1. Zakat Concepts and Objectives
1.1 Defining Zakat

Zakat is mentioned 58 times in the primary source of law for Muslims – Al Qur’an. It is the third of the five fundamental pillars of Islam, mentioned in the Qur’an 32 times in isolation and 26 times alongside prayer.

Legally, Zakat refers to the compulsory transfer of a portion of wealth to one or more of the 8 categories of recipients as directed in the Qur’an.

The deduced meaning of zakat is that of obligatory purification of a Muslim’s wealth that has exceeded the minimum value (nisab) for the payment of zakat which would represent 2.5% of his total zakatable wealth annually (lunar year).

1.2 Recipients of Zakat

The categories of recipients are described in the Qur’an as follows (chapter 9 verse 60):

"Zakat is for the poor and the needy and those who are employed to administer and collect it, and for those whose hearts are to be won over, and for the freeing of human beings from bondage, and for those who are overburdened with debt and for every struggle in Allah’s cause, and for the wayfarers; this is a duty ordained by Allah, and Allah is the All-Knowing, the Wise."

Not all wealth is zakatable. Clarke et al. [1996] sums up the wealth that zakat is payable on:

- i. genuinely owned wealth,
- ii. productive, and
- iii. surplus assets that have been owned for a full year.

In the case of a business this excludes any fixed assets that are not held for trade. Therefore, buildings, vehicles and furniture would all be exempt from zakat.

The goal of zakat is therefore two-fold:

a. It purifies the wealth of the payer (removing the impurities that were accumulated alongside the wealth)

b. It enables the recipient (generally categorised amongst the poorer members of society) to participate in society, even economically (Suhail, [2009]).

2. Zakat Wealth Effects
2.1 Zakat Contribution and Consumption

Zakat seeks to improve the economic status of its recipients through the alleviation of poverty. From the economic perspective, zakat is considered to alleviate poverty as it transfers wealth from those that have a lower marginal propensity to consume to those that have a higher marginal propensity to consume. Keynes’ [1936] absolute income hypothesis forms the basis of this argument, further establishing the postulate that as income increases, consumption decreases in terms of overall income even in Islamic economic terms.

Consumption in Islam, according to Gardaw, [1999], is framed by Islamic ethics and values. Islam allows only the consumption of permissible goods that will benefit the consumer and have not been prohibited even in small amounts.

The resultant effect of zakat on consumption is expected to increase aggregate demand and zakat effects on investment are also expected to be positive as zakat encourages investment by penalising idle cash (Kahf, [1999]). This increase in aggregate demand and consumption expenditure is expected to contribute positively to economic growth (Muirhead et al., [1995]; Norulazidah, PH Omar Ali & Myles, [2010]).

Zakat distribution also reduces non-performing debts as those burdened with debt are entitled to zakat and zakat collection and distribution also increases employment and has an overall positive effect on labour force participation (Ali Suhail, [1990]). For example, Ibrahim [2007] found that zakat distribution resulted in a significant reduction in the poverty rate for Selangor, Malaysia from 62% to 51%.

Hassan [2010] argued that if zakat funds were collected and managed efficiently, they could have contributed to 21% of the Annual Development Plan (ADP) of Bangladesh in 1985/1986 and as much as 43% of ADP in 2004/2005. In an earlier study by the same author, Hassan and Khan [2007] claimed that foreign aid for Bangladesh could in fact be replaced and the debt burden reduced if zakat was properly managed. The use of zakat in developmental projects could therefore form a key component of economic growth in Bangladesh.

The consequent wealth effects of an effective zakat cycle, i.e. calculation, collection, distribution and investment, have been summarised by Ammara et al. [2014] as follows:

- a. Zakat effectively supports sustainable and consistent economic growth through legitimate investment, employment and consumption

- b. Promotes socio-economic equality in distribution of wealth by reducing poverty and increasing investment.
3. Zakat and Financial Well-being

Salleh (2012) reflects on contemporary Islamic management views that consider zakat to be one of the most compelling components of wealth-sharing that ensures a higher standard of living for Muslims.

The nominal negative rate of return on idle wealth by zakat is expected to motivate the rational investor to circulate his wealth in risk-sharing projects commensurate to his risk profile, goading further economic activity. The multiplier effect of consumption and demand of goods through zakat injection results in job creation. As the zakat cycle is achieved, the multiplier effect on wealth becomes more formidable.

A Muslim’s wealth management plan should include the calculation of zakat.

A number of challenges exist that restrict the potential wealth effects of zakat. Zakat on businesses has been applied and calculated differently across regions. The adaptation of zakat rules to encompass what is considered wealth in the 21st century has also been met with contention. Although there is precedent in expanding the net of zakatable assets, Islamic Jurists have been cautious in allowing too much flexibility in changing the zakat rulings in order to protect the sanctity of zakat as a form of worship.

Another obstacle in maximising the effects of zakat on wealth is the effective management of zakat funds from the collection phase to its disbursement.

Waqf literally means “to hold” or “to preserve”. Technically, waqf means holding or setting aside certain property by the founder (waqif) and preserving it in order that benefits continuously flow to specified beneficiaries for religious, charitable or pious purposes as recognized by the Shariah for the pleasure of Allah SWT. The virtues of establishing waqf is evident in Al-Qur’an and the Sunnah of Prophet Muhammad s.a.w. in Surah Ali ‘Imran, verse 92, Allah SWT says:

“Never will you attain the good [reward] until you spend [in the way of Allah] from that which you love. And whatever you spend – indeed, Allah is Knowing of it.”

One of the renowned evidences of waqf in the Sunnah of Prophet Muhammad s.a.w. was the narration by Ibn ‘Umar that Umar ibn Al-Khattab r.a. obtained a land in Khaibar and he went to the Prophet s.a.w. to consult him about it saying, “Messenger of Allah! I obtained a land in Khaibar. I never got a property more precious to me than this. What do you advise me?”

The Prophet s.a.w. said, “If you want, you can make waqf on it, and give it as sadaqah (charity), provided that it should not be sold, bought, given as a gift or inherited”. Then, Umar r.a. gave it as charity to the needy, kith and kin, for freeing slaves, for Allah’s cause and for the travellers and guests. There is no harm for the person responsible for it to feed himself or a friend from it for free, without profiting.