


# The Gap in Utilizing Zakat as Tax Deduction: A Socio-Legal Review of Religiosity, Knowledge, and Law Awareness

Dwi Hantoro Prakoso<sup>1\*</sup>, Arum Widiastuti<sup>2</sup>

<sup>1,2</sup> Faculty of Law, Universitas Wahid Hasyim, Semarang, Indonesia.

 : [dwi.hantoro.prakoso@gmail.com](mailto:dwi.hantoro.prakoso@gmail.com)

Corresponding Author\*



## Abstract

**Introduction:** Taxpayers in Indonesia, particularly in Malang Regency, are subject to various tax obligations. Among these, the integration of zakat – an Islamic form of almsgiving – as a deductible item in tax calculations presents both opportunities and challenges. Although formal regulations permit zakat to be deducted from taxable income, the extent to which this facility is understood and effectively utilized by taxpayers remains unclear. The interplay of religiosity, legal knowledge, and awareness significantly influences taxpayer behavior concerning zakat deductions.

**Purposes of the Research:** This research aims to analyze the religiosity, knowledge and legal awareness of taxpayers in Malang Regency in utilizing zakat facilities as a tax deduction, as well as exploring taxpayers' perceptions of the zakat policy as a tax deduction.

**Methods of the Research:** The research method used is a socio-legal approach with qualitative analysis. Qualitative analysis was carried out to understand religious values, social context, and taxpayer perspectives in utilizing zakat facilities as a tax deduction.

**Results of the Research:** The research results show that while taxpayers in Malang Regency consistently fulfill their zakat and tax obligations, their understanding of zakat as a tax deduction is limited. Most respondents recognize the importance of knowing tax laws, but many lack full comprehension of how to calculate taxes when deducting zakat. The research highlights the need to strengthen legal knowledge and awareness through tax law literacy programs. It recommends collaboration between the government, the Directorate General of Taxes, and universities to improve taxpayer understanding and compliance.

**Keywords:** Religiosity; Legal Knowledge; Legal Awareness; Zakat; Tax.

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## INTRODUCTION

About 87.2% of the Indonesian population identified themselves as Muslims.<sup>1</sup> Indonesia possesses significant potential to support economical development through religious contribution; zakat. Zakat is considered as one of the five pillars in Islam, as a mechanism to overcome socio-economic inequality by distributing the funds to those who are deemed eligible. Zakat is considered as social funds of Muslims which is important to be optimized to reduce poverty. The Gini coefficient (Gini Ratio) is a statistical measure of how unequal income is distributed within a population in a country. Indonesia's Gini ratio in early 2024 stood at 0.379. Gini ratio in 2024 increased from the previous year; 0.388 in 2023.<sup>2</sup> The value

<sup>1</sup> Badan Pusat Statistik, "Statistik Kabupaten Malang 2024," 2024, <https://malangkab.bps.go.id/id/publication/2024/12/31/754a36d9e68b7e4ffb30181a/kabupaten-malang-dalam-infografis-2024.html>.

<sup>2</sup> Badan Pusat Statistik, "Statistik Kabupaten Malang 2024," 2024, <https://malangkab.bps.go.id/id/publication/2024/12/31/754a36d9e68b7e4ffb30181a/kabupaten-malang-dalam-infografis-2024.html>.

of Gini ratio in Indonesia is considered low based on the distribution of expenditure inequality of the population. In the other hand, based on BPS data in 2024, Indonesia had 25.4 million people living below poverty line in March 2024 or 9.03% of the total population in Indonesia. Cited from National Zakat Agency (BAZNAS), the potency of zakat in Indonesia is predicted to reach 327 Trillion Rupiahs in 2024, but in the realization of zakat collection only 26.13 Trillion Rupiahs in 2024.<sup>3</sup> It showed that there is opportunity in collecting and utilizing zakat. Optimizing the potency of zakat is needed to increase the function of zakat in economy. The main function of zakat is to overcome poverty, income inequality and to decrease unemployment. Zakat collection and distribution can positively impact a country's economy. Optimizing zakat in Indonesia is expected can give positive impact of Small-Medium Enterprises and Farming. Therefore, it can strengthen the fundamental of economy in Indonesia.<sup>4</sup>

Zakat and tax can be considered as two important instruments in financial term in Indonesia.<sup>5,6</sup> One of financial term in Islam referring to the obligation that a Muslim donates a certain proportion of their wealth each year to charitable causes is Zakat.<sup>7,8</sup> Zakat is mandatory in Islam, to support social welfare and economy equality. Meanwhile, tax is a main source of a country income for national development.<sup>9,10,11</sup> Wealth collection as religious order to empower the poor and the needy is Zakat. Meanwhile, a mandatory financial charge or levy imposed on an individual or legal entity to support national development is tax.<sup>12</sup> There are two functions of zakat and tax; as a budgeter or as the source of a country income and as a regulator or as an instrument of wealth transfer. Zakat and tax are two instruments used to transfer wealth. Therefore, zakat and tax can be used to transfer wealth from the rich to the poor.

Tax and tax system are two important things in a development of a country.<sup>13,14</sup> Indonesia is one of the countries with dependency on tax revenue. Indonesia supports active participation of the communities to pay tax.<sup>15</sup> Tax law amended lastly with Law Number 16 Year 2009, the fourth one stated tax as a compulsory contribution to state revenue, levied by

<sup>3</sup> Badan Amil Zakat Nasional (BAZNAS), "Laporan Zakat Nasional 2023," 2023, <https://ppid.baznas.go.id/laporan/laporan-pengelolaan-zakat>.

<sup>4</sup> N Sahputra, "Strategi Penerapan Zakat Sebagai Pengurang Pajak Penghasilan Terutang (Taxes Credit) Di Provinsi Aceh," Desertasi: Universitas Islam Negeri Sumatra Utara Medan, 2020.

<sup>5</sup> Provita Wijayanti et al., "Modelling Zakat as Tax Deduction: A Comparison Study in Indonesia and Malaysia," *Journal of Islamic Accounting and Finance Research*--Vol 4, no. 1 (2022), <https://doi.org/https://doi.org/10.21580/jiafr.2022.4.1.10888>.

<sup>6</sup> Ledy Famulia and others, "Analisis Perbandingan Hubungan Zakat Dan Pajak Di Indonesia, Malaysia, Dan Brunei Darussalam," *Asy-Syir'ah: Jurnal Ilmu Syari'ah Dan Hukum* 54, no. 1 (2020): 27-57, <https://doi.org/https://doi.org/10.14421/ajish.v54i1.417>.

<sup>7</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/https://doi.org/10.18326/ijims.v9i1.135-162>.

<sup>8</sup> Dina Yustisi Yurista, "Prinsip Keadilan Dalam Kewajiban Pajak Dan Zakat Menurut Yusuf Qardhawi," *Ulul Albab: Jurnal Studi Dan Penelitian Hukum Islam* 1, no. 1 (2017): 39-57, <https://doi.org/https://doi.org/10.30659/jua.v1i1.1962>.

<sup>9</sup> Didin Hafidhuddin, *Zakat Dalam Perekonomian Modern* (Gema insani, 2002).

<sup>10</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/https://doi.org/10.18326/ijims.v9i1.135-162>.

<sup>11</sup> Dina Yustisi Yurista, "Prinsip Keadilan Dalam Kewajiban Pajak Dan Zakat Menurut Yusuf Qardhawi," *Ulul Albab: Jurnal Studi Dan Penelitian Hukum Islam* 1, no. 1 (2017): 39-57, <https://doi.org/https://doi.org/10.30659/jua.v1i1.1962>.

<sup>12</sup> PA Putra et al., "Zakat Dan Pajak Dalam Perspektif Syariah," *Ojs.Diniyah.Ac.Id PA Putra, M Marliyah, PA SiregarAl-Mutharahah: Jurnal Penelitian Dan Kajian Sosial Keagamaan*, 2023•*ojs.Diniyah.Ac.Id* 20, no. 1 (June 13, 2023): 79-92, <https://doi.org/10.46781/AL-MUTHARAHAH.V20I1.610>.

<sup>13</sup> Dewi Prastiwi et al., "Sintesis Sistem Akuntansi Perpajakan," *Jurnal Akuntansi Multi Paradigma* 10, no. 2 (2019): 276-94, <https://doi.org/https://doi.org/10.18202/jamal.2019.08.10016>.

<sup>14</sup> Yenni Mangoting, "Quo Vadis Kepatuhan Pajak?," *Jurnal Akuntansi Multiparadigma* 9, no. 3 (2018): 451-70, <https://doi.org/https://doi.org/10.18202/jamal.2018.04.9027>.

<sup>15</sup> Susanti, Joni Susilowibowo, and Han Tantri Hardini, "Apakah Pengetahuan Pajak Dan Tingkat Pendidikan Meningkatkan Kepatuhan Membayar Pajak?," *Jurnal Akuntansi Multiparadigma* 11, no. 2 (2020): 420-31, <https://doi.org/https://doi.org/10.21776/ub.jamal.2020.11.2.25>.

the government on tax payer's income. Tax payers will not get direct benefit, but tax revenue will be used to pay government expenditure and to fund the provision of local public services. Data from Statistics Indonesia (BPS) in 2024 stated that the highest tax revenue in Indonesia is personal income tax with realization of personal income tax revenue 49.13% in 2023 or 1.041 Trillion Rupiahs in Malang Regency.<sup>16</sup>

There are similarities of the function of zakat and tax collection even though the mechanism and the aim are different. Zakat, as a mandatory religious obligation for Muslims can be paid directly to a legal institution such as Amil Zakat National Agency (BAZ) or Zakat Institution (LAZ) to be distributed to the poor and the needy. In the other hand, tax is collected by the government through Director General of Taxes and will be used to fund the provision of local public services and in Islam, zakat collection is better managed by the government to increase contribution for social welfare and decrease poverty.<sup>17</sup>

The mechanism problem of tax paying and zakat occurs because of double obligation as Muslims in Indonesia, as citizens subject to tax regulations as well as a mandatory religious obligation for Muslims to pay zakat. Those two obligations issue three possibilities of Muslims outlook in Indonesia. First, Muslims in Indonesia pay tax and zakat separately, in consequence they pay larger amount of wealth. Second, Muslims in Indonesia considered tax as part of zakat with intention to fill religious obligation. Third, Muslims in Indonesia only pay zakat without paying tax, with the implication of offensive legal provisions in Indonesia.<sup>18</sup>

The different perspective about zakat and tax implied to the calculation of the obligation that has to be paid. If there is agreement that zakat and tax are equal, the implication is Muslim does not have to pay zakat after paying tax. However, if there is different agreement between zakat and tax, there will be arguments about the payment, whether zakat has to be paid after tax or vice versa.<sup>19</sup> One of the main challenges for the developing countries, including Indonesia, is integrating religious as well as social interest in public policy, especially in the aspect of tax law. Zakat as financial instrument in Islam in Indonesia, has significant potential in supporting economy and social welfare.

Indonesian government, through Law No. 23 Year 2011 about Zakat administration, stated that zakat can be counted as income tax deduction. The policy in Law No. 23 Year 2011 aims to increase the compliance of the Muslims community in Indonesia in paying zakat while strengthening the national taxation system.<sup>20</sup> As an effort to harmonize the obligation of zakat and tax, Law No. 36 Year 2008 about income tax regulates zakat paid through legal institution can reduce income tax, whereas Harmonization of Tax Regulation (UU HPP) Year 2021 aimed to simplify tax system in Indonesia. Regulation about zakat to reduce tax has been applied effectively, in accordance with mechanism in the regulation. The

<sup>16</sup> Badan Pusat Statistik, "Statistik Kabupaten Malang 2024," 2024, <https://malangkab.bps.go.id/id/publication/2024/12/31/754a36d9e68b7e4ffb30181a/kabupaten-malang-dalam-infografis-2024.html>.

<sup>17</sup> N Sahputra, "Strategi Penerapan Zakat Sebagai Pengurang Pajak Penghasilan Terutang (Taxes Credit) Di Provinsi Aceh," Desertasi: Universitas Islam Negeri Sumatra Utara Medan, 2020.

<sup>18</sup> S Priyono, R Istiqomawati, and R Riyanto, "Implementasi Zakat Sebagai Pengurang Penghasilan Kena Pajak (Studi Kasus Baznas Kota Yogyakarta)," *Equilibrium: Jurnal Ilmu Manajemen* 2, no. 1 (2022): 11-19, <https://journal.actual-insight.com/index.php/equilibrium/article/view/1364>.

<sup>19</sup> S Priyono, R Istiqomawati, and R Riyanto, "Implementasi Zakat Sebagai Pengurang Penghasilan Kena Pajak (Studi Kasus Baznas Kota Yogyakarta)," *Equilibrium: Jurnal Ilmu Manajemen* 2, no. 1 (2022): 11-19, <https://journal.actual-insight.com/index.php/equilibrium/article/view/1364>.

<sup>20</sup> Kementerian Keuangan, "Laporan Tahunan Direktorat Jenderal Pajak 2024. Jakarta: Kemenkeu," 2024, <https://www.kemenkeu.go.id/informasi-publik/laporan/laporan-tahunan-kemenkeu>.

regulation showed the government effort to balance the obligation to pay tax and zakat. However, the implementation of this policy encountered challenges, such as lack of legal understanding, low tax awareness and different level of religiosity of the tax payers. Malang regency, with high religious level and Zakat Institutions (LAZ), has great potency of zakat but has not been utilized optimally by the tax payers. Many people have not understood zakat integration mechanism to decrease tax or separate those two obligations as responsibility of religion and country separately.<sup>21</sup>

The main factor predicted to contribute towards the low utilization of zakat for tax deduction is the lack of legal understanding, low legal awareness and various level of religiosity of the tax payers. Although the relevant regulations have been set, low tax literacy and lack of socialization about the benefit of utilization is the main obstacle.<sup>22</sup> This problem reflects the gap between normative policies and social realities. For instance, even though Ministry of Finance utilize zakat as tax deduction, the utilization is still low. Data showed in 2022, only 5% of the total Muslim tax payers utilized this facility.<sup>23</sup> Many Muslim tax payers did not utilize this mechanism because of lack of legal understanding, low awareness about taxations rights and obligation as well as the implication of unintegrated religious belief towards their tax attitude. The government needs to reform the policy stated zakat as income tax deduction in Indonesia and punish individual who does not pay zakat. Moreover, improvement in zakat management system has to be done to make sure that data collection of zakat muzakki is well controlled and well integrated.<sup>24</sup> This phenomenon issues basic question related to legal understanding, legal awareness and religiosity in the implication of tax payers' intention to utilize zakat as tax deduction.

The previous research studied issued related to legal understanding and legal awareness towards tax compliance. The result of the research done by Sumarta and Meliawati as well as Mandowally et al. showed that tax awareness has significant effect towards the level of tax compliance.<sup>25,26</sup> Meanwhile, research done by Sakirin et al. and Budiarto et al. stated that the level of religiosity has significant impact in the tax point of view; individual tend to prioritize his relation with God than social relation.<sup>27,28</sup> Moreover, the research stated that individual with low level of religiosity tend to obey the law, whereas individual with high level of religiosity tend to be offensive, in line with the result of Damayanti's research in the effort to increase tax payers to obey the law, it needs cooperation between tax officers and religious leaders.<sup>29</sup> Tax payers need to be given understanding that religious aspects can

<sup>21</sup> N Huda, *Literasi Zakat Dan Pajak: Perspektif Wajib Pajak Muslim*, (Yogyakarta: UII Press, 2023).

<sup>22</sup> M Firdaus, *Efektivitas Kebijakan Fasilitas Zakat Di Kabupaten Malang*, (Malang: UB Press, 2023).

<sup>23</sup> Badan Amil Zakat Nasional (BAZNAS), "Laporan Zakat Nasional 2023," 2023, <https://ppid.baznas.go.id/laporan/laporan-pengelolaan-zakat>.

<sup>24</sup> S Priyono, R Istiqomawati, and R Riyanto, "Implementasi Zakat Sebagai Pengurang Penghasilan Kena Pajak (Studi Kasus Baznas Kota Yogyakarta)," *Equilibrium: Jurnal Ilmu Manajemen* 2, no. 1 (2022): 11-19, <https://journal.actual-insight.com/index.php/equilibrium/article/view/1364>.

<sup>25</sup> Rian Sumarta and Meliawati, "Faktor-Faktor Yang Mempengaruhi Kepatuhan Wajib Pajak Orang Pribadi Di KPP Wilayah Jakarta Utara," *Media Bisnis* 11, no. 2 (2021): 179-84, <https://doi.org/https://doi.org/10.34208/mb.v11i2.963>.

<sup>26</sup> Bilha M F Mandowally, Theo Allolayuk, and Cornelia D Matani, "Pengaruh Sanksi Perpajakan, Pelayanan Fiskus Dan Pengetahuan Perpajakan Terhadap Kepatuhan Wajib Pajak Orang Pribadi," *Jurnal Akuntansi Dan Keuangan Daerah* 15, no. 1 (2020): 46-56, <https://doi.org/https://doi.org/10.52062/jakd.v15i1.1464>.

<sup>27</sup> Sakirin Sakirin, Darwanis Darwanis, and Syukriy Abdullah, "Do Tax Knowledge, Level of Trust, and Religiosity Determine Compliance to Pay Property Tax?," *Journal of Accounting Research, Organization and Economics* 4, no. 1 (2021): 67-75, <https://doi.org/https://doi.org/10.24815/jaroe.v4i1.17073>.

<sup>28</sup> Dekeng Setyo Budiarto, Yennisa Yennisa, and Rohmyati Widyaningrum, "Does Religiosity Improve Tax Compliance? An Empirical Research Based from Gender," *Jurnal Dinamika Akuntansi* 10, no. 1 (2018): 82-90, <https://doi.org/https://doi.org/10.15294/jda.v10i1.12997>.

<sup>29</sup> Theresia Woro Damayanti, "Tax Compliance: Between Intrinsic Religiosity and Extrinsic Religiosity," *Journal of Economics, Business & Accountancy Ventura (JEBAV)* 21, no. 1 (2018): 41-49, <https://doi.org/https://doi.org/10.14414/jebav.v21i1.1061>.



influence business. Therefore, balance between religion and individual life in social and economy context is needed.

The aim of this research is to analyze the relationship between formal regulation, social norm and community behavior in the context of obeying the law. This research not only focus on legal text analysis (doctrinal approach) but also exploring how the law is applied and accepted by the community through socio-legal approach. This approach integrates religious aspects, legal understanding and legal awareness in one analytical framework. Thus, allowing for more comprehensive analysis. Different from the previous research which only focus on one dimension, such as legal aspect or social aspect separately, this study offers more holistic perspective by combining those two aspects. As an empirical example, a study done by Dabor et al. revealed ineffective religiosity in increasing tax compliance can be caused by lack of cooperation between tax authority and religious leaders in providing education and understanding about tax obligation.<sup>30</sup> In the perspective of economy and religion study, if tax collection does not beneficial for spiritual aspect, individual tend to pay lower amount of tax. Some Muslims prioritize spiritual obligation, paying zakat optimally, whereas tax obligation is paid according to their financial capabilities, not based on tax calculation according to the law. Individual compliance in paying zakat is a form of internal awareness from their faith, which encourages them to pay more than their obligation.<sup>31</sup> Therefore, based on the result, this research carried out relevant recommendation to increase socialization about zakat utilization as tax deduction, to strengthen the role of zakat institution in supporting financial policies, as well as to integrate religious value and legal policies to realizing social and economy justice.

As an effort to provide relevant recommendation, this research analyzed religious level, legal understanding and legal awareness in utilizing zakat as tax deduction in Malang Regency. Moreover, this research identified obstacles in implementing the policies and carried recommendation for zakat optimization in national tax system. Previous study focused on normative aspects and technical policy, such as a study done by Susanti et al. which discussed about protection of traditional cultural law without reviewing tax aspect and Dharmawan et al. which focused on communal protection in law based policy without discussing zakat and tax integration.<sup>32,33</sup> Next, a study done by Huda also discussed zakat literacy and tax separately without considering religious aspects and legal awareness of the tax payers.<sup>34</sup> This research studied those three aspects to understand the impacts towards tax payers' compliance. Survey of Pusat Kajian Zakat Nasional (PKZN) in 2023 showed 65% respondents did not know that zakat can decrease tax, 48% thought about lack of socialization, and 72% respondents with high level of religiosity concerned in utilization if provided with sufficient understanding.<sup>35</sup>

<sup>30</sup> Alexander O Dabor, Anthony A Kifordu, and Jamila A Abubakar, "Tax Compliance Behavior and Religiosity: The Role of Morality," *PalArch's Journal of Archaeology of Egypt/Egyptology* 18, no. 1 (2021).

<sup>31</sup> F Fidiana, "Compliance Behaviour from the Holistic Human Nature Perspective," *Journal of Islamic Accounting and Business Research* 11, no. 5 (2020): 1145–58, <https://doi.org/https://doi.org/10.1108/JIABR-11-2016-0142>.

<sup>32</sup> Susanti, Joni Susilowibowo, and Han Tantri Hardini, "Apakah Pengetahuan Pajak Dan Tingkat Pendidikan Meningkatkan Kepatuhan Membayar Pajak?," *Jurnal Akuntansi Multiparadigma* 11, no. 2 (2020): 420–31

<sup>33</sup> Ni Ketut Supasti Dharmawan et al., "Protection Strengthening Model of Communal Intellectual Property: Transplanting the Policy Content Including Law-Based Benefit-Sharing," *Jurnal Ilmiah Kebijakan Hukum* 17, no. 2 (2023): 235–52, <https://doi.org/https://doi.org/10.30641/kebijakan.2023.V17.235-252>.

<sup>34</sup> Huda, "Literasi Zakat Dan Pajak: Perspektif Wajib Pajak Muslim."

<sup>35</sup> Pusat Kajian Strategis Baznas, "Outlook Zakat Indonesia 2023," 2023, <https://puskasbaznas.com/publications/books/1737-outlook-zakat-indonesia-2023>.

Qualitative socio-legal approach is applied in this research through interviews with legal experts, tax consultants and tax payers who has utilized zakat as tax deduction, to get more comprehensive understanding about their perception and experience towards this policy. The interviews carried out the outlook of the community about legal implementation in social practice as well as their response towards tax policies which are integrated with religious values. Integration of legal and social perspective in the context of religiosity is expected to contribute in the development of legal studies and tax policies in Indonesia as well as carried out strategic recommendation to increase the effectiveness of zakat utilization in the tax system. This study focused in Malang regency as the reflection of high potency of zakat but has not been utilized optimally. The approach applied is different from the previous studies because this study integrates legal and social analysis in one framework, based on empirical data from in-depth interviews, as well as focusing on the relationship between religiosity and tax behavior. Focus of this research started from the lack of empirical studies which comprehensively relate legal and social aspects in utilizing zakat as tax deduction, as well as to fill literature void related to the impact of religiosity towards the implementation of tax policies based on religious values. Most of the previous research tends to analyze legal and social normative aspects without relating both of them. Meanwhile, this study offers more inclusive analysis by conducting the research in Malang regency with high potency of zakat but the utilization is low and lack of study. Socialization and education related to zakat as tax deduction is limited. Therefore, this research can contribute for the government and zakat institution in increasing the effectiveness of the policies. The urgency of this study lies in the optimalization of zakat integration in tax system to increase community participation and state revenue. A more inclusive empirical-data based approach is expected to carry out more applicative and relevant policy recommendations.

## METHODS OF THE RESEARCH

This study applied socio-legal approach which integrated legal analysis with social values in community to understand the interaction between the understanding of religious concept, tax regulation and practice of zakat utilization as tax deduction.<sup>36</sup> Socio-legal approach in this research is interdisciplinary approach which integrates legal aspect with sociology approach to understand how law interacts with community and social value, including religiosity. This approach is interdisciplinary by integrating legal and social aspects. Data collection was conducted by applying explanatory sequential, a method started with quantitative data collection, then followed with qualitative data to extend and explain quantitative result. Result of this research was designed as generalization of general perspective.<sup>37</sup> The first step was by conducting survey towards 133 respondents in Pakis, Wagir, and Dampit subdistricts - three areas with high economic activities in Malang regency-which was selected by purposive sampling. This survey aimed to measure tax payers' perception towards zakat utilization as tax deduction. Data collected was analyzed using descriptive analytics by referring to legal regulation and relevant literature in socio-legal study. The second step involved qualitative data collection through interview (in-depth interview) using snowball sampling method towards 15 respondents, consist of individual

<sup>36</sup> Syafri Hariansah, "Analisis Implementasi Nilai-Nilai Budaya Hukum Dalam Kehidupan Berbangsa Dan Bernegara: Studi Kritis Pendekatan Masyarakat, Budaya Dan Hukum," *Krtha Bhayangkara* 16, no. 1 (2022), <https://doi.org/https://doi.org/10.31599/krtha.v16i1.1000>.

<sup>37</sup> Indra Prasetya and others, *Metodologi Penelitian Pendekatan Teori Dan Praktik* (umsu press, 2022).

tax payers, tax consultants, religious leaders, zakat institution representatives, KPP officers in Malang regency, and academics from National Universities in Malang. The interview aimed to understand social context and values in community related to zakat utilization as tax deduction. Moreover, interview was also conducted to find out religious aspect in zakat payment, level of understanding and awareness of tax payers towards this policy and the urgency of the implementation of Law Number 36 Year 2008 about Income Tax and Tax Harmonization Law (UU HPP) Year 2021 that simplified tax system in Indonesia. Analysis towards those two steps carried comprehensive understanding about the relationship of tax regulation, religious value, and the practice of zakat utilization in national tax system, especially in Malang. Data from interview was analyzed through several steps, they are: (1) data collection, (2) interview transcription, (3) data coding, (4) data reduction through thematic analysis including theme identification, theme grouping, and analysis of relationship between the themes, (5) social context construction, data interpretation, and (6) conclusion referring to legal reference, regulation and literature which support socio-legal dimensions in this research. Data validity was checked through source triangulation techniques by comparing interview results, observation, documentation and another source such as legal documents, statistical data, and tax policies related to religiosity, tax understanding, and tax awareness in the practice of zakat utilization as tax deduction. Analysis towards these two steps carried comprehensive understanding about the relationship of tax regulation, religious value and the practice of zakat utilization in national taxation system, especially in Malang regency.

## RESULTS AND DISCUSSION

### A. Legal Framework of Law Number 36 Year 2008 About Income Tax

Legal pluralism in Indonesia occurs when interaction between various legal systems, including religious law, customary law and customs developed in community occurred. This diversity reflects complexity of legal system in Indonesia, where various norm and rules interact, adapts or even encounters conflict in the implementation.<sup>38</sup> Pluralisme Legal pluralism in Indonesia considers tax and zakat as two different legal systems but complement each other. Tax law is part of positive law that regulates citizens' obligation in supporting national development, whereas zakat law rooted from Islamic law that command Muslims to purify their wealth and contributes to social welfare. The application of Islamic law in Indonesia cannot be separated from the impact of legal pluralism, the politics of Islamic law, country authority which direct or indirectly carry significant impact to zakat integration in national taxation system.<sup>39</sup> The regulation of zakat law by the government was marked by the passing of Law No. 38 Year 1999 about Zakat management, which emphasized religious law in national legal system. In line with the prevailing tax law, this regulation reflected the application of the politics of legal pluralism in state financial governance.<sup>40</sup> Tax is universal for community, whereas zakat is only for Muslims. In the context of legal pluralism, both can be harmonized to realizing social justice.

<sup>38</sup> Muhammad Nafi et al., "Siyasah Syariah Dan Implikasinya Terhadap Pembaruan Hukum Zakat Di Indonesia," *El Buhuth: Borneo Journal of Islamic Studies*, 2023, 91-115, <https://doi.org/https://doi.org/10.21093/el-buhuth.v6i1.6585>.

<sup>39</sup> Muhammad Nafi et al., "Siyasah Syariah Dan Implikasinya Terhadap Pembaruan Hukum Zakat Di Indonesia," *El Buhuth: Borneo Journal of Islamic Studies*, 2023, 91-115, <https://doi.org/https://doi.org/10.21093/el-buhuth.v6i1.6585>.

<sup>40</sup> H M Bahrul Ilmie and others, "Politik Hukum Pengelolaan Zakat Di Indonesia: Kajian Terhadap Undang-Undang Nomor 23 Tahun 2011" (IAINU Kebumen, 2020).

Revision of Law No. 38 Year 1999 generates Law No. 23 Year 2011 about Zakat management, which represented Islamic law renewal and emphasized that zakat has to be paid through legal institution to be approved as tax deduction. This regulation contains certainty and expediency principal to ensure the authority of zakat collection and zakat distribution for the needy (*mustahiq*). Beside to protect Muslims in conducting their religious obligation, this regulation also regulates zakat governance, including rights and obligation of zakat payers (*muzakki*) and punishment for zakat authority (*‘amil*) who neglects his duty.<sup>41</sup> Moreover, Law No. 36 Year 2008 Article 4 Act 3 claimed zakat as tax deduction, which emphasize the role of zakat in national taxation system. Broadly, both tax and zakat work as instruments for economy equality, community empowerment, and poverty alleviation. Eventough zakat is specified for Muslims, but both are instruments of social solidarity to support public welfare.

In religious perspective, zakat is considered as religious obligation that is irreplaceable by tax, but the management through legal institution strengthen zakat legitimation as part of national development. In various areas in Indonesia, the tradition of paying zakat is stronger than tax because zakat is considered more transparent and directly distributed to the needy. Certain groups considered that zakat is distributed more effectively than tax which is more bureaucratic, other considered zakat to substitute tax for Muslims. However, tax and zakat have different legal basis and irreplaceable, eventough both of them are in the same tax system. Tax was introduced by Dutch Colonial whereas zakat is managed traditionally by Muslims. In the New Order Era, tax was the main source of state revenue, whereas zakat started to be institutionalized through BAZNAS, then strengthened by Law No. 23 Year 2011 as more clearly legal framework to manage zakat. The importance of zakat and tax in Indonesia alerts the government in the management; tax as the main source to fund national development which is compulsory for all citizens, whereas zakat is an instrument of religious based economic empowerment specifically for Muslims. Synergy between tax and zakat play important role in creating social justice and welfare equality.

The amendment of tax law zakat in Indonesia reflected the government effort to increase transparency and regulation accountability. Prevailing Zakat managed traditionally now institutionalized through BAZNAS and LAZ legally. Tax amendment through Tax Regulation Harmonization Law (UU HPP) Year 2021 simplified tax system and strengthen financial transparency. The amendment of this regulation supports zakat in the tax system, which regulated in Law of Income Tax (UU PPh) and Law of Zakat Management which accommodates zakat as tax deduction. Tax is the main source of the funding for infrastructure, education and health services, whereas zakat contributes in poverty alleviation for vulnerable groups of Muslims. The synergy of tax and zakat increase public trust towards the government and zakat institution, especially because most Muslims trust zakat management more than tax system which is considered less transparent. Zakat integration in the tax system is potential to increase Muslims tax payers' compliance as well as to maintain balance between religious obligation and responsibility as citizen in plural legal system in Indonesia. More clearly and more decisive regulation is expected to actualize optimum synergy between tax and zakat without prejudice to the principle of justice. As a result, both have strategic role in national development and social welfare. Table 1 is the

<sup>41</sup> H M Bahrul Ilmie and others, "Politik Hukum Pengelolaan Zakat Di Indonesia: Kajian Terhadap Undang-Undang Nomor 23 Tahun 2011" (IAINU Kebumen, 2020).



analysis of material content of three laws related to zakat and tax based on philosophy, sociology and juridical aspects.

**Table 1. Content Aspects of Law Number 23 Year 2011, Law Number 36 Year 2008, and HPP Law Year 2021**

Aspect	Law Number 23 Year 2011	Law Number 36 Year 2008	HPP Law Year 2021
cc	<ol style="list-style-type: none"> <li>1. Zakat is a religious obligation for Muslims to purify their wealth and soul and to get closer to Allah.</li> <li>2. As an instrument for economy equality and poverty alleviation according to Pancasila values.</li> </ol>	<ol style="list-style-type: none"> <li>1. Zakat Tax is compulsory for citizen based on the principle of justice and balance in tax burden.</li> <li>2. Zakat admission as tax deduction reflects respect for religion diversity.</li> </ol>	<ol style="list-style-type: none"> <li>1. Actualize more equitable, transparent and simpler tax system according to social justice.</li> <li>2. Integrate zakat obligation with national taxation system for collective interest.</li> </ol>
Sociology	<ol style="list-style-type: none"> <li>1. Regulates zakat management in order to be more transparent to prevent zakat fund manipulation.</li> <li>2. Support the needy (dhuafa) empowerment trough efficient zakat distribution.</li> </ol>	<ol style="list-style-type: none"> <li>1. Decrease tax burden for Muslims who has paid zakat to increase purchasing power and welfare.</li> <li>2. Motivate community to distribute zakat trough legal institution.</li> </ol>	<ol style="list-style-type: none"> <li>1. Simplify tax regulation to increase community compulsory.</li> <li>2. Ensure zakat and tax fund is managed for effective and inclusive development.</li> </ol>
Juridical	<ol style="list-style-type: none"> <li>1. Based on Article 29 of the 1945 Constitution about the guarantees freedom of religion and worship for all citizens.</li> <li>2. Has a clear legal basis in the regulation of zakat collection, management, and distribution nationally.</li> </ol>	<ol style="list-style-type: none"> <li>1. Article 4 Act (3) letter a.1 PPh Law provides legal basis which stated that zakat which is distributed trough legal institution can be considered as tax deduction.</li> <li>2. Zakat payment receipt is an important element in annual tax report.</li> </ol>	<ol style="list-style-type: none"> <li>1. Based on Article 23 A of the 1945 Constitution about compulsory tax and other levy.</li> <li>2. Provide stronger legal protection for data integration between zakat management and national taxation system.</li> </ol>

Source: Analysis Law Number 23 Year 2011, Law Number 36 Year 2008, and HPP Law Year 2021.

Zakat management law regulates tax governance in a structured way trough BAZNAS and LAZ and also it provides legitimation and to ensure transparency of zakat collection, distribution and report according to syaria principal. Zakat is not only religious obligation, but also instrument for poverty allevitation and to increase social welfare. PPh law determined zakat as tax deduction, as regulated in Article 4 Act (3) letter a.1, with the provision of zakat payment trough legal institution and proved by zakat payment receipt. This policy encourages Muslims tax payers' compliance and strengthening the role of zakat

in tax system. HPP simplified tax system, increase compliance and strengthen supervision, including to simplify zakat report in annual SPT as tax deduction.

Those three laws emphasize the relationship zakat management and tax system to support economic equality and community welfare. Zakat as tax deduction encourages Muslims tax payers to pay zakat trough legal institution, causing more inclusive tax system according to social justice principal. The government needs to increase socialization related to the benefit of tax deduction from zakat payment, especially for middle-upper tax payers. Integration between zakat institution and tax directorate general has to be strengthened to simplify zakat management and report. Implementation of HPP Law needs to be in line with Zakat Management Law to prevent overlapping regulations.

**B. Perception of Community in Malang Regency towards Zakat as Tax Deduction Facility for Tax Payers**

Zakat is compulsory for Muslims who meet the necessary criteria of wealth and in Indonesia zakat is potencial as tax deduction. Government gives incentives as admission of zakat contribution in national development, but the utilization is low. Study in three subdistricts in Malang-Pakis, Wagir, and Dampit – involving 133 respondents, consist of 45 respondents in Pakis, 43 in Wagir, and 45 in Dampit. Most respondents (70%) are amall-medium entrepreneurs with educational background High School (60%) and undergraduate (30%), and high level of religiosity, 85% paid annual zakat. Malang regency has great zakat potential with dynamic economic activity. Pakis is supreme in agribusiness and farming, Wagir with home industry, and Dampit as the center of the distribution of local commodity. Those three subdistricts represent various communities, from small business entrepreneur to medium business entrepreneur. Table 2 is the summary of data collection survey from 133 respondents in Pakis, Wagir, and Dampit subdistricts.

**Table 2. Summary of Data Collection Survey**

Subdistrict	Numbers of Respondents (People)	Understanding Zakat Facility (%)	Not Understanding Zakat Facility (%)
Pakis	45	30	70
Wagir	43	20	80
Dampit	45	25	75
Jumlah	133	100	100

Source: processed from survey with religiosity, law understanding, law awareness and community perception towards zakat facility as tax deduction questionnaires.

Based on empirical data on table 2 about community perception in Malang regency about zakat facility as tax deduction, found that eventough religiosity level is high, tax awareness is low. 75% respondents do not understand zakat mechanism as tax deduction, whereas only 25% understand. Moreover, 80% respondents never get socialization realated to this policy. Most respondents pay zakat regularly as moral and religious obligation, but they do not realize the benefit in income tax calculation. Legal awareness is quite high, with 78% respondents admitted the importance of paying tax and zakat on time, but considered the procedure as complicated and lack of information from the government and zakat institution as the obstacle in utilizing this facility. Most respondents stated they do not get enough assistance. Thus, they are reluctant to utilize tax incentives. Therefore, socialization and education by tax authority and zakat collector is needed to make people understand and utilize zakat facility as tax deduction optimally.

Generally, community in Malang regency had different perception towards tax and zakat compulsory, zakat is seen as vertical obligation for God, whereas tax is seen as horizontal obligation for the country. This different caused the low utilization of zakat as tax deduction. Moreover, the procedure is considered as complicated. Lack of socialization from the government and zakat institution is also the main obstacle, because communities do not get clear information about mechanism of zakat as tax deduction. So far, socialization only emphasize on the importance of paying tax and zakat separately without explaining the relation of both of them. Result from the survey in Pakis, Wagir, and Dampit subdistrict showed that low utilities of this facility was not only caused by lack information of legal understanding, but also lack of technical information related to the procedure that has to be done. Therefore, the government can organize: 1) Intensive socialization such as seminar, workshop, and counseling in Malang regency, especially in Pakis, Wagir, and Dampit subdistrict, about the benefit and the procedure of zakat as tax deduction; 2) Simplifying the procedure of zakat submission as tax deduction in order to be easier to be understood and accessed by communities; 3) Collaboration with zakat institution and tax office to give direct assistance for the communities; and 4) Financial and tax literation program which particularly discuss about the relationship between zakat and tax.

Based on the interview with 15 tax payers in Malang regency, especially in Pakis, Wagir, and Dampit subdistrict, many tax payers were reluctant to utilize zakat as tax deduction because they were disinclined to make mistakes in tax report. This concern was caused by lack of technical assistance from the authorities. If the assistance was done optimally, the utilization of zakat as tax deduction can increase tax payers' awareness to pay tax and increase social fund trough zakat. The interview was conducted randomly from 133 respondent that have been surveyed before. The mechanism of zakat as tax deduction is regulated in Article 2 Directorate General of Taxes Regulation No. PER-6/PJ/2011 Year 2011, which stated that paying zakat trough legal institutions can deduce income tax (PPh 21). Based on the interview result, three groups of tax payers were identified based on their perception towards this facility: First, tax payers that utilize zakat as tax deduction. Second, tax payers with high level of legal understanding and legal awareness, but did not utilize this facility. Third, tax payers with high level of religiosity, but did not know the facility of zakat as tax deduction.

**Table 3. Illustration of Tax Payers' Perceptual Comparison about Zakat as Tax Deduction on Article 21 Tax Payer X, Tax Payer Y and Tax Payer Z according to Effective Tax Rate (TER) System (UU HPP 7/2021)**

Description	Perception 1 (Tax Payer 1)	Perception 2 (Tax Payer 2)	Perception 3 (Tax Payer 3)
	Utilizing Zakat as Tax Deduction	Does not Utilize Zakat as Tax Deduction	Does not Know the Calculation Mechanism of Zakat as Tax Deduction
Annual Gross Income	IDR. 180,000,000	IDR. 180,000,000	IDR. 180,000,000
Annual BPJS	(-)IDR. 3,000,000	(-)IDR. 3,000,000	(-)IDR. 3,000,000
Annual Insurance	(-)IDR. 2,500,000	(-)IDR. 2,500,000	(-)IDR. 2,500,000
Zakat Payment 2.5% x IDR. 180,000,000	(-)IDR. 4,500,000	-	-

Net Income After Zakat (Taxable Income)	IDR. 170,000,000	IDR. 174,500,000	IDR. 174,500,000
Non Taxable Income (PTKP) - (K-1)	(-)IDR. 63,000,000	(-)IDR. 63,000,000	(-)IDR. 63,000,000
Taxable Income (Phkp)	IDR. 107,000,000	IDR. 111,500,000	IDR. 111,500,000
Progressive Tax Rates PPh 21 5% x IDR. 60,000,000	IDR. 3,000,000	IDR. 3,000,000	IDR. 3,000,000
Progressive Tax Rates PPh 21 15% x (Phkp - Progressive Rates 5%)	IDR. 7,950,000	IDR. 8,625,000	IDR. 8,625,000
PPh 21 Owed Per Year	IDR. 10,950,000	IDR. 11,625,000	IDR. 11,625,000
Zakat Payment 2.5% x IDR. 180,000,000	-	-	(-) IDR. 4,500,000
PPh 21 - Zakat Payment	IDR. 10,950,000	IDR. 11,625,000	IDR. 7,125,000

Source: processed from interview about tax payers' perspective towards the practice of utilizing zakat as tax deduction.

Based on Table 3, there are three groups of tax payers with different calculation in paying tax and zakat: 1) Tax payers who utilize zakat as tax deduction. This group pay zakat through legal institution, so it decreases taxable income before PPh calculation. Therefore, the amount of payable income tax (PPh) is IDR. 10,950,000. If calculated totally, their payment for tax and zakat is Rp. 15,450,000; b) Tax payers who pay tax without utilizing zakat as tax deduction. This group pay zakat, but they do not utilize zakat as tax deduction. Therefore, they have to pay PPh IDR. 11,625,000. If they pay zakat out of taxable income, the total payment is IDR.16,125,000 or IDR. 675,000 more than the first group; c) Tax payers who do not understand the mechanism of zakat as tax deduction. This group has wrong perception that the tax they have to pay is deducted directly to the amount of zakat paid. They expect to pay tax IDR 7.125.000. However, the calculation is wrong. It showed that a lot of communities do not understand the correct mechanism in utilizing zakat as tax deduction. A tax payer with initial HJP owned Buying and Selling business stated that it would be better if tax deduction is calculated in the end, so zakat as tax deduction can be accepted optimally. *"Well, honestly, little did I know that tax deduction is according to the prevailing regulation, deducted from annual net income then the result is my payable tax. I thought the last result of tax calculation was deducted from the zakat I paid. The calculation is not significant to deduce my owed tax"*

Indonesian government regulates zakat as tax deduction to lower payable tax by the tax payers. However, interview result showed that community awareness in utilizing this facility is low. The role of Directorate General of Tax (DJP) and synergy with BAZNAS is needed to increase community understanding about tax and utilize zakat as tax deduction. Rahayu emphasizes by paying tax optimally, the government can realize the potency of state revenue maximally and increase the effectiveness of zakat and tax management at one time.<sup>42</sup> The potency of utilizing zakat as tax deduction can be sebagai maximized to support country development and community welfare. The utilization of this facility increases tax payers' awareness to pay tax ontime. If tax payers pay zakat through BAZNAS and utilize the mechanism of tax deduction, the obligation as citizen and Muslim has been done. Assistance and education are needed for tax payers who have not understood the

<sup>42</sup> N Rahayu, "Pengaruh Pengetahuan Perpajakan, Ketegasan Sanksi Pajak, Dan Tax Amnesty Terhadap Kepatuhan Wajib Pajak. Akuntansi Dewantara," Akuntansi Dewantara, 2017, <https://doi.org/https://doi.org/10.26460/ad.v1i1.21>.



calculation mechanism of zakat as tax deduction, so they can utilize correctly. By utilizing this facility, tax payers can pay lower tax compared to separated zakat payment. Therefore, further education and socialization is needed to help communities to understand and utilize this facility optimally.

### **C. Experts Opinion in Malang Regency Related to the Low Intention of Tax Payers in Utilizing Zakat as Tax Deduction**

#### **According to the Religious Leaders in Malang Regency**

Religiosity represents how an individual practices, carries out, and acknowledges the dogma in daily life. Based on the interview with one of An-Nur Islamic Boarding School Caretakers, Bululawang Malang, Gus Fatchul Bari, religiosity of individual is not main factor in utilizing zakat as tax deduction. It is caused by culture in Indonesia that communities generally understand zakat in the context of zakat fitr, zakat paid in Ramadhan. This custom showed that community understanding about zakat tends to be limited. Therefore, it is not in line with religiosity level of Indonesian citizen globally. In the other hand, individual who has recently converted to Islam (mualaf) is mostly more active in paying zakat because they have strong willingness to understand Islam. As a result it can help them to increase their level of religiosity. Therefore, individual religiosity cannot be used as the main aspect to determine individual awareness to pay zakat as tax deduction. Individual with higher level of religiosity tend to pay zakat as a responsibility of moral and spiritual towards Allah SWT, not because of tax incentives. They believe that there is a right for the needy in their income. Therefore, for individual with higher level of religiosity, they pay zakat because of their spiritual awareness, not because of tax consideration.

Result of this research showed that zakat payment by the tax payers as respondents is quite good. However, in the practice, a lot of tax payers are reluctant to utilize zakat as tax deduction. This finding is in line with the research done by Jayanto and Siti, who stated that zakat payment is affected by religiosity, the higher level of individual religiosity, the higher consideration to pay zakat.<sup>43</sup> From another perspective, one of the factors caused religious variable does not have significant impact towards the intention of utilizing zakat as tax deduction is community habit to pay zakat through informal institution or directly to the needy. Moreover, communities prefer to pay tax than zakat because tax regulation is considered clearer and more structural compared to regulation related to zakat. Al-Mammun stated that religiosity does not have significant impact towards individual intention in utilizing zakat as tax deduction.<sup>44</sup> It is caused by understanding that religiosity in Islam is not automatically encourage individual to utilize zakat as tax deduction.

#### **DJW**

Based on interview with Mr. ABC, as Vice Chairman of Baznas in Malang Regency, he stated that the implementation of zakat as tax deduction is not as expected. The main obstacle is lack of socialization by Baznas to the muzaki about the mechanism of the utilization. The government regulates zakat to deduce payable tax through Government Regulation Number 23 Year 2011. This statement is inline with the interview with Mrs. DEF,

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<sup>43</sup> Prabowo Yudo Jayanto and Siti Munawaroh, "The Influences of Reputation, Financial Statement Transparency, Accountability, Religiosity, and Trust on Interest in Paying Zakat of Profession," *Jurnal Dinamika Akuntansi* 11, no. 1 (2019): 59-69, <https://doi.org/https://doi.org/10.15294/jda.v11i1.18729>.

<sup>44</sup> Abdullah Al-Mamun and Ahasanul Haque, "Tax Deduction through Zakat: An Empirical Investigation on Muslim in Malaysia," *Share: Jurnal Ekonomi Dan Keuangan Islam* 4, no. 2 (2015), <https://doi.org/https://doi.org/10.22373/share.v4i2.1027>.

as Vice Chairman of III Planning and Reporting Division in Baznas in Malang Regency, who emphasized that: *"There is regulation in Government Regulation (PP) Number 23 Year 2011, the amendment of Law No. 38 Year 1999 about zakat as payable income tax deduction, but the implementation of the regulation has not well done yet"*

The statement by Mrs. DEF emphasized the implication of zakat as payable tax deduction in Malang regency is not optimum. It is caused by lack of community understanding and there is not additional regulation to regulate the practice. Meanwhile, based on the result with Mr. GHI as Vice Chairman IV Human Resource Division in BAZNAS in Malang regency, he stated that eventough there are some muzaki utilized this facility, but they are still limited. One of the factors caused the low participation is incompatibility between payable income tax deduction and the expectation of muzaki as the tax payers. This incompatibility caused muzaki to be reluctant to utilize it. As consequence, most muzaki in Malang regency prefer to pay tax and zakat separately, where they obey their obligation as citizen by paying tax and pay zakat as part of religion mandatory without related both of them in tax deduction scheme.

The role of BAZNAS in Malang regency in implementing zakat as payable tax deduction with other Zakat Institution (ZIS) is done twice a year. The aim of this coordination is to prevent overlapping between various Zakat Institution (ZIS) and ensure the policy is well structured. Moreover, BAZNAS in Malang regency also help another Zakat Institution (ZIS) in regulating the legality of the office establishment so they can operate according to the regulation. However, in the practice there is obstacle in implementing this policy. One of the obstacles is the lack of tax payers' understanding about the mechanism of zakat calculation as payable income tax deduction. A lot of tax payers have wrong perception that zakat paid will directly deduce payable Income Tax (PPh). However, according to the regulation, zakat is as payable income tax deduction, not as direct tax deduction. This misunderstanding is one factor as the obstruction of optimalization the utilization of zakat as tax deduction.

### **According to Tax Consultant in Malang Regency**

The low intention of the tax payers in utilizing zakat as tax deduction is determined by two main factors, internal and external factor. Internal factor refers to aspects from the tax payers, while external factor refers to influence from the society such as socialization by authorities, including the government and Directorate General of Tax (DJP). Tax regulation understanding is a crucial aspect for tax payers in understanding the mechanism of zakat calculation as tax deduction. Moreover, legal understanding has significant impact in analyzing the benefit for the tax payers, communities, and country. Based on the interview with Mr. THJ, a tax consultant in Malang, a good legal understanding is important to determine tax payers' awareness and intention in utilizing zakat as tax deduction. Moreover, Mr. THJ gave the example related to his client's legal understanding in this context. *"Take this as example, one of my client lives far away from zakat institution, so he does not want to pay zakat in that institution. He thought it will be better to distribute zakat directly to the needy than to pay zakat tough zakat institution that is far away. He thought vthat it would be more beneficial and he distributed by himself. He though it would be more trusted that zakat was distributed well for the needy. Then, he understood the calculation of zakat as tax deduction, but my client preferred to not utilizing this facility because the deduction is not significant compared to the amount of tha tax that he should pay"*

One of Mr. THJ's clients is a businessman. At first, he planned to utilize zakat as tax deduction. However, he did not realize his plan because he lives far away from zakat institution. Alternatively, he preferred to distribute his zakat directly to the needy around his house. Moreover, he considered the beneficial of zakat as tax deduction, by considering whether the tax deduction will give significant impact towards his tax. It showed that even though he has good understanding about tax regulation, he did not utilize because the deduction is not significant. The interview indicates higher level of an individual legal understanding, the higher impact towards the intention in utilizing zakat as tax deduction. This finding is in line with research done by Al-Mamun, which stated that understanding about zakat as tax deduction affected perception and increase the tax payers' compliance to pay tax.<sup>45</sup> However, tax payers' compliance to pay tax is a form of awareness towards the regulation and the condition of the society.

Besides legal understanding, legal awareness also influences tax payers' intention in utilizing zakat as tax deduction. Based on the interview with Mr. THJ, there are two conditions that influence tax payers' legal awareness. First, tax payers understand tax regulation and realize the benefit and tend to utilize this facility. In the other hand, who do not have legal understanding about tax generally do not utilize that facility. Moreover, the effectiveness of this policy is also influenced by the tax deduction. In Indonesia, tax deduction through zakat does not have significant impact towards the tax paid, so a lot of tax payers prefer not to utilize it. Some tax payers who utilize it are those who get socialization from tax authorities or Account Representative (AR). Research result of Nisa et al. (2024) also showed that legal awareness does not always have significant impact towards tax payers' intention in utilizing zakat as tax deduction, because the decision is depend on the individual.

Furthermore, Mr. THJ emphasized that besides legal awareness, education about zakat as tax deduction need to be strengthened through more effective socialization by Directorate General of Tax (DJP). Support from external party is important to help communities understand better about the mechanism of this facility. Research result done by Nugroho et al. (2020) also emphasized that legal awareness and tax understanding has to be encouraged by further socialization. Therefore, better understanding of the tax payers about tax regulation, the higher possibility to utilize zakat as tax deduction.

### **According to KKP Officers in Malang Regency**

There is an obstacle in the implementation of zakat as payable income tax deduction which categorized as psychological obstacle, practical obstacle, and lack of technology utilization. Baznas in Malang regency has applied transparent report system in the process of zakat payment, similar to the mechanism of tax payment. Every zakat paid by muzaki will be recorded in the modul of zakat and muzaki will get payment receipt. This receipt can be used to get tax deduction by submit it to the tax officer for tax calculation.

According to the interview with Tax Agency, the report related to tax deduction to muzaki should be conducted in the same way as tax payment report. Therefore, after muzaki pay zakat, the payment should be recorded in zakat revenue system and get receipt for transparency. Moreover, from the interview with tax agency officer of KPP Pratama in Malang regency, it showed that their principal support the implication of zakat as Income

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<sup>45</sup> Abdullah Al-Mamun and Ahasanul Haque, "Tax Deduction through Zakat: An Empirical Investigation on Muslim in Malaysia," *Share: Jurnal Ekonomi Dan Keuangan Islam* 4, no. 2 (2015), <https://doi.org/https://doi.org/10.22373/share.v4i2.1027>.

Tax deduction. However, complex bureaucracy procedure caused muzaki as tax payers to be reluctant to utilize the facility. Moreover, lack of community understanding about tax regulation and lack socialization about utilizing zakat as payable income tax deduction become a factor that cause this facility is not utilized optimally.

## CONCLUSION

This research showed that the utilization of zakat as tax deduction in Malang regency is still low eventough there is regulation related to that. Socio-legal review towards tax and zakat regulation showed the prevailing legal framework gave chance for the tax payers to deduce payable income tax trough zakat paid trough legal institution. However, research finding showed that community awareness to utilize the facility is low because of lack understanding about tax and zakat regulation. Research result showed high religiosity is not enough to encourage the utilization of this facility, because communities understanding about zakat fitr and does not include income zakat. Meanwhile, understanding aspect is the main obstacle where most tax payers do not understand that zakat paid can deduce their tax. This is worsen with lack of socialization from the authorities, whether the government or zakat institution, so communities do not well informed about the mechanism of utilizing zakat as tax deduction. From tax awareness, this research found that eventough most tax payers understand about the obligation to pay tax, the do not understand technically how to utilize zakat as tax deduction. Some respondents who understand about this facility thought that the procedure is complicated, so they prefer to not to utilize it. Other factor is skepticism towards tax system and lack of assistance from tax authorities and zakat institution for tax payers' submission. Therefore, more structural strategy is needed to increase tax payers' awareness and understanding. The government needs to strengthen the role of Directorate General of Tax (DJP) and collaborate with National Zakat Agency (BAZNAS) to conduct further socialization, especially in Malang regency. The simplification of administration procedure is also an important step to make this facility more accessible by the communities. Moreover, collaboratuin between the government, academics, and zakat institution in conducting tax literation program is beneficial to increase understanding and utilization of this facility. With more inclusive and strategic approach, the utilization of zakat as tax deduction is expected to increase, so it is not only lighten the burden of tax payers, but also increasing social fund trough zakat for community.

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