Payment of Zakat on Business Using Stock and Goods: A Preliminary Analysis

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Abstract: Zakat is one of the obligations on every Muslim with the aim of helping those who are poor and needy while at the same time purifying the wealth and soul of the contributor. There are several types of zakat and one of them is zakat on business. In discussing Shariah issues related to zakat on business, one of the topics discussed is the method of payment of zakat on business, whether paying with money, stocks or business goods or a choice between the two. In view of the need to pay zakat other than using money, especially in the case of companies which have a shortage of cash and excess unsold merchandise, the study was conducted to obtain information on the debate of scholars on the Shariah rule for payment of zakat with goods, and their potential for application in business zakat payments, in addition to the challenges and constraints in its implementation. The study utilized a comprehensive library study, analyzing the arguments and scholars’ discussions related to the subject and selecting the preferred opinions. The findings showed that in terms of the payment method for zakat on business, some scholars viewed that the payment of business zakat must utilise money, while some stated that the payment must be in the form of goods and stocks of the business itself, while some others stated that the payment of zakat on business is the right of the contributor to choose from money or goods and stocks. The study also found that there were several issues and challenges in the implementation of zakat payments using business goods, including the existing fatwa on zakat on business that stipulated only money would be accepted as zakat payment and it must be paid to zakat authorities. The study also aimed to determine the type of goods to be accepted as business zakat payments, the method of zakat calculations on the goods and whether it should be at original cost price, current market price or premium or discount, and other issues.

Keywords: Zakat, ʻUrudTijarah, Qimah, Taʻabudi, Tarjih

1. Introduction

Zakat is one of the pillars of Islam related to finance and it is obligatory for every Muslim who fulfills all its conditions. It is a decree from Allah SWT that has much wisdom implied in its legislation, where among its purposes is to purify the human soul and heart from being miserly and stingy (al-Taubah, 9:103), and prevent from being overly attached to the worldly life compared to life in the hereafter, and also to create the sense of brotherhood and mutual assistance between fellow Muslims (Mustafa Bugho, Mustafa Khinandi Ali Sharbaji, 1992).

There are several types of property subject to the law of zakat, and this is due to the existence of al-Nama’ (potential growth) on those properties. One of them is business property/goods and stocks (al-Sharbini, n.d.). This means that every item of business is subject to the zakat law when it meets its requirements. When it comes to zakat on business/urudhhtijarah, one of the Shariah issues that has been debated by the scholars is on how to pay zakaton business, either using money, or the goods of the business itself or subject to the payer’s preference. The focus of this writing is to discuss the potential of payment of zakat on business using goods and merchandise rather than using money as is usually practised, the challenges in its implementation, proposed solutions and suggestions, and other related issues.

2. Literature Review

The topic of zakat is one of the most discussed topics in Islamic economics; most of the existing literature only discusses the application of zakatin terms of zakat management and performance, zakat calculation method, type of zakat-recipients and zakat-related assets in papers such as “Pengagihan Zakat Dalam Konteks Kesejahteraan Masyarakat Islam: Satu Tinjauan Berasaskan Maqasid al-Syari’i‘ah” (Mohamad Sabri Haron& Riki Rahman, 2016), “Pengagihan Zakat Oleh Institusi Zakat Kepada Lapan Asnaf: Kajian di Malaysia” (Hairunnizam Wahidet al., 2010), “Kedudukan Mazhab Syafi‘i dalam Fatwa-Fatwa Zakat di Malaysia: Sorotan Fatwa Mazakarah Jawatankuasa Fatwa Majlis Kebangsaan Dari Tahun 2000-2010” (Luqman Haji Abdullah et al., 2013), “Kerelevanan Fatwa Mengenai Pengagihan Zakat Sebagai Sistim Jaminan Sosial Masyarakat
However, for the topic of method of zakat payment on business, especially on the permissibility of using the stock itself as zakat payment, not many articles on the topic have been produced. Although there are many classical writings and contemporary rulings issued by scholars from the Middle East regarding the permissibility to pay zakat on business with the goods themselves (Kuwait Zakat House, 1988), it has not been sufficiently highlighted and discussed, especially in this country. Thus, the lack of studies on the topic and the issue of operationalization and know-how of this method justify this study, and hopefully it can add value to the existing studies on zakat.

**Scholars' Opinions on Zakat Payment Methods: Whether to Use Items or Value/Money**

For the Shafi’i school of law, they generally hold the opinion that zakat is a devotional worship (ta’abudiy), a worship that is not understood in terms of its reason or ‘illah beyond its legislation, where the policy in dealing with this kind of worship is only by performing what has been mentioned in the text, and it is not allowed to be rationalized, let alone extend the issue into other case using the qiyas method (Al-Zanjani, n.d.). From the text of ahadiths on zakat, its clearly describes the types of zakat, types of goods that are subject to zakat obligation, method of calculation, recipients and others (al-Bukhari, 2002). What can be understood from the text is that, in terms of the payment of zakat, it must be paid in accordance with the types of zakat that have been mentioned, and it is not allowed to replace the zakat with goods other than what is mentioned.

**Payment of Zakat in Livestock, Crops and Zakat Fitrah**

In line with the above principle, for a zakaton crops as an example, the crops themselves must be used as a zakat payment; so should it apply to the zakat of animals in which the payment must also be made using the animals itself. This also applies to zakat fitrah, in which according to the Shafi’i school of law, the payment of zakat fitrah using other than rice is unacceptable; similar rules apply to the payment of zakat for agriculture and livestock, where for both, anything other than agriculture and the livestock itself is not allowed. Thus, for the Shafi’i school of law, payment of zakat on livestock with value or money is done only on an exceptional basis, for example in the case of zakat khultah where the payment in the form of money is allowed for a situation where the animal is shared between two or more parties, therefore it is allowed to receive money other than the livestock itself as a substitution for zakat payment of livestock (al-Sharbini, n.d.; al-Bulqimi, 2012).

The principle held by the Shafi’i school of law in the context of zakat is very clear, especially since the Shariah text on zakat clearly mentions the types of assets and goods that are subject to zakat rule, as well as the rate that must be deducted as a zakat payment. There is therefore no need to argue about its mechanics and technicalities, but instead simply perform the act and pay according to what has been revealed. This is also understood from the Shariah legal frameworks applied in the Shafi’i school of law where, ijtihad is a method of issuing laws for situations that have no Islamic precedent (al-Insawi, 1999). As for the issues that are expressly mentioned in the Shari’ah text, there is no room for anijtihad (al-Shirazi, n.d.; al-Zarkasyi, 2007; Ahmad Zakirullah Mohamed Shaarani & Ridzwan Ahmad, 2016).

This is further reinforced by the method they apply, which is that zakat is included in matters of religion which essentially symbolizes the concept of submission to Allah SWT and without fully relying on understanding the ‘illah or the reason behind its law (al-Zanjani, n.d.). Thista ‘abudiy principle can be observed clearly from the laws elucidated in the chapter of zakat where it fixes the specific types of assets that are subject to zakat at certain rates, distributed to certain groups of people, and at certain times and duration (al-Suyuti, 1997). By looking at these special features, zakat is not the same as normal worship related to assets and transactional muamalat such as charity, sadaqah, hibah, wills etc. Zakat is special in its nature, so it is also special in the matter of payment, which must use specific and certain goods and assets, as what mentioned in the text regarding the zakat.

**Payment of Zakat in Stock/ Business**

As for the zakat on businesses, according to the Shafi’i madhab, since there is no clear proof or evidence and indication under Shari’ah on the zakat payment method of either using stocks/assets or by paying with money, there are several opinions in the Shafi’i school of law this issue:

**First Opinion**

**Second Opinion**

**Discussion**

**Conclusion**

**References**
The payment of zakat on businesses must be made with value/money, and this is the prevailing opinion/Mukta’amad in the Shafi’i school of law. The argument for this opinion is that assets or stock itself is not included in the type of assets that are subject to zakat, as long as it is being traded, and at the same time the very purpose of the business is the valuation of the goods and it is turned into profit and money. Thus, based on this rationale and the relation between assets and the main objective of business is to acquire profit as explained above, what needs to be paid as zakat payment is the money and value of the business, and not the assets itself.

Second Opinion

The payment of zakat on businesses must be made using the stock and goods itself, because the stock and goods are the very reason why the zakat on businesses is compulsory.

Third Opinion

It is permissible to choose between monetary value or goods in the payment of zakat on businesses, as both are the main reasons for zakat on businesses to become compulsory (Al-Rafie, 1997; al-Nawawi, n.d.; Dr Mustafa Khin, Dr Mustafa Bugho, ‘Ali Sharbaji, 1992).

Looking at the opinions expressed by the scholars in the Shafi’i school of law above, it is clear that the root cause of this disagreement is the perspective of the zakat on business itself whether it is merely a means of making money and profit, or its objective is to own goods that symbolize the wealth. For the opinion that states the main objective of a business is to make money and profit out of the business, then the zakat payment must be in the form of money and value of the asset itself.

As for those who perceive the main objective of business is to acquire goods which symbolize and manifest profit and wealth, then they are obligated to pay zakat using the goods, and for the opinion that allows the payment using both assets or money, the argument is that the very objective of business is either to acquire goods or money, and both are considered a valid motive behind the business. This opinion is in fact a combination of the above two opinions, thus according to the third opinion, the contributor/payer of zakat can choose between the two.

The strongest and prevailing opinion (mu’tamad) of the Shafi’i school of law is also the preferred opinion held by the Hanbali school of law, i.e., the first opinion stated that the zakat on business must be paid in the form of money and value, and not in the form of the assets itself (IbnQudamah, 1996; al-Nawawi, n.d.).

As for the views from the Hanafi school of law, their views are quite different from the rest as according to them, all zakat matters are included in the nature of ma’qulatul al-Makna (al-Zanjani, n.d.) by which the ‘Ilah or reason behind the Shariah rules can be understood i.e., reasonable meaning. The purpose of zakat is to help the poor and the needy, thus, the payment of zakat can either be by way of the original type of assets as mentioned by the text, or it can also use value or money as the replacement for the original type of assets which are subject to zakat payment, as long as it can help people (IbnAbidin, 2000; IbnQudamah, 1996; al-Qaradawi, 2001).

Take for example zakat fitrah, where according to them it can be paid with rice or it can be paid using the value of the rice, which is the same amount as the rice required for zakat fitrah payment. The same principle is applied for zakat on assets (zakat al-Mal) such as zakat on businesses, agriculture, livestock, and gold and silver, where all can be substituted with money as zakat payment. According to this opinion, they hold to the practices of the companions of the Holy Prophet (RA) and to them, what is important in zakat is the payment itself, and the acceptance by the recipient of zakat as nisaf for the payment made by the zakat contributor (IbnQudamah, 1996; al-Qaradawi, 2001).

Preferred Opinion

The preferred opinion in the issue of zakat payment on business is that it is not allowed to pay zakat using other than money except in dire situations where it is allowed to pay zakat using the business’s goods, based on the following arguments:

1. The main objective of business is to make a profit out of the business, and money becomes the symbol of profit and wealth; also, the nisab (minimum rate) in the zakat on business uses gold and silver as the
benchmark for calculation, thus the zakat payment on businesses must be made using the same type of benchmark asset/ money rather than goods. As for the payment of zakat using goods, it is only allowed in a limited situation, where the needs of the payer and recipient of zakat could be satisfied using goods as zakat payment.

2. It is also the opinion that is preferred by current eminent Shariah scholars such as Shaikh Yusuf al-Qaradawi (2001), Shaikh Ali al-Qaradaghi (2019) and others. The resolution of the Kuwait’s Zakat House resolution (1988) also mentioned that:

“The original requirement for paying zakat on business is to use money (as a payment) after valuation and to compute the rate (nisab and hawl) at which it is due, as it is more appropriate that the zakat is paid using money that can meet their (asnaf) various needs, but it is also permissible to pay zakat using the goods of the business itself, when it can eliminate the difficulty of the payer in a state of recession and weak liquidity, as well as when it can benefit the asnaf through the payment of zakat using goods that they can benefit from it, and this is the opinion the Gathering has chosen from the existing opinions and based on the current situation” (p. 466).

3. There are situations where business owners who have to pay zakat face difficulties due to cash shortages, or the cash is needed for business expansion and at the same time they have an excess of unsold stocks. Allowing companies in this situation to pay zakat with the goods is very helpful to them in terms of cash management and this will contribute to better performance for the company (Thangavelu, 2020). This will make the zakat payment more user-friendly and could also indirectly optimize the zakat payment, thus contributing to the increase in the amount of payment and collection of zakat and tackle the shortage of business zakat payers (Adibah, A.W. et al, 2014).

4. It makes it easier for recipients of zakat where they do not have to worry about getting the goods themselves. This practice, if it is allowed, can help to save the transportation costs, potentially lower the stock prices than what is on the market, and it can also boost the confidence and trust of the people from the aspect of zakat management by the authorities. Under the current situation where all citizens include asnaf are now under the movement control order and lockdown because of the dangerous Covid-19 pandemic, giving directly a necessary and essential needs is good alternatives to the recipients and it might help them in achieving social distancing as urged by the Government (2020).

It should be noted here, however, that the study does not intend to convert the entire zakat payment landscape from money to goods. Rather, it offers an alternative and payment options to companies facing difficulties in cash flow and difficult economic conditions, where instead of cash, they have a surplus of unsold stock that can be used to pay zakat, a situation we might face today with the advent of the Covid-19 pandemic and restriction of movement that might severely impact the business. Similarly, it is one of the alternatives for asnaf who need assets more than they need money. Therefore, the study only looks at the specific needs and situations that can be considered for paying zakat using stock from the business.

Issues Related to Zakat Payment Using Stock and Its Settlement

As previously discussed, it is permissible to pay a business zakat using the merchandise itself, especially in the case of the aforementioned situations where there is an urgent and dire situation in terms of the zakat payer, as well as the benefit from the goods that the recipient can receive. However, looking at the current situation and practices related to payment of zakat on business, there are some challenges that may arise in the operation and implementation of these types of zakat payments, for instance the issue of the current/ money-oriented zakat framework, centralized government-regulated governance, and the mechanism for pricing of goods for zakat payments and determining its types.

Some of the issues and challenges facing this initiative in zakat payment and its solutions are as follows:

First Issue: Current Fatwa Requires Business Zakat Payment Using Money

Zakat in Malaysia is under the management of a religious authority, and based on the current fatwa regarding payments of zakat on business, it shows that zakat must be paid using cash at a rate of 2.5% of the total assets value subject to zakat, after necessary deduction being made (PPZ, 2020). To date, there are no fatwas that mention the permissibility of paying zakat by way of other than money. Besides that, the existing fatwas state that zakat payments must be paid directly to zakat centres. It is implied that the payment of zakat on goods is unacceptable and it is considered as sinful act (Muzakarah Jawatankuasa Fatwa Kebangsaan, 2006)
It is agreed that the issues related to the *fatwa* and payment of zakat using goods for zakatauthorities are something new and not a normal practice. This is because traditionally they receive business zakat payments using money, and this is what the community has accepted and has become their tradition and practice. However, looking at the current economic development, especially with the advent of the Industrial Revolution 4.0 with the introduction of *fintech* technology, online business, Internet of Things, blockchain and other applications with a high dependency on technology, and thus reducing the function of middlemen (Ivan, 2019), the zakat authorities need to make a paradigm shift in their operations.

Apart from the need to use the latest technology, they also need to be more flexible, take into account the perspectives of the parties involved, and this includes matters that are currently being discussed *i.e.* to consider the need for paying zakatusing goods in certain situations, and facilitating the process such as issuing a zakat payment receipt for tax deduction purposes, issuing a computation/assessment letter, issuing a clear *fatwa* on the option for zakat payment using goods on specific circumstances and notifying the recipient (if necessary) of options in the type of property they may receive, *i.e.* either with money or goods or a combination of both.

Obviously, there is a need for discussions between zakat authorities and contributors of zakat on the method of payment using goods and that both parties (zakat authorities and traders) can take advantage of business zakat payment alternatives and at the same time it can help these traders weather the challenging economic situation. This not only makes the zakatauthority more customer-friendly, but also indirectly helps the industry and economy of the Muslim community grow and be more durable and flexible in dealing with unpredictablebusiness situations.

To achieve this goal, the zakatauthority can hold seminars, conferences, lectures and so on in order to mobilize experts in related fields to achieve the best practices in implementing zakat payments using goods and solving issues related to it. Furthermore, it is hoped that this idea will contribute to the empowerment of zakat management by the zakatauthorities (Izlawanie Muhammad, 2016).

The involvement of zakatinstitutions is also important as without their consent and approval, this idea would not work, and companies that pay zakat for goods would not have incentives such as tax deductions and so on. Given the current state of zakat payment for businesses where the number is relatively lower compared to tax (Abdul RahmanNgatenan @ Adnan et al., 2015), it is appropriate that the zakatauthority be the facilitator of this new alternative of zakat payment on business.

Although the tax exemption rate is small for a zakat-paying company (LHDN, 2012), the minimum amount of goods paid as zakat can help in managing more efficient and financially viable companies, especially for those which are struggling with cash flow in today's challenging economic environment (Tan, 2019).

**Second Issue: Determination of Zakat Payer’s Situation**

One of the challenges in implementing payment of zakat on business with the goods and stocks is itself determining the circumstances and economic situation of the zakatcontributor who wants to meet their zakat payment obligations using their goods and stocks. This is because, based on the preferred opinion that only allows payment of zakat using goods only if there is a need and situation, it is apparent that the main task now is to firstly determine the situation in which it is permissible to pay zakat for goods and which ones are not allowed. The determination of this situation can be achieved through the setting of a *dawabit* or a parameter that enables a company to be categorized as having liquidity problems, thus allowing them to pay zakat with goods.

This is very important to ensure that the payment of zakat using goods and stock is regulated and not used excessively as it may affect the survival of zakat recipients; in many cases they need money more than other goods for their livelihood. Money is one of the most important parts of life because through money people can meet their needs through various *muamalat* contracts such as sales and other transactions that can be met through exchanging money with others *i.e.* assets and services. Due to this, it is unsurprising that Islam sets specific laws regarding specific goods called *ribawi* goods and this includes money in some Shafi‘i school of law’s opinions (al-Nawawi, 2000). The wisdom behind its legislation is to avoid being manipulated and also to keep it functioning as a means of exchange and preserving value.

Therefore, in setting up parameters for determining the payer’s situation to allow them to pay zakatusing goods and stock, it is suggested that a low cash level could be taken into account and the rates determined either explicitly with specific rates or on a case-by-case basis where it could show that a company's cash is weak. Other
situations may also be considered such as if the unsold stock exceeds 70% of the total assets, or the unsold assets are being kept over a longer period, thus leading to a high cost of storage and maintenance, or existing cash is needed for payment of expenses, and so on.

**Third Issue: Price of Goods Calculation Method**

One of the issues related to this proposal is the method of pricing or the valuation of the goods and the issues that arise. What it means is that, when making a business zakat assessment, the company will assess the value of goods / stocks and other assets subject to the law on assets that are payable for zakat, and in performing this process, the designated auditors will set the specific rates, particularly in terms of the value of the assets and stocks based on the method adopted by them, and the market value will become the benchmark in determining the value of the assets for zakat calculation purpose.

Imam al-Nawawi (n.d.) explained the situation for the application of the views of the al-Shafi’i school of law on the permissibility to pay zakat on business either with money or with goods as explained above. He mentions:

“If a person bought with 200 dirhams (nisab rate of zakat on business) 200 weights of wheat, or with 100 (dirham) only and we say that the opinion to be considered in terms of nisab (business zakat) is only at the end of the hawl i.e. the fulfilment of the nisab is taken into account only at the end of the business hawl, and then the hawl (one year) already passed and the wheat is now already worth 200 dirhams (at the end of the hawl) then based on the strongest opinion (which states that it is necessary to pay the business zakat with money) the rate to be paid for zakat payment is 5 dirhams, and in the second opinion (obligation to pay zakat with the goods itself) is 5 weights of wheat, and the third opinion is that he (the zakat contributor) may choose between the two... (p. 26)

This is also in line with the fact that has been mentioned by al-Qaradawi (2001), and others and in line with the current practice of Selangor (2020) and Wilayah Persekutuan (2020) zakat authorities by considering market value as a benchmark in zakat assessment.

The most important part is that, the payer of zakat must use the latest price and most accurate rate of market price; he must also avoid using excessive and fake pricing mechanisms just to avoid paying more zakat, or using zakat payment with stocks as legal stratagem to escape zakat or pay less than the correct amount and this will lead to dharar/harmful to the receiver (IbnTaimiyyah, 2004). It is encouraged for the contributor to use the original cost of the asset as reference, so more stock can be paid as zakat payment and this will indirectly assist more people, as well as become part of the corporate social responsibility of the company.

**Fourth Issue: Determination of Types of Goods and Stocks**

As previously discussed on the implementation of zakat payments using assets, the interests of the zakat recipients and their needs must also be given priority. This is from the point of view of what goods and stocks are acceptable as payment for zakat on businesses that could meet their requirements. This is to ensure that the zakat will continue to help the poor and needy to meet their basic needs. Based on that, the items that can be used are:

1. Goods should include basic necessities such as food, beverages, clothing, shelter, educational-related necessities such as school bags, clothing, shoes and all other school-related necessities, as well as computers for university-level needs and so on. For food items such as paying zakat with rice for rice companies, in the Shafi’i school of law, rice is a zakat on its own even though it is traded and become stocks (al-Bulqini, 2012; al-Mawardi, 1994) and among the issues that may arise is which nisab should be taken into account? Should we utilised the nisab of rice or nisab of asset of business? In this case, the chosen opinion to simplify the process is to use nisab for business and not to use nisab for aini rice or gold and also to be in line with the current practice of the zakat authorities of Lembaga Zakat Selangor (2020) and Pusat Pungut Zakat of Federal Territory (2020).

2. Reading materials can also be used as a zakat payment, but it should be noted that the material must be useful such as textbooks, general reading, and so on. It is not permissible to pay zakat using books that are worthless, especially books that contain profanity, are time-wasting in nature, superstitious and anything else that is prohibited by Syara’.

3. Items must be of benefit according to Shariah, thus it is not allowed to pay zakat using prohibited items such as gambling equipment, or prohibited musical instruments, games that contain superstitious, evil and time-wasting elements, and so on.
4. Goods must be transferable in the sense of full ownership. The payment of zakat with non-transferable goods that are not fully owned such as collateralized assets, leased assets, and so on is not permissible and it will not be considered enough to discharge the duties of the payer.

5. For goods of such benefit and usufruct in nature such as tickets for airplanes, trains and other transport, or air time, although they are of benefit/intangible and not of tangible assets, these goods have become a daily necessity and exchange hands in a manner that is very similar to tangible assets, therefore they may be considered for zakat payment. However, it is also necessary to take into account the actual requirements of the ticket for the asnaf and whether it is a real need and part of the basic requirement for the daily life of asnaf or just for fun and extravagance.

6. For the payment of zakat using oil/petrol by oil companies, it is known that oil is one of the most important needs of our time, whereby it has been used as a benchmark asset in the determination of consumer price index which is the basis for calculating of inflation, thus it is allowed to be used as a zakat payment, where the asnaf will receive petrol vouchers for their vehicles, and surely only low-cost motorcycles and cars can receive these vouchers as the use of luxury cars shows that the owners are not eligible to become zakat recipients.

7. Items must be of average-quality goods, and low-quality goods are not allowed to be used as zakat payment, or fake goods whose quality are not only inferior but may be harming to its users.

8. Also, for a company that has many types of stock in their inventory, it is also necessary to pay each type of those stocks and not only rely on one type of item for the entire zakat payment of its business.

All the above are also inline with what the author of Fiqh Manhaji had explained (1992). In this regard, al-Nawawi (n.d.) had mentioned four opinions on the issue of the payment method either using money or goods, and the fourth opinion mentioned by al-Saimiri is the opinion which states that if the goods are wheat or barley or goods that give benefit directly to the poor and needy, then the asset can be used as a zakat payment; however, if it is real estate or animals, then all that is to be paid as zakat payment is money. This opinion further enlightens the types of goods that can be used as explained above, and it can also be used as a guiding principle in accepting the type of goods in zakat payment.

Briefly, in terms of zakat payment with goods, the types of goods that are beneficial to the needy and at the same time are the kind of goods that can be easily used by them are the most preferable to be used as zakat payment.

3. Conclusion

Based on the discussion of this chapter, we can conclude that the payment of zakat with goods is permissible for zakat payments. While there are some issues and challenges in the matter of implementing paying zakat using goods, it should not become hindrance to the great potential that can be generated from the payment of zakat using what has been discussed above. It is hoped that this research will assist those who are involved in zakat management to reach greater potential and achieve a higher level in zakat management.

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