ANALYSIS OF CORPORATE ZAKAT ON THE CAPITAL STRUCTURE OF ISLAMIC BANKS IN INDONESIA

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Abstract

Since the issuance of the law regarding tax-deductible zakat in Indonesia, several Islamic banks have begun to pay corporate zakat. This paper aims to analyze the effect of corporate zakat and the capital structure of Islamic banks in Indonesia. This study uses a quantitative approach with the panel data regression method. The variables in this study are capital structure, corporate zakat, and firm size with the research period from 2014 to 2020. The findings show that corporate zakat has a significant negative effect on the capital structure, and firm size has a significant positive effect on the capital structure of Islamic banks. Islamic banks are expected to be able to optimize capital structure decisions by maximizing corporate zakat. And for regulators, it is hoped that the public and firms will be literate about tax deduction zakat. As zakat operates in accordance with sharia compliance, it is hoped that the zakat policy as a tax deduction can be applied to all companies listed in sharia securities.

Keywords: *Islamic Banks, Corporate Zakat, Capital Structure, Firm Size.*

1. INTRODUCTION

Zakat is the third pillar of Islam and an obligation for Muslims. A comprehensive zakat mechanism that plays a significant role in economic and socio-economic development such as productive zakat which is able to initiate small businesses, the provision of health and education facilities and so on (Jermsittiparsert & Sommanawat, 2019). Some Muslim countries, such as Malaysia and Indonesia, have shown remarkable progress in zakat collection which is no longer limited by individual muzakki (zakat payers), but extends to institutional payers such as companies or corporations (Akhyar Adnan & Barizah Abu Bakar, 2009).

Zakat has similarities with taxes but also differs in several respects. Zakat is an Islamic commandment, while taxes are a government order; and zakat aims to meet the needs of the poor, while taxes aim to meet the overall expenditure of society (Mustapha dan Sapiei, dikutip dalam Nomran & Haron, 2021). So that zakat and taxes are collected with different economic and social perspectives and goals (Jermsittiparsert & Sommanawat, 2019).

Firms that only pay taxes and firms that pay taxes have many differences such as profitability and capital structure. Karim (2007) in his book explains that the imposition of a sales tax with a fixed total income, will increase the average total cost which means it will decrease profits. Meanwhile, the imposition of commercial zakat has a different impact from taxes. In the imposition of zakat, efforts are made to maximize profits by maximizing zakat, so that commercial zakat is limited to maximizing profits.

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Research on zakat and capital structure has been studied several times in various countries that have implemented corporate zakat. Research by Sanusi (2014), found that zakat is able to increase equity financing and reduce the problem of asymmetric information and bankruptcy by reducing the use of leverage which includes 422 companies in Malaysia. The results imply that corporate tax and zakat do not encourage firms to acquire debt due to lower firm value. Equity financing can reduce bank monitoring costs, strengthen the banking system and increase returns to rab al-mal (providers of capital). Another study by At-Tally (2014) found that there is a relationship between capital structure and capital performance in Saudi Arabian companies. The average financial performance of 57 companies tends to increase due to a decrease in the level of leverage. Lower levels of leverage were found to be associated with higher gross profit margins, NPM, ROA, and ROE. The results of this study are also consistent with the conclusion that there is a relationship between capital structure and zakat. Average zakat payments tend to remain relatively constant under leverage of around 0.3 (the average estimate among Saudi Arabian companies). Average Zakat then increases systematically with increasing leverage, and stabilizes above the level of around 0.6 to 0.7. The results of this study are consistent with the conceptual framework which states that capital structure predicts zakat; zakat predicts financial performance; and both leverage and zakat, controlling for firm size and age, predict financial performance.

Corporate zakat in Indonesia is remain voluntary and is accommodated in Article 1(5) Law No 23 of 2011. It is hoped that applying zakat as a tax deduction is so that Muslims who want to issue zakat do not get a double burden of taxes. Since being accommodated by corporate zakat, several Islamic banks have implemented zakat as a tax deduction. Sharia Compliance Banking that implements corporate zakat is the fulfillment of Islamic values in carrying out zakat obligations. There is a lack research on corporate zakat and its relationship to capital structure regardless the corporate zakat has been accommodated since 2011. Given these research gaps, this paper aims to analyze the effect of corporate zakat and the capital structure of Islamic banks in Indonesia. This paper reviews the literature on the impact of zakat on companies from various perspectives.

2. LITERATURE STUDY

Commercial Zakat and Islamic Supply Theory

Commercial zakat is imposed if the production results are sold and the sales proceeds meet the nisab (minimum limit for the results that are the object of zakat, which is equivalent to 96 grams of gold) and haul (minimum time limit for the property to be owned, which is 1 year). If the nisab and haul have been fulfilled, the zakat is 2.5%. The basic principle of corporate zakat is based on urud al-tijarah, merchandise whose purpose is to increase profits (Septiawan & Bahri, 2019). According to Adiwarman Karim (2007) this has no effect on the supply curve and unlike taxes, which cause the cost component to increase. The imposition of commercial zakat makes profit-maximizing behavior go hand in hand with zakat-maximizing behavior. The object of commercial zakat is goods that are traded. In economics, it means that the object of commercial zakat is revenue minus cost. There are several differences of opinion regarding the object of commercial zakat, namely economic rent, while the second opinion is quasi rent or producer surplus. Productive zakat will open up opportunities for mustahik who become producers with productive zakat funds to be able to offer goods/services at a more competitive cost and consequently will increase supply.

Capital Structure

Capital structure is a ratio or long-term balance of the firm shown by the ratio of long-term debt to its own capital. If the company's funding originating from its own capital is still experiencing a deficit (deficit), it is necessary to take into account the company's funding from external, namely from debt financing. However, in meeting funding needs, firms must look for efficient alternatives through optimizing the capital structure. The optimal capital structure can be interpreted as a capital structure that can be obtained by using the total cost of capital or the average cost of capital (Nursyamsu, 2016).

Theoretically, larger firms include more debt in their capital structure. The leverage ratio is measured as the ratio of debt (total liabilities to total assets), the ratio of short-term liabilities to total assets, and long-term debt to total assets. However, the greater the debt, the greater the firm's financial risk. Amarudin et al. (2019) explains that the risk in question is financial risk, namely the risk that arises due to the firm's inability to pay debt installments in bad economic conditions. In such conditions, if the debt gets bigger, then the value of the firm will decrease.

In the Islamic concept, the use of property in a business carried out jointly, at least two people is known as syirkah. In syirkah, the parties include capital to run the business. The goal is that the treasure becomes spinning and can provide benefits. In this case, Islam has the following provisions (Al-Mushlih, 2004):

a. Capital must be known. The point is that if the amount of capital is not known, then this is only speculative. This makes the transaction invalid. Capital must be known, because that capital will be a reference when the business alliance is dissolved. It is not possible to do this without knowing the amount of capital included by the parties.
b. Capital must exist at the time the transaction occurs.
c. Capital is not a debt.

The Effect of Corporate Zakat On Capital Structure

Decisions on the company's capital structure are influenced by the company's borrowing capacity and internal funds (Al-Ajmi et al., 2009). Islamic law prohibits transactions that are contrary to Sharia Principles in the Capital Market, one of which is usury (interest) on loans. Based on the Financial Services Authority regarding the List of Sharia Securities, public companies that meet sharia criteria are required to have no total interest-based debt compared to total assets of no more than 45%. Total interest income and other non-halal income compared to total operating income and other income no more than 10%. If the company is unable to meet the predetermined criteria, it risks being excluded from the Sharia Securities List. This makes the company will rely on internal funds first before using debt.

Zakat is the third pillar of Islam and is an obligation for Muslims. Zakat is an obligation that comes from religion and is based on the belief that by helping people in need, people purify their own property and soul (Mosteanu, 2018). The obligation of zakat is an important factor in determining the loan rate. Payments of zakat and corporate taxes are considered a combination of debt and company equity (Azizah et al., 2018). The combination of debt and company equity will be optimal through the management of appropriate capital structure decisions. Zakat will reduce the use of leverage by increasing the cost of equity and predicting financial performance, leverage, controlling firm size and age (Sanusi, 2014; At-Tally, 2014). Based on this, Hypothesis 1 is proposed.

H1: Corporate zakat has a significant impact on the capital structure

The Effect of Firm Size On Capital Structure

Firm size is a measure of the size of the assets owned by the firm so that large firms generally have large total assets. Large firms are considered to have good prospects in the long term and have a better ability to manage the firm and produce quality financial reports. Firm size is expressed as a determinant of financial structure for several reasons, namely, firm size can determine the level of ease of companies obtaining funds from the capital market. The size of the firm determines the strength in seeking funding from various forms of debt, including special offers that are more profitable. Another possibility is that the effect of scale in costs and returns allows larger firms to earn more profits (Rahmawati, 2017).

An capital structure theory has been developed to determine the optimal capital structure and its relationship to firm value (Dawar, 2014). Research by Sheikh (2017) finds that bank size is positively related to book leverage and confirms the predictions of the trade-off theory. Trade-off theory states that larger institutions tend to be more diversified and less prone to bankruptcy costs. Pecking order theory emphasizes that companies prefer internal capital over external funding, but when external funding is needed, companies need to issue securities that are least risky because of information asymmetry (Lee, 2015). Firm size is an important determinant of a firm's ability to raise capital through debt or equity (Moosa, 2012).This is supported by several studies by Kurshev (2015); Koralun-Bereźnicka (2018), who found firm size empirically was found to be very positively related to capital structure in the study. Based on this, Hypothesis 1 is proposed.

H2: Firm size has a significant impact on the capital structure

3. RESEARCH METHODOLOGY

This study uses a quantitative approach with the panel data regression method. The data was used in the form of secondary data from the official website of the Financial Services Authority (OJK) and the annual report of Islamic Banks, during the period 2014 to 2020. By using the purposive sampling technique, a research sample of five BUS in Indonesia was obtained

emissions, while FDI has a negative impact. Mesut's research (Bahbe, 2015) entitled Relationships among CO2 emissions, Economic Growth and Foreign Direct Investment and the Environmental Kuznets Curve Hypothesis in turkey using the VAR research method concluded that FDI economic growth has a significant impact on increasing carbon dioxide. Based on research (Danar, 2017) entitled Analysis of the impact of GDP and energy consumption on carbon dioxide emissions in Indonesia in the 1971-2013 period, it shows that GDP has a positive and significant impact on carbon dioxide emissions. As well as energy consumption is one indicator where the level of technology can be measured, where the widespread use of environmentally friendly technology can reduce energy consumption of fossil fuels. And research (Sweety & Mrutyuni, 2016) with the title CO2 emissions and economic growth of SAARC countries; evidence from a panel VAR analysis shows that economic growth has a positive impact on CO2 emission levels.

Table 1. List of Islamic banks

No.	Islamic Banks
1.	Bank Muamalat Indonesia
2.	Bank BRI Syariah
3.	Bank BNI Syariah
4.	Bank Mandiri Syariah
5.	Bank Mega Syariah

Table 2. Operational Variables

Variables	Formula
Dependent Variable	
Capital Structure (CAST)	$Leverage = \frac{Total\ Debt}{Total\ Assets}$
Independent Variable	
Corporate Zakat	$CZKT = Log\ Corporate\ Zakat$
Control Variable	
Bank Size	$SIZE = Log\ Total\ Assets$

The dependent variable in this study is the capital structure of Islamic banks in Indonesia. The independent variable in this study is corporate zakat. And the control variable used is firm size. The equation for the regression is as follows:

$$YCASTit = \beta i + \beta 1CZKTit + \beta 2SIZEit + e$$

Where i is the symbol for cross-section, t is for time series, Yit is the capital structure (CAST), βi is constant-coefficient, CZKT is corporate zakat, SIZE is bank size, β1-β2 is the regression coefficient, and symbol e is for the error.

4. RESULT AND DISCUSSION

Table 3. Descriptive Statistics

	Corporate Zakat	Total Aset	Leverage
Mean	8,852,880,200	45,405,987,428,571	0.90
Median	6,934,000,000	43,123,488,000,000	0.91
Standard Deviation	10,936,390,578	30,782,392,828,488	0.03
Minimum	408,000,000	5,559,820,000,000	0.83

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Maximum	48,999,000,000	126,907,940,000,000	0.94

Table 3 above shows the sample descriptive statistics of the variables used, including the mean, median, and standard deviation (Std. Dev). Based on the descriptive statistics, it can be seen that Islamic commercial banks have varying total assets and corporate zakat.

Table 4. Chow Test Result

Effect Test	Statistic	d.f.	Prob
Cross-section F	8.535049	(4,28)	0.0001

The results of the chow test show a probability of 0.0001 which means that the Fixed Effect Model (FEM) is chosen as the appropriate estimation model compared to the Ordinary Least Square (OLS).

Table 5. Hausman Test Result

Effect Test	Chi-Sq. Statistic	Chi-Sq. d.f	Prob
Cross-section random	3.438189	2	0.1792

The probability value in the Hausman test is 0.46 or greater than 0.05, so the Random Effect Model (REM) model was chosen as the best estimation model.

Table 6. Panel Data Regression Results - Random Effect Model

Var	Coefficient	Std. Error	Prob.
C	-0.052917	0.078851	0.5070
Corporate Zakat	-0.004368	0.002012	0.0375
Firm Size	0.033715	0.002848	0.0000
R-squared	0.821805		
Prob(F-Statistic)	0.000000		

Based on the regression results, it shows that the F value is smaller than $\alpha = 0.5$, which is 0.0000, which means H_0 is rejected. These results indicate that simultaneously Corporate Zakat and Firm Size have a significant influence on Capital Structure. While the R^2-value shows a value of 0.8218 or 82%, this indicates that the independent variables used are able to explain their effect on the dependent variable by 82%, while the remaining 18% is explained by variables outside the model

Discussion

Corporate zakat has a significant negative effect on the capital structure of Islamic banks. Increased corporate zakat will reduce the capital structure. Research by Sanusi (2014) found the impact of wealth tax (zakat) and corporate tax (CT) on capital structure and showed that companies that pay high wealth taxes should be financed with relatively more debt. Meanwhile, zakat is able to increase financing equity by reducing the use of leverage.

Firms that have high debt increase the firm's risk in paying off their debts (Waluyo, 2018). In addition, a lower level of leverage conduces higher returns on assets and equity (Azizah et al., 2018). It is expected that a firm does not have a debt ratio that exceeds that specified in its capital structure.

Integrated zakat management in Indonesia through credible institutions can reduce tax payments (Masyita, 2018). The calculation of corporate zakat is based on its current assets (Irfan & Muhyarsyah, 2020). Furthermore, Hafidhuddin (in Irfan & Muhyarsyah, 2020), explained that every firm has at least three types of assets. First, property in the form of goods, either in the form of facilities and infrastructure or in the form of business commodities. Second, the property is in the form of cash, which is usually deposited in a bank. Third, assets in the form of debt. Business assets that must be subject to tax are three forms of property, minus assets in the form of facilities and infrastructure as well as other urgent obligations, such as debts that are due or which must be paid immediately.

Firm size as a control variable has a significant positive effect on capital structure of Islamic banks. These results indicate that every increase in the size of the firm as proxied by total assets, the firm tends to use more debt to finance their investment. Research by Bukair (2019) found a significant positive relationship between bank size and capital structure. Bukair further explained that larger Islamic banks have lower bankruptcy costs because they have a diversified portfolio and lower investment risk.

Large companies tend to be more diversified. This is because the larger the size of the Islamic bank, the more diversified it is with a higher credit rating, which lowers funding costs and increases profitability (Al-Hunnayan, 2020). Firm size is used to control the firm's ability to use collateral in securing loans (Saif-Alyousfi, 2020). In addition, larger companies tend to have higher leverage. According to Khan (2021), large companies interpret diverse loan and investment potentials so that they are less vulnerable to financial difficulties. The findings of Koralun-Bereźnicka (2017) provide evidence that capital structure is influenced by firm size and depends on debt maturity

5. CONCLUSION

Zakat is an obligation of religion and faith, and should be prioritized before tax. The obligation of corporate zakat has become one of the most important obligations in Islam. Since the issuance of the law regarding tax-deductible zakat in Indonesia, several Islamic banks have begun to pay corporate zakat. The five Islamic banks that pay corporate zakat from 2014 to 2020 are Bank Mega Syariah, Bank Muamalat Indonesia, and the three banks that merged in 2021 (Bank BRI Syariah, Bank BNI Syariah, and Bank Syariah Mandiri).

The findings show that corporate zakat has a significant negative effect on the capital structure of Islamic banks, which means that an increase in corporate zakat will reduce the capital structure. Firm size has a significant positive effect on the capital structure of Islamic banks and shows that every increase in firm size as a proxy for total assets, companies tend to use more debt to finance their investments.

The empirical analysis of this study has several implications. The achievement of stable bank capital is one of the important requirements. Therefore, Islamic banks are expected to be able to optimize capital structure decisions by maximizing corporate zakat. For regulators, it is hoped that the public and companies will be literate about tax-deductible zakat. As zakat operates in accordance with sharia compliance, it is hoped that the zakat policy as a tax deduction can be applied to all companies listed in sharia securities.

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