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Research Article

Should Agricultural and Mining Companies Calculate Zakat on A Net Income or Revenue Basis? The Case of Corporate Zakat in Kuwait, Egypt, Saudi Arabia, and Malaysia

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ABSTRACT

This paper aims to compare the use of net income and proposed revenue basis for calculating corporate zakat in the mining and agricultural sector. It is based on the premise that, while agricultural and mining zakat methods calculates zakat on the basis of revenue, some countries adopt net income and working capital basis for calculating corporate zakat in these sectors. This study documents actual zakat payments by corporations and a proposed revenue-based method for computing corporate zakat The sampled companies are headquartered in Kuwait, Malaysia, and Saudi Arabia, and the study spans the years 2016 to 2018. The results demonstrate that zakat-based net income for agricultural and mining companies is less than the revenue-based, resulting in a lower zakat payment.

Keywords: zakat, agricultural, mining, company, net income, revenue

INTRODUCTION

Zakat is one of the five pillars of Islam, which was practiced and taught by earlier prophets such as Abraham and Moses. In Islam, zakat is explained in detail as consisting of both soul (fitrah) and wealth (maal). Maal zakat comprises numerous forms of wealth, including gold, agriculture, livestock, mining, trade and others. Currently, many types of wealth, including corporate wealth, can be subjected to zakat. Simply put, corporate zakat is identical to maal zakat, in which the Muslim owner is required to pay zakat. Another example is the zakat that agricultural company must pay when their crops are harvested in amounts of 5% (irrigated) or 10% (by rainy irrigation). The principle of corporate zakat is the same as other maal zakat.

Maal zakat can be divided into two groups: non-final zakat and final zakat. Non-final zakat is zakat that considers operational expenses for the calculation, similar to maal zakat, which considers monthly expense and debt prior to final calculation. The final zakat, however, is the zakat that is charged without taking into account other expenses such as agricultural, mining, livestock, or income zakat. For instance, if the date harvest exceeds the minimum nishab, the value is subject to zakat.

There has been very little research on corporate zakat, particularly on the calculation issue. The discussion is only on the type of corporate zakat calculation in three countries: Saudi Arabia, Kuwait and Malaysia [1]. Kuwait and a portion of Malaysia calculate zakat on a net income basis, while Malaysia also allows the balance sheet method for calculating zakat, as Saudi Arabia does currently. This study fills the void in the literature on corporate zakat, which is classified as final zakat in industries such as agriculture, mining, livestock, and others. They should be treated differently than other companies that pay non-final zakat. This is the novelty of this study.

The remainder of this study is structured as follows. The second chapter examines prior research on corporate zakat in agriculture and mining companies through a review of the relevant literature. Chapter 3 describes the research methods, while Chapter 4 presents the study's analysis, which compares the proposed zakat rate calculation for

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agriculture and mining companies with current practices. Finally, Chapter 5 concludes with a summary of the research findings and recommendations for future study.

LITERATURE REVIEW

Corporate zakat on agricultural, livestock, and mining industries has actually a prescribed specific zakat calculation. This refers to agricultural, livestock, and mining zakat objects that charge zakat directly to the object that meets the requirement. However, corporate zakat now refers to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standard, which is based on asset value as opposed to revenue or net income. This is a debatable issue if the nature of the company is more revenue-driven.

In previous research, few papers addressed the calculation issue and basis for corporate zakat, particularly on an agricultural and mining basis. For example, zakat on agate is compulsory but based on nishab (minimum amount requirement) and haul (minimum period) on trade [2], especially for coal in Jambi [3]. Indonesia has a large number of mining companies spanning from the west to the east.

Zakat in the mining and agricultural sectors has a high potential [4]; similarly, the agricultural sector also has a high potential for zakat, but a lack of understanding of zakat results in a lower zakat collection [5]. In another study, farmers are aware of zakat but do not pay it in full, and that they use different nishab and calculations [6]. This also happens in Malaysia [7]. Farmers and farm owners must be extensively educated, as they may be unaware of their zakat obligation. There is an increase in agricultural types that require quick response to [8]. Due to a lack of knowledge regarding zakat obligations and requirements, farmers have a low level of zakat awareness.

Agricultural zakat calculation still considers operational costs that should be excluded [9]. Nishab is calculated based on the annual accumulation value. This is an intriguing issue because a large amount of capital is required to prepare a farm that is both ready and of high quality. However, after a few years, it will reach a cost-effective level that can generate substantial profits.

The 5% or 10% zakat tariff is excessively high in comparison to others [10]. Farmers propose 2.5% after operational expenses. However, further research is required to determine the zakat rate for agriculture based on textual context. Discussions regarding agricultural and mining zakat continue to rely on scholarly evidence [11]. Consequently, empirical research is necessary for a more accurate analysis.

RESEARCH METHOD

This study is a descriptive study that makes use of quantitative data from the Eikon database. The company's net income and revenue are taken into account. The companies are from Saudi Arabia, Kuwait, Sudan, Bahrain, Egypt and Malaysia. The total number of companies is 287, and after filtering for agriculture, mining, and livestock only, there are 22 remaining companies. They are from Saudi Arabia, Egypt, Kuwait, and Malaysia.

Research is conducted by simulating net income and revenue on a 1%, 2.5%, and 5% rate basis. The first simulation uses a revenue-based calculation as the basis for the final zakat calculation. Then, we would compare the simulated zakat with the actual zakat paid by the business. This enables us to propose an ideal zakat rate calculation based on revenue.

The net income method is used for comparison purposes only, taking into account each company's other expenses. The comparison of revenue and net income would be useful for furthur analysis and recommendation.

ANALYSIS

The analysis begins with descriptive statistics; in table 1 we can see that a large company has abnormally high zakat, revenue, and net income. This is an intriguing number, as the company may calculate zakat differently, but there may be similarities and tendencies. Zakat can be compared to the growth of the company. In Saudi Arabia, the working capital method is used to calculate zakat, but the income method may yield similar results.

Table 1. Descriptive Statistics

Item	Zakat	Revenue	Net Income before tax
Mean	30,290,574.60	19,042,564,738.51	9,446,970,668.06
Standard Error	23,783,772.41	18,147,719,016.88	9,312,323,810.02

Median	3,359,635.57	185,660,449.41	46,304,205.07
Mode	#N/A	#N/A	#N/A
Standard Deviation	111,555,780.96	85,120,347,281.62	43,678,670,359.10
Sample Variance	2,444,692,266,042,300	7,245,473,521,344,120,000,000	1,907,826,244,339,220,000,000
Kurtosis	21.01	21.98	22.00
Skewness	4.55	4.69	4.69
Range	524,612,145.77	400,050,725,555.44	205,063,222,987.37
Minimum	189,388.67	12,676,863.45	(65,354,161.12)
Maximum	524,801,534.45	400,063,402,418.88	204,997,868,826.26
Sum	666,392,641.29	418,936,424,247.23	207,833,354,697.27
Count	22.00	22.00	22.00

Source: Data

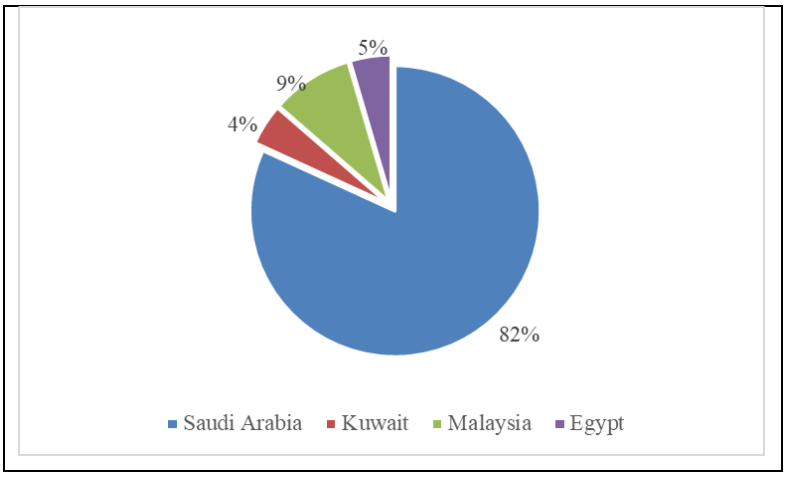

Figure 1. Sample composition by country

Source: Data

As illustrated in Figure 1, the majority of companies are from Saudi Arabia, where zakat is mandatory for local companies, whereas in Kuwait it is mandatory for all companies. Because zakat is a taxable income deduction in Malaysia, not many companies pay zakat as it is not mandatory. In sectoral analysis, the cement industry has the most companies, followed by energy, then plantation and oil, and finally mining (see Figure 2). However, some companies do not explicitly report zakat in their financial statements, so it cannot be tracked even if they paid zakat.

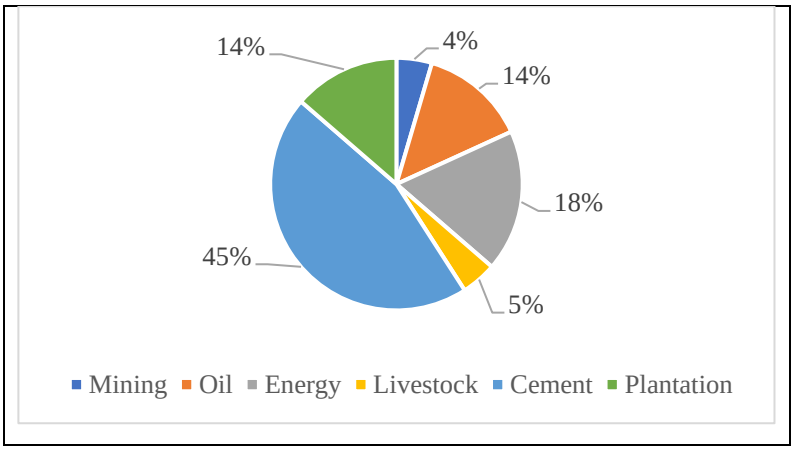

Figure 2. Sample composition by sector

Source: Data

Table 2 displays a gap analysis by comparing zakat calculations based on three different rates (1%, 2.5% and 5%). In 2021, based on a rate of 2.5%, some businesses will still exceed their zakat payment. For example, Saudi Fisheries Company SJSC's zakat payment in 2021 for a zakat rate of 2.5% was still greater than the proposal for a zakat rate of 5%. This was the case for other companies, such as Al Jouf Cement Company SJSC, but not for Ajwa for Food Industries Co Egypt SAE, Riyadh Cement Co, Qassim Cement Company SJSC, and Umm Al Qura Cement Company SJSC, which were larger in terms of 2.5% zakat rate but not 5%.

In agriculture, a 5% to 10% Zakat rate is permissible, depending on a variety of factors. In mining, the maximum permitted rate is 2.5%, whereas 20% can be applied to rikaz (easily located) [12]. Using 2.5% of revenue for zakat would result in a total gap of 330,234,438.86 USD, while 5% would result in a gap of 802,059,984.56 USD. This is a substantial sum for zakat distribution and empowerment.

Applying the net income approach (see table 3) reveals that the majority of companies use a 2.5% basis for zakat calculation. Only three companies have a negative gap, as zakat payments for 2021 are less than the 2.5% zakat simulation calculation based on net income. These companies are National Petroleum Services Company KSCP, FGV Holdings Bhd and Gas Malaysia Bhd, all of which are from Malaysia.

The urgency of using revenue basis for zakat calculation is discussed in light of the fact that companies would focus on zakat rather than net income, necessitating efficient business operations. If the company was negatively affected by external factors, its net income would decline significantly. They would be appreciated as they continue to concentrate on zakat based on revenue.

Table 2. Gap analysis (Revenue and zakat)

Company	Zakat-(Revcalc1%)	Zakat-(Revcalc2.5%)	Zakat-(Revcalc5%)
National Petroleum Services Company KSCP	(733,100.65)	(2,116,834.64)	(4,423,057.96)
Jazan Energy and Development Co	211,291.97	(182,346.02)	(838,409.35)
Saudi Fisheries Company SJSC	658,179.95	468,027.00	151,105.41
Gas Malaysia Bhd	(13,212,295.87)	(34,291,546.59)	(69,423,631.12)
Gas Arabian Services Company SCJSC	202,723.08	(1,341,567.28)	(3,915,384.54)
Tabuk Cement Co	735,446.00	(177,745.75)	(1,699,732.00)
Najran Cement Company SJSC	(93,912.83)	(2,417,769.99)	(6,290,865.26)
Aldrees Petroleum and Transport Services Company SJSC	(22,701,302.07)	(59,102,874.22)	(119,772,161.14)
Ajwa for Food Industries Co Egypt SAE	1,905,976.60	47,517.16	(3,049,915.23)
City Cement Company CJSC	1,932,836.97	(52,078.29)	(3,360,270.39)
Al Jouf Cement Company SJSC	2,859,726.62	1,954,580.56	446,003.78
Yanbu Cement Company SJSC	1,066,783.93	(2,665,536.59)	(8,886,070.78)
National Gas and Industrialization Company SJSC	(1,268,731.10)	(8,867,016.62)	(21,530,825.83)
FGV Holdings Bhd	(42,808,095.58)	(113,290,411.86)	(230,760,939.00)
Arabian Cement Company SJSC	1,875,153.18	(2,253,483.14)	(9,134,543.66)
Riyadh Cement Co	3,007,443.12	325,896.42	(4,143,348.07)
Saudi Cement Company SJSC	2,638,475.68	(2,994,092.65)	(12,381,706.54)
Qassim Cement Company SJSC	6,096,336.01	3,208,069.22	(1,605,708.75)
National Agricultural Development Company SJSC	4,648,830.44	(4,242,515.78)	(19,061,426.15)
Saudi Arabian Mining Company SJSC	4,551,219.80	(102,416,410.77)	(280,695,795.06)
Umm Al Qura Cement Company SJSC	1,287,903.32	173,700.98	(1,683,302.92)
Total gap	(47,139,111.44)	(330,234,438.86)	(802,059,984.57)

Source: Data

Table 3. Gap analysis (Net income and zakat)

Company	Zakat-(NIcalc1%)	Zakat-(NIcalc2.5%)	Zakat-(NIcalc5%)
National Petroleum Services Company KSCP	21,037	(231,490)	(652,368)
Jazan Energy and Development Co	433,595	373,411	273,105
Saudi Fisheries Company SJSC	784,949	784,949	784,949
Gas Malaysia Bhd	47,075	(1,143,120)	(3,126,777)
Gas Arabian Services Company SCJSC	1,059,929	801,448	370,646
Tabuk Cement Co	1,283,493	1,192,372	1,040,504
Najran Cement Company SJSC	999,763	316,419	(822,487)
Aldrees Petroleum and Transport Services Company SJSC	1,079,746	349,746	(866,921)
Ajwa for Food Industries Co Egypt SAE	3,108,935	3,054,913	2,964,876
City Cement Company CJSC	2,796,571	2,107,258	958,401
Al Jouf Cement Company SJSC	3,463,157	3,463,157	3,463,157
Yanbu Cement Company SJSC	3,088,456	2,388,644	1,222,290
National Gas and Industrialization Company SJSC	3,221,401	2,358,313	919,834
FGV Holdings Bhd	63,929	(6,110,351)	(16,400,817)
Arabian Cement Company SJSC	4,096,963	3,301,042	1,974,506
Riyadh Cement Co	4,183,363	3,265,695	1,736,249
Saudi Cement Company SJSC	5,449,531	4,033,546	1,673,571
Qassim Cement Company SJSC	7,155,049	5,854,852	3,687,856
National Agricultural Development Company SJSC	10,576,395	10,576,395	10,576,395
Saudi Arabian Mining Company SJSC	57,416,012	29,745,571	(16,371,832)
Umm Al Qura Cement Company SJSC	1,802,576	1,460,383	890,060
Total gap	112,131,925	67,943,152	(5,704,803)

Source: Data

Similar companies in the cement industry share similar characteristics for the zakat simulation gap, as shown in Table 4. Comparatively, the gap is not significant, and the gap between companies is small.

Table 4. Gap analysis (Revenue and zakat) for cement sector

Company	Zakat-(Revcalc1%)	Zakat-(Revcalc2.5%)	Zakat-(Revcalc5%)
City Cement Company CJSC	1,932,837	(52,078)	(3,360,270)
Al Jouf Cement Company SJSC	2,859,727	1,954,581	446,004
Yanbu Cement Company SJSC	1,066,784	(2,665,537)	(8,886,071)
Arabian Cement Company SJSC	1,875,153	(2,253,483)	(9,134,544)
Riyadh Cement Co	3,007,443	325,896	(4,143,348)
Saudi Cement Company SJSC	2,638,476	(2,994,093)	(12,381,707)
Qassim Cement Company SJSC	6,096,336	3,208,069	(1,605,709)
Umm Al Qura Cement Company SJSC	1,287,903	173,701	(1,683,303)
Total gap	20,764,659	(2,302,943)	(40,748,947)

Source: Data

CONCLUSION

Using revenue as the basis for the final zakat group would allow for higher zakat contributions while also making the company more socially equitable because they have prioritized targeted zakat as a revenue deduction. Furthermore, they would have received more public recognition.

Further research for a more precise and representative final zakat calculation would facilitate a more representative corporate zakat by sectors.

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