23i1.10955>.

<sup>19</sup> Ira Meiyenti et al., "Fiscal Stimulus: A Comprehensive Bibliometric Analysis," *Risk Governance and Control: Financial Markets and Institutions* 14, no. 1 (2024): 63–75, <https://doi.org/10.22495/rgcv14i1p5>.

<sup>20</sup> Francisco Arroyo Marioli, Antonio Fatas, and Garima Vasishtha, "Fiscal Policy Volatility and Growth in Emerging Markets and Developing Economies," *International Review of Economics and Finance* 92, no. April 2023 (2024): 758–77, <https://doi.org/10.1016/j.iref.2024.01.041>.

<sup>21</sup> Dini Vientiany, "Analisis Kedudukan Zakat Sebagai Penerimaan Negara: Studi Terhadap Integrasi Zakat Dan Pajak Di Indonesia" (Universitas Islam Negeri Sumatera Utara, 2022), <http://repository.uinsu.ac.id/14522/>.

<sup>22</sup> Eko Suprayitno, Radiah Abdul Kader, and Azhar Harun, "Zakat Sebagai Pengurang Pajak Dan Pengaruhnya Terhadap Penerimaan Pajak Di Semenanjung Malaysia," *Inferensi* 7, no. 1 (2013): 1, <https://doi.org/10.18326/infsl3.v7i1.1-28>.

Muslim communities, will be burdened by two different things that are done simultaneously, namely in paying taxes and zakat.

Table 1, Difference between Zakat and Tax<sup>23</sup>

Differences	Zakat	Tax
Definition	Clean, improve, and build	A citizen's contribution to his or her country, levied in accordance with tax laws
Legal Basis	<i>al-Qur'ān</i> dan <i>Sunnah</i>	Tax Law
<i>Niṣāb</i> dan Value	Determined by Allah and has an absolute nature	Determined by the State and has a fluctuating nature based on the balance of the state budget
Characteristics	Compulsory and continuous	Obligation is based on need and can be eliminated or changed
Recipient Subject	8 <i>Aṣnāf</i> according to the teachings of Islam	For the development and routine expenditure of the State
Assets that are subject to	Productive assets	All assets
Penalties	From Allah and the Islamic government	From the State
Motivation	On the basis of faith and devotion to God, as well as obedience and fear of sanctions	Compliance with tax laws and regulations and fear of tax sanctions

From the table above, we can see that from several classifications of differences, especially in the objectives, sources, targets and levels, tax does have some differences with zakat. However, in some cases there are substantial similarities between tax and zakat. Indirectly, tax and zakat contain an element of coercion in it because certain institutions manage it and both do not provide direct rewards to the recipient in real terms, and both have a positive impact on building the people's economy.

In Law No. 28 of 2007 concerning the Third Amendment to Law No. 6 of 1983, tax is required for individuals and business entities that have had income or benefits during the year. This shows that tax also has its own time in paying it, which is during the period of a year just like zakat. Zakat that is mandatory is regulated in Government Regulation Number 60 Year 2010. This means that zakat that can be deducted from tax is zakat fitrah. In addition, based on another Government Regulation, namely Article 22 of Law Number 23 Year 2011, it is stated that zakat paid by *muzakkī* to BAZNAS or LAZ can be deducted from taxable income. Furthermore, the procedure for its implementation is further regulated in Article 23, where BAZNAS or LAZ has

<sup>23</sup> Djatmiko, "Re-Formulation Zakat System as Tax Reduction in Indonesia."

the obligation to provide proof of zakat deposit to each *muzakkī*. The proof is used as a deduction of taxable income for the *muzakkī* who pays it.

Table 2, Zakat, Infaq, Alms, and Other Religious Social Funds (ZIS-DSKL) Fund Collection

Year	Total ZIS-DSKL Fund Collection
2018	8,113,410,677,412
2019	10,119,560,096,450
2020	12,510,956,821,116
2021	14,222,002,607,119
2022	22,475,655,478,672

Source : baznas.go.id

In the management of zakat in Indonesia, the main regulation is regulated by Law Number 38 Year 1999 which was later amended by Law Number 23 Year 2011. According to Article 22 of the Zakat Management Law, zakat paid by *muzakkī* to the National Zakat Agency (BAZNAS) or *Lembaga Amil Zakat (LAZ)* can be deducted from taxable income. The proof of the zakat deposit given by BAZNAS or LAZ to *muzakkī* becomes the evidence used to reduce taxable income. This shows that in the taxation system in Indonesia, there is an incentive to encourage zakat payment by providing convenience for *muzakkī* in deducting the tax they have to pay, in accordance with the provisions stipulated in the law. However, with the data of ZIS fund collection above which is quite large and has increased every year with an average annual growth during the 5-year period is around 30.02% and still does not provide optimal results to alleviate poverty and the welfare of the Indonesian people.

Currently, public understanding of zakat is still not optimal, although the key factor in the management of zakat lies within the community itself. The obligation to pay zakat needs to be continuously socialised so that the awareness to pay zakat can increase, and thus, the management of zakat in Indonesia can be better. The great potential of Muslims can be a force to build the welfare of the ummah as a whole. Effective socialisation of the concept, benefits and practices of zakat can help increase public participation in fulfilling their zakat obligations. This will not only have a positive impact on the individuals receiving zakat, but also on the economy and welfare of society as a whole.

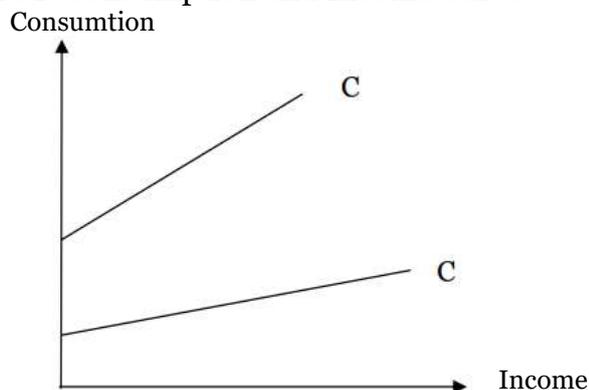
Aside from the public awareness factor, the importance of the implementing role of the Law in zakat management, which is currently regulated by the Ministry of Religious Affairs and the Ministry of Finance, may still not reach an optimal meeting point. If this rule is realised in the form of a Government regulation, it will provide a stronger foundation as the Government will encourage both departments to comply with the existing provisions in the Act, so as to improve the management of zakat collaboratively to achieve common goals. In the macroeconomic context, this issue has a significant influence on the management of zakat in Indonesia. By ensuring effective coordination between relevant agencies and the implementation of clear rules through Government regulations, it is expected to improve the overall management of zakat, maximising the potential of zakat as a powerful social and economic instrument to improve the welfare of the people.

Historically, during the time of the Prophet and the Caliphs after him, zakat was indeed one of the instruments of the Islamic fiscal system, which was different from *kharaj* or tax on land. At that time, zakat was used as one of the sources of state

revenue to fulfil public and social needs, and to reduce the social gap between the rich and the poor. However, today's conditions are different from the past. We live in a modern era with a more complex taxation system and a generally higher percentage of taxes than zakat. Taxes in the modern system include not only income tax and land tax such as *kharaj*, but also other taxes such as value added tax (VAT), land and building tax (PBB), as well as various other types of taxes administered by the state to finance various government programmes and activities.

Nonetheless, zakat still has important values and principles in Islam as one of the obligations of Muslims. Zakat not only functions as a religious obligation, but also as a social instrument that helps in poverty alleviation and economic equity within the Muslim society. Although it is no longer the only fiscal instrument like in the past, zakat still has great social relevance and value in the context of modern life. Intense socialisation to the community in the current era is important, especially in the current digitalisation era that zakat means increasing people's purchasing power. Zakat can affect the economic turnover in this case the concept of purchasing power parity because when wealth is spent, the circulation will expand and more parties will benefit and become a blessing. Thus, zakat does not reduce purchasing power but it will increase output, as illustrated by the following curve:

Figure 1: Consumption and Income Curve



Income Tax (PPh) 21 or Income Tax Article 21 is an obligation made by employers or other parties who pay incor taxpayers. This deduction is made on income received or ob work, services, or activities in accordance with existing guidelines for the procedures of withholding, depositing, ar Article 21 and/or Income Tax Article 26 are regulated in D Regulation Number 31/PJ/2012.

This guideline explains the steps that must be followed by the employer or the party making the deduction, including the tax withholding procedure, the time to deposit the tax that has been withheld, and the obligation to report the withholding to the Directorate General of Taxes. PPh 21 is a form of fiscal regulation that aims to ensure that tax deductions are made in a timely manner and in accordance with applicable statutory provisions, so that tax contributions from individual taxpayers can be fulfilled regularly and efficiently.

Table 3, Individual income tax rates

Amount of taxable income	Tax Rate
Income up to IDR 60,000,000.00	5%

Income above Rp 60.000.000,00 up to Rp 250.000.000,00	15%
Income above Rp 250,000,000.00 to Rp 500,000,000.00	25%
Income above Rp 500.000.000,00 s.d Rp 5.000.000.000,00	30%
Income above Rp 5,000,000,000.00	35%

Source: pajak.id

Looking at the table above for individual income tax that has an income of up to IDR 60,000,000, which is 5%. If when someone has an income of 25 million, the formula is found as follows:

$$P - (2.5\% \times P) = K$$

$$\text{Tax paid} = 5\% \times K$$

$$P = \text{Net income before zakat}$$

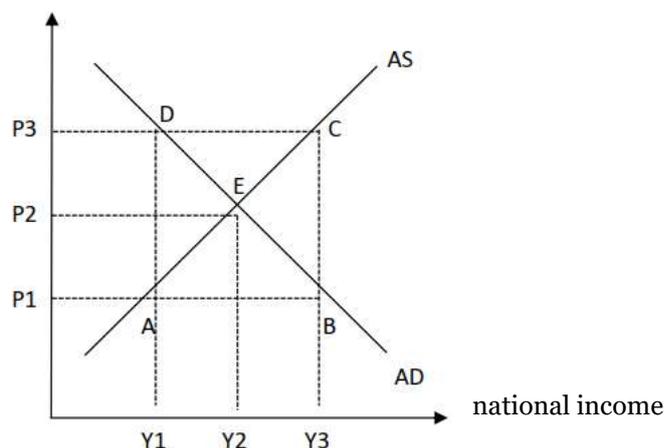
$$K = \text{Taxable income after deducting zakat}$$

Thus, when zakat is applied as a deduction for individual taxable income, it will affect national income, even though it can reduce state revenue in the tax sector, conditions in the macro economy will still improve. If zakat is managed properly and seriously by the government, the problem of poverty in Indonesia can be overcome properly. Because if zakat can be collected more automatically the 'Amil Zakat Agency or 'Amil Zakat Institution that has been regulated by the government can distribute it to those entitled to receive in accordance with orders and instructions with a priority scale for the economic improvement of the Indonesian people.

There are at least some positive impacts of this treatment, namely that Muslims, who are the majority in Indonesia, can pay zakat as well as taxes without being burdened by both. With more and more people paying their zakat in institutions that have been regulated by the government, it becomes an alternative source of state revenue whose potential is much greater. There are some people who are not yet taxpayers who can channel their funds for state income, because those who are obliged to pay zakat are not necessarily taxpayers, but if they are taxpayers, they must have been obliged to pay zakat. Thus the potential for state revenue can be optimised.

One of the meanings of zakat when applied as a deduction for personal income tax will bring blessings to the country. By paying zakat on the assets we already have, Allah Swt will always bestow blessings because one of the meanings of zakat is Al-Barakatu which means blessing. This blessing will certainly affect the community and the country in the future.

Figure 2: AD-AS (Aggregate Demand-Aggregate Supply) Curve  
price level



In the AD-AS curve above, if zakat is taken as an income tax, it will increase the income available to individuals, which in turn increases consumption or investment. This will result in a rightward shift of the AD Curve, indicating an increase in the total services demanded at each price level. If the reduction in tax leads to higher investment or increased productivity, then this will increase the supply in the long run. This indicates a rightward shift of the AS curve. A rightward shift of the AS Curve indicates an increase in aggregate supply (economic output) at any price level. Thus, tax reduction through zakat deduction can result in an increase in GDP in the economy, indicated by the rightward shift in both AD and AS curves in the AD-AS diagram.

An increase in G can occur if the collected zakat is used to increase government spending or investment, which then increases economic output or GDP. This can be reflected in a rightward shift of the AD curve, indicating an increase in GDP at the same price level. Regarding the potential decrease in tax revenue. Firstly, the government will definitely recognise that tax reduction through zakat payment may affect the country's total tax revenue. Therefore, the government needs to conduct an in-depth impact analysis to predict how much the revenue reduction is likely to be and formulate an effective mitigation strategy. One strategy that can be implemented is to increase the tax base through socialisation and education to the public about tax obligations, so that more individuals and companies are registered as taxpayers. Second, to ensure public compliance in reporting zakat payments, the government and zakat institutions need to collaborate more closely. Intensive socialisation on the benefits of zakat and tax obligations should be conducted so that people understand the importance of reporting zakat as a tax deduction. In addition, the implementation of a transparent and easily accessible reporting system can help improve public compliance.

In the context of fiscal policy, in this case, the state can finally freely play the role of zakat. The allocation of zakat funds for the poor is no longer difficult, because one of the functions of zakat is to provide social security for the poor. In the coordination of the Ministry of Finance and the Ministry of Religious Affairs, muzaki finally cannot avoid their obligations because zakat has become a deduction for personal income tax. Reducing tax is essentially not reducing state revenue because both are included in state revenue. The era of the Prophet and the Caliphs at that time also succeeded in managing zakat as a tax function and could prosper their people. Therefore, we really hope that the government will make zakat management in Indonesia equal to tax management. So that the opportunity to apply zakat as a

deduction for personal taxable income as an alternative fiscal policy in Indonesia is very necessary to be applied and fought for.

## Conclusion

The government at this time can apply zakat as a deduction for personal taxable income tax because in ancient times in the time of the Prophet and Caliphs after him the application had a very big impact and effect in a country or kingdom at that time. If the government implements this policy, it can encourage *muzzakī* to pay zakat because it is also an income tax deduction. The payment of zakat as a deduction for personal income tax is also relevant as an alternative fiscal policy in Indonesia. An effective first step for this policy is that the Indonesian government needs to make a regulation on zakat payment as a tax deduction by offering the tax deduction directly to every company and tax-collecting institution. To realise this, the authorised zakat institution needs to contact the relevant companies or institutions and propose a clear mechanism. With a good system in place for direct tax deduction through companies, zakat payments can be made more easily and efficiently.[]

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