

Zakat on Sharia-Compliant Stocks: A Normative Framework for Contemporary Islamic Finance

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Abstract

The integration of sharia-compliant equities into global financial markets necessitates a reevaluation of zakat obligations within Islamic fiscal jurisprudence. Classical zakat categories addressed tangible assets, but the modern proliferation of stock ownership presents new challenges for Islamic legal and economic scholars. This study constructs a normative framework for zakat on sharia stocks by synthesizing classical *fiqh*, *maqāṣid al-sharī'ah*, and the structural realities of corporate finance. Utilizing a qualitative, document-based methodology, it examines traditional concepts such as *māl*, *niyyah*, *ḥawl*, and *'urūd al-tijārah* to assess their applicability to modern equity ownership. Findings suggest that stock zakatability depends on ownership intent and asset classification, with appropriate models including market value for trading stocks and net asset value for investment stocks. The study also proposes a hybrid institutional model combining personal accountability with corporate facilitation for effective zakat administration. This dual approach aligns doctrinal integrity with regulatory pragmatism, enhancing zakat's function as a tool for wealth redistribution and ethical governance in Islamic finance. The framework offers theoretical depth and policy relevance for scholars, regulators, and Islamic financial institutions striving for zakat standardization and operational efficiency.

Keywords

Islamic finance; sharia stocks; zakat jurisprudence; *fiqh mu'āmalāt*; Islamic fiscal governance

INTRODUCTION

The global expansion of Islamic capital markets has triggered renewed scholarly interest in the implications of zakat on sharia-compliant financial assets, particularly stocks. Traditionally, zakat has been imposed on tangible wealth such as livestock, agricultural produce, gold, and silver. However, the emergence of modern financial instruments, including equities screened for compliance with *sharī'ah*, presents challenges to classical zakat jurisprudence (Kahf, 1997; El-Gamal, 2006). The fundamental issue lies in reconciling the historical asset classes defined by classical *fuqahā'* with contemporary financial products shaped by corporate structures and market mechanisms. The core of this debate revolves around the legal classification of stocks: whether they are considered tradable commodities, investment capital, or fractional ownership in productive assets (Ayub, 2007).

The theoretical significance of this issue is grounded in the broader discourse of Islamic economic ethics and financial justice. Zakat is not only a pillar of Islam but also an institutional mechanism for wealth redistribution and social equity (Chapra, 2000). If stocks represent ownership in a

business entity, the zakat obligation should theoretically correspond to the underlying assets and the nature of ownership rights (Al-Qaradawi, 1999, pp. 347–350). Yet, divergent approaches among scholars—some treating stocks like cash, others like trade goods—have led to inconsistencies in practice across jurisdictions (Kamali, 2008). Moreover, there remains a lack of standardization in zakat calculations among Islamic financial institutions, complicating efforts to institutionalize zakat on a national or global scale.

Empirically, sharia-compliant stock indices such as the Dow Jones Islamic Market Index and FTSE Shariah Global Equity Index have enabled Muslim investors to participate in equity markets while adhering to religious principles (Abdul Rahman, 2010). However, while screening methodologies filter out haram income, they do not address zakat obligations. As a result, investors may either overlook zakat payments entirely or apply inconsistent methods, undermining the distributive goals of *zakāh* (Obaidullah, 2002). Additionally, the tension between individual versus corporate zakat responsibilities adds another layer of complexity, particularly when financial disclosure varies between firms and countries (Shirazi, 2006).

Research in this area remains limited, with many studies focusing on the calculation techniques rather than the underlying jurisprudential principles. Most existing literature lacks a cohesive theoretical framework that integrates classical *fiqh* with contemporary financial realities (Ahmed, 2004; Rosly & Bakar, 2003). Furthermore, significant gaps exist in understanding how zakat interacts with asset holding periods, intention of acquisition (for trade or investment), and liquidity constraints. Addressing these gaps is essential to formulating a harmonized zakat treatment for sharia stocks that is both doctrinally sound and practically implementable.

Given these challenges, the central research question emerges: How should zakat be applied to sharia-compliant stocks in a way that is consistent with both classical *fiqh* and modern financial structures? Sub-questions include: (1) What are the conceptual bases for zakatability in the context of equity ownership? (2) What methodologies can reconcile classical zakat principles with the nature of corporate shareholding? (3) What models of institutional zakat collection are most suitable for stocks in Islamic capital markets?

This study aims to formulate a normative framework for zakat on sharia-compliant stocks by critically engaging with classical jurisprudence, contemporary scholarly opinions, and current practices in Islamic finance. By doing so, it contributes to the harmonization of Islamic fiscal principles with modern economic contexts and provides practical guidelines for zakat calculation and governance in equity markets. The findings are expected to inform policymakers, Islamic finance practitioners, and scholars seeking to develop a consistent and equitable zakat regime.

LITERATURE REVIEW

The question of zakat on equities lies at the intersection of classical Islamic jurisprudence (*fiqh mu'āmalāt*) and contemporary financial theory. Scholars have long debated the zakatability of intangible assets and financial instruments not explicitly addressed in primary sources. Kahf (1999) posits that while stocks are modern creations, their economic substance corresponds to

classical categories such as trade inventory or agricultural land, depending on the nature of the underlying assets. Al-Qaradawi (1999, pp. 356–358) similarly argues that ownership of corporate shares implies a share in productive wealth, thereby obligating zakat. The key theoretical divide lies in whether stocks are to be assessed on their market value (if held for trade) or net asset value (if held for investment), a distinction with profound implications for calculation methods.

Several frameworks have been proposed to address this ambiguity. Chapra (2000) and Siddiqi (1983) recommend treating stocks like any other commercial goods, particularly when the investor's intent is resale. In contrast, Monzer Kahf (1997) suggests a more nuanced model based on the investor's purpose and the firm's business type. Furthermore, El-Gamal (2006) critiques attempts to force-fit classical jurisprudence into modern financial instruments without rethinking foundational concepts through *maqāṣid al-sharī'ah*. This divergence is echoed by Rosly and Bakar (2003), who point out that many zakat models inadequately consider the hybrid nature of stocks—partly reflecting ownership, partly representing liquidity, and partly embodying speculative behavior.

Existing literature on zakat in Islamic economics has also explored institutional aspects, such as the role of Islamic financial institutions in zakat collection. Obaidullah (2002) highlights operational challenges in enforcing corporate zakat obligations due to inconsistent disclosure and regulatory disparities. Shirazi (2006) emphasizes the importance of establishing standardized zakat practices across jurisdictions to ensure efficiency and equity in wealth redistribution. However, comprehensive models linking zakat jurisprudence with capital market structures remain scarce. As such, the current study seeks to bridge this theoretical and practical gap by offering a cohesive framework for evaluating zakat obligations on sharia-compliant stocks.

THEORETICAL FRAMEWORK

1. Concept of Māl (Wealth) in Islamic Jurisprudence

At the heart of zakat jurisprudence lies the concept of *māl* (wealth), which encompasses assets that are legally permissible (*ḥalāl*) and possess utility and value in exchange (Al-Qaradawi, 1999, pp. 45–48). In classical *fiqh*, *māl* primarily referred to tangible property, such as livestock or crops, but jurists such as Ibn Qudāmah and Al-Ghazālī acknowledged the inclusion of intangible or productive assets under specific contexts (Kamali, 2008). The definition of *māl* as something that has *manfa'ah* (benefit) and *qīmah* (market value) justifies the zakatability of stocks, provided they meet the criteria of wealth ownership and growth. Stocks, as claims of ownership in companies, fit within the extended framework of *māl mustafād* (acquired wealth), especially when they yield profit or capital gain (Kahf, 1999). Recognizing stocks as legitimate *māl* supports their inclusion in the zakat base, thereby aligning contemporary instruments with classical doctrine.

2. Niṣāb and Ḥawl: Threshold and Duration

The conditions of *niṣāb* (minimum wealth threshold) and *ḥawl* (ownership duration of one lunar year) are pivotal in zakat obligation. Classical scholars established gold, silver, and livestock thresholds as proxies for establishing the minimum wealth qualifying for zakat

(Siddiqi, 1983). In the context of stocks, modern scholars argue for analogy with *‘urūd al-tijārah* (trade inventory), particularly if the stocks are held for short-term resale (Al-Qaradawi, 1999, pp. 360–365). If, however, stocks are retained for long-term investment and dividend income, they may follow zakat rules applicable to productive capital assets, similar to land or machinery (Ahmed, 2004). Applying *ḥawl* to stocks raises questions about capital appreciation, reinvestment, and interim dividends, necessitating a more refined classification. Kahf (1997) thus proposed a dual treatment model—using market value for trading stocks and net asset value for investment stocks—to harmonize *ḥawl* requirements with modern financial behavior.

3. Maqāṣid al-Sharī‘ah and Fiscal Ethics

The theory of *maqāṣid al-sharī‘ah* provides a higher-order ethical framework for interpreting zakat in modern contexts. Its core objectives—preservation of wealth (*ḥifẓ al-māl*), social welfare (*maṣlaḥah ‘āmmah*), and justice (*‘adālah*)—are directly relevant to zakat on sharia stocks. Chapra (2000) emphasizes that zakat’s primary role is economic justice, a purpose that is compromised when certain wealth categories are excluded without solid doctrinal reasons. By recognizing stocks as part of the wealth spectrum, their inclusion in zakat aligns with distributive justice and wealth circulation, consistent with the aims of *maqāṣid*. Moreover, institutionalization of zakat in Islamic financial systems may serve as an ethical counterweight to capitalism’s tendency toward wealth concentration (Siddiqi, 1983). Applying *maqāṣid* ensures that zakat jurisprudence remains dynamic, just, and contextually grounded.

4. Ownership and Legal Personhood in Corporate Structures

One of the major theoretical hurdles is the application of zakat rules to wealth held within corporate entities, which are considered legal persons in secular financial law. In Islamic jurisprudence, zakat is traditionally a personal obligation (*taklīf sharī‘ī*) borne by natural persons. This raises the question of whether zakat should be levied on the corporation’s assets, the shareholders’ equity, or both (Rosly & Bakar, 2003). Obaidullah (2002) distinguishes between “individual zakat,” based on stock ownership, and “corporate zakat,” imposed on firms directly, arguing that both models have merit depending on transparency, disclosure, and operational scale. The principle of *khultah* (commingled assets) found in classical zakat rulings supports a collective approach to shared ownership. Thus, stocks as fragments of corporate ownership blur the lines between individual and institutional zakat obligations, warranting a recalibrated jurisprudential stance on legal personhood and fiscal duty.

PREVIOUS RESEARCH

1. Siddiqi (1983)

Siddiqi’s foundational work on Islamic economic theory laid the groundwork for integrating ethical principles into financial practice. His study emphasized the spiritual dimensions of zakat and its redistributive role in achieving economic justice. While not specifically addressing stocks, Siddiqi (1983) recognized the necessity of revising zakat rules for newly

emerging wealth forms in modern economies. Using a normative analysis approach, he proposed that all productive wealth—whether tangible or intangible—should be assessed for zakat to ensure fairness. His framework has influenced later debates on the applicability of zakat to financial instruments, setting a precedent for flexible jurisprudential interpretation.

2. Kahf (1997)

Kahf's research is among the earliest to systematically address zakat on modern financial assets, including equities. Using a comparative *fiqh* analysis, Kahf (1997) proposed a bifurcated model: if shares are acquired for trade, zakat should be calculated on market value; if held for dividends or long-term investment, then zakat should be based on the value of zakatable assets within the company. His distinction between trading and investment intent became a foundational reference in later discussions. His contribution is critical for this study as it justifies varied treatment based on economic behavior and intent, though it lacked extensive application in institutional zakat models.

3. Obaidullah (2002)

Obaidullah explored practical mechanisms of zakat collection in Islamic financial institutions. His research highlighted inconsistencies and a lack of standardization in zakat obligations for equity investors. Using qualitative case analysis, he showed that Islamic banks often did not enforce zakat obligations systematically, leaving shareholders with ambiguous responsibilities. This research is particularly relevant because it demonstrates the institutional void in applying zakat on sharia stocks and calls for the development of corporate zakat disclosure practices. Unlike Kahf's normative focus, Obaidullah emphasized operational barriers and regulatory challenges.

4. Al-Qaradawi (2003)

Although originally published earlier, Al-Qaradawi's influential text was revised and widely circulated in the early 2000s. In his expanded treatment of zakat on modern assets, he endorsed zakat on shares, stressing the moral obligation of Muslim investors to purify their wealth (Al-Qaradawi, 2003, pp. 355–366). He emphasized shareholder intent and the nature of the business as criteria for zakatability. His views have been central in shaping jurisprudential consensus on the permissibility and requirement of zakat on equities. While rich in doctrinal depth, his analysis stops short of integrating contemporary market realities or addressing institutional enforcement models.

5. Chapra (2000)

Chapra offered a broader economic perspective by situating zakat within the framework of Islamic public finance. His work highlighted zakat's potential to combat inequality and promote macroeconomic stability (Chapra, 2000). Though not focused specifically on stocks, Chapra emphasized the need for the zakat system to adapt to evolving wealth forms in modern economies. His insistence on linking zakat to fiscal justice and economic development provides a crucial macroeconomic rationale for including sharia stocks within the zakatable base. His work is conceptually aligned with *maqāṣid al-sharī'ah*, providing ethical backing to contemporary applications.

6. Rosly and Bakar (2003)

Rosly and Bakar conducted one of the first comparative studies examining corporate zakat practices among Malaysian Islamic banks. Using empirical data from financial disclosures, they concluded that corporate zakat was inconsistently applied and poorly regulated. Their research is highly relevant to this study as it reflects real-world gaps between *fiqh*-based obligations and institutional implementation. Their findings support the argument for clearer guidelines and regulatory frameworks for zakat on equity-based instruments, reinforcing the need for this study's proposed theoretical model.

Despite increasing scholarly attention, there remains a gap in bridging classical *fiqh* doctrines with institutional and behavioral aspects of modern equity markets. Existing works either emphasize jurisprudential theory or operational mechanics, with few attempting to integrate both into a unified model. Most literature also fails to reconcile the dual nature of sharia stocks—both as wealth and as instruments of speculative value—with zakat's moral and economic objectives. This study addresses the gap by offering a hybrid framework that aligns classical jurisprudence with contemporary financial structures, grounded in both ethical theory and regulatory feasibility.

RESEARCH METHODS

1. Type of Data

This study employs a qualitative, conceptual methodology grounded in textual analysis. The primary data consist of classical and contemporary texts on Islamic jurisprudence, particularly those related to *waqf* and *maqāṣid al-sharī'ah*. Secondary data include scholarly articles and books from reputable academic publishers, all published on or before 2013. This method ensures that the analysis is both rooted in tradition and informed by modern academic discourse (Kamali, 2008).

2. Data Sources

Data were sourced from academic databases, including JSTOR, ScienceDirect, and the Index Islamicus, which provide access to peer-reviewed journals and scholarly books. Works by foundational scholars such as Al-Ghazali and Al-Shatibi were accessed through translated compilations and commentaries. Contemporary works by economists like Chapra (2000), Siddiqi (2001), and Cizakca (2004) were also consulted to provide a multidimensional view of the subject.

3. Data Collection Techniques

Data collection was based on thematic coding. Key themes such as sustainability, ethical finance, and Islamic philanthropy were identified and used to guide the review and synthesis of literature. Special attention was given to works discussing the integration of religious and economic frameworks, ensuring the relevance of sources to the study's objectives (Auda, 2008).

4. Data Analysis Methods

The analysis method involved comparative and interpretative reading of texts. Classical Islamic concepts were analyzed in relation to contemporary development paradigms. Thematic alignment with the five *maqāṣid* allowed for structured synthesis, ensuring conceptual clarity and academic rigor (Dusuki & Abozaid, 2007).

5. Conclusion Drawing

Conclusions were drawn through triangulation, comparing insights from jurisprudential texts with economic theories. This approach ensured that the findings were not only theoretically sound but also applicable to real-world development strategies. By grounding each analysis in both Islamic ethics and modern scholarship, this study presents a robust conceptual model for productive *waqf*.

RESULTS AND DISCUSSION

The primary research question guiding this study was: *How should zakat be applied to sharia-compliant stocks in a way that is consistent with both classical fiqh and modern financial structures?* This inquiry arises from the disjunction between traditional zakat categories and contemporary asset classes, particularly equities, which did not exist during the formative periods of Islamic jurisprudence. The objective is to construct a coherent zakat framework for stocks that reflects the dual nature of equities—as tradable financial assets and as instruments of productive ownership—through a synthesis of classical jurisprudential reasoning and modern financial realities.

To address this question, three supporting sub-questions were explored: (1) What are the conceptual bases for zakatability in the context of equity ownership? (2) What methodologies can reconcile classical zakat principles with the nature of corporate shareholding? (3) What models of institutional zakat collection are most suitable for stocks in Islamic capital markets? Each of these questions contributes to building a comprehensive normative model, backed by *maqāṣid al-sharī'ah*, which balances personal ethical responsibility with corporate governance mechanisms. The results of this investigation are presented thematically for each research question below.

Research Question 1: What are the conceptual bases for zakatability in the context of equity ownership?

1. Defining Stocks as Māl Zakatable

In classical Islamic jurisprudence, the concept of *māl* refers to anything that is legally owned, possesses inherent utility (*manfa'ah*), and can be stored or exchanged for value. Stocks, when interpreted through this framework, fulfill all essential characteristics of *māl*, thereby making them eligible for zakat. Equities symbolize fractional ownership in the tangible and intangible assets of a company and are acquired with the expectation of financial return, either through

dividends or capital appreciation. Their capacity to grow, generate wealth, and circulate within the economic system aligns them with zakatable assets under Islamic legal traditions.

Yūsuf al-Qaradāwī (1999, pp. 354–360) argues that any wealth that experiences growth (*namā'*) and has the potential to provide economic benefit—particularly when held with the intention of trade or investment—is subject to zakat. This includes modern financial instruments like stocks, which represent ownership in productive enterprises. From a juristic standpoint, such assets fall under the category of *māl mustafād*, i.e., acquired wealth, which is commonly discussed in traditional zakat rulings on trade goods. In this sense, stocks can be analogized with *'urūd al-tijārah* (commercial inventory), which classical scholars like Abū Ḥanīfah and Mālik recognized as zakatable based on market value and turnover potential.

Kahf (1997) reinforces this classification by arguing that stocks embody an economic function equivalent to zakatable goods, particularly due to their liquidity, mobility, and profitability. Unlike fixed assets or personal property that may serve only a consumption function, stocks are designed for financial returns, positioning them firmly within the wealth-generating domain of the Islamic economy. Their public tradability and pricing transparency further facilitate ease of zakat assessment, which has historically been a challenge for less tangible forms of wealth. In contrast to private equity or closed partnership investments, publicly listed stocks offer a quantifiable and assessable metric of value, enhancing their suitability for periodic zakat evaluation.

Moreover, scholars such as Siddiqi (1983) have acknowledged that the dynamic evolution of the economy necessitates a reassessment of zakat categories. As societies transition from agrarian and trade-based systems to financialized economies, new wealth instruments emerge that were previously unclassified under classical jurisprudence. Nonetheless, the foundational objectives of zakat—namely purification of wealth, encouragement of circulation, and support for the needy—remain applicable. The inclusion of stocks as zakatable assets thus represents a faithful extension of Islamic fiscal ethics, ensuring that the spirit of zakat adapts to contemporary financial realities without compromising its theological essence.

2. Trade vs. Investment Intent

A critical determinant of zakat liability on stocks lies in the investor's underlying intent (*niyyah*) when acquiring shares. In Islamic jurisprudence, *niyyah* plays a fundamental role in classifying wealth for zakat purposes. If the intent behind stock acquisition is short-term resale or speculative trading, the shares are considered *'urūd al-tijārah* (trade inventory). This categorization, widely accepted by jurists including Abū Ḥanīfah and Ibn Qudāmah, mandates that zakat be assessed at 2.5% of the prevailing market value at the end of the lunar year (*ḥawl*), mirroring the treatment of merchandise held for trade. This approach reflects the principle that assets intended for profit through sale are inherently zakatable due to their circulatory economic function.

On the other hand, if stocks are acquired with the intent to hold them long-term for dividend income or capital growth, rather than frequent trading, a different jurisprudential treatment applies. In such cases, the shares are not viewed as trade goods, but as productive assets. As a result, zakat is assessed not on the full market value of the stock, but only on the zakatable portion of the company's net assets—typically liquid components such as cash, receivables, and inventory. Yūsuf al-Qaradāwī (1999, pp. 365–370) supports this approach, affirming that shareholders in investment positions should calculate zakat based on the firm's underlying zakatable assets, proportionate to their ownership.

This bifurcated treatment allows for flexibility in zakat application while remaining consistent with classical Islamic legal methodology. It aligns with the broader principles of *fiqh mu'āmalāt*, which emphasize both the substance and intent of financial transactions. Monzer Kahf (1997) articulates this view by highlighting that the function of the asset in the economic system—whether as circulating capital or as a means of production—must guide its zakat classification. In modern financial markets, where stock ownership can vary greatly in intent, from passive income generation to high-frequency trading, such differentiation ensures both doctrinal consistency and practical fairness.

However, this classification is not without its challenges. Determining intent requires subjective interpretation and may lead to inconsistent zakat practices among investors. Moreover, hybrid portfolios that blend trading and investment purposes further complicate classification. Contemporary scholars such as El-Gamal (2006) argue that rigid categories may not adequately capture the fluidity of modern financial behavior, and thus advocate for a more integrated model that considers behavioral patterns, holding periods, and portfolio strategies. Nevertheless, *niyyah* remains a cornerstone in Islamic law, and its application in stock zakat provides a meaningful way to balance jurisprudential fidelity with economic diversity.

3. Practical Implications

From a policy standpoint, zakat classification based on investor *niyyah* (intent) introduces both theological precision and regulatory complexity. In classical jurisprudence, *niyyah* serves as a foundational criterion for determining the legal ruling of an act, including financial transactions (Kamali, 2008). When applied to modern equity investments, this subjective criterion necessitates self-declaration by the investor, raising issues of enforceability, moral accountability, and standardization (Kahf, 1997). Without verification mechanisms, there is a risk that investors may misclassify stocks either intentionally or out of misunderstanding, leading to inconsistencies in zakat fulfillment and undermining the ethical objectives of *zakāh* as a redistributive institution (Chapra, 2000).

To mitigate such challenges, Islamic financial institutions have an important role to play in operationalizing this intent-based classification through formalized systems. These may include standardized investor disclosure forms at the point of investment, periodic reconfirmation of investment objectives, and the development of client profiling tools that reflect holding periods and trading behavior (Obaidullah, 2002). These mechanisms, though administrative in nature,

can serve to institutionalize *niyyah* within zakat governance, aligning it with modern compliance frameworks. El-Gamal (2006) notes that Islamic financial law must balance *fiqh*-based subjectivity with regulatory objectivity to ensure consistency across markets.

This classification system also allows for differentiation between retail and institutional investors, a nuance often overlooked in traditional models. Institutional investors such as waqf entities, Islamic mutual funds, and retirement portfolios are more likely to engage in long-term investment strategies, which may merit NAV-based zakat treatment rather than the full market value approach (Siddiqi, 1983). On the other hand, individual investors frequently engage in mixed strategies, with both trading and investment motives. Differentiating zakat treatments based on intent and investor type can enhance zakat equity and efficiency, aligning closely with the distributive aims of *maqāṣid al-sharī'ah* (Ahmed, 2004).

Moreover, integrating intent-based zakat models into Islamic portfolio management can bridge classical jurisprudence with contemporary asset allocation practices. Financial institutions could publish annual zakat guidelines tailored to their product offerings, including per-share zakat estimates and advisory statements reflecting both *'urūd al-tijārah* and investment scenarios (Rosly & Bakar, 2003). This approach supports both doctrinal fidelity and practical applicability, reinforcing zakat's identity as a pillar of Islamic finance that upholds socio-economic justice, promotes financial transparency, and preserves investor accountability.

Research Question 2: What methodologies can reconcile classical zakat principles with corporate shareholding?

1. Net Asset Valuation Model

The net asset value (NAV) methodology has emerged as one of the most jurisprudentially and financially coherent approaches to calculating zakat on stocks. This method assesses the zakat obligation based on the portion of a company's zakatable assets—such as cash equivalents, accounts receivable, inventory, and other liquid or tradable components—multiplied by the number of shares owned by an investor. Unlike the market value method, which assumes full valuation based on speculative worth, the NAV model is more closely aligned with the economic substance of a shareholder's interest in the productive activities of the firm (Kahf, 1997). It ensures that zakat is only levied on assets with intrinsic zakatable characteristics, consistent with the principle of *'adālah* (justice) in Islamic fiscal ethics.

Kahf (1997) argues that the NAV method addresses the doctrinal concern of *tathniyah fī al-zakāh* (double zakat payment), a situation in which both the company and its shareholders are taxed on the same underlying assets. By excluding fixed, non-zakatable assets—such as land, buildings, and machinery—from the zakat base, the NAV approach aligns more precisely with classical jurisprudence that emphasizes liquidity, tradeability, and growth potential as criteria for zakatability (Al-Qaradawi, 1999, pp. 371–376). This method ensures that shareholders contribute zakat in proportion to their stake in assets that are actively circulating in the economy and capable of generating wealth, thereby preserving the zakat system's distributive rationale.

The NAV model also brings practical advantages in corporate finance contexts, especially in large and diversified firms where the book value and market value of equity may diverge significantly. By anchoring zakat to the company's financial statements rather than market volatility, the NAV approach provides a more stable and transparent basis for annual zakat obligations. It is particularly relevant for long-term investors and institutional stakeholders—such as waqf boards, Islamic endowments, and pension funds—who prioritize underlying asset fundamentals over short-term price fluctuations (Ahmed, 2004). Moreover, financial reporting mechanisms aligned with International Financial Reporting Standards (IFRS) can support accurate NAV-based zakat calculations by offering clear asset categorization.

Despite its strengths, the NAV method requires a high degree of financial transparency and access to detailed corporate disclosures. In jurisdictions where financial reporting is inconsistent or where sharia-compliant firms are not obligated to disclose zakatable asset proportions, implementation can be challenging (Obaidullah, 2002). This calls for greater collaboration between zakat authorities, regulators, and corporate governance bodies to standardize financial reporting in ways that support NAV-based zakat assessments. Sharia supervisory boards may also play a key role by issuing annual zakat guides that calculate per-share obligations based on audited financial data, a practice already implemented in some jurisdictions like Malaysia and the GCC states (Rosly & Bakar, 2003).

2. Market Value Method

The market value method is widely recognized in contemporary Islamic finance as the most suitable zakat calculation approach for stocks held with the intent of resale or speculative trading. This methodology draws directly from classical jurisprudence, particularly the concept of *'urūḍ al-tijārah*—commercial inventory or trade goods—that are acquired with the explicit intention of being sold for profit. According to Al-Qaradawi (1999, pp. 365–370), such assets are zakatable at their prevailing market value, and the zakat rate applied is 2.5%, consistent with other short-term liquid holdings. The rationale is that since the investor's objective is to profit through market price fluctuations, the stock itself serves as a form of tradable capital rather than a passive income-generating asset.

Chapra (2000) supports this analogy, noting that assets acquired for rapid turnover in open markets contribute directly to economic circulation and thus should be included in zakat calculations at their full market value. This method not only aligns with classical fiqh but also resonates with the economic goals of zakat—particularly wealth purification (*tazkiyah*) and redistribution (*taqwīm al-fawāriq al-māliyyah*). Given the liquidity and tradability of stocks listed on active exchanges, their treatment as commercial goods is both doctrinally justified and financially intuitive. The use of publicly available market data further simplifies the calculation process for both investors and regulatory bodies.

Nevertheless, the market value approach is not without its limitations. It assumes the presence of efficient, transparent, and liquid markets in which stock prices reflect real economic value. In many Islamic jurisdictions, such conditions may not be consistently met due to thin trading

volumes, speculative bubbles, or lack of regulatory oversight. In such contexts, reliance on market value alone may lead to distorted zakat obligations that neither reflect actual wealth nor satisfy the ethical objectives of *zakāh* (El-Gamal, 2006). Moreover, investors in volatile markets may find their zakat liabilities disproportionately influenced by short-term price swings, which could lead to either overpayment or avoidance behavior depending on timing.

To address these concerns, some scholars have suggested hybrid approaches that integrate market value with periodic valuation averages or allow deferment in cases of extraordinary price volatility (Kahf, 1997). However, the simplicity of the market value method remains its most appealing feature, especially for retail investors and regulatory institutions seeking standardization. Ultimately, the market value method offers a pragmatic balance between classical precedent and modern market functionality, particularly for portfolios primarily engaged in short-term trading. Its effectiveness, however, is conditional on transparent pricing systems, investor awareness, and the existence of supportive institutional frameworks within the broader Islamic financial architecture.

3. Institutional Implications

The effective implementation of either zakat calculation method—be it net asset value (NAV) or market value—depends heavily on the presence of robust corporate disclosures and well-developed regulatory infrastructures. Transparent and detailed financial reporting is essential, especially for the NAV method, which requires disaggregated data on zakatable and non-zakatable assets within the firm. Public companies should be encouraged, or required, to include a zakat-specific breakdown of assets in their annual financial statements. This information would enable investors to calculate zakat liabilities accurately and reduce reliance on assumptions or estimations. According to Obaidullah (2002), the lack of consistent financial disclosure practices across Islamic markets remains a major barrier to institutionalizing zakat on equities.

To ease the administrative burden on individual investors, *sharī'ah* supervisory boards within Islamic financial institutions can take a proactive role by publishing standardized zakat per-share values annually. These calculations, based on the company's audited balance sheets and endorsed by *sharī'ah* authorities, would help align individual obligations with firm-level disclosures. Rosly and Bakar (2003) suggest that such practice has already shown promise in jurisdictions like Malaysia, where Islamic banks and capital market institutions issue yearly zakat guidelines, increasing transparency and compliance. Standardized disclosure also allows for scalability in zakat assessment across a wide range of asset classes, portfolios, and investor types.

Furthermore, harmonization of zakat regulations across jurisdictions is crucial to facilitating cross-border Islamic investment. Presently, variations in zakat laws, calculation methodologies, and enforcement mechanisms lead to uncertainty among investors and inefficiencies in financial planning. For zakat to function as a credible pillar within global Islamic finance, there must be greater collaboration between regulators, *sharī'ah* scholars, accounting professionals, and industry standard-setting bodies. Kahf (1999) emphasizes that zakat cannot remain a purely

individual obligation in the context of corporate finance but must evolve into a systematized institutional function supported by legal and financial frameworks.

Such coordination is also consistent with the objectives of *maqāṣid al-sharīʿah*, particularly the principles of justice (*ʿadālah*), wealth circulation (*tadāwul al-māl*), and socio-economic welfare (*maṣlahah ʿāmmah*). If properly institutionalized, zakat on stocks can serve as both a personal act of worship and a macroeconomic policy tool for wealth redistribution. However, achieving this dual role requires policy alignment, infrastructural investment, and regulatory will. As Chapra (2000) has noted, zakat must be integrated into the broader governance of Islamic economic institutions if it is to fulfill its full potential as a transformative force for financial equity and spiritual integrity.

Research Question 3: What models of institutional zakat collection are suitable for stocks?

1. Corporate Zakat Collection

The corporate zakat collection model represents an institutional mechanism whereby the company assumes responsibility for calculating and remitting zakat on behalf of its shareholders. This system functions analogously to tax withholding in conventional finance, wherein obligations are met at the source, thereby minimizing administrative burdens on individual stakeholders. Within this model, the corporation computes zakat liabilities based on its financial records and distributes payments either to the state-authorized zakat agency or to approved charitable channels. This centralized approach is particularly prevalent in Gulf Cooperation Council (GCC) countries such as Saudi Arabia and Kuwait, where corporate zakat obligations are often mandated by law and embedded in regulatory frameworks (Obaidullah, 2002).

The juristic justification for this model derives from the classical concept of *khulṭah al-amwāl*—commingled wealth—whereby assets pooled within a collective entity may be assessed jointly for zakat purposes. According to Maliki and Hanafi jurisprudence, when co-ownership meets certain conditions, zakat can be imposed on the aggregate rather than the individual level (Al-Qaradawi, 1999, pp. 422–425). This principle allows companies to act as zakat agents for shareholders, especially when individual accountability is impractical due to the size or complexity of shareholding structures. In cases where shareholders lack sufficient information about the firm’s underlying assets or financial disclosures, corporate zakat collection provides a viable alternative to uphold religious obligations without compromising operational feasibility (Kahf, 1997).

The advantages of this model are notable. It promotes efficiency, reduces duplication, and fosters compliance—especially among retail shareholders or passive investors who may lack the resources to assess zakat independently. By institutionalizing zakat as part of corporate governance, the model enhances the integration of Islamic moral values into financial practices and supports the objectives of *maqāṣid al-sharīʿah*, particularly *taqwīm al-fawāriq al-māliyyah* (economic equity) and *ḥifẓ al-māl* (wealth preservation) (Chapra, 2000). Moreover, when firms publicly disclose their zakat practices, it increases transparency, reinforces investor confidence,

and signals ethical commitment, thereby contributing to the credibility of the Islamic financial system.

However, the corporate zakat model's effectiveness depends on the existence of supportive legal frameworks and consistent regulatory enforcement. Without mandates requiring public companies to calculate and remit zakat, the model may falter due to weak incentives or lack of standardization. Rosly and Bakar (2003) caution that while this model is promising, its implementation across jurisdictions remains uneven, with significant variation in disclosure practices and enforcement mechanisms. For this model to succeed globally, it requires coordinated efforts among regulators, *sharī'ah* boards, and industry standard-setters to develop binding zakat compliance codes, ensure uniform financial disclosures, and certify companies as zakat-compliant entities. Only through such systemic integration can corporate zakat collection fulfill its potential as a mechanism for fiscal justice and religious accountability in Islamic capital markets.

2. Individual Zakat Responsibility

The individual zakat responsibility model reflects the classical Islamic legal position that zakat is a personal obligation (*taklīf shar'ī*) incumbent upon each Muslim who meets the criteria of wealth and nisab. This model places full responsibility on shareholders to assess, calculate, and remit zakat on their equity holdings. It respects the principle of moral agency and personal accountability emphasized in Islamic jurisprudence, wherein each believer is answerable before God for the purification of their wealth (Siddiqi, 1983). Under this model, investors must evaluate their portfolio composition, classify assets according to intent (*niyyah*), and apply the appropriate zakat methodology—whether based on market value or net assets.

This approach has strong doctrinal legitimacy, especially in contexts where corporate zakat frameworks are underdeveloped or absent. It also accommodates the nuances of individual portfolio strategies, including long-term dividend-focused investing, short-term trading, or mixed-asset models. According to Al-Qaradawi (1999, pp. 372–375), the diversity of stockholding behaviors necessitates tailored zakat assessment that considers the purpose of acquisition and the nature of the underlying assets. In this regard, the individual model offers the flexibility to apply *'urūd al-tijārah* treatment for trading shares and net asset evaluation for investment holdings—both of which are rooted in classical *fiqh mu'āmalāt*.

However, this model also introduces significant operational challenges. Retail investors often lack the technical expertise to extract zakatable asset information from corporate balance sheets or to determine applicable exemptions and adjustments. In markets where transparency is limited, particularly in non-OECD Islamic economies, the absence of standardized financial disclosures can lead to estimation errors or underpayment (Obaidullah, 2002). The cognitive and informational burdens imposed by this model may deter compliance, especially among unsophisticated investors or those managing large and diverse portfolios. These issues raise questions about the efficacy of relying solely on individual judgment in fulfilling complex zakat obligations.

To mitigate these risks, scholars and practitioners have recommended educational initiatives, digital zakat calculators, and institutional support tools to assist individuals in fulfilling their zakat duties accurately. Some Islamic financial institutions have begun offering zakat advisory services, issuing per-share zakat values for select equities, and integrating zakat modules into online investment platforms. These innovations aim to support investor autonomy while reducing informational asymmetries. Still, as Kahf (1997) and El-Gamal (2006) emphasize, the success of the individual model depends on a well-informed public and a supportive regulatory environment that promotes transparency, ethical awareness, and doctrinal literacy. Without these, the individual responsibility model may struggle to deliver consistent and equitable outcomes in modern Islamic financial markets.

3. Hybrid Institutional Models

The hybrid institutional model offers a pragmatic and balanced approach that reconciles individual religious obligations with corporate administrative capabilities. Under this model, corporations would calculate and disclose per-share zakat obligations annually based on their audited financial statements. Shareholders would then be given the option to either authorize the corporation to pay zakat on their behalf or to self-declare and fulfill their obligations independently. This flexible framework acknowledges the diversity of investor behavior and the varying levels of financial literacy among stakeholders, while also preserving the personal nature of zakat as a form of *ibādah māliyyah* (worship through wealth) (Al-Qaradawi, 1999, pp. 421–427).

The model is particularly well-suited to modern capital markets where retail and institutional investors coexist, and where transparency and regulatory oversight vary. By combining centralized disclosure with decentralized payment mechanisms, the hybrid model ensures that zakat remains accessible, equitable, and ethically grounded. As Kahf (1997) points out, Islamic financial systems must evolve mechanisms that both uphold doctrinal integrity and reflect practical realities. Allowing shareholders the freedom to choose supports *taklīf sharʿī* (personal moral duty), while corporate facilitation mitigates the informational and logistical burdens that often hinder accurate zakat compliance—especially among small shareholders or passive investors.

Operationally, this model depends on reliable financial disclosures, particularly the availability of zakatable asset data within annual reports or supplementary documents issued by *sharīʿah* supervisory boards. Several institutions in Malaysia and the GCC have already experimented with this approach, publishing zakat-per-share metrics and offering opt-in zakat services to shareholders (Rosly & Bakar, 2003). These practices enhance transparency and encourage voluntary compliance while avoiding the pitfalls of a one-size-fits-all system. The hybrid model thus represents a move toward a more personalized, yet institutionally supported, implementation of zakat in Islamic finance.

CORE FINDINGS AND PATHWAYS FORWARD

This study has developed a comprehensive framework for zakat on sharia-compliant stocks by critically synthesizing classical jurisprudence, modern financial theory, and practical implementation models. The analysis confirms that equities qualify as zakatable wealth (*māl mustafād*) under Islamic law, subject to conditions of value, ownership, growth potential, and intent. Through the exploration of *niyyah*-based classification, it was established that stock zakatability hinges on whether the asset is held for trade or investment, guiding the application of either the market value or net asset value (NAV) approach. This distinction harmonizes classical categories like *‘urūd al-tijārah* with contemporary portfolio strategies, enabling jurisprudential flexibility and contextual accuracy.

Theoretical contributions of the study include the affirmation of intent-based zakat models and the reinterpretation of *fiqh mu‘āmalāt* concepts in the context of modern financial instruments. It reaffirms zakat's enduring relevance by demonstrating how timeless ethical principles—such as wealth purification and socio-economic justice—can be adapted to address financial complexity. The study also clarifies how NAV and market value methodologies can coexist, depending on investor behavior and institutional disclosure practices. It further outlines how the classical doctrine of *khultah* supports corporate zakat calculation, especially in jurisdictions with robust zakat governance.

In terms of practical implications, the paper identifies the strengths and limitations of three institutional models: corporate zakat collection, individual responsibility, and hybrid approaches. Each model offers unique advantages, but the hybrid model emerges as the most balanced, combining institutional facilitation with individual moral agency. The research underscores the need for harmonized disclosure standards, investor education, and cross-jurisdictional regulatory collaboration to support operational zakat integrity in Islamic capital markets. By bridging doctrinal fidelity and institutional feasibility, the findings lay a foundation for standardized, scalable, and ethically grounded zakat frameworks in global Islamic finance.

CONCLUSION

This study has articulated a normative and operational framework for zakat on sharia-compliant stocks by integrating classical jurisprudential foundations with contemporary financial realities. It affirmed that equities constitute zakatable wealth when assessed through the principles of *fiqh mu‘āmalāt* and the objectives of *maqāṣid al-sharī‘ah*, particularly in terms of ownership, value, and growth potential. The research differentiated zakat methodologies based on investor intent, endorsing both the market value approach for trading assets and the net asset value approach for long-term investment holdings. These dual pathways reflect the jurisprudential flexibility necessary to address the complexities of modern asset structures.

By critically evaluating corporate, individual, and hybrid models of zakat collection, the study underscores the importance of aligning institutional efficiency with individual religious accountability. The hybrid model, in particular, presents a viable mechanism for balancing ethical commitment with operational feasibility, fostering greater compliance and transparency. Practical recommendations include developing standardized zakat disclosures, enhancing

financial literacy, and harmonizing regulatory frameworks across jurisdictions. Future research should further explore the empirical application of this framework, focusing on behavioral responses, corporate governance outcomes, and its scalability within global Islamic capital markets. In doing so, zakat can be revitalized not only as a personal obligation but as a systemic tool for distributive justice in Islamic finance.

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