

Corporate Zakat in Practice: Legal and Regulatory Perspectives from Muslim Jurisdictions

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ABSTRACT

Corporate zakat, the obligation for businesses to give a portion of their wealth in charity has become an important topic as Islamic finance continues to grow globally. While zakat is traditionally seen as a personal duty for Muslims, many scholars and regulators now argue that companies, especially Islamic Financial Institutions (IFIs), also carry this responsibility. However, how corporate zakat is applied and enforced varies greatly between countries. This paper explores how corporate zakat is practiced in several Muslim-majority countries, including Kuwait, Saudi Arabia, Yemen, Malaysia, and Indonesia. It looks at the legal frameworks, religious rulings (fatwas), and regulatory bodies that guide zakat payments in these places. In some countries, corporate zakat is mandatory and enforced by law, while in others it is treated as a voluntary act based on religious advice. By comparing different national approaches, the paper highlights both the progress and the challenges in making corporate zakat a reliable part of business practice. It also discusses ongoing debates about whether companies, as legal entities, can be truly held accountable for religious duties like zakat. The findings suggest that clearer laws, stronger institutional support, and better public understanding are needed to make corporate zakat more effective and consistent across the Islamic world.

Keywords: Corporate Zakat, Islamic Finance, Shariah Compliance, Zakat Regulation, Muslim Jurisdictions.

INTRODUCTION

Zakat, one of the fundamental pillars of Islam, serves as both a spiritual and socio-economic mechanism aimed at wealth redistribution and poverty alleviation. While its application among individuals is well established in Islamic jurisprudence, the obligation of zakat upon corporate entities, particularly Islamic Financial Institutions (IFIs) and Shariah-compliant companies has become a subject of increasing scholarly attention and legal inquiry. As contemporary Muslim-majority jurisdictions deal with aligning religious obligations with modern corporate structures, the administration, enforcement, and standardization of corporate zakat have become as critical issues.

This paper explores the legal and regulatory landscape governing corporate zakat practices across selected Muslim jurisdictions, including Kuwait, Saudi Arabia, Yemen, Malaysia, and Indonesia. Through a comparative analysis, it highlights how different countries interpret and operationalize corporate zakat within their respective legal frameworks, treating it either as a mandatory fiscal obligation or a voluntary religious duty. Special attention is given to the role of institutions such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), national fatwa councils, and state zakat bodies in shaping policy and practice.

This study seeks to enhance the understanding of corporate zakat's evolving role in modern Islamic economies by putting it within the broader contexts of Islamic finance, which are corporate governance and legal pluralism. It also highlights key challenges such as uneven enforcement, differences in laws between countries, and ongoing debates about whether companies can truly be held responsible for religious duties like zakat.

Corporate Zakat Administration

The corporate zakat is mainly imposed on Islamic Financial Institutions (IFIs) and other Shariah-compliant companies. The international regulatory institution for IFIs, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), resolved that it is compulsory for the IFIs to pay corporate zakat (AAOIFI, 2010). According to this standard, IFIs are obliged to pay zakat under the following circumstances: (i) enactment of an enforceable zakat law, (ii) stipulation of commitment to pay zakat in the articles of the company, and (iii) dissemination of zakat commitment resolution by the shareholders in the annual general meeting (AGM). Nevertheless, AAOIFI does not have the authority to enforce standards on IFIs, which remain voluntary in some countries, including Malaysia (Romzie Rosman et al., 2019). Thus, there is still an issue of corporate zakat commitment among the IFIs due to its voluntary nature as well as the lack of enforcement power by the zakat administrators.

Zakat in Kuwait is managed by the Ministry of Waqf and Islamic Affairs and the Ministry of Finance under Kuwaiti Zakat House as part of the tax system (Mahadi Ahmad et al., 2015; Obaidullah & Mohammed Obaidullah, 2016). The Zakat House was established under the Kuwaiti Zakat law no. 5 of 1982, as a semi-autonomous body. Zakat law no. 5 of 1982 makes it voluntary for individuals, organisations, and government annual aid to pay zakat, whilst the Zakat law of 2006 makes it mandatory for companies to pay zakat. According to Article 1 of the law, the Kuwaiti shareholding companies (closed) must pay 1% of their annual net profits either as zakat to the zakat house or as a contribution to the government budget. Companies paying zakat do not have to contribute to the tax, which only foreign companies need to obey. Further, this law allows the companies, when submitting the declarations of the due amount accompanied by their financial statements, to specify the percentage of zakat from the paid sum.

There is no stipulation concerning the method of zakat computation, and it is left to the company to decide what percentage of its due amount is to be contributed to the form of zakat and the balance as income tax (Obaidullah & Mohammed Obaidullah, 2016). The zakat and tax system integration is also practised in Saudi Arabia under the Department of Zakat and Income Tax (DZIT) (Andriani & Mairijani, 2019). Saudi Arabia was the first country to formulate an Accounting Standard for Zakat (AS-013), issued by the Saudi Organisation for Chartered and Professional Accountants (SOCPA) in 1999. The AS-013 by SOCPA16 guides companies' recognition, measurement, presentation, and disclosure of corporate zakat (Obaidullah & Mohammed Obaidullah, 2016). The companies are encouraged to commit to the corporate zakat they pay since the standard helps them to highlight the proportion of zakat they make. Proper zakat disclosure can attract many stakeholders, be it shareholders, customers, and employees to keep supporting the companies.

Meanwhile, in Yemen, tax revenues are collected and administered on behalf of the government by two entities. The General Directorate of Zakat Obligation (GDZO) collects and administers Zakat, while the Yemeni Tax Authority (YTA) collects and administers conventional taxes. There is no direct administrative connection between these two entities. Both authorities are responsible for enforcing and collecting zakat and taxes from individual and corporate taxpayers, as well as ensuring respective compliance with zakat and tax laws. In contrast to other Muslim-majority nations, such as Malaysia, Yemeni individuals and corporations are required to pay zakat to the government. In addition, both the GDZO and the YTA are responsible for determining whether taxpayers have paid their zakat and taxes in accordance with the zakat and tax laws (Obaid et al., 2020). The low level of tax payments by individuals and corporate taxpayers in Yemen is due to the perception that they need to pay double taxation and the lack of trust in the government. As a result, the government did not have adequate revenue for public expenditure.

The administration of zakat in Malaysia is governed by the States Islamic Religious Council (SIRC) or the Zakat Collection Centre of the respective states. The SIRC was established to centralise all religious matters' administration at the state level, including collecting and distributing zakat. According to the Malaysian Federal Constitution, religious affairs fall under state jurisdiction or the sanction of its Sultan. Thus, the administration of zakat falls under the authority of the respective states, including the method of collection, zakat disbursement, execution, and degree of enforcement. Malaysia is one of a few countries in the world that considers zakat payment to be tax-deductible. According to Section 44 (11A) of the Income Tax Act 1967, the

amount of zakat paid by a company is considered a rebate of up to 2.5% of the aggregate income (Obaidullah & Mohammed Obaidullah, 2016).

In Indonesia, the Council of Indonesian Ulama (MUI) is the main Islamic authority, and its power includes evaluating and assessing any policy before being approved for fatwa purposes (Alfitri, 2015). An issue needs to go through a rigorous assessment by the Ulama before being endorsed as a fatwa. For instance, the religious law under the State needs to go through the MUI to be endorsed as a fatwa. Fatwa held a higher position of enforcement than the law. One of the policies that did not pass as the fatwa approval is the corporate zakat. The Zakat law of 1999 and 2011, which is under the power of the State, continue to be in practice with weak enforcement of voluntary implementation of corporate zakat. The IFIs as one of the companies that adhere to the corporate zakat obligation do so based on their type of business that is shariah related industry, their attitudes towards the principle of zakat, the size of the company, and their benchmarking with the competitors. Corporate zakat has been announced as mandatory to pay once the conditions are fulfilled, and companies can pay zakat as a legal entity (*syaksiyyah I'tibariyya*) or as the shareholders' representatives.

Corporate zakat obligation

One of the pressing issues debated among Muslim scholars is whether companies are obliged to pay zakat. These debates revolve around the concept of legal entities. Legal entity granted legal capacity upon a corporation, which affects exclusively individuals. In their study on the potential of corporate zakat in Malaysia, (Muhammad Ikhlas Rosele & Abdullah, 2015) discovered two concepts of legal entities: *dhimmah* and *ahliyah* concepts. *Dhimmah* refers to identity or an abstract legal attribute, certifying a person to possess rights and perform obligations; meanwhile, *Ahliyah* or legal capacity signifies an individual's eligibility to have certain rights and discharge duties. Based on the solid argument among jurists on the capacity of corporations in a legal capacity, companies are obliged to pay zakat whenever the conditions necessitate (Muhammad Ikhlas Rosele & Abdullah, 2015). The conditions can be subjected to the different countries' regulations, laws, and enactments that require companies to do so (Mohammed Obaidullah 2016).

The first obligation for companies to pay zakat as mandatory was decided in April 1984 in Kuwait's first zakat conference known as International Mukhtar I. The decision then becomes the basis for corporate zakat obligation in other countries. In his study on revisiting estimation methods of business zakat and related tax incentives, Mohammed Obaidullah (2016) mentioned that the corporate zakat in Kuwait is mandatory for public and closed-listed shareholding companies. This mandatory zakat is also imposed on Saudi Arabian companies, especially listed companies, except for the founding shareholders (Andriani & Mairijani, 2019). Companies in Kuwait are required to pay zakat at the rate of 1% on annual net profit before the Board of directors' remuneration with exceptions given to government-owned companies, companies listed in the laws, and foreign entity companies. Companies need to submit declarations of the due amount accompanied by their financial statements, specifying the percentage of zakat from the total zakat and taxation paid. Companies that refuse to pay their dues or fabricate data to avoid zakat payment will be punished, with either a maximum of 3-year imprisonment or a maximum of 5000 Dinars (Andriani & Mairijani 2019).

The Ministry of Finance of Saudi Arabia issued new corporate zakat regulations, effective on fiscal years beginning on or after 1 January 2019 (Bourke 2021), as part of the precaution for non-conformance. The new regulation's objective is to explain the corporate zakat terms thoroughly, such as the payer, measurement, and resident status. The term zakat payer is linked to the concept of resident or permanent establishment, which formerly meant corporate taxation (Izlawanie Muhammad, 2019). The idea of permanent establishment helps decide whether non-resident Saudi or Gulf Cooperation Council national companies would be subject to zakat or not. Two of these three conditions must be fulfilled; the board of directors holds regular meetings in Saudi Arabia, executive decisions are made in Saudi Arabia, or a non-resident permanent establishment earns more than 50% of its revenue from Saudi Arabia (Bourke 2021).

In Malaysia, the obligation of corporate zakat was resolved by the Muzakarah of Fatwa Committee, National Council of Islamic Religious Affairs, during its 31st meeting on 9 December 1992 (Zuhairah Ariff Abd Ghadas, 2019). It was decided then that companies are obliged to pay corporate zakat. However, companies need to meet these conditions: i) free Muslims own the business; ii) full ownership; iii) the amount of wealth is

equal or greater than the nisab; (iv) the wealth has been possessed for one year (haul); and (v) the rate of zakat on business is 2.5%. Other similar fatwas on corporate zakat issued in Malaysia are as follows:

1. Muzakarah of Fatwa Committee, National Council of Islamic Religious Affairs, Malaysia (2001) – IFIs and shariah-compliant firms have to pay zakat.
2. Muzakarah of Fatwa Committee, National Council of Islamic Religious Affairs, Malaysia (2001) and Selangor Fatwa Council (2004) – corporate zakat is imposed on Muslim shareholders.
3. Selangor Fatwa Council (2003) – firms and consulting firms are obliged to pay zakat.
4. Selangor Fatwa Council (2003) and National Fatwa Council (2005) – Felda and its members are obliged to pay zakat.
5. Muzakarah of Fatwa Committee, National Council of Islamic Religious Affairs, Malaysia (2003) – companies owned by Tabung Haji must pay zakat.

In addition to the decision made by the Muzakarah of the Fatwa Committee, corporate zakat practices in Malaysia have also been influenced by various regulatory bodies. As a result, the types of companies required to pay corporate zakat can differ, especially between private and public companies. Therefore, the regulators are among the standard setters such as the Malaysia Accounting Standards Board (MASB) and AAOIFI together with the Inland Revenue Board (IRB). For instance, MASB did issue Technical Release i-1 (TR i-1), Accounting for Zakat on Business which emphasis the needs for company paying zakat to recognise it as part of the company's expenses. Whilst companies that decided to utilise the zakat contribution as part of their Corporate Social Responsibility (CSR) will also claiming for the CSR deductions from their tax expenses that need to be paid to IRB.

Whereas for FI, the body including the Bank Negara Malaysia enforced the Shariah Listed companies to pay zakat as part of the Shariah compliance that the companies shall reflect upon. Therefore, the imposition of various decisions affects the companies differently. Due to that, many corporate zakat paying companies look upon other companies internationally for the corporate zakat best practices especially companies from Muslim countries.

Compared to the mandatory corporate zakat obligation in Kuwait and Saudi Arabia, there is no federal law or enactment in Malaysia on corporate zakat. In other words, corporate zakat in Malaysia is not mandatory. Nevertheless, the practice of Islamic matters in Malaysia, including zakat, is placed under the State administration. Interestingly, although religious matters in Malaysia are under the State administration, the State is not enforcing any form of religious regulations. As a result, although decisions were made by the Muzakarah of Fatwa Committee that companies that fall under (i) to (v) above are obliged to pay zakat, the State administrations are not taking the necessary action to penalise disobliged companies.

Table 1 below illustrates the timeline for the corporate zakat obligation practices in Malaysia. The requirements varies from the Muzakarah, Fatwa, MASB, AAOIFI and Bank Negara Malaysia.

Table 1: Timeline for corporate zakat obligation

Years	Events	Decision
April 1984	International Muktamar I, Kuwait (Zakat Conference)	The first obligation for companies to pay zakat.
9 Dec 1992	Muzakarah of Fatwa Committee	Corporates are obliged to pay zakat when fulfil the conditions: Free Muslim full ownership Nisab The wealth has been possessed for a one-year haul Rate of 2.5%
2001	AAOIFI FAS 9	Financial Accounting Standard 9 on Zakat
	MASB FRSi-1	Presentation of Financial Statement of IFI

2003	Selangor Fatwa Council	Companies and consulting companies Felda and its members.
	Muzakarah of Fatwa Committee	Companies owned by Tabung Haji.
2004	Selangor Fatwa Council	Corporate zakat is imposed on Muslim shareholders.
1 July 2006	MASB – Technical Release (TR)i-1	counting for zakat on business
26-28 November 2008	AAOIFI Shariah Standard 35	Islamic financial institution is obliged to pay zakat under the following circumstances: enactment of an enforceable zakat law, stipulation of commitment to pay zakat in the articles of the company, and dissemination of zakat commitment resolution by the annual general meeting
2019	Bank Negara	Financial Reporting for Islamic Banking Institutions. Value-based Intermediation Financing and Institution Impact Assessment Framework
2021	MASB - statement of Principle i-1 (SOP i-1)	Financial reporting from an Islamic perspective

This scenario is similar to the practice in Indonesia whereby the State is not able to enforce any form of religious regulations in Indonesia, despite religious matters being under the State administration (Andriani & Mairijani 2019). Through the enactment of Indonesian Law No. 38 of 1999 and its replacement, i.e., Law No. 23 of 2011, zakat became an aspect of Islam that is officially administered by the Indonesian state. However, the law is mainly a procedural framework for Muslims who want to observe this religious duty. It does not impose an obligation on Indonesian Muslims to pay zakat but is limited to establishing and supervising zakat agencies, both state-run and non-state organisations. In the corporate zakat obligation, the imposition of corporate zakat means that it is a duty imposed by Islam, not the state. For example, in Art. 2 of Law No. 38 of 1999, “[e]very citizen of Indonesia who is Muslim and is able [to pay zakat] or a legal person owned by a Muslim has an obligation to pay zakat.” Articles 1(2)(5) and 4(3) of Law No. 23 of 2011 maintain this clause. Law No. 38 of 1999 also does not include penalties or other coercive mechanisms to compel zakat payment for either natural or legal persons. However, Law No. 23 of 2011 provides sanctions for unauthorized zakat collectors who collect, distribute, or utilize zakat funds: imprisonment and/or monetary fines (Art. 38 and Art. 41).

Given the debate about the corporate zakat status, the Council of Indonesian Ulama (Majelis Ulama Indonesia; hereinafter MUI) as a forum of cross-Islamic social organisations of Indonesian Islamic scholars issued a decision, stating that MUI considers it as an obligation. However, MUI has not yet promulgated that decision as a fatwa. The decision was reached during the 2009 Ijtima Ulama (gathering of scholars) of all Indonesian Fatwa Commission of MUI and Islamic organisations (hereinafter Ijtima Ulama). MUI decreed that a company that meets the requirements of a zakat payer is liable to pay zakat, whether in its capacity as a legal person (*shakhshiyya i ‘tibariyya*) or as an agent (*wakil*) of the shareholders (Andriani & Mairijani, 2019).

CONCLUSION

Corporate zakat occupies a complex intersection between religious obligation and legal regulation, highlighting the wider struggles between Shariah principles and contemporary corporate structures. While countries like Kuwait and Saudi Arabia have clear laws that require companies to pay zakat, others like Malaysia and Indonesia take a more flexible approach, depending on religious guidance and institutional support rather than strict legal enforcement.

The comparison reveals that despite the variation in the legal traditions and levels of enforcement, there is increasing awareness in different places that corporate zakat can help ensure fair sharing of wealth and greater responsibility among companies. However, the absence of clear, consistent rules, weak enforcement, and ongoing debates about whether companies can truly be held responsible like individuals still make it difficult to apply corporate zakat uniformly.

To improve corporate zakat practices around the world, this paper suggests the need for more consistent standards, better cooperation between governments and religious bodies, and deeper research into both the religious and economic principles behind zakat. These efforts are essential to help corporate zakat serve its purpose both as a religious duty and to promote social and economic fairness in Muslim communities.

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