

## Detection Risk and Penalty Magnitude and Zakah on Business Compliance Behavior: A Conceptual Model

Mushari Hamdan Alosaimi, Zainol Bidin and Chek Derashid  
Tunku Intan Safinaz School of Accountancy (TISSA), College of Business (CoB),  
Universiti Utara Malaysia (UUM), Kedah Santok, Malaysia

---

**Abstract:** Zakah is a major financing source for the poor and needy in majority of Muslims societies. As the issue of low collection of Zakah revenue is common, an efficient Zakah system is necessity as well higher Zakah payer's compliance is must. This study aims to expand the domain knowledge of Zakah compliance by incorporate detection risk and penalty magnitude as predominated factors in economic compliance school within the framework of the Theory of Planned Behavior (TPB). Offering research framework that expected to predict Zakah on business compliance behavior. This study argues that the findings of this study have a vital contribution to Zakah compliance literature as a growing body of knowledge. Although, this study has limitation as it lacks of empirical evident. Thus, future studies are highly encouraged to be conducted based on this model wherever Zakah on business compliance is matter and also to consider potential factors.

**Key words:** Zakah compliance, detection risk, penalty magnitude, tax compliance, business income, matter

---

### INTRODUCTION

Zakah is one of five fundamental pillars of Islam and defined as “an obligated financial worship social-related imposed by Allah (God) on specified wealth for specified beneficiaries based on specified conditions in Islamic Law”. It is a welfare system and economic tool founded to fund the poor and needy people among the society (Yusuf and Derus, 2013).

Zakah compliance is one emerging topic that attract conducting researches in many Muslims county. For instance in Malaysia (Azman and Bidin, 2015; Bidin *et al.*, 2009; Saad and Haniffa, 2014; Yusuf and Derus, 2013), Indonesia (Ahmad *et al.*, 2011; Huda *et al.*, 2012) and Nigeria (Muhammad and Saad, 2016). However, this trendiest of research can be attributed to phenomenon of low collection of Zakah revenue in majority of Muslims countries (Farhan, 2008). Nevertheless, there are few number of studies conducted concerning Zakah compliance in literature. Therefore, its recommended to carry on further studies on Zakah compliance for deeper understanding and consequently helping Zakah authorities in implementation of an effective Zakah compliance treatment.

From Zakah authority perspective, audit and penalty are being practiced on business entities to ensure high level of compliance. However, it has been argued in tax

compliance literature that this perspective is inaccurate and not enough to explain the compliance behavior (Torgler and Schneider, 2007). Indeed, it has been found that the audit probability perception and the penalty magnitude perception to some extent drive the compliance behavior (Carnes and Englebrecht, 1995; Fischer *et al.*, 1992). However, as TPB has been proven empirically to be applicable to Zakah environment (Huda *et al.*, 2012; Saad and Haniffah, 2014), the present study approach incorporating detection risk and penalty magnitude within the TPB framework respecting Zakah on business context.

### LITERATURE REVIEW

**Theory of planned behavior:** TPB presumes that a person intention to carry out a behavior is the dominant factor in TPB together with the behavioral control perception. Behavior alintention defined by Ajzen (1991) as an indicator of an individual's willingness to perform a behavior. As stated by TPB, behavioral intention is supposed to hold in the power of the motivational factors that impact the actual behavior, these motivational factors are attitude toward the behavior, subjective norms and perceived behavioral control (Ajzen, 1985). Actually, the motivational factors are influenced in turn by corresponding sets of beliefs, more specifically behavioral beliefs, normative belief and control belief. In general,

the combination of these three factors forms the behavioral intention. TPB suggests that once the behavioral intention is stronger, a person expected to carry out or engage in the behavior in question.

However, TPB predicts situation in which the behavior in question is not fully voluntary. In fact, TPB postulates that the existence of real behavioral control such as the resources and requisite opportunities (e.g., skills, cooperation of others, money) is a must or at least sufficient degree of it for the motivational factors to take effect on behavior through the intention. In detail, TPB considers the person's perceived behavioral control together with the behavioral intention as immediate determinants of the actual behavior. In other words as soon as the person has stronger behavioral intention and at the same time has the ability to do the behavior (i.e., perceived behavioral control), it is most likely he/she succeeds in acting that behavior.

Theorizing TPB in the context of Zakah on business compliance with Zakah authority, it assumes that Zakah payers are more likely to comply with Zakah authority if two conditions have been met, firstly strongly intended to comply and simultaneously perceived having the ability to comply. Additionally, intention to comply supposed to influence the compliance behavior when the Zakah payers have an overall positive attitude toward Zakah on business compliance with Zakah authority. Important individuals or entities approve the Zakah on business compliance behavior with Zakah authority and perceive having significant control over Zakah on business compliance behavior.

**Detection risk and penalty magnitude and TPB:** It is debated in tax compliance literature that the of detection risk and penalty magnitude perceptions are better predictors of compliance behavior rather than actual audit and penalty rate that for the reason that human acts in line with their perceptions (Bobek and Hatfield, 2003; Carnes and Englebrecht, 1995). However, this is consistence with the base of TPB, specifically with the concept of perceived behavioral control which defined as present of resources and opportunities and absent of impediments and barriers, so based on that it dictates a person behavior. In that the existence of higher perception of detection risk and penalty magnitude are controlling the compliance behavior. In other word, detection risk and penalty magnitude are impediments of noncompliance behavior (Bobek and Hatfield, 2003).

Therefore, within the TPB framework it is reasonable to propose that the present or absent of detection risk and penalty magnitude perceptions could be significant

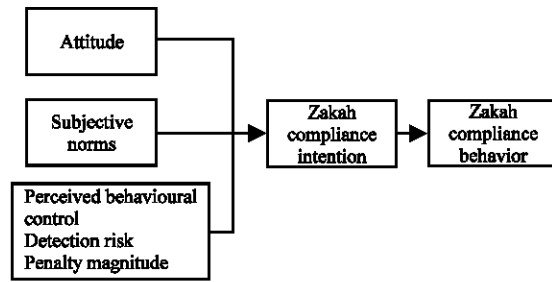


Fig. 1: Conceptual framework for Zakah on business compliance behavior

predictor of Zakah on business compliance intention and behavior (Fig. 1). In the context of Zakah on business as mandatory behavior, the PBC refers to how Zakah payers perceive themselves being audited and penalized during compliance choice.

Adhering to TPB framework (Ajzen, 1991), Zakah on business compliance behavior is derived by intention to comply and PBC. As well, Zakah payer's intention to comply is driven by attitude toward Zakah on business compliance behavior with Zakah authority, subjective norms related to Zakah on business compliance behavior with Zakah authority and perception regarding the probability of being audited and severity of penalty associated with Zakah on business noncompliance with Zakah authority.

## CONCLUSION

This study is unique in Zakah compliance literature which had provided a conceptual framework to predict Zakah on business compliance behavior. The framework incorporates detection risk and penalty magnitude as outcome of Zakah authority practices within the TPB to better understand the Zakah compliance behavior and consequently resolve the Zakah compliance issue that caused low Zakah revenue. This study also provided significant insight to the Zakah authority in which the Zakah system effectiveness and efficiency is in the transformation of Zakah audit and noncompliance penalty into higher detection risk and greater perception of penalty magnitude. Accordingly, these two perceptions could vitally determine Zakah payer's compliance behavior.

## SUGGESTIONS

Still, the presented model in this study yet to be empirically tested. therefore, future studies are encouraged to conduct empirical study to test the

applicability of this model and further are advised to consider additional factors, especially from the field of tax compliance.

#### REFERENCES

- Ahmad, S., N.G.M. Nor and Z. Daud, 2011. Tax-based modeling of zakat compliance. *J. Ekonomi Malaysia*, 45: 101-108.
- Ajzen, I., 1985. From Intentions to Actions: A Theory of Planned Behavior. In: Springer Series in Social Psychology, Julius, K. and J. Beckmann (Eds.). Springer, Berlin, Germany, ISBN: 978-3-642-69746-3, pp: 11-39.
- Ajzen, I., 1991. The theory of planned behavior. *Organiz. Behav. Hum. Decis. Process.*, 50: 179-211.
- Azman, F.M.N. and Z. Bidin, 2015. Factors influencing zakat compliance behavior on saving. *Intl. J. Bus. Social Res.*, 5: 118-128.
- Bidin, Z., K.M. Idris and F. Shamsudin, 2009. Predicting compliance intention on Zakah on employment income in Malaysia: An application of reasoned action theory. *J. Pengurusan*, 28: 85-102.
- Bobek, D.D. and R.C. Hatfield, 2003. An investigation of the theory of planned behavior and the role of moral obligation in tax compliance. *Behav. Res. Accounting*, 15: 13-38.
- Carnes, G.A. and T.D. Englebrecht, 1995. An investigation of the effect of detection risk perceptions, penalty sanctions and income visibility on tax compliance. *J. Am. Taxation Assoc.*, 17: 26-41.
- Farhan, M.A.H., 2008. Zakah Institutions and Evaluating their Economical Role: An Empirical Study. Yarmouk University, Irbid, Jordan.
- Fischer, C.M., M. Wartick and M.M. Mark, 1992. Detection probability and taxpayer compliance: A review of the literature. *J. Accounting Lit.*, 11: 1-46.
- Huda, N., N. Rini, Y. Mardoni and P. Putra, 2012. The analysis of attitudes, subjective norms and behavioral control on Muzakki's intention to pay Zakah. *Intl. J. Bus. Social Sci.*, 3: 271-279.
- Muhammad, S.A. and R.A.J. Saad, 2016. Moderating effect of attitude toward zakat payment on the relationship between moral reasoning and intention to pay Zakat. *Procedia Social Behav. Sci.*, 219: 520-527.
- Saad, R.A.J. and R. Haniffa, 2014. Determinants of Zakah (Islamic tax) compliance behavior. *J. Islamic Accounting Bus. Res.*, 5: 49-61.
- Torgler, B. and F. Schneider, 2007. What shapes attitudes toward paying taxes? Evidence from multicultural European countries. *Social Sci. Q.*, 88: 443-470.
- Yusuf, M.B.O. and A.M. Derus, 2013. Measurement model of corporate zakat collection in Malaysia: A test of diffusion of innovation theory. *Humanomics*, 29: 61-74.