

## Zakah Estimation in some Muslim Countries

### INTRODUCTION

The Qur'an asserts that *zakah* is a means of purification and sanctification of Muslims<sup>1</sup>. It thus, natural that considerable attention is given to *zakah* throughout the Muslim world today. theoretically speaking, Muslim economists and writers assign to *zakah* an essential role in constructing their Islamic economic theories and ideas. As one of the five pillars of Islam, *zakah* is indeed a cornerstone of the Islamic economic system, and "the most important fiscal and distributive mechanism of an Islamic economy"<sup>2</sup>. Although *zakah* is not the only fiscal tool, more the sole instrument of public revenues,<sup>3</sup> it provides the base of the fiscal system and defines its scope of operation within the general framework of the Islamic economy", adds Faridi<sup>4</sup>.

In practice, the explanatory memorandum of the *zakah* act of 1984 in Sudan, considers *zakah* "the essential pillar of the Islamic economy"<sup>5</sup>, and the Constitution of Pakistan provides for a "proper organization of *zakah*" to be secured by the State.<sup>6</sup>

It must be noted at the outset of this study that I do not aim at discussing the *fiqhi* opinions and positions for their merits, justification or their worth, nor do, want to select from among them the most suitable or most authenticated opinions. This is not a study of the *fiqh* or *zakah*. It is rather an estimation of its potential proceeds. Therefore, we will site views, opinions and practices, without discussing their merits, only for the purpose of facilitating our estimation tasks.

Several Muslim countries enacted laws of *zakah*. These include Saudi Arabia (1951), Libya (1971), Jordan (1788), Bahrain 1979, Pakistan (1980), Kuwait (1982)

---

<sup>1</sup> See the Qur'an; 9:103.

<sup>2</sup> F.R. Faridi, "A theory of fiscal policy in an Islamic Sate" in Fiscal Policy and Resource Allocation in Islam, Z. Ahmad, M. Iqbal and M.F. Khan, ed. International Center of Research in Islamic Economics, Jeddah, 1983, p.29.

<sup>3</sup> It is revenue that is earmarked for special categories of recipients.

<sup>4</sup> F.R. Faridi, "Theory of Fiscal Policy in an Islamic State" in Journal of Research in Islamic Economics, Vol. No. 1, 1983.

<sup>5</sup> Explanatory Memorandum of the temporary Ordinance of the act of *Zakah* and Taxes, 1984, p.2.

and Sudan (1989, 1990), in addition to Yemen Arab Republic whose tradition of *zakah* practices goes back uninterruptedly to the time of the Prophet Muhammad when he sent Mu'alh Many centuries ago. although, three of these countries (Jordan, Bahrain and Kuwait) provide for only a voluntary collection of *zakah*, the fact that legislations are launched and governmental organizations are created for the collection and distribution of *zakah* is in itself a significant indication that several Muslim countries are recognizing the importance of reinstating *zakah* as socio-economic phenomenon.

In this paper, the author intends to estimate the *zakah* proceeds and to investigate the extent of its potential effects on the economic sphere with direct reference to the economies of a few Muslim countries. While recognizing the importance of the social and religious effects of *zakah*, their consideration is left outside the scope of this study, simply because certain limits must be imposed on any research in order to make it feasible and within the means of the researcher. Selection of countries to which this study refers is done on the basis of several factors including mainly: availability of information, adoption of *zakah* laws, diversification of economic activities, economic grouping, and the geographical location. Selection is done only among the IDB member countries.

The plan of this research calls for estimating the potential magnitude of *zakah* proceeds in each of the studies Muslim countries and analyzing its potential effects on the macro economy and fiscal policy. In each of these estimation and analysis, the bulk of theoretical study represents a background and a base. Thus, the state of the art on the subject is briefly reviewed in the process of deriving definitions of *zakah* base and applicable rates with no intention of solving any theoretical controversy or inconsistency, but for the purpose of discovering operational definitions of the *zakah* base and *nisab*. Lastly, latest available data will be used.

Several difficulties face this kind of study. These come mainly from two major sources: Firstly, the lack of agreement about *zakatability*, rates to apply and collection procedure of many items of wealth and income. This lack of agreement is manifested

---

<sup>6</sup> Ordinance No. 18 of 1980, State of Pakistan, p.2.

on the theoretical level of research and publications as well as on the practical level of legislation. And secondly, the lack of statistical data relevant to *zakah* calculation, especially statistical information about distribution of different items of wealth and income.

Consequently, the present study consists of three parts, respectively devoted to defining *zakatable* items, estimating *zakah* proceeds in a few Muslim countries and elaborating the effects of collection and distribution of *zakah*. Problems relate to fitting available data to requirement of estimation of *zakah* shall be tackled in part two via several assumptions.

DO NOT COPY

## DEFINITIONS OF *ZAKAH*-BASE AND RATES

In this part, our objective is to put together the different definitions of the different kinds of assets and income that are subject to *Zakah* and their respective rates.

## DISCREPANCY BETWEEN *FIQHI* OPINIONS AND LIVING REALITIES

Obviously, we have one hand a tremendous number of texts and jurists' opinion about *zakah* on livestock, certain agricultural products, silver and gold, and trade merchandise. Roving through these texts and rulings one may lend himself to the feeling that the task of finding operational definitions of what is subject to *zakah* is an easy one. But the reality is somehow quite different for several reasons among them are the following:

1. The complexity of production, transaction and distribution processes creates many new items of income and wealth that are not mentioned in those texts and rulings such as rubber in agriculture, buffalo in livestock, different kinds of monetary accounts held by the banking system and other financial intermediaries and the whole industrial and services businesses. It is true that such new items must be dealt with in the light of the authentic texts through the means of derivation that are discussed at length in the courses of jurisprudence axioms and principles know as "*Usul al fiqh*". But it is exactly here where one finds a spectrum of opinions which makes it more difficulty to derive operational definitions of what is subject to *zakah* and what is not.
2. Technological advancement and mechanization, since the industrial revolution ..... date changed the relative weights of different economic activities. Today, for instance, the industrial production and finance sectors generate more income and uses more wealth to private individuals than animal husbandry and agriculture all over the world including Muslim counties. Thus, now-a-days, individuals engaged in industry, services and finance are usually the richest in terms of both their stock of wealth and their flow of income. Consequently,

differences of opinion about the scope of coverage of *zakah* over these sectors result in wider differences in potential *zakah* proceeds.

3. Naturally pastured livestock and main agricultural crops represent the two sectors about which one can rely on clear-cut texts and jurisprudence rulings. In most Muslim countries, these two sectors provide economic employment to a large segment of the population which is mostly the poorest. Recognizing the few exceptions, of which Pakistan's large land holdings is one, this peculiarity creates a situation in which the poorest classes are unanimously subject to *zakah* while most of the wealthiest classes remain in the shade as far as *zakah* is concerned. This certainly lowers the *zakah* proceeds.

4. Furthermore, the cost of collection of *zakah* on naturally pastured livestock and main agricultural crops is usually high because of several reasons, namely: vast area, inefficient transportation, lack of accounting procedures, collection in kind and its hazards, poor, or lack of storage facilities, ethical conduct of collectors and payers, etc. In contrast to duties on the richest sectors, especially, finance where accounting records are usually kept in a way that fairly represents the truth, the cost of collection of *zakah* on agriculture is much higher. This led certain governments to seeking collection in money terms on livestock, while others resort to leaving *zakah* on livestock to personal direct distribution by the owner and sufficing themselves with collection *zakah* on the financial and monetary sector.<sup>7</sup>

5. Progress in economic organization and the event increasing monetization of national and international economies create high degree of transformability and mobility of wealth. Wealth is today transformable from one kind to another at high speed and minimum cost as compared to the time of the Grand Jurists. This speed was tremendously increase by the information revolution. This creates a gap filled by confusion and hesitation, between contemporary scholars, in regard to the *zakah* base. While some theoreticians argue that *zakah* system determinedly favors certain forms of assets and investments either by exempting them from *zakah* or by

---

<sup>7</sup> The Act No.35 of 1994 in Jordan provides for monetary collection of *zakah* on livestock. See Muhammad Uqlah, research paper on *zakah* printed without title in the proceedings of the first *Zakah* Conference, 1404H, Kuwait, Vol. 1, pp.67-68. In Pakistan, the *Zakah* and *Ushr* Ordinance of 1980 excluded livestock from compulsory collection. See the mentioned Ordinance, first and second schedules.

lowering the rate applied to them,<sup>8</sup> a few writers responded by applying *zakah* on virtually all new forms of wealth.<sup>9</sup>

## **ZAKAH-BASE**

By *zakah*-base, we mean all items subject to *zakah*. But before studying the alternative definitions of *zakatable* items, three important points must be made clear. These relates to classification, the public sector and the estimation in value.

## **CLASSIFICATION OF ZAKATABLE ITEMS**

The traditional way of classifying these items is to sort them according to the availability of texts (of the Qur'an and *Sunnah*) and jurists' agreement. Jurists usually follow this way of sorting, thus livestock comes first because there are several authentic saying providing, sometimes even the minute, details about their *zakatability*, then come main agricultural crops and fruits, followed by gold and silver and trade merchandise, etc. In his volumetric work on *zakah*,<sup>10</sup> al Qaradawi maintains this basic classification with a slight amendment. His *zakah* base is: livestock, gold and silver, trade inventory, crops and fruits, animal products, minerals, return yielding assets, wages and professional income, and finally lands and shares. This method of sorting *zakatable* item is very much justified form the *fiqh* point of view. However, the present study chooses to select a different classification of *zakatable* items based mainly on the national account system adopted by the U.N. In this proposed classification of *zakah*-base, we will divide *zakatable* items into flow and stock. Flow items of the *zakah*-base are those that appear usually in the gross and net national product accounts. They include, sequentially: agricultural products, livestock products, fishing, forestry, mining and quarrying, manufacturing, construction, electricity and gas, transportation, storage and communication, trade, banking and finance, public administration and finance,

---

<sup>8</sup> "*al Zakah Wa Mawarid fi al Iqtisadiyyah al Sudan* by Muhammad Hashim, in *Majallat al Fikr al Islami* No.17, 1989, pp.64-66.

<sup>9</sup> See for example "Some basic Issues of Fiscal Policy in Islamic Economy" by Ausaf Ahmad in *Conference Papers, Vol. 1* of the International Conference of Muslim Scholars, pp.37-43.

<sup>10</sup> Yusuf al Qaradawi, *Fiqh al Zakah*, two volumes, Dar Al Irshad, Beirut, 196.

finance, and services. In each of these sectors, the flow of income is represented by (gross or net) value added in the sector.

Stock items of the *zakah*-base cover items of capital invested in the above mentioned sectors plus items of the stock of personal wealth that are *zakatable*. This kind of classification of the *zakah*-base is more suitable to the purpose of our study because of several reasons. First and for most, it fits better within the contemporary statistical framework of the Muslim countries, and allows best use of available data. But, in addition to this we have two other strong reason in support of this classification. First, it points out clearly, and in the language and terminology of today's economic statistic the kind of information that is needed in the field of *zakah* studies by providing operational definitions that are linked to the state of mind and structure of source of information of contemporary statistics. Second, this classification shows the inadequacy of the available research about *zakah*-base in which settled disputes pertain to only one small fraction of the contemporary economy while the major sources of income and forms of wealth remain in the disputed range as far as *zakatability* is concerned. This way of classification is hoped to have the way for deepening the study and research on those areas where the focus of today's economic activity exists. In the following sections, we will discuss each of the item of *zakah*-base and attempt to put together their different possible definitions.

## **ZAKATABILITY OF PUBLIC SECTOR**

Jurists argue that *Bait al Mal* (State's treasury) is not subject to *zakah* since it is used for spending on the general interests of all Muslims, thus it is similar, in a way to the proceeds of *zakah*, themselves<sup>11</sup>. Examples, usually given of the assets of Bait Al Mal are the proceeds of *zakah* and *Ghana'im*. But the role of the sate has naturally changed, and it assumes today an important economic role in production and distribution. State-owned enterprises and corporations participate in every sector of the economy, and every sphere of life, in most Muslim countries, and their *zakatability* must be given a new thought.

---

<sup>11</sup> al Qaradawi, *ibid*, Vol. 1, p.132, and Muhammad Uqlah, *Ahkam al Zakah wa al Sadaqah*, *Maktabat al Risalah al Hadithah*, Amman, Jordan, 1982, p.25.

The essential argument given in favor of exempting the funds of *Bait al Mal* is that they are being used for the general interests of Muslims. This clearly applies to the proceeds of taxes in the public treasury. But although the state has the power of reallocating resources used in the state-owned economic enterprises, the general practice in all Muslim countries has been an expansion of funds allocated to the public-sector economic enterprises and an increase in the share of the state in the economy until the beginning of the nineties when the wave of privatization started to invade the third world countries. Since *zakah* is a special duty whose proceeds must only be used for the eight categories mentioned in the Qur'an, especially poor individuals and families, a question arises as to whether or not *zakah* should be imposed on the state-owned economic enterprises so that certain proportion of their income may be directly allocated to the welfare of the poor.

From the point of view of *zakah* proceeds' estimation, this issue is important because it poses the question of whether, or not, a distinction is needed between public and private sectors in the national products and wealth accounts. In this paper, without prejudice to any of the alternative positions on this issue, *zakah* will be estimated under the assumption that the public sectors is not subject to *zakah* regardless of whether its activity is public administration or economic production, we will make our estimation of the *zakah* proceeds.

## **VALUE ESTIMATION**

Except for trade inventory, the micro application of *zakah* requires, in principle, the payment of *zakah* in kind, grain from grain, fruits from fruits and camels from camels. Exceptions are usually mentioned as confirming the rule itself because they apply only when it is difficult to make payment in kind such as when the due amount is a small fraction of an indivisible item like the cases of small number of camels and big pieces of jewelry. But interestingly enough, recognizing the difficulty of in-kind collection on the micro level, the Jordanian Act No.35 of

1944, imposes payment in value on livestock.<sup>12</sup> However, when it comes to a macro level, estimation or even summation and reporting, the in value assessment becomes unavoidable even if actual collections is done in kind. thus, it is natural that the current study's estimation of *zakah* proceeds is in value only.

## A. ***Zakah*-base Flow Items**

### A.1 **Agriculture**

There seems to be no disagreement that agricultural land is not subject to *zakah* although it is often disputed in the literature whether land is charged via its products or not<sup>13</sup>. Yet, one must observe that with the population explosion increased demand of food and other agricultural products, mechanization of agricultural production processes, tremendous expansion of the mode of “production for the market” in agriculture, and the huge increase of the involvement of business-style corporations in agriculture, agricultural land is taking more and more the form of industrial capital. This is very similar to other forms of capital used in business and industry. The ever increasing degree of transformability of wealth from one form of asset to another and the contiguously rising level of application of business methods and strategies to agriculture increase the vale of land and make land ownership and land holding an obvious manifestation of wealth, especially when it is compared with the new (and also rising in the third world countries) form of urban represented in the “tin cities” and “stereo homeless people”. Land holding in agriculture have become one of the forms of investment available to the wealthy and the agricultural activity itself has become an “agricultural industry”. The question arises, as to whether the time has come to treat agricultural investment” including land and machinery holdings” and agricultural “industries” that, actually, take the form and strategies of large business plantations, like trade inventory and apply on them the principle of *zakah* on “*urud al tijarah*” in analogy to the case of the inventory of horses or slaves

---

<sup>12</sup> Proceedings of the first Conference on *zakah*, *Bait al Zakah*, Kuwait, 1984, p. 68.

<sup>13</sup> See al Qaradawi.

traders in the frost?<sup>14</sup> The answer of this question needs collective efforts of *fuqaha* and economists in order to show whether the real and factual change in the modes of production have/have not an impact of the *zakatability* of such new forms of assets.

There are several opinions in regard to the *zakatability* of agricultural products, ranging from restricting *zakah* to the four crops mentioned in the saying of the Prophet (P), i.e., wheat, barley, dates and raisin, to covering all agricultural products. Consequently, the following definitions are suggested with regard to the agricultural sector of GDP statistics.

A.1.1. Only wheat, barely, dates, and raising are *zakatable* after allowance is made for small producers, i.e., those whose output is *bebn misal* after taking into consideration the amount of output that is required to fulfill their basic needs.

A.1.2 Only all food grain are subject to *zakah* producers.

A.1.3 All agricultural products after allowances is made for small producers.

A.1.4. All agricultural products regardless of size of producers, (since Abu Hanifah does not behave in *nisab* for agricultural output).

Definition A.1.1. represents the view of Ibn Umar and a few other great scholars.

Definition A.1.2. is an operational variant of Shafi'i Malik and Ahmad's views, it differs from al Shafi'i and Malik's in that it excludes dates and raisin. *Zakah* on these two items is assumed to be paid by individuals directly instead of collecting it by the state. This assumption is made because detail information on these two items is not available to us in this study, and their production is

---

<sup>14</sup>Al Qaradawi mentions that Umar, the second Khalifah imposed *zakah* on horses (Vol... p...), and it is known in *Shari'ah* that once an otherwise exempted asset is taken as an inventory of trade, it may turn into a *zakatable* item (with the known controversy about the change of intention) from possession to trade and vice versa).



Furthermore, money value of agricultural, as well as non-agricultural, products is considered throughout this study. In part two relevant assumptions concerning *nisab* and cost of subsistent living will be introduced.

Lastly, in all studied countries the agricultural output by state owned public enterprises is assumed null. This means that we are assuming that agricultural products fall under the private sector completely and government support of agriculture is done outside the field of actual crop production.

Figures that usually appear in national product accounts represent change of stock of livestock plus dairy, egg, meat, and other animal products. However, finding and convenient statistical definition of the livestock flow requires taking certain considerations into account.

First, the application of natural pasture condition - which is according to al Qaradawi - required by the majority of scholars<sup>17</sup>, would make essential impact on *zakatability*. Natural pasture is defined by al Qaradawi as “being fed by free pasture in contrast to feeding at cost<sup>18</sup>. Free animal feeding applies only to sheep and camels raised by nomadic and semi-nomadic population where milk and meat products are usually unmarketed and thus uncovered by the national accounts statistics. Free grazing exists also in villages on a small scale by small size owners. But the products of such animals can be safely assumed away either by complete exclusion from *zakah* -base on the ground of being casually produced by animals left for farm work and used as food of owners and immediate family members, or by being below the figure set as *nisab*. Only the other hand, livestock living on dairy farms - mainly cattle and sheep - are fed at cost and used as fixed assets of the dairy and meat industry. Consequently, their products are not *zakatable* under the title of *zakah* on animals, except for the portion of the added value which represents the increase in the stock of animals; and here also only according to the minority view which applies *zakah* on at-cost-fed livestock.<sup>19</sup>. Thus, in applying *zakah* on dairy and meat industry, reference must be made to *zakah* on the return of

---

<sup>17</sup> Al Qaradawi, pp. 170-171.

<sup>18</sup>

<sup>19</sup> Among them is Mali, *ibid.*

fixed assets used in industry and their *zakatability*. This will be discussed later, and the definitions suggested, here, are based on the discussion that follow in the coming few paragraphs.

Secondly, the application of *nisab* does not pose a difficult problem on the calculation of *zakah* on the flow of livestock because of the following points.

For natural production, *nisab* applies on the mother i.e. the stock and not the flow.

For milk, eggs and meat marketed by small indented farmers, it seems reasonable to assume that because of their poverty, either their production is very small, i.e., does not exceed the amount needed to satisfy their basic needs, or produced by a stock of animals that is itself below *nisab*. In both cases, such income is not *zakatable*.

Lastly, for livestock and poultry farms, the assumption that all their income is above *nisab* seems sound and justifiable.

Thirdly, the part of value added in livestock sector which comes from natural reproduction can be accounted for in one of the following two ways:

1. Either with their mothers when the mothers are *zakatable*, or
2. With the livestock products as they appear in the national product accounts.

With this, we may proceed to suggesting certain definitions of the *Zakah*-base in this sector:

A.2.1. Only the increase in the stock of free-pastured animals during the year, except for small producers.

A.2.2 All the increase in the stock of animals during the year except for small producers.

A.2.3. Definition A.2.1. represents the opinion of the majority of scholars, that *zakah* is only on freely pastured animals, and that fixed capital's income is *zakatable* only after a year passes while it is still in the possession of earners<sup>20</sup>.

Definition A.2.2. represents the opinion of Malik and some others, while definition A.2.3 suits the opinion of al Qaradawi as well as Ibn Uqail and those who believe that the principle of *zakah* on “*Urud al Tijarah*” applies on industrial investment.

### A.3. Fishing

Holding that fishing industry is usually exercised on business scale, only small producers must be assumed not *zakatable*, on the ground that their products can hardly satisfy their basic needs. Thus the definitions of *zakatable* based must be :

A.3.1. All net value added in this sectors except labor income; allowance for small income earners must also be given.

A.3.2 Only the increase of stock of products ready for sale (like inventory of frozen fish).

Definition A.3.1. accommodates the opinion of al Qaradawi which requires *zakah* be paid at a rate selected by the legislative authority in the Islamic state (which may vary from 20%, in analogy to 2.5% in analogy to money)<sup>21</sup>

---

<sup>20</sup> See for example *Mukhtarat min Fatawi al Zakah* (selections of *zakah* religious opinions) part one published by *Bait al Zakah al Kawaiti*, 1983, *Fatwa* No.2, 3 and 6. Also *Fatwa* of the Greatest Mufti in Saudi Arabia, 1375, in *Dalil Rijal al A'mal fi al Zalaj*, (guide of businessmen about *zakah*, published by the Chamber of Commerce and Industry, in Jeddah Saudi Arabia, 1403H, . 25. See also *Majmu'at Anzimat Daribah... and Zakah* (collection of Regulation of tax... and *Zakah* Finance Ministry, Saudi Arabia, p.616.

<sup>21</sup> Al Qaradawi, *op.cit.*, Vol. 1, pp. 452-456. It should also be mentioned that it is possible to apply the *zakah* on the return of exploited assets in fishing industry, and determining the rate at 5% of net value added (except for labor income which is subject to 2.5). This will also be in coherence with al Qaradawi's view, *ibid*, pp. 457-486. Definition A.3.1. still accommodates this view.

It also accommodates the opinion that treats fishery as a form of business venture like other businesses which is subject to *zakah* on capital plus income.

On the other hand, definition A.3.2. is consistent with the majority's opinion that the only flow items that are *zakatable* come from increments in the stock of what is readied for sale, obviously along with this stock itself.

#### A. **Forestry**

Lumber and timber production are not subject to *zakah* according to the majority's view, but according to Dawud, they must be *zakated* like other agricultural products. Additionally, lumber mills are factories in the forest sector and should be treated like other businesses. Also, *zakah* on labor income appears here like all other flow sectors. Thus, the following definitions are suggested:

A.4.1. : Value of unprocessed lumber and timber.

A.4.2 : Value added except labor income.

In both these two definitions, allowance should be made for small producers and small income earners.

A.4.3 : Value of increase in inventory of finish-merchandise of lumber and timber mills.

#### A.5 **Mining and Quarrying**

Since differences about *zakah* in mining and quarrying focus mainly on the applicable rates<sup>22</sup> one definition of the *zakah*-base may be sufficient in the sector.

---

<sup>22</sup> Differences about the base are of a nature that is quite unsuitable to any contemporary economy. Jurists had opinions of whether only extracted gold and silver are subject to *zakah*, or must *zakah* cover similar ores or all extracted ores. Al Qaradawi comments that if these jurists would see the importance of mining industry today they would all agree on the *zakatability* of all minerals. *Fiq al Zakah*, p. 439.

A.5.1 All value added in the sector except labor income, taking into consideration that allowance is made for small producers. This definition fits the opinion most accepted by scholars of imposing *zakah* on the net flow of income in this industry. It also provides room for calculation of *zakah* on labor income as a separate item.

## A.6 **Manufacturing**

Two main opinions are distinguished with regard to the flow of *zakah*-base in the sector of manufacturing. The first imposes *zakah* on the increase of a part of circulating capital which consists of the total of the inventory of finished goods plus debts on others plus cash net of loans' liabilities. And the second imposes *zakah* on the net value added except labor income<sup>23</sup>. Consequently, two definitions accommodate these two opinions, namely:

A.6.1. the increase in the total of finished goods, increase in cash and increase in (debt minus loan liabilities), and

A.6.2 value added from other than labor, plus labor income.

Certainly in these two definitions allowance is given for small producers and small income earners<sup>24</sup>

## A.7. **Construction**

The flow of net (or gross) national product in this sector includes both residential and non-residential. Thus, while this flow will eventually be used in different ways from the *zakatability* points of view, the value added by the construction industry has a labor income component and a profit and capital return component. None is *zakatable* according to the majority.

---

<sup>23</sup> Al Qaradawi believes that labor income is also *zakatable* but at a different rate, *ibid.*, p.519.

<sup>24</sup> Notice that definition A.6.2. can be used with a rate of 5% along or 2.5% along with its capital.

Yet applying the view of al Qaradawi in regards to *zakah* on industry and on labor income, the value added of the construction industry becomes *zakatable*. Equally, the same is *zakatable* according to the view that imposes *zakah* on industry's capital and return together . Thus, the suggested definition of the flow base of *zakah* in this sector becomes:

A.7.1. All value added in the industry minus labor income, and labor income, taking into consideration the necessary allowance for small producers and income earners.

#### A.8 and 9 **Gas, Electricity and Water Sector and Storage facilities sector**

Since the controversy about *zakah*-based in trade centers mainly on trade's fixed assets<sup>25</sup>, the value added in this sector does not pose any problem for the definition of *zakah*-base. Yet certain classifications required in order to accommodate the different view points in regard to the rate. All this in mind the suggested definitions are:

A.10.1 Incise in the total of : cash plus goods for sale plus debts minus loans due to others, and

A.10.2 Return to capital and entrepreneurship and rental income, and labor income.

#### A.11 **Other Sectors**

The flow of income in other sectors, namely: banking and insurance, ownership of dwellings, public administration and defense, and services, does not pose any serious problem for our system of definitions. Since these sectors do not, normally, hold inventory for sale whose increments are *zakatable*. Thus, the value added at these sectors is either not *zakatable* at all according to the traditionally

---

<sup>25</sup> Although some Zahirites argue that trade's inventory is not *zakatable*. See al Qaradawi, pp. 323-324.

held view point, partially *zakatable with regard to the part that can be classified as return on fixed assets, zakatable at different rates (10% on net return of fixed assets and 2.5% on employment income), or zakatable at one unified rate on net returns to both fixed assets (as added to the value of stock of fixed assets) and employment. To accommodate these different opinion two definitions the zakah are needed:*

A.11.1 Value added minus labor compensation and professional income, and

A.11.2 Value added minus labor compensation and professional income, and labor/professional income.

#### A.12 **Factor income from abroad**

In his estimation of *zakah* proceeds in Sudan, Muhammad Hahsim Awad, argues that Assets of Sudanese Muslims who live overseas must be subject to *zakah*<sup>26</sup>. Applying the same principle along with al Qaradawi's *zakah* on labor and professional income, income of nationals living abroad must, by the same logic, be *zakatable*. thus, the definition of this income should be:

A.12.1 Factor income from abroad, after giving allowance for basic needs expenses, and *nisab*.

#### **B. ZAKAH-BASE: STOCK ITEMS**

Stock times of the *zakah*-base are more difficult to find in the published national accounts statistics because many counties do not publish sufficient information about national wealth and its distribution, consequently more assumptions shall be needed n order to estimate *zakah* stock base.<sup>27</sup> But for the

---

<sup>26</sup> “*al Zakah Wa Mawarid fi al Iqtisadiyat al Sudan*”, Muhammad Hashim Awad, in Majallat al Fikr al Islami, No. 17, 1989.

<sup>27</sup> The new National Account System of 1993 includes Balance Sheet. Once all countries adopt this system and publish a balance sheet of *zakah* through the detailed balance sheet at sectoral level.

purpose of definitions, I shall follow the same approach of the previous such section with the addition of the monetary section.

### 8.1 **Agriculture and Forestry**

Agriculture today is a form of business, especially in developed countries. Even in a few Muslim countries. There are business-type plantations. these occupy large segments of land, and use machine intensively. Such so-called “agricultural industries” require huge investments for their fixed assets which raises a question about their *zakatability*, especially that they are usually run as business investment like other profit-making business centers.

The answer to this question is naturally beyond the scope of the present study, and requires a deep analysis of the economics and jurisprudence of agricultural investment in order to provide a ground for jurists to undertake a new endeavor on this issue.

Thus, the present study takes the generally subscribed stance that the stock of agricultural sector is not *zakatable*.

### B.2 **Livestock**

The stock of camels, cattles and sheep is unanimously subject to *zakah* if they graze freely. Buffalo, goats and species similar to the above three kinds of animals are added to them in *zakatability* by many scholars. Service animals like horses, donkeys and mules are not *zakatable* if used for personal transportation or services in agriculture. On the other hand, livestock raised on dairy farms, meant and poultry farms, fed mostly at paid for feed and kept for the production of meat, eggs or for natural growth with the purpose of selling their products or their babies are treated like fixed assets in industrial ventures, thus they are not *zakatable* according to the majority of scholars who believe that only the return of such enterprises is *zakatable* after it becomes a stock i.e. after it is retained for a wheel one year. Among the minority two opinions are crystallized. One imposes *zakah*

on the fixed assets (along with their net increase) at the rate of 25% in analogy to *Urud al Tijarah*. This is rooted to Ibn Uqail and a report from Mali. And the other imposes *zakah* on the fixed assets' net return at the rate of 10%, or 5% on gross return in analogy to *zakah* on agricultural product, i.e. *zakah* according to this opinion applies only to the flow and the stock is not *zakatable*. Accordingly, the following suggestions are proposed as definitions the *zakah*-base in this sector:

B.2.1 The stock of pastured camels, cows, and sheep (similar species are added like buffaloes to cows and goats to sheep)<sup>28</sup>.

B.2.2. Circulating assets of livestock farms plus returns to factors of production each one alone.

B.2.3. B.2.1 plus total fixed and circulating assets invested in the animal raising industry (for breeding as well as for their products).

In all definitions, exemption is granted to small owners.

### B.3 Mining and Quarrying

This sector is generally subject to *rikaz* whose rate is 20%, and the rule has been that whenever the output is subject to as higher rate, the stock is not included in the *zakah*-base. Consequently, the stock of capital in mining and quarrying smut not be subject to *zakah* as long as its output in *zakatable*, especially with the predominant acceptance in the Muslim world of the idea that minerals smut belong to the public sector which is not subject to *zakah* anyway.

### B.4 Other Sectors

These include fishing, manufacturing, construction, electricity, gas and water, transport, storage facilities and communication, wholesale and retail trade,

---

<sup>28</sup> Since the increase in the number of animal appears in the statistics of gross domestic product, the word stock, here, must mean the stock at the beginning of the year. But estimation as well as actual assessment of *zakah* may be done on the basis of the number of animals at the end of the year. In this

banking and insurance, ownership of dwellings, and services. All these sectors have capital invested in fixed assets which is not subject to *zakah* according to the majority. Some of them have also capital invested in goods for sale, cash on hand or in banks, and debts, which is almost unanimously *zakatable* (deduction of accounts payable is permitted). Thus following the discussion made in sub-section B.2, the suggested definitions of *zakah* base in these sectors should be:

B.4.1 Total stock of goods for sale plus cash on hand or in banks plus debts minus loans due to others.

B.4.2 Total stock of net equity invested in business.

In both definitions, allowance is made for small owners<sup>29</sup>.

Interestingly, from the point of view of estimation on macro level, it may be more convenient to deduct money holdings from this item in its alternative two definitions, and made the estimation of *zakah* on money held by business on the basis of the usually available data of money in circulation in the whole society, as will be seen in the following sub-section. This is certainly done without sacrificing the idea that in actual implementation the above mentioned definitions are more operational on micro level.

## **B.5 Monetary Sector**

Although money today is not part of national wealth on the macro level, it is an important component of individual wealth on the micro level. It seems that the most suitable definition of *zakatable*-base in this sector is M3. M# includes currency in circulation, demand deposit at commercial banks, time and saving deposits at commercial banks, residents' foreign currency deposits, and marginal deposits against letters of credit and guarantees. All these items are either

---

case, this number includes the stock and part of the value added which takes the form of an increase in stock.

<sup>29</sup> As discussed earlier, whenever, we talk about small owners, or small producers, we mean those whose excess of wealth and income above what is needed their basic needs exceed *nisab*.

considered cash or debts on banks that are both undenied by the debtors and they are on strong debtors. therefore, all these items are subject to *zakah* almost unanimously. Thus, *zakatable* base is:

B.5.1 M3, with exemption of holders of below *nisab*, and what is needed to fulfill basic needs.

## B.6. Shares, bonds and other Financial Assets

This sector includes several forms of wealth that are *zakatable* according to many scholars and practitioners. The Pakistani *Zakat* and *Ushr* ordinance of 1980 counts several kinds of shares and bonds deposit and saving certificates, receipts and accounts, mutual funds certificates, government and other securities, annuities, and life insurance policies<sup>30</sup>. Al Qaradawi quotes Abu Zahrah, Hasan an Khallaf to have had the view that shares are *zakatable* by owners regardless of the *zakah* on issuing corporations, on the ground that shares are actually sold and purchased for profit like other commodities<sup>31</sup>. Bonds, as certificates of debts are *zakatable* like debts. similarly, cash accounts held with stock exchange brokers and dealers, insurance companies, post offices and any other financial intermediaries should be treated on the same basis. However, shares held for the purpose of their income out of their return, may only be *zakatable* on partial basis, i.e., only the part of their value that represents circulating capital is *zakatable* alone. Thus, few definitions can be suggested for this sector as follows:

B.6.1 All and any cash account, debt certificates, bonds and securities, saving or deposit certificates, and annuities held in volt or with any financial intermediaries.

B.6.2. Definitions B.6.1 plus marketable shares and stock.

B.6.3. Definition B.6.1 plus the part of shares and stocks that represent working capital.

---

<sup>30</sup> *Zakah* and *Ushr* Ordinance No. 18, 1980, Government of Pakistan, Schedule one.

<sup>31</sup> Al Qaradawi, p.527.

## B.7. Assets of Nationals Abroad

According to Muhammad Hashim Award monetary assets of nationals abroad must be zakatable if they can be tabbed<sup>32</sup>. The restriction to monetary assets only is consistent with the majority's opinion that fixed assets are not subject to *zakah*. an estimation of the monetary assets of nationals living outside the country is very difficult to make and it must depend on educated guess to a large extent although it is possible to obtain rough information about the number of national living abroad and estimations of their remittances. Thus, the suggested definitions should be:

8.7.1 M3 of nationals abroad.

## B.8. Jewelry

Since the *zakatability* of jewelry is controversial, and it is difficult to obtain sufficient information that can be used in any obligatory collection of *zakah*, this paper proceeds on the assumption that *zakah* on jewelry and precious metals held by private individuals shall be left for them to distribute at their discretion and shall not be included within the scope of this paper.

## **Zakah Rate**

*Zakah* rates varies form 2.5% to 20% depending on the kind of *zakatable* object, or the mode of obtaining it. The Prophet (P) determined these rates at 2.5% for gold and silver, 5% for agriculture products irrigated with water wheels or by water carried on the back of animals, 10% for agriculture watered by rainfall or rivers, and 20% for found treasures and minerals. The livestock rates are given in detailed schedules, but they come to be generally in the neighborhood of 2.5%<sup>33</sup>. However, since the present study does not intend to challenge the validity of any of

---

See footnotes 25.<sup>32</sup>

<sup>33</sup> Al Qaradawi, *op.cit.*, pp. 205-206.

the opinions given by scholars, the different rates are shown in the following schedule:

**RATE OF ZAKAH<sup>34</sup>**

#	Areas of Unanimous Agreement	Flow/ Stock	Rate (%)
1	Agricultural Product - Irrigated	F	5.0
2	Agricultural Product - rain fall (b)	F	10.0
3	Livestock - free pasture	F/S	2.5
4	Mining and Quarrying	F	20.0
5	Circulating capital of trade and industry	F/S	2.5
6	Monetary Assets	S	2.5
7	Financial and Capital Assets	S	2.5

#	Areas of Differences	Rates according to opinion in between					
		F/F opinion 1(c)	Rate (%)	F/S opinion 2(d)	Rate (%)	F/s opinion 3(e)	Rate (%)
1	Livestock-fed on farms (f)	F/S	0	F S	10 0	F/S	2.5
2.	Fishing	F/S	0	F S	10 0	F/S2	2.5
3.	Forestry	F/S	0	F S	10 0	F/S	2.5
4.	Net worth in trade and industry (except circulating capital)	F/S	0	F S	10 0	F/S	2.5
5.	Labor and professional income	F	0	F	2.5	F	2.5

- (27 -
- c) Opinion 1 represents the majority/
  - d) Opinion 2 represents al Qaradawi, taking the option of 10% net return since it is easily known in national accounts.
  - e) Opinion 3 represents Ibn Uqail, see also, M. Kahf, calculation of *zakah* in North America, the Muslim Students association, USA, 2nd ed. 1980.
  - f) Fed on forms means that feed is purchased or planted at cost.
  - g) This represents an application of al Qaradawi's view to the forestry sector more than his expressed opinion because in his book he was silent on the issue of lumber and timber business.

Part two will show the relative significance of areas of agreement (disagreement) about applicable rates.

<sup>34</sup> (a) Irrigated means watered by water wheel, water carried on back of animals, or the like.

DO NOT COPY

---

(b) Rainfall includes watered by rivers, flood, etc.

## PART TWO

### ESTIMATING *ZAKAH* IN SELECTED MUSLIM COUNTRIES

This part consists of three sections. In section A1 the general assumptions implied in the estimation are explained. In section B, estimation of *zakah* is carried out on the aggregate level in eight Muslim countries which are: Egypt, Indonesia, Pakistan, Qatar, Saudi Arabia, Sudan, Syria and Turkey. And in section C, the results of our estimation are compared with the few studies that present similar estimations of a few countries, namely, Egypt, Pakistan, Sudan and Syria.

#### Section 2A - Assumptions

The estimation of *zakah* carried out in this part is based on several assumptions of which some are general and of theoretical nature and some relate to specific countries. The general assumptions are put forward in this section while specific assumptions are left to be detailed in Section 2B.

#### Section 2A - Assumptions

The estimation of *zakah* carried out in this part is based on several assumptions of which some are general and of theoretical nature and some relate to specific countries. The general assumptions are put forward in this section while specific assumptions are left to be detailed in Section 2B.

##### A.1. Additiveness of *Nisab*

Estimating *zakah* proceeds requires more details about *nisab*. In order to be *zakatable*, a person must own for (or have earned) certain minimum amount of the *zakah*-base. *Nisab* is thus a *zakatability* criteria, not a minimum exempt<sup>35</sup>. Persons who own (or receive) less than *nisab* of the *zakah* base are exempted, but those

---

<sup>35</sup> M.H. Awad considers it a minimum exempt in his estimation of *zakah* in Sudan, see M.H. Awad, op.cit.

who own (or receive) *nisab* or more are *zakatable* for all their holdings (or receipts)<sup>36</sup>.

According to most jurists, *nisab* is not additive. This means that except in the case of traders, whose circulating capital consists of debts, money and inventory of goods for sale, items of the *zakah* base may not be added to each other in the determination of *nisab*. This makes things better manageable from the points of view of the macro level estimation. Thus, the first assumption in this section is: in considering *nisab* with regard to macro level estimation, items of *zakatable* base are considered non-additive between sectors. This is consistent with the majority of views.

This assumption is necessary in order to adjust our present methodology to available data although, theoretically, one may imagine the ability to collect data that suits the *zakatability* criteria. On the micro-level of the assessment of an individual person's due *zakah*, the assessor may be able to add together items that may belong to different macro sectors such as money assets and good-for-sale inventory.

It should be noted, however, that an additive assumption of items within the same sector is adopted by the Libyan *Zakah* Act No. 89 of 19771 (Article 17). It seems to be also consistent with Abu Usuf's opinion about the additivity of agricultural crops<sup>37</sup>.

## A.2 *Zakah* Equivalent on Non-Muslims

It is assumed that whenever there is a *zakah* duty on Muslims in any country, non-Muslims, both individuals and corporations, are taxed at equivalent rates and amounts. Thus, all cases of *zakatability* of Muslims are accompanied by a *zakah*

---

<sup>36</sup> Keeping in mind that those whose receipts (or wealth) is devoted for satisfaction of basic needs are considered outside the *zakah* base.

equivalent tax” imposed on non-Muslims with structure of base, rates, collection procedures, and disbursement similar to that of *zakah*. This assumption is necessary to the current estimation since information of wealth and income distribution on religious basis is not available. Moreover, non-Muslims, in Muslim countries have needs for a social redistribution tax, like *zakah*, as much as Muslims have. They also need to help the poor, needy and wayfarer in their communities. Additionally, it is not just to impose certain financial dues on a segment of the citizenry, be it the majority, while certain other segment is left exempt. This may have adverse effect and imbalance in the tax burden of individuals. Accordingly, the Sudanese act of *zakah* of 1984 imposes *zakah* on Sudanese Muslims and a social solidarity tax of equivalent rates on Sudanese non-Muslims (Article 13).

We should keep in mind however, that what is levied on non-Muslims or paid by them is not *zakah* and must not be considered *zakah*. It is rather a tax based on the principles of justice in levy and needs for funds for social purposes.

On the other hand, it is known in *Shari’ah* that *zakah* may be given to non-Muslim poor and needy regardless of any collection form the non-Muslim rich.

This assumption is needed only for practical simplification. Some people may then like to call the proceeds” proceeds of *zakah* and social solidarity tax.

### A.3 **Disregard to Nationality of Owners**

Assets and income included in *zakah* base are subjected to *zakah* (or its equivalent) regardless of the nationality of owners as long as such base is inside the country. This assumption is also necessary for the current estimation because the national account system provides data on domestic basis without including the production of nationals abroad nor excluding the production of foreigners inside the country<sup>38</sup> One must take account that the Saudi Arabian *zakah* regulations appears to be at distance form the Sudanese *Zakah* Act. *Zakah* in Saudi Arabia is not levied on

---

<sup>37</sup> Al Imam Abu Usuf, Kitts al Char, al Matba’ah al Salafiyah, 1352, p.52.

foreigners (except Kuwaitis, Bahrainis and Qataris) while *zakah* is levied on Muslim foreigners in Sudan. But his difference is more semantically than real since income tax is levied in Saudi Arabia only on non-Saudis and its rate has always been higher than *zakah* to which Saudis (and Kuwaitis, Bahrainis and Qataris) are subject. Lastly, the Pakistani *Ushr* and *Zakah* Ordinance applies only to Pakistani Muslims living in Pakistan (it also gave permit to Muslims who belong to other schools of thought to claim exemption if they choose to make *zakah* payment according to their own schools.

#### A.4. Exemption of Public Sector

The public sector is excluded from the current estimation. This exclusion covers central and local governments as well as economic enterprises owned by the State. This assumption is based on the predominant opinion among Muslim scholars that government and its property are not subject to *zakah*. This is confirmed in Saudi Arabia's *zakah* system by the explicit exemption of the public sector's property invested by its "economic enterprises" from *zakah*<sup>39</sup>

On the other hand, in his A - *Usus al Muhsaliyah li Taqdir Hasilat al Zakah* in Egypt, 1980, Sami Ramadan Sulaiman covered included the economic public sector alone and excluded the private sector, without giving even a few words in defending this position or attributing such an opinion to a renowned scholar. His view was based on the easy available data from the closing accounts of the companies of the public sector<sup>40</sup>.

#### A.5 Exclusion of Inter-Personal Debts and Personal Unreportable Items

At the macro-economic level, *zakah* base - as we have seen in part one - can loosely and generally be defined as the aggregate personal wealth and income, with consideration of *nisab*. Yet several items that are usually counted in personal wealth do not find their way to appear on the national accounts. Such items like inter-

---

<sup>38</sup> Only remittances from abroad and transfers overseas appear in national accounts.

<sup>39</sup> Majum'at Anzimat Daribat al Dakhl wa al *zakah*, p. 576.

<sup>40</sup> Sami Ramadan Sulaiman, "*Al Usus al Muhsaliyah li Taqdir Hasilat al Zakah* in Egypt" unpublished Ph.D Dissertation, al Azhar University 1980.

personal debts, personal jewelry, consumer durable that fall into, the prohibited area of extravagance (*Israf*) such as men jewelry, nationals' wealth located overseas, hoarding of non-money valuables including gold and silver, etc. all are unaccounted for in the available macro figures on which this estimation of *zakah* depends.

Inter-personal debts cancel out on the macro-level while not all of them do so when we sum the individual debt items in personal wealth. For example, debts to overseas entities and personal debts from the non-business sector to businesses do not appear in macro statistics although they do not cancel out in aggregation. By the same token available statistical information do not cover the other items of personal wealth mentioned above.

#### A.6 Exemption of a Minimum Requirement for Living

The condition that *zakah* base must be in excess to what is needed to fulfill the basic needs of the *zakatable* person and his family is usually referred to by jurists among the essential conditions of *zakatability*<sup>41</sup>. Al Qaradawi adds, “by requiring this condition, Islamic jurisprudence preceded by several centuries the most recent findings of western taxation thinking about exempting a minimum standard of living from taxes and about departing from the old material approach of taxation to a personal approach. Such a move is considered an improvement and a glorified development in modern taxation discussions and legislation”<sup>42</sup>

Yet, although al Qaradawi clearly holds to this condition with regard to monetary assets, salaries and professional income<sup>43</sup>, he came short of formulating a general principle of considering a minimum living requirement that applies to all *zakatable* persons. In regard to peasants, Al Qaradawi argues for a deduction of one third or one fourth in the case of a pre-estimation of the harvest and adds that this provides for “taking care of the reasonable needs of the *zakatable* person and his family and a consideration of making circumstances easier to face”<sup>44</sup>.

---

<sup>41</sup> Al Qaradawi; *Fiqh al Zakah*, Vol. I, pp.151-152.

<sup>42</sup> *Ibid.*, p.153 .

<sup>43</sup> *Ibid.*, pp.280-281 and 517.

<sup>44</sup> *Ibid.*, p. 390.

He further depended the deduction of debts accrued from farming and other business expenses before the harvest<sup>45</sup>. But all this is not equal to stating that no matter how sizable it may be, the portion of the harvest which is needed for personal and family necessary expenses until a new harvest (or a new income) generates must be exempted because this is occupied by the basic needs of peasants (or farmers). This is assumed in our calculation by exempting form *zakah* producers whose income does not carry them above the minimum standard of living by an amount equal to *nisab*.

#### A.4. The Condition of the Passage of One Year

In the current estimation of *zakah*, the presence of *nisab* at the end of the year is considered. This is justified on the basis of certain Jurassic opinion or by assuming that the presence of *nisab* at the end of the year along with the exemption of holders of less than *nisab* quantities is an indication that holders of quantities that exceed *nisab* at the end of the year also had the same at its beginning.

---

<sup>45</sup> *Ibid.*, pp.391-397.

## Section B - Estimation of *Zakah* in selected Muslim Countries

In order to provide a sample that fairly represents most Muslim countries, eight Muslim countries are selected mainly criteria of their selection are geographical distribution, diversification of economic activities, their representation of groups of Muslim countries in terms of the structure of their economies and sectoral classification, and most important the availability of data needed for the estimation.

Unfortunately, obtaining necessary and relevant statistics on most West African Muslim countries proved to be next to impossible within the time limit available to this study which, as a result, came void of covering any West African Muslim countries.

Individual estimation for each of the eight countries is carried out. Sector-wise estimation is made and underlying assumptions are stated.

The countries covered in this study are :Egypt and Sudan from African Muslim countries. Sudan has a peculiarity of a vast livestock wealth while Egypt has a fairly diversified economy. Indonesia an Pakistan from far-east and south Asia. Turkey and Syria form the Middle East and Saudi Arabia and Qatar from oil countries, with Saudi Arab being more diversified in its economic activities than Qatar, also while Qatar is a small country with a small population, Saudi Arabia is a large land with a sizable population.

Furthermore, the estimation of *zakah* for any country imposes on the estimator the use of all available data in order to reach the most possible realistic figure. Thus the more details we get the better the estimation is. This requires that one must not neglect any obtainable details, even though such details may be available for some countries only, on the ground that such details may reduce the comparability of the results. What must always be kept in mind is that such estimation are needed to give

us a feeling of how much *zakah* proceeds may be under certain circumstances and a methodology of estimation rather than statistically manipulatable results.

Lastly, countries are given alphabetical order in their sequential presentation.

Moreover, because our main concern is with percentages, we will use the available data as it is whether it comes in current or constant prices, at market value or at factor cost, or in domestic currency or in US dollars depending on the source we are using.

DO NOT COPY