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Relationship of Payment of Zakat and Profitability on Sharia Banking

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Abstract:

The purpose of this research is to examine the effect of the allocation of zakat funds on the financial performance of Islamic banking 2010-2016. The choosing of the samples done by purposive sampling with the requirement all the companies publishing their sources and uses of funds statement of zakat, in order to obtain five banks, namely Bank Syariah Mandiri, BNI Syariah, Bank Muamalat Indonesia, BRI syariah, and Bank Mega Syariah. Testing conducted using simple linier regression.

Results of this study indicate that the zakat not significant effect on the financial performance of Islamic banking (ROA and ROE).

Keywords : zakat, islamic banking, financial performance (ROA, ROE)

1. Introduction

Zakat is a compulsory levy on an individual or business entity that has zakah compulsory property that exceeds nishab and is distributed to those eligible to receive zakat (Ascarya, 2015: 9). In this case zakat is one of the concept of social responsibility that is inherent in the activities of the company, where in running the company's operations not merely to get the benefits targeted by management in the short or long term, but all aspects both external and internal Companies need to be considered (Wijayanto, 2007). Some companies in Indonesia actually have started to practice corporate zakat, if observed zakat this company implemented both by companies based on sharia and conventional based company. In this case the corporate charity in question is zakah which the company pays out of the total profit that the company earns. UU no. 23 of 2011 on the management of zakat mentions in Article 1 paragraph (2) that the zakat is a property that must be issued by a Muslim or business entity to be given to who is entitled to receive it in accordance with Islamic Shari'a. The article indicates that a business entity such as a company can also run a zakah initiative for the company. Sharia public bank as a financial institution engaged in syariah financial services should be issued zakat in accordance with Islamic rules and regulations so that the purpose of kemasalahatan and blessings can be achieved. Hafidhuddin (2014) says the company that tithe will not lose money and will even grow and grow because of God's blessing. Thus it can be interpreted that by paying Zakat it will be able to grow the value of wealth. The same is also stated by Triyuwono (2006: 356) that through zakat can be known the performance of the company that the higher the zakat issued by the company means the higher profit earned company. If the profit of large Islamic banking companies are expected to spend zakat will also increase, otherwise if the zakat issued the greater the profits of the company will also increase because of the blessing given by God. This can be seen from the results of research from Sidik and Reskino (2016) which concluded that zakat has a positive and significant impact on the performance of sharia banking companies 2011-2014. Likewise with research Amirah and Raharjo (2014) which says that Zakat has a significant positive effect on the performance of sharia banking companies 2009-2012.

The formulation of the problem in this research is whether the payment of zakat in year X affect the ROA and ROE year $X + 1$. The purpose of this research is to know how the influence of zakat payment year to ROA and ROE of $X + 1$ in sharia banking in Indonesia.

2. Theoretical Review and Hypothesis

2.1. Basic Concepts of Islamic Economics

Islam defines religion as not only about spirituality or rituality, but religion is a series of beliefs, rules and regulations and moral demands for every aspect of life. Neither with economics, economics is a part of religion (P3EI, 2013). According to Abdul Manan (1993) in the book Judge (2012: 4) the economic foundation of Islam is based on three fundamental concepts, namely:

2.1.1. Belief in Allah (Tawheed)

Tawheed contains implications that the universe was created by Almighty Allah. Everything He created has a purpose. It is this purpose which gives the meaning of every existence of the universe in which man is one part in it.

2.1.2. Leadership (Khilafah)

Man is the khilafah of Allah on earth as Allah says: "Remember when your Lord said to the angels: "I will make one a khilafah on the face of the earth ". Therefore, human beings as khilafahs must be responsible for the management of the natural world to Allah and they will be rewarded or punished in the Hereafter.

2.1.3. Fairness (A'dalah)

Shariah Islam is committed to be the cause of happiness and prosperity of human life. The goal of Islam creates justice and prosperity in business and endeavor. Justice here means that when doing business or bermuamalah must obey Islamic sharia and follow the instructions of Rasullah SAW.

2.2. Sharia Banking

In the book of Indonesian Bankers Association (2014: 7) Law of the Republic of Indonesia Number 21 Year 2008 concerning sharia banking stated that sharia banks conduct business activities based on sharia principles and refers to fatwas issued by authorized institutions, in this case the National Sharia Council (DSN)). According to the type of Islamic banks consisting of Sharia Commercial Bank, Sharia Business Unit, and Sharia (Islamic Rural Bank) financing (BPRS).

Islamic banks have different goals from conventional banks, such as to muamalat in accordance with Islamic Shari'a, to open productive and independent business opportunities so that people's lives will increase, to invest in order to create justice in the field of economy to streamline income, and to overcome the problem of poverty (Sudarsono, 2012: 45-46). The main difference between Islamic banks and conventional banks is in their operating systems. Customers who will invest their money in conventional banks, among others, to get a "flower", while the Islamic bank customers invest money not to get interest but to gain profit by way of "profit sharing" (Lubis & Wadji, 2014: 53).

2.3. The Concept of Zakat

In terms of language, zakat has the basic word "zaka" which means blessing, growing, holy, clean and good. Whereas according to terminology means the activity of giving certain property which is required by Allah SWT in certain amount and calculation to be submitted to the rightful people (Nurhayati & Wasilah, 2014: 282). The treasures of his zakat will be a blessing, growing, growing and growing, and holy and good. Thus, zakat taken from the wealth of capable people (muzakki) will develop and sanctify the treasure itself (Ascarya, 2015: 9).

Zakat is different from tax. According to Undang-Undang no. 28 Tahun 2007 concerning General Provisions and Tax Procedures, the tax itself is defined as a compulsory contribution to a country that is owed by an individual or a coercive body under the law, by not obtaining direct remuneration and used for the purposes of the state for the greatest possible prosperity people.

In this research will be focused on corporate zakat, then that will be discussed only nisab and zakat level company. Nisab and zakat content of the company analogous to the obligatory zakat trade, which is 85 grams of gold. The zakat content is 2.5% of the assets owned by the company during one year (Yasin, 2011: 28).

How to calculate the zakat of commerce or company, the wealth of the company cannot be separated from one or more of three forms below:

- Wealth in the form of goods.
- Cash/Banks
- Receivables

Thus, the intended commercial property obligated to zakah is the third form of the property minus the obligations of the company, such as debt to be paid (maturity) and taxes.

2.4. Profitability Ratio

Profitability Ratio is a measure to see the ability or business of a bank in generating profits. The main purpose of a business entity in managing the financial business is to gain profits so that profitability ratios become so important (Hery, 2014: 192). The use of financial ratios as a variable is one of the methods to measure the performance of a company, especially those engaged in the financial sector, whether it is go public or not (Ikhwan, 2000). Return on Asset (ROA) is used to measure how much net profit will be generated from each rupiah that is tetanam in total assets. The higher return on assets means the higher the net profit (Hery, 2014: 193). Return on Equity (ROE) is used to measure how much net profit will be generated from each dollar invested in total equity. The higher return on equity means the higher the net profit generated from each dollar invested in equity (Hery, 2014: 194).

2.5. Hypothesis

The amount of zakat disbursed can be determined from the company's financial statements, because according to Nurhayati & Wasilah (2014: 97) one of the objectives of financial reporting is for social functions of management and distribution of zakat, infak, alms and waqf funds. Triyuwono (2006: 356) said through zakat can be known the performance of the company that the higher the zakat issued by the company means the higher profit earned company.

- H₁: Zakah payments positively affect the next year's ROA on Sharia Banking in Indonesia
- H₂: Zakah payments positively affect the next year's ROE on Sharia Banking in Indonesia

3. Research Method

3.1. Population and Sample

The population used in this study is the sharia commercial banks in Indonesia listed on the Indonesia Stock Exchange and Bank Indonesia. Several criteria are set to obtain the following sample:

- Samples are sharia banking financial institutions
- Sharia banking that has been established since 2010-2015
- Having financial reports published in 2010-2015
- Having a report on the source and use of zakat funds as well as channeling zakat funds in 2010-2015

3.2. Variable Measurement

3.2.1. Independent Variable

3.2.1.1. Zakat

Zakat in terms of jurisprudence means a certain amount of property that is obliged by Allah and handed over to the rightful ones (Qardawi which has been translated by Aaron, Hafidhuddin, & Hasanuddin, 2007: 34). The formula used is as follows:

Zakat = Total Distribution of Zakat

3.2.2. Dependent Variable

3.2.2.1. Return on Assets

Return on Asset (ROA) is used to measure how much net profit will be generated from each rupiah that is tetanam in total assets. The higher return on assets means the higher the net profit (Hery, 2014: 193). The formula used to search for ROA is as follows:

$$\text{Return on Asset} = \frac{\text{Profit before income tax}}{\text{Total Asset}} \times 100\%$$

3.3. Return on Equity

Return on Equity (ROE) is used to measure how much net profit will be generated from each dollar invested in total equity. The higher return on equity means the higher the net profit generated from each dollar invested in equity (Hery, 2014: 194). The formula used to find the ROE is as follows:

$$\text{Return on Equity} = \frac{\text{Profit after income tax}}{\text{Total Equity}} \times 100\%$$

3.4. Hypothesis Testing

The research hypothesis will be tested by two different regression equations, namely:

$$(1) \text{ ROA} = \alpha + \beta X_1 + \varepsilon$$

$$(2) \text{ ROE} = \alpha + \beta X_1 + \varepsilon$$

Information:

ROA = Return On Assets

ROE = Return On Equity

α = Constants

β = Regression Coefficient

X₁ = Zakat

ε = Residual Value

The regression equation 1 will be used to test the effect of zakat on Return on Assets (ROA) and regression equation 2 will be used to test the effect of Zakah on Return on Equity (ROE).

4. Result and Discussion

4.1. Classic Assumption Test

4.1.1. Normality Test

Normality test is done by looking at normal chart pattern probably plots indicate that pattern of data spread around diagonal line and follow diagonal line direction, so it can be said that data used in this research do not experience problem of normality so that data can be used for next test step.

4.1.2. Heteroscedasticity Test

Heteroskedasticity test is done by looking at scatterplot chart pattern. The results of the scatterplot chart indicate that the data points are scattered in the area between 0 -Y and do not form a certain pattern, then the regression model formed is not identified heteroscedasticity.

4.1.3. Autocorrelation Test

The regression model that is formed does not occur Autocorrelation because it has Durbin Watson number between -2 to 2 that is 1.651 in first regression autocorrelation and 1,619 in second regression autocorrelation, because Durbin Watson value from both regressions is between -2 to 2 then both regression free from autocorrelation.

4.2. Hypothesis Testing 1

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.510	2.799		1.254	.220		
	Zakat	-.111	.124	-.167	-.896	.378	1.000	1.000

Table 1: Results of Regression Zakat and ROA
A. Dependent Variable: Return on Asset

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.167 ^a	.028	-.007	.85626	1.651

Table 2: Determination Test Results (Zakat on ROA)
A. Predictors: (Constant), Zakat
B. Dependent Variable: Return on Asset

The regression equation for the variable of zakat and ROA, as follows:

$$ROA = 3,510 - 0.111X_1 + e$$

In analyzing the data used simple linear regression, where to determine the value of determination coefficient used R Square value as a reference. R square value of 0.028 so it can be concluded that zakat has an influence on ROA of 2.8%, while 98.8% influenced by other factors. Based on the results of the first hypothesis testing showed that the expenditure of zakat does not affect the ROA, which can be seen from the value of t arithmetic equal to -0.896 with a significant level of 0.378 and significant value greater than 0.05, which means the first hypothesis is not supported.

4.3. Hypothesis Testing 2

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	15.143	37.249		.407	.687		
Zakat	-.250	1.651	-.029	-.151	.881	1.000	1.000

Table 3: Results of Regression Zakat and ROE 1
A. Dependent Variable: Return on Equity

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.029 ^a	.001	-.035	11.39689	1.619

Table 4: Determination Test Results (Zakat on ROE)
a. Predictors: (Constant), Zakat
b. Dependent Variable: Return on Equity

The regression equation for the variable of zakat and ROE, as follows:

$$ROE = 15,143 - 0,250X_1 + e$$

In analyzing the data used simple linear regression, where to determine the value of determination coefficient used R Square value as a reference. R square value of 0.001 so it can be concluded that zakat has an influence on the ROE of 0.1%, while 99.9% influenced by other factors. Based on the results of the second hypothesis testing results obtained that the expenditure of zakat does not affect the ROE, which can be seen from the value of t arithmetic of -0.151 with a significant level of 0.881 and significant value greater than 0.05, which means the second hypothesis is not supported.

5. Discussion

Hypothesis test results in this study concluded that zakat has no effect on Return on Assets (ROA) and Return on Equity (ROE). The results of this study are not in line with the results of research conducted by Sidik and Reskino (2016) which concluded that zakat has a positive and significant impact on the performance of sharia banking companies 2011-2014. The Sidik and Reskino research (2016) uses two variables of Zakat and ICSR that are interrelated, it can be seen the disclosure of zakat funds in the CSR of the company and relate it to the company reputation that can be seen from third party funds. Zakat calculated by the company in this case sharia banking is certainly calculates also the zakat of third party funds paid by the bank. In this study the variables used are only zakat distributed and not associated with third party funds and are associated with achievement of ROA and ROE in the year to come. The same thing also happened in research of Amirah and Raharjo (2014) who also said that Zakat has a significant positive effect on the performance of sharia banking company 2009-2012 which is not in line with the results of this study which produces zakat does not significantly affect the ROA and ROE. This is due to the difference in years used in this study. This study looks at the effect of Zakah on the current year on ROA and ROE of the following year.

The result of the determination test shows that the variable Zakat year of the journey only has an effect on the ROA of 2.8%, which means that the current year's zakat can only explain ROA and ROE for the next year only for 2.8% and this is not significant. The result of determination test for Zakat variable of current year to next year ROE variable also has influence only 0,1%. It can be interpreted that ROA and ROE variable of current year is influenced by many other variables outside variable of zakat. This can be seen from the basis of calculation of ROA is Profit company, and the concept of zakat calculated and allocated after the company's earnings are known.

With the small value of R2 shows that zakat does not affect the company's performance in the next year in terms of ROA and ROE. This does not mean the role of zakat can be ignored by sharia banking. Zakat is a part that must be attached to sharia banking because zakat is one of the business value of sharia banking that must run the Islamic law and carry out its business in line with the basic principles of Islamic economics. Islamic banking in running its business is not only focused on the purpose to achieve profit, but also must consider its role in providing welfare widely for the community, which is the implementation of the role of Islamic banks as implementers of social functions.

According to terminology, zakat means the activity of giving a certain treasure that is required by Allah S.W.T. In certain amounts and calculations to be handed over to the rightful persons (Nurhayati & Wasilah, 2014: 282). These activities should also be run by sharia banks in their business activities. Triyuwono (2006: 356) said through zakat can be known the performance of the company that the higher the zakat issued by the company means the higher profit earned company. For the

short term this may not be proven, but by always running its business in accordance with the provisions of Islamic law and maintain its role as the executor of social functions, for long-term zakat can affect the company's profit growth and bedampak on ROA and ROE of sharia banking companies

6. Conclusions and Recommendations

6.1. Conclusions

This research was conducted on 5 sharia banking. By using simple linear regression method of test result can be concluded as follows:

- 1) Zakah disbursed by sharia banks in the current year has no significant effect on Return on Assets (ROA) of sharia banking in the next year.
- 2) Zakah disbursed by sharia banks in the current year has no significant effect on Return on Equity (ROE) of sharia banking in the next year.

6.2. Recommendations

The difference of the results of this study with some previous research raises the desire to know more deeply about the influence of zakat on profitability and other financial performance in sharia banking. Suggestion for further research is to test with other method with one independent variable which is equal to zakat without intervening variable, extend the research time span and increase the number of samples from sharia banking.

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