
‘ZAKAT’ AS A MEASURE OF SOCIAL JUSTICE IN ISLAMIC FINANCE: A STUDY

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Abstract: Zakat is an important form of religiously-mandated charity under Islam. It is considered to the third pillar of Islam. Giving of Zakat is important for Muslims, as this leads to purification of their wealth from all sin. This paper examines its impact on social justice and poverty eradication of the society. Each Muslim calculates his or her own Zakat individually. For most purposes this involves the payment each year of two and a half percent of one's capital, after the needs of the family have been met. One can donate additional amount as an act of voluntary charity but Zakat is fundamental to every Muslim. Zakat is the Islamic contribution to social justice: those who have to give charity so that those who don't have enough money can share in the benefit of their neighbor's prosperity. This is the Islamic way to remove greed and envy and to purify one's soul based on good intentions. This is the institution of Zakat (charity) in Islam. The institution of zakat serves to eradicate poverty in the community and uphold the light of Islam.

Allah says “whatever is paid as zakat for the sake of Allah shall be rewarded in manifold”.

Keywords: Zakat, Islam, Social Justice.

Introduction: Muslim countries are now attempting to align their economies to accord with the tenets of Islam. Islam is the world's second largest religion. Under Islam, individuals have five fundamental duties, called Pillars of the Faith. Zakat is considered to be the third pillar of Islam. Giving of Zakat is important for Muslims, as this leads to purification of their wealth from all sin. An individual's wealth and possessions are purified by setting aside a proportion for those in need. So the act of giving zakat means purifying one's wealth to gain Allah's blessing to make it grow in goodness. According to the holy Quran, a person who refuses to pay zakat or denies that it is compulsory can attract severe condemnation and judgments.

All we know that many workers have lost their jobs and many more are still jobless. The situation is made worse as many of our graduates have not been able to secure gainful employment after obtaining desired degrees. We are faced with increasingly more brothers and sisters in need, those who bear the burden of debt, children whose education are ended prematurely because of their parent's financial difficulties and families whose daily living are affected.

Living in poverty and distress is an insult to the teachings of Islam. In Islam, poverty is an enemy that must be eradicated and prevented in order to preserve the sanctity of Islam and to uphold the dignity of the ummah. Poverty has adverse repercussions on mankind. It weakens society. Our prophet Rasullullah has mentioned poverty in the following hadis - “Hunger nearly leads to infidelity and all sorts of wrong doings.”

Thus, Islam rejects all forms of poverty, in line with Allah's command that zakat is the third pillar of Islam that makes it compulsory for all. His able servants give zakat on their wealth.

Allah has taught us an economic system through the zakat and its importance is put on par with zakat. Zakat is important in the relationship between an individual and his community. Zakat has great significance in the community's efforts to protect itself and it is Allah's guaranteed cure to our economic and social problems. It is clear that zakat serves to eradicate poverty in the community and uphold the light of Islam. Without a complete systematic institution of zakat, our community will be disabled. As such, the collection of zakat brings tremendous benefits to those who give and those who receive.

With this in the backdrop, the present paper makes an attempt to highlight the fact the zakat is a way of social justice and is able to harness the beneficiaries of it to become productive contributors to the development of the community's life. The paper is based on the principle that every thing belongs to Allah (God), and wealth is therefore held by human beings is trust only. The paper is also based on the Holy Quran and existing literature on the subject. The paper is divided into six sections. First section deals with introduction. Conceptual aspects of zakat is provides in section two. Section three narrates an outline regarding different types of zakat. Significance of zakat is highlights in section four. Section five gives an idea about accountability of zakat. Last section offers conclusion.

Concept of Zakat: Zakat is one of the main five pillars in Islam. Zakat is monitory devotion and based on the idea that all things belong to Allah (God), and that wealth is therefore positioned in the disposal of mankind as a trust. Zakat can be defined as 'purification' and 'growth'. The passions of human beings are sanctified through earmarking a proportion of the wealth for the distressed and needies as mandated in the holy Qur'an. So the act of giving zakat means purifying one's wealth to gain Allah's blessing to make it grow in goodness. Zakat does not only purify the property, but also purifies the giver's heart from selfishness and greed. Every Muslim is expected to pay the zakat. The recipient of zakat also purifies their heart from envy, jealousy, hatred and uneasiness as it will fosters instead goodwill, gratefulness and warm wishes for the contributors.

In regards society as a whole, zakat signifies a major economic means for establishing a better balanced, social justice and leading the Muslim society to prosperity and security. Zakat is obligatory for every adult, mentally stable, free and financially able Muslim male and female.

Extract from Holy Qur'an on Zakat :

"The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarers; a duty imposed by Allah. Allah is knower, Wise." - surah at-Taubah (9) verse 60.

Most important of these was zakat – an annual tax levied on wealth above some threshold, the proceeds of which distributed to the needy.

Obligations of Zakat: According to Islamic law, a person who fulfilled below criteria holds the obligation to pay Zakat:

- A Muslim,
- Adult, sane, free (not a slave).
- He or she must possess a certain minimum amount of extra wealth (called nisab),

Exemptions from Zakat: Zakat is not obligatory if the amount owned is less than this nisab, fully owned by the person in excess of personal use.

- The person should have had the minimum amount in possession for a complete lunar year (hawl).
- The wealth or profit should be of a productive nature, from which they can derive profit or benefit such as merchandise for business, gold, silver, livestock, etc.
- The minimum amount (or Nisab) should not be owed to someone, i.e., it should be free from debt.

People Who Are Entitled To Receive Zakat: Zakat is distributed among 8 main categories of Asnaf (beneficiaries) of people, namely:

- Fakir - One who has neither material possessions nor means of livelihood.

- Miskin - One with insufficient means of livelihood to meet basic needs.
- Amil - One who is appointed to collect and do the management of zakat.
- Muallaf - One who converts to Islam with purpose to keep their faith
- Riqab - One who wants to free himself from bondage or the shackles of slavery.
- Gharmin - One who is in debt (money borrowed to meet basic, halal expenditure).
- Fisabilillah - One who fights for the cause of Allah.
- Ibnus Sabil – Travelers who are in the journey, provided that the destinations of the journey are not against the syara’.

Different Types of Zakat: Zakat is divided into two main categories that are:

- (i) **Zakat Fitrah:** Zakat Fitrah is an obligatory upon all Muslims which must be paid at the ending of fastings of Ramadan before observing the eid prayer. The required amount of zakat is approximately 3 kg of staple food in the relevant country or an amount of money that is equivalent to the price of the food.
- (ii) **Zakat Al-Mal or Zakat for Wealth and Possessions:** The zakat on wealth and possessions are classified into:
- Zakat for Income and Salary
 - Zakat for Business,
 - Zakat for Savings,
 - Zakat for Stocks,
 - Zakat for Gold and Silver,
 - Zakat for Agriculture and Poultry.

Here we are attempting to give some basic calculations for zakat on wealth and possessions. The calculation of nisab i.e. ceiling limit of income and wealth is very difficult as it varies from country to country but the generally accepted rate of zakah and nisab are mentioned in this paper.

Zakat for Income and Salary: Zakat for salary and income is compulsory of all kind of income or pay as return to the job or services done by an individual. The income includes salary, bonus, dividend, royalties, allowances, commissions, pensions, compensations and other form of earnings.

There are two methods of calculations for zakat on salary and income:

1. Annual Gross Income x 2.5% (if the amount exceeds nisab)
2. Income that is applicable for zakat x2.5%

Annual Gross Income	**
Less: Annual Expenses	**

Income applicable for zakat (if exceeds nisab)	**

Zakat @2.5% on income applicable for zakat	**

Example of Zakat for Income and Salary:

Mr. Z.A. Hossain receives the following emoluments during the financial year 2009-2010.

Basic pay	Rs. 300000
Dearness allowance	Rs. 150000
Commission	Rs. 40000
Entertainment allowance	Rs. 10000
His basic annual expenses are:	
Personal expenses	Rs. 80000
Expenses for spouse	Rs. 45000
Children (@Rs.25000 p.a. for two children)	Rs. 50000
Taxations and other obligations	Rs. 25000

Determine the zakat amount for Mr. Hossain in the financial year 2009-2010. Rate of zakat is 2.5%.

Computation of Zakat amount of Mr.Z.A.Hossain for the financial year 2009-2010.

<u>Item</u>	<u>Amount (Rs.)</u>	<u>Amount(Rs.)</u>
Annual Sources of Income		
Basic Salary	300000	
Dearness allowance	150000	
Commission	40000	
Entertainment allowance	<u>10000</u>	500000
Annual basic expenses		
Personal expenses	80000	
Expenses for spouse	45000	
Children's expenses (2x25000)	50000	
Taxation paid	<u>25000</u>	<u>200000</u>
Income that is applicable for zakat (exceeds nisab)	<u>300000</u>	
Zakat amount (Rs. 300000x2.5%)		Rs.7500
Note: (i) There is no standard for calculation of nisab i.e. the amount of basic expenses for the family. (ii) Payment of zakat in India is purely voluntarily as individuals are liable to pay taxes to the concerned authorities. (iii) Rate of zakat is uniformly 2.5% all over the World. (iv)Some Islamic countries have collected zakat and expenses for their poverty alleviation programme.		

Zakat for Business: Zakat for business is obligatory for wealth generated firm business inclusive all kind of business including sole trader, private limited, limited company, partnership business, cooperatives etc.

Rate for Zakat: 2.5% on the Business wealth and possessions according to nisab.

Method for Calculation:

Method-I Working Capital [Current Assets – Current Liabilities] x Shared owned by Muslim x 2.5%
The method is used for companies that owned stated current assets and current liabilities e.g. private ltd., ltd., and cooperatives.

Method- II Working Capital[Owners Equity + Long term Liabilities - Fixed Assets – Semi Fixed Assets] x % of share owned by Muslim x 2.5%.

The method is used for financial institutions and Islamic banking which has no specific current assets and current liabilities.

Zakat for Savings: The savings is considered obligatory for zakat once it reached nisab of one year and the amount exceed the nisab which equivalent to the current value of 85 gram of gold. The rate is 2.5% from the amount of savings.

For the savings in the account, if a person's savings has reached one year length of time, where its lowest balance (minus the interest during the time of savings) exceed nisab, then the person is obligated to pay for the zakat for savings.

Zakat for Gold and Silver: The gold that is used for women accessories on their bodies, zakat is not obligatory if the value or weight of the gold does not exceed certain limit (urf). The urf varies from country to country. If the gold is placed as savings or not used as accessories, the gold is obligatory for zakat @2.5% if it exceeds the nisab of 85 grams.

For silver, the amount to be obligatory for zakat is calculated based on the value of the silver regardless its condition whether the silver is used for accessories on body or at home or is placed as savings. Nisab for silver is **595 gram** or more.

Zakat for Shares: General guidance for zakat calculation is 2.5% on the lowest value of the whole shares or stocks that are owned for a year after deducting the amount of loan made for the purchase of the stocks (provided if the stocks are purchased by loan).

For the shares that the owner still owned until the end of haul, the zakat calculation is 2.5% based on the lowest cost / market price.

For the share that is under the process of sale and purchase for a whole year /haul, the calculation is 2.5% based on the selling value after purchasing cost deduction.

Zakat for Agriculture and Poultry: Zakat for agriculture is made on the agriculture produces that are the basic food for a country once it has reached the nisab and haul. In India, the citizen's basic food is rice, so the production of paddies becomes obligatory for zakat.

The rate or percentage of amount to be paid for zakat is determined by the Islamic Bodies per state where the agriculture product is produced.

Zakat for poultry is obligatory once it reached the term and conditions for the owners applicable for types of animals that are obligatory for zakat. The types of animals are goat, sheep, cow, buffalo and camel.

Significance of Zakat in Islamic Finance: Zakat is a tax that every Muslim, whose wealth exceeds a certain minimum limit called nisab. This is essentially a wealth tax and it ranks second in importance only to prayers as a feature of everyday witness to the Islamic faith. It is an integral, compulsory and inseparable part of the Islamic way of life, the non-observance of which is tantamount to the negation of the religion itself (Ashaari and Mohamed, 1989). Zakat covers the moral, social and economic spheres of Islamic finance (Mannan, 1986). In the moral sphere, zakat washes away the greed and acquisitiveness of the rich, whilst socially, it acts as a unique measure to abolish poverty from society as well as encouraging the rich to live up to their social responsibilities (Mannan, 1986). The *Qur'an* categorically states this.

And those in whose wealth are a recognized right. For the needy who asks and him who is prevented (for some reason from asking) (70:24-25).

From the economic point of view, zakat prevents the morbid accumulation of wealth in a few hands and allows it to be more widely distributed. Mannan (1986) argues that the payment of zakat should be voluntary and for genuine social motives because zakat payment is symbolic of the inner unity of religion and economics. However, zakat cannot be regarded as a favour that the givers do for their fellow Muslims.

The *Shari'a* specifies that only individuals are liable for zakat. It is the individual owners who are responsible for determining the amount that should be paid out as zakat.

Consequently Gambling and Karim (1991) contend that one of the major objectives of accounting in an Islamic society is to provide information to enable the individual to determine his zakat liabilities. Another issue that has been the subject of considerable debate amongst Islamic jurists is whether or not a company is liable for zakat. This was resolved at the Zakat conference in Kuwait in 1985. The conference agreed that in the case of a company considered as a separate legal entity, zakat should be determined based on the company's net current assets as if the company was subject to zakat. The zakat so determined would then be divided between the owners for the purposes of each owner satisfying his religious obligation by himself. However, in the following four cases, Islamic jurists have come to a consensus that a company would be required to satisfy the zakat obligation itself either as an entity or on behalf of its owners under the following conditions:

- when the law requires the company to satisfy the zakat obligations as an entity.

- when the company is required by its charter or by-laws to satisfy the zakat obligation as an entity
- when the general assembly of shareholders passes a resolution requiring the company to satisfy the zakat obligation as an entity,
- when individual owners authorize the company to act as their agent satisfying the zakat obligation (SFAC 1, p29).

Although voluntarism is encouraged in Islam, if zakat is not paid by an individual, the state has the power to enforce payment so that social justice prevails. Islam, as one may recall, gives preference to the rights of the community over the individual. The government has thus to play a major role in an Islamic society. If the general interest of society is unduly harmed, the state has the authority to interfere (El-Ashker, 1987; Chapra, 1992).

According to Holy Qur'an the importance of zakat can be summarized in the following points:

- Zakat is test from Allah swt upon the wealth given to us.
- Zakat is obligatory on Ummahs (followers) of all prophets.
- Zakat indicates the level of faith of a Muslim.
- It is foundations of Islamic fraternity.
- It also acts as sign of believers in 'salah' and 'Zakat'. ['salah' is another pillar of Islam].
- It is the criteria for Allah's help.
- The defaulters of zakat shall suffer the dooms of the day of resurrection.

Accountability of Zakat: Zakat can be given directly to the beneficiary or it can be handed over to an institution. It is emphasized that it should only be given to those who have the right to receive it. As per the Pillars of Islam "All Muslims agree that it was their duty to give zakat to the Imam after his (the Messenger of God's) death. For a time they (the commonalty) acted thus, until they saw how zakat was seized and appropriated by their unjust Imams. Thus although they accepted them as their Imams, they withheld from them the zakat of their properties, as far as was feasible."

Thus, questions arise regarding uses and misuses of zakat fund. However, this was solved by the qadis (Judges) in the following manner:

"Now it is not the responsibility of the people with what they have been obligated to oversee that the zakat is distributed in its places, because this obligation ceases after the payments have been made."

Due to the manner of the collection and spending, zakat became institutionalized from early times of the caliphates. Zakat may be treated as the taxes collected by modern Governments for social welfare. In the modern Muslim world, zakat has been left to the individuals. However, in some Islamic countries, where the shariah is strictly maintained, zakat is now managed by the Government.

Conclusion: It has been observed the zakat is an important component of Islam which is established by the holy Qur'an itself. Thus, to be a good Muslim, one must accompany the observance of his or her salat with the payment of zakat. The Islamic social order is based on the principles of equality, justice, and brotherhood and the concepts of freedom and responsibility.

It is argued that financial reports should enable Muslims to determine zakat liability and ultimately achieving socio-economic justice. Given this, and the emphasis on full disclosure, it is suggested that the current value balance sheet should be included as part of the reporting requirements of firms operating in an Islamic economy. Further, the financial accounting framework derived from the Sharia should be considered as part of the social and economic system of Islam which ultimately leads to the goal of worshipping God in the way He has prescribed.

It is crystal clear that zakat is mandatory upon all Muslims and that it is a mechanism to purify his or her wealth of which any contempt from it shall attract punishment. The benefit is immense as the entire society shall enjoy it and the public shall free from crime and insanity. Allah swt says "... whatever is paid as zakat for the sake of Allah shall be rewarded in manifold"

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