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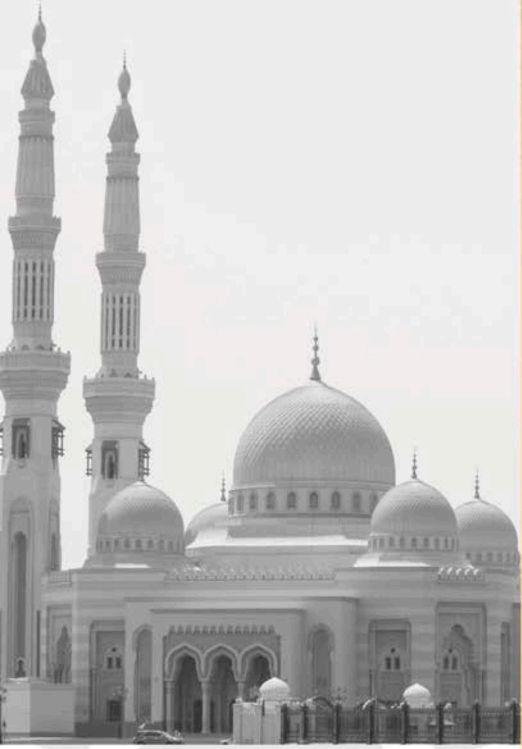

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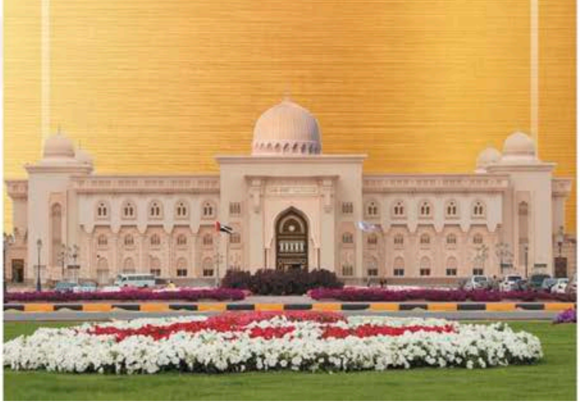

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زكاة الأسهم: تحليل مقارن للاستثمارات طويلة الأجل وقصيرة الأجل

ZAKAH ON STOCKS: A COMPARATIVE ANALYSIS OF LONG-TERM AND SHORT-TERM INVESTMENTS[1]

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الملخص

تستكشف هذه الورقة البحثية معالجة زكاة استثمارات الأسهم، مع التركيز بشكل خاص على التمييز بين الاستثمارات قصيرة الأجل وطويلة الأجل. ومع تزايد شيوع ملكية الأسهم بين المستثمرين المسلمين، يُعد فهم آثار زكاتها أمرًا بالغ الأهمية لضمان الامتثال للفرائض الإسلامية. تبحث الدراسة في تأثير نية الاستثمار على وجوب الزكاة، وذلك بمراجعة الآراء الفقهية التقليدية والتفسيرات الفقهية المعاصرة. وتُوضح الدراسة الفروق الرئيسية في حساب الزكاة لأسهم التداول – التي تخضع عادةً للزكاة على قيمتها السوقية الكاملة – والاستثمارات طويلة الأجل، التي لا تجبُ فيها الزكاة إلا على أصول أساسية محددة مثل النقد أو المخزون. تُقدم الورقة إطارًا شاملًا لحساب الزكاة، يجمع بين مبادئ التمويل

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الإسلامي، والأدوات المالية الحديثة، ونماذج الاستثمار التفصيلية. كما يُقارن بين وجهات النظر للمذاهب الفقهية السنية الرئيسية الأربعة والهيئات المؤسسية مثل هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية (AAOIFI) ومجمع الفقه الإسلامي. تُقدّم الدراسة توصيات عملية للمستثمرين الأفراد والمؤسسات المالية، بالإضافة إلى توجهات بحثية مستقبلية تهدف إلى معالجة تحديات الزكاة في القطاعات المالية الناشئة، مثل الأصول الرقمية ومنصات التكنولوجيا المالية الإسلامية. تهدف الدراسة إلى سد الفجوة بين مبادئ الزكاة التقليدية وواقع الاستثمار المعاصر، وتمكين المستثمرين المسلمين من أداء واجباتهم الدينية بشفافية وثقة.

Abstract

This paper explores the zakah treatment of stock investments, with a particular focus on the distinction between short-term and long-term holdings. As stock ownership becomes increasingly common among Muslim investors, understanding its zakah implications is essential to ensure compliance with Islamic obligations. The study investigates the influence of investment intention on zakah liability, reviewing both classical jurisprudential positions and contemporary scholarly interpretations. It outlines key differences in zakah calculation for trading stocks—typically subject to zakah on full market value—and long-term investments, which may only be zakatable on specific underlying assets like cash or inventory. The paper presents a comprehensive framework for calculating zakah, incorporating principles of Islamic finance, modern financial instruments, and detailed investor models. It also compares the views of the four major Sunni schools of thought and institutional bodies such as AAOIFI and the Islamic Fiqh Academy. Practical recommendations are offered for both individual investors and financial institutions, along with future research directions aimed at addressing zakah challenges in emerging financial sectors like digital assets and Islamic fintech platforms. The study aims to bridge the gap between classical zakah principles and modern investment realities, empowering Muslim investors to fulfil their religious duties with clarity and confidence.

الكلمات الدالة: الزكاة، استثمارات الأسهم، الاستثمارات قصيرة الأجل.

Keywords: Zakah, Stock investments, Short-term holdings.

1.0 Introduction

Zakah, one of the five pillars of Islam, is an obligatory form of charity aimed at redistributing wealth within society. While its application to traditional assets like gold, silver, and cash is well established, the question of how zakah applies to stocks remains a debate among scholars and investors alike. Given the increasing role of stock investments in modern economies, understanding their zakah implications is crucial for Muslim investors seeking to fulfil their religious obligations.

A key point of discussion revolves around the distinction between long-term and short-term stock investments. Should zakah be calculated based on the market value of shares, or does it depend on the investor's intent—whether stocks are held for capital appreciation over time or short-term trading profits? Islamic scholars and financial institutions offer varying perspectives, leading to diverse methodologies for zakah calculation.

1.1 The Objectives of the Paper

The primary objective of this paper is to provide a clear and comprehensive analysis of how zakah applies to stocks, with a particular focus on distinguishing between long-term and short-term investments. As financial markets continue to evolve and become more accessible, there has been a significant rise in Muslim participation in stock trading, investment portfolios, and equity markets. This trend underscores the importance of offering religiously sound and practically applicable guidance.

In traditional Islamic jurisprudence, zakah was primarily associated with tangible assets such as livestock, agricultural produce, gold, silver, and trade goods. However, the modern economy has introduced complex financial instruments, including publicly traded stocks, mutual funds, and other equity-based assets not present in classical fiqh literature. As a result, contemporary scholars and economics experts have been tasked with interpreting classical zakah principles within the context of modern investment vehicles.

A key distinction in this analysis lies in the intent behind owning stocks—whether the investor engages in short-term trading for profit or long-term investment for capital appreciation and dividends. This distinction has significant implications for how zakah is calculated: short-term stocks are often treated like trade goods and subject to zakah based on their full market value. At the same time, long-term holdings may only be zakatable on specific underlying assets, such as cash or inventory held by the issuing company.

The objective, therefore, is to clarify the legal rulings and scholarly perspectives on the matter and propose a practical framework that Muslim investors can use to ensure their financial practices remain compliant with Islamic ethics. By doing so, this paper seeks to bridge the gap between traditional Islamic teachings and modern economic realities, helping Muslim investors navigate their religious obligations with greater confidence and clarity.

1.2 Research Questions

This paper seeks to answer the following key research questions:

- How does the intent behind stock ownership (long-term investment vs. short-term trading) influence zakah obligations?
- What are the differences in zakah rulings among Islamic scholars and financial institutions regarding stocks?
- Should zakah on long-term stocks be based on market value, net assets, or another calculation method?
- How should traders and investors calculate zakah on stocks they actively buy and sell within short timeframes?

2.0 Concept of Zakah in Islam

Zakah is an obligatory form of charity in Islam, prescribed as a means of wealth purification and redistribution to support the less fortunate. It is one of the five pillars of Islam and is mandated upon financially capable Muslims who meet the minimum threshold (nisab) of wealth.

The term *zakah* comes from the Arabic root زكى (z-k-w), which means "to purify, to grow, or to increase." This reflects zakah's spiritual and economic dimensions—it purifies a Muslim's wealth while fostering social and economic justice.

Zakah, one of the five pillars of Islam, plays a crucial role in Islamic finance by promoting economic justice and wealth redistribution. It is an obligatory form of charity, requiring Muslims to donate a portion of their wealth (typically 2.5% of savings and assets) to those in need (Ahmad, 2018). This system ensures social welfare, reduces income inequality, and fosters financial inclusion, aligning with the ethical principles of Islamic finance (Chapra, 2008).

In Islamic finance, zakah serves as a tool for sustainable economic development. It circulates wealth within society, preventing its concentration among the affluent. Additionally, zakah complements other financial principles, such as risk-sharing and ethical investments, reinforcing the core values of fairness and social responsibility (Obaidullah, 2016). Financial institutions, including Islamic banks and charitable organizations, often integrate zakah collection and distribution into their operations, ensuring compliance with Islamic ethical standards (Dusuki, 2009).

By mandating wealth redistribution, zakah is a powerful tool for poverty alleviation and economic stability, forming a core pillar of the Islamic financial system. Unlike general charitable giving, zakah is an obligatory duty with defined rates and recipients, making it a structured and sustainable mechanism for addressing inequality.

Empirical evidence supports the economic impact of zakah when it is effectively collected and distributed. For instance, Hassan and Noor (2020) analyzed panel data across several Muslim-majority countries. They found that a 1% increase in zakah collection as a percentage of GDP was associated with a 0.39% reduction in the poverty headcount ratio. Their findings also indicated that countries with centralized zakah institutions demonstrated more effective poverty reduction outcomes than those with fragmented or voluntary systems.

Another study by Abdullah, Derus, and Al-Malkawi (2015), focusing on Malaysia, revealed that efficient zakah distribution led to a 14.2% average increase in monthly income for zakah recipients within one year, significantly improving their access to basic needs. Similarly, Ahmed (2004), in his comparative analysis of zakah systems in Sudan and Pakistan, concluded that structured zakah programs contributed to reducing income disparity and boosting consumption among low-income groups, especially with microfinance initiatives.

These results collectively highlight that when zakah is managed transparently and strategically—particularly through state or institutional oversight—it has the potential to act as a complementary fiscal tool, reducing reliance on welfare and enhancing grassroots economic resilience.

2.1 The Main Objectives of Zakah

The institution of zakah serves multiple social, economic, and spiritual objectives in Islamic finance and society:

1) *Wealth Redistribution and Social Justice*
   Zakah prevents the excessive accumulation of wealth in a few's hands and ensures circulation among all members of society. This redistribution promotes financial inclusion and reduces economic disparities (Chapra, 2008).
2) *Poverty Alleviation*
   One of the primary goals of zakah is to provide financial assistance to the poor and needy, fulfilling their basic needs and improving their living conditions. Studies have shown that well-managed zakah funds can significantly reduce poverty levels (Hassan & Noor, 2020).
3) *Purification of Wealth and Soul*
   Zakah is not only an economic duty but also a spiritual obligation. It purifies the giver's wealth from greed and selfishness while fostering a sense of generosity and gratitude towards Allah (s.w.t.) (Hassan & Noor, 2020).
4) *Economic Stability and Growth*
   By redistributing wealth and injecting funds into the economy, zakah enhances financial circulation and stimulates economic activities, preventing stagnation and promoting sustainable growth (Kahf, 2003).
5) *Strengthening Social Bonds*

Zakah fosters a sense of solidarity and brotherhood among Muslims. It creates a mutual support system, ensuring no individual is left behind due to financial hardships (Dusuki, 2009).

6) *Encouraging Ethical Wealth Generation*
   Since zakah is levied on idle wealth, it encourages investment and productive economic activities, discouraging hoarding and unproductive accumulation of assets (Obaidullah, 2016).

2.2 Principles Governing Zakah Calculation

Zakah is a mandatory financial obligation in Islam, requiring eligible Muslims to contribute a portion of their wealth to specified beneficiaries. The zakah calculation follows specific principles derived from the Quran and Sunnah, ensuring fairness, efficiency, and social impact. The key principles governing zakah calculation include the following:

1) *Ownership and Eligibility*
   Zakah is only due on wealth that an individual owns and controls. The owner must have complete legal possession (*milk al-tam*) of the assets, and they must meet the minimum threshold (*nisab*) before zakah becomes obligatory (Hassan & Noor, 2020).
2) *Nisab (Minimum Threshold)*
   Nisab is the minimum wealth a person must possess before zakah is due. It is based on 85 grams of gold or 595 grams of silver. Zakah must be paid if a Muslim's wealth exceeds this threshold and remains above it for a full lunar year (hawl) (Kahf, 2003).
3) *Hawl (One Lunar Year Holding Period)*
   Zakah is only due on wealth in an individual's possession for one full Islamic (lunar) year, except for agricultural produce and certain forms of income that require immediate zakah payment upon harvest or receipt (Chapra, 2008).
4) *Zakah Rate (2.5% Standard Rate for Most Assets)*
   The standard zakah rate for cash, gold, silver, business inventory, and savings is 2.5% of the total value. However, different types of assets have varying zakah rates:
   - Cash, gold, silver, and savings: 2.5%
   - Agricultural produce: 5% (if irrigated manually) or 10% (if irrigated naturally)

- Livestock: Based on specific rates for camels, cattle, and sheep, as outlined in Islamic jurisprudence (Ahmad, 2018).

5) *Types of Wealth Subject to Zakah*

   Zakah applies to specific categories of wealth, including:
   - Cash and bank savings
   - Gold and silver
   - Business assets and trade inventory
   - Agricultural produce and livestock
   - Stocks and investments (if intended for trade or generating profit) (Obaidullah, 2016).

6) *Deductible Liabilities*

   Before calculating zakah, outstanding debts and liabilities due within the year can be deducted from the total zakatable assets. This ensures that zakah is paid on net wealth rather than gross assets (Dusuki, 2009).

7) *Distribution to Eligible Beneficiaries*

   The Quran (9:60) specifies eight categories of recipients for zakah, including:
   1. People experiencing poverty (*fuqara'*)
   2. The needy (*masakin*)
   3. Zakah administrators
   4. Those whose hearts are to be reconciled
   5. Those in debt
   6. In the cause of Allah (*fi sabilillah*)
   7. Travelers in difficulty
   8. Those in bondage (slaves or captives) (Hassan & Noor, 2020).

3.0 Understanding Stocks in Islamic Finance

3.1 Definition and Types of Stocks

There are two types of stocks: ordinary/common/voting stocks and preference/preferred stocks.

An ordinary share represents a shareholder's undivided ownership in the company. This way, the holder can obtain a share in the company's profits and earn dividends. In addition, the holder has the right to vote on issues related to corporate policy and the composition of the board of directors' members. Ordinary shares correspond to the highest-risk form of shareholding in a limited company because dividends can be paid only after all other obligations to creditors and holders of other securities are provided. Ordinary shares have the following features:

(i) Directly issued, paid-up, and perpetual, they are never repaid out of liquidation.
(ii) In the event of liquidation, they represent the lowest form of claim. After all other senior claims have been paid for, they are paid proportionally with the respective issued capital.
(iii) There are no circumstances where the payment to the ordinary shareholders is obligatory.
(iv) In terms of losses, ordinary shares absorb losses first and proportionately the most significant share of any losses.
(v) The participated capital is neither secured nor covered by a guarantee by the company." (Muhammad, Sairally and Habib, 2015, p. 484-485)

On the other hand, a preference share merges the features of equity and debt. It allows investors to receive fixed dividends. The holders of preference shares have priority over ordinary shareholders. The features of preference shares are as follows:

(i) They are entitled to receive fixed dividends before any other dividend payments are made to ordinary shareholders.
(ii) In the case of liquidation, preference shareholders are ranked ahead of ordinary shareholders in the return of capital.
(iii) These shares are convertible to ordinary shares at agreed conversion rates after a fixed period or future date, and
(iv) they do not have voting rights apart from matters where their rights are affected directly" (Muhammad, Sairally and Habib, 2015, p. 485)

According to Muhammad, Sairally, and Habib (2015), there are two additional types of shares: bonus shares and rights issues. "A bonus share is a free share of stock given to current shareholders in a company, based upon the number of shares the shareholder already owns." On the other hand, rights issues are "shares offered on discount to existing shareholders in proportion to their current shareholding, but their subscription is not an obligation on shareholders" (p. 487).

3.2 The Role of Stocks in Investment and Trade

Shares represent partial ownership of a company. According to Islamic law, a partnership between two people must be terminated if one of the partners withdraws. Nevertheless, contemporary jurists mitigate this rule in the context of public limited companies. In the stock markets, shareholders can sell their shares when they want to exit; hence, there is no need to liquidate the company. Moreover, once they sell, they receive the fair price of their shares. Thus, the buying and selling of shares of the companies are permissible, either on face value or at a mutually agreed price by the transacting parties (Muhammad, Sairally, and Habib, 2015, p. 483).

Within the Islamic finance framework, certain principles are applied to trading shares. For instance, gambling and speculation are common in conventional equity markets. Market agents buy and sell shares as prices fluctuate. In Islamic law, Gharar and Maysir are prohibited, but they are likely to occur in stock markets, resulting in volatility. Therefore, investors and equity funds should avoid frequent purchases and sales on the market. Furthermore, futures, options, and swaps are prohibited while trading shares as they invigorate speculation. To be involved in the purchasing and selling shares of a company whose assets are entirely or predominantly cash is also not allowed, as it is not a tangible asset. Moreover, trading shares of a company whose assets are entirely or predominantly composed of debt or receivables is prohibited. Finally, selling shares that one does not own, in other words, traditional short selling, is problematic in an Islamic financial framework (Muhammad, Sairally, and Habib, 2015, p. 483-484).

3.3 Islamic Prespective on Stock Trading

The Shariah screening process consists of a business screen and a financial screen. In the business screen, the question to be asked is, “Does the company partake in activities deemed by Shariah to be impermissible?” while in the financial screen, the question is, “Does the financial management of the company involve undertaking financial obligations that are not entirely in conformity with Shariah?” (Muhammad, Sairally and Habib, 2015, p. 494). Generally, they are applied consecutively, with the business screen undertaken first. It is significant to note that both the business and financial screens are subject to debate as different jurists and organizations have different views on the content of the screens (Muhammad, Sairally and Habib, 2015, p. 495).

The business screen considers the commercial activities of the business. If the business is involved in Shariah non-complaint activities, then the Shariah-sensitive investor will not invest in it. A company is considered Shariah non-compliant if its primary activities involve the following: sale and manufacturing of alcohol; gambling, gaming, and casino operations; conventional interest-based finance including insurance; pornography; sale and production of pork-related products and non-halal meat; other non-permissible activities (Muhammad, Sairally and Habib, 2015, p. 495). This list of Shariah non-compliant activities alters across screening methodologies based on the jurisdiction's preferences (p. 495). Most regulatory institutions and standard-setting bodies, including AAOIFI, stipulate that investing in companies is prohibited if more than 5% of their total revenue comes from activities that do not comply with Shariah principles (Muhammad, Sairally and Habib, 2015, p. 496).

The financial screen has two criteria related to indebtedness and income: cash and receivables. Typically, the threshold for debt levels should represent at most a third of total assets. Alternatively, it can be at most a third of the total market capitalization set. The third (33%) is based on the Prophet's (s.a.w.s.) advice that a third of one's wealth bequeathed to charity as inheritance is too much. Furthermore, another legal ruling states that if more than a third of gold in a commodity is mixed with another metal, such as brass, then the rules of Riba will apply to this commodity. Considering cash and receivables, according to Shariah rulings, money, and debt are not allowed to be traded except at par value. Stock prices are influenced by future price expectations rather than the company's book value. As a result, shares cannot be traded based on their par value. To address this issue, Shariah scholars impose restrictions on the ratio of cash and receivables to total assets (Muhammad, Sairally, and Habib, 2015, p. 498).

4.0 Zakah on Short-Term Stocks (Trading Stocks)

4.1 Shariah Ruling for Zakah on Short-Term Stocks

Nasr and Hasan (2024) conducted a systematic literature review using 14 peer-reviewed papers published between 2001 and 2020 on the Shariah resolutions and preference shares. Accordingly, there are three types of research: (i) prohibition of the issuance of preference shares, (ii) permissibility of preference shares and the application of Tanazul (waiver), and (iii) proposed new Shariah-compliant preference shares. When the stocks, like other business goods, are obtained for resale to generate capital gains, then "all marketable shares, regardless of the company type, are regarded as tradable assets (urud al-hijrah) in the hands of individual investors" (Islahi and Obaidullah, 2004, as cited in Rahman, 2015, p. 57). Accordingly, this view was endorsed by prominent Islamic scholars such as Muhammad Abu Zahrah, 'Abd al-Rahman Hasan, and Abd al-Wahhab Khallaf, in addition to the related international institutions such as the International Islamic Fiqh Academy of the OIC. Zakat on stocks is determined based on their current market value on the due date and all income distributions, such as dividends, provided the total meets the zakat threshold (nisab). The applicable zakat rate is the standard 2.5 percent of personal wealth calculated based on the lunar year, or approximately 2.58 percent for a 365-day year (Rahman, 2015).

There is consensus among Shariah scholars regarding including dividend income in zakatable assets. However, opinions diverge on whether additional investments made during the year should be included in the zakatable amount. Some assert that newly acquired assets belong to the same category as existing assets that have already reached nisab and begun the zakat cycle. Still, the new acquisitions are independent transactions, and their zakat status varies. For instance, if an individual owns forty sheep and acquires another twenty through purchase or gift within the year, Ahmad and Al-Shafi'i assert that zakat is not due on the newly acquired sheep that year. Conversely, Abu Hanifa argues that the new assets should be added to the existing ones, making the total zakatable at the year's end, unless the new acquisition replaces an asset on which zakat has already been paid. Abu Hanifa reasons that assigning different zakat due dates to separate assets would cause administrative challenges, which should be avoided in light of the Quranic verse (22:78): "He has not placed any constraint on you in the deen." Malik concurs with Abu Hanifa regarding pastured livestock but aligns with Ahmad and Al-Shafi'i on money, believing the abovementioned difficulties do not apply (Rahman, 2015, p. 57).

Although the Hanafi approach might be considered more straightforward and practical, Imam Malik's perspective is now more applicable to modern brokerage firms. Certain firms provide detailed account statements outlining dividend income and additional investments, making calculations more accessible. Since one does not need advanced financial expertise to determine these amounts, the process is far less complicated than preparing U.S. federal tax returns. Contemporary scholar Professor Monzer Kahf, in an email dated August 16, 2014, advised that additional investments made during the year should be included in the zakatable amount, aligning with the Hanafi stance (Rahman, 2015, p. 57).

4.2 Short-Term Trading Stocks (Trader Model)

1) *Determine the Current Market Value of Each Stock*
   Current Market Value = Number of Shares × Market Price (On Valuation Date)
2) *Total Portfolio Market Value*
   Total Market Value = Σ (Market Value of All Stocks Held)
3) *Add Accumulated Dividends (if any)*
   If the zakah payer has received dividends from these stocks during the zakah year:
   - Add them to the zakatable amount only if they haven't been spent.
   - Reinvested dividends are already treated as part of your stock value.
   - Dividends that are retained are zakatable. Spent dividends are not part of the zakat calculation.
4) *Deduct Immediate Payable Debts (Optional)*
   While not always applied in the trader model, the zakat payer may deduct short-term liabilities, such as:
   - Brokerage fees (if due)
   - Immediate debts tied to the stock purchase
   - This depends on the madhhab or fatwa body zakat payer is following. Some permit deducting debts due within one year.
5) *Apply Zakat Rate (2.5%)*: Zakat = (Total Market Value + Retained Dividends - Payable Debts) × 2.5%

5.0 Zakah on Long-Term Stocks (Investment Stocks)

5.1 Definition and Nature of Long-term Stocks

Long-term stocks refer to equity investments held by an investor over an extended period, typically exceeding one year, with the primary objective of capital appreciation, dividend income, or strategic ownership in a company. These investments are not meant for quick resale or speculative trading; rather, they reflect a deliberate strategy to benefit from the long-term growth and performance of the issuing company.

From an Islamic finance perspective, the nature and purpose of holding long-term stocks are central to determining zakah obligations. These stocks are generally not classified as trade inventory (*'urud al-tijarah*) but as investment assets. As such, they are subject to zakah not on their full market value but rather on the zakatable portion of the company's assets, such as:

- Cash and cash equivalents
- Inventory
- Accounts receivable
- Short-term investments (if any)

If the company predominantly holds non-zakatable assets—such as buildings, machinery, or long-term investments—the zakah liability on the shareholder is significantly reduced. In this case, zakah would be due only on actual returns, such as dividends, or on the zakatable portion of the company's net assets, if known.

Moreover, Islamic scholars often advise that the intention (niyyah) behind the stock purchase is critical. If the stock was purchased with the intent of long-term holding, even if the price fluctuates, the classification as a long-term investment remains. The investor would then be required to assess zakah based on the underlying zakatable assets of the company, not the stock's market price.

5.2 Shariah Ruling on Zakah for Investment Stocks

Suppose a shareholder is a long-term investor who does not seek short-term price gains but instead invests primarily for dividend earnings. In that case, zakat is calculated annually only on the dividend amount. A one-time zakat payment is also required on the full selling price when the share is sold (Bradford, 2015, as cited in Alam et al., 2017). Furthermore, the zakat calculation for long-term investors is also influenced by the nature of the company they have invested in, as outlined below:

- Service-based companies: Businesses like hotels and transportation companies that do not engage in trade must only pay zakat on cash holdings or accounts receivable that have remained for a full lunar year and on any profits generated from shares. This is because the value of these shares is primarily composed of assets like equipment, tools, buildings, and furnishings, which are exempt from zakat.
- Trading and manufacturing companies: Businesses that are primarily engaged in trade, such as importers, exporters, distributors, and international traders, as well as companies that are involved in both manufacturing and trade—such as those in the petroleum, textile, metal, and chemical industries—must calculate zakat on cash holdings or accounts receivable that have been maintained for a full lunar year, as well as on inventory intended for sale and profits derived from shares.
- Agricultural and livestock companies: Zakat applies to crops, fruits, and livestock that surpass a specific production threshold. The applicable rate is generally 10% for naturally irrigated crops, and 5% for artificially irrigated crops when share ownership reaches a certain level.

The standard zakat rate is 2.5% per lunar year (Hijri calendar) and 2.58% per solar year (Gregorian calendar). Zakat is only obligatory if the total value of a shareholder's holdings meets or exceeds the equivalent of 595 grams of silver or 85 grams of gold. Many Islamic scholars stipulate that these assets must be in the shareholder's possession for an entire lunar year to be eligible for zakat. However, Hanafi scholars do not consider continuous possession a requirement; instead, zakat must be paid if the required amount is present at the start of the calculation cycle and on the same date the following year, regardless of fluctuations in between. If selling shares at the end of the year to cover zakat is not feasible, the amount can be paid from the shareholder's personal funds (Alam et al., 2017).

Another approach allows for deferring zakat payments until the shares are sold. Under this method, zakat is calculated annually based on the market value of the shares, and the accumulated zakat amount is settled in full of the final selling price. Additionally, if dividends are received during this period, zakat must also be calculated on those earnings (Alam et al., 2017).

5.3 Long-Term Investment Stocks: Investor Model

To accurately calculate Zakat on stocks, the steps to be followed are as follows:

1) *Individual Stock:*
    - Determine the Current Market Value:
    - Current Market Value = Number of shares × Price per share on valuation date
    - Calculate the Cost Basis:
    - Cost Basis = Original purchase price × Number of shares
    - Compute Unrealized Gain/Loss:
    - Unrealized Gain/Loss = Current Market Value − Cost Basis
2) *Capital Gains Consideration:*
    - Estimate taxes for unrealized gains:
    - Estimated Tax = (Current Market Value−Cost Basis) ×Estimated Capital Gains Tax Rate
    - Consider potential tax savings for unrealized losses:
    - Potential Tax Savings = (Cost Basis−Current Market Value) ×Estimated Capital Gains Tax Rate
    - Calculate Net Tax Impact:
    - Net Tax Impact = Estimated Taxes − Potential Tax Savings
    - Adjusted Total Market Value:
    - Adjusted Total Market Value = Σ (Current Market Values of all stocks) −Net Tax Impact
3) *Dividend Income (Productive Wealth):*
    - Include all dividends received during the Zakat year.
    - For reinvested dividends, increase the cost basis of the respective stocks.
4) *Total Stock Assets Calculation:*
    - Zakatable Stock Assets = Σ (Adjusted Market Values of all stocks) + Accumulated Dividends

5) *Result:* After assessing all asset categories, the final zakat calculation will incorporate the amount of determined zakatable stock assets.

6.0 Key Differences Between Zakah on Long-Term and Short-Term Stocks

6.1 Comparative Analysis

To compare zakah on long term and short-term stocks, we have developed a table summarizing the points.

Criteria	Long-Term Stocks	Short-Term Stocks
Investment Intention	Typically held for dividends or capital growth over time	Purchased for quick resale and short-term profit
Nature of Ownership	Considered a form of asset or wealth accumulation	Treated more like trading inventory
Zakah Basis	Zakah is due on dividends (if any) and market value if for resale	Zakah is due on full market value of the shares
Zakah Rate	2.5% of the zakatable portion (e.g., cash equivalents)	2.5% of the entire market value of the stocks
Frequency of Evaluation	Annually, based on the lunar year	Annually, same as long-term, but may fluctuate due to trade volume
Treatment of Capital Gains	Not directly zakatable until realized	Gains are zakatable if held at zakah due date
Calculation Method	More complex – often involves isolating zakatable assets	Straightforward – based on current market value

6.2 Intent and Usage as a Decisive Factor

In Islamic jurisprudence, the investor's intent (niyyah) and the stock usage are central in determining how zakah should be calculated. This principle directly influences whether a stock is classified as a trade asset or a long-term investment, affecting the zakah obligation.

1) *Intent Determines Classification*
    - If the primary intention is resale for short-term profit, the shares are treated as *trading inventory* (like merchandise). Thus, zakah is due on the full market value of the stocks.
    - If the intention is to hold the stock for dividends, long-term capital growth, or ownership in the company, then the shares are not treated as trade goods. In this case, zakah may only be due on specific zakatable components (such as cash, receivables, or inventory held by the company), not the full value of the stock.
2) *Usage Reflects Purpose*
    Usage reinforces intent. For example:
    - Active buying and selling of stocks in short periods indicates a trading intention.
    - Holding shares with little transaction activity and benefiting from dividends suggests a long-term investment motive.
3) *Changing Intention*
    - If the intention changes during the holding period, the zakah treatment also changes from that point onward. For example, a stock bought for long-term holding but later intended for resale will be zakatable on its market value from when the new intent is formed.

6.3 Scholarly Opinions and Differences

Islamic scholars have extensively explored the issue of zakah in stocks, particularly with the rise of modern financial markets. While the core principles of zakah remain consistent, interpretations differ based on the nature of stock ownership, the investor's intent, and the company's underlying assets. These differences primarily stem from how stocks are classified as trade goods or investment assets.

1) Consensus on Zakah Obligation

Most scholars agree that zakah is obligatory on shares, but the method of calculation depends on how the shares are used:

- Trade stocks (short-term holdings) are subject to zakah on their full market value.

- Investment stocks (long-term holdings) are subject to zakah only on zakatable components of the company's assets.

2) Differences Among Schools of Thought

Mazhab	View on Stock Zakah
Hanafi	Treats stocks held for trade as commercial goods, requiring zakah on full market value. For long-term shares, zakah applies only to zakatable assets (like cash or trade goods within the company).
Maliki	Generally, considers zakah is due only on dividends or profits, not on the shares themselves unless clearly intended for trade.
Shafi'i	Like the Hanafi view, zakah is on full value for trade shares; zakah is only on income from non-trade shares.
Hanbali	Close to the Shafi'i and Hanafi views but emphasize intention and direct ownership of zakatable items.

3) Contemporary Scholarly Bodies

Modern Islamic finance scholars and councils have offered refined guidelines:

- AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions): It recommends that zakah be paid on the net zakatable assets of the company for long-term holdings or on full market value for stocks bought for trading.
- Islamic Fiqh Academy (OIC): Echoes the AAOIFI stance, emphasizing intent and the nature of the assets.

7.0 Conclusion and Recommendations

7.1 Summary of Findings

This paper examined the zakah responsibilities linked to owning stocks in Islam, focusing on differentiating between short-term (trading) and long-term (investment) holdings. As one of Islam's fundamental pillars, zakah promotes wealth redistribution to achieve economic equity and support for those in need. While its application to traditional forms of wealth is well established, the increasing prominence of financial instruments like stocks requires renewed jurisprudential analysis.

The study offers an in-depth evaluation of zakah on stocks by contextualizing classical Islamic rulings within contemporary investment practices. It emphasizes that an investor's intention is crucial in determining zakah liability. Stocks acquired for short-term gains are usually categorized as trade goods, necessitating annual zakah on their full market value. In contrast, stocks held for long-term investment are subject to zakah only on zakatable assets within the company—such as cash, inventory, or receivables—or on dividends received, based on the interpretation adopted by scholars or institutions.

The discussion highlights the essence and goals of zakah, including wealth purification, poverty reduction, and enhancing economic flow, along with its operational aspects such as the nisab threshold, one-year holding period (hawl), and applicable rates. The paper also references empirical research demonstrating zakah's socio-economic benefits in Muslim-majority societies.

Additionally, the paper reviews different stock types—ordinary shares, preference shares, bonus shares, and rights issues—and their treatment in Islamic finance. It covers the Shariah screening criteria to ensure investments conform to Islamic ethics, focusing on permissible business activities and financial ratio limits.

Furthermore, two distinct methods for calculating zakah are outlined:

- For short-term traders: zakah is calculated based on the stock's current market value and any dividends earned.
- A more detailed method is used for long-term investors, considering the zakatable portion of the company's assets and dividend income.

The paper presents a comparative framework contrasting zakah rulings for short-term versus long-term stock ownership. It also examines the perspectives of various Islamic schools of thought and modern institutions such as AAOIFI and the Islamic Fiqh Academy. Ultimately, it proposes a practical, intention-centered approach to help Muslim investors fulfill their zakah obligations in the stock market in a responsible and Shariah-compliant manner.

7.2 Recommendations for Investors and Financial Institutions

As financial markets become more complex and Muslim participation in equity investments rises, it becomes increasingly important for both individual investors and financial institutions to implement clear, Shariah-compliant approaches to zakah on stocks. The following recommendations are designed to help all parties fulfill their ethical and religious duties effectively:

1) *Recommendations for Individual Investors:*
    - Clarify Investment Purpose: Investors should explicitly state their reason for purchasing stocks—short-term trading or long-term holding—as this intention determines how zakah is calculated. Keeping written records of one's investment goals is a practical step toward ensuring accountability in religious obligations.
    - Keep Detailed Financial Records: Investors must maintain accurate information on stock purchase dates, market values, dividend earnings, and any additional contributions throughout the zakah year. Doing so supports accurate zakah calculation and avoids misunderstandings regarding eligibility and applicable rates.
    - Utilize Trusted Zakah Tools or Professional Advice: Due to the complexities involved—particularly for long-term investments—Muslim investors should use certified zakah calculators or seek assistance from qualified Shariah-compliant financial advisors to ensure correct calculations.
    - Conduct Annual Zakah Reviews: Zakah obligations should be reviewed yearly, regardless of stock performance. If assets cannot be sold to pay zakah, scholars from the Hanafi school and other contemporary jurists emphasize the importance of covering the payment from personal funds when necessary.
2) *Recommendations for Financial Institutions:*
    - Promote Zakah Awareness and Education: Financial institutions can lead educational initiatives—such as workshops, online seminars, and informative publications—to raise awareness about zakah on modern financial assets like

stocks. These efforts can also enhance their reputation as institutions committed to Islamic financial ethics.

- Design Zakah-Compliant Investment Solutions: Islamic financial institutions, including banks, brokers, and asset managers, should offer investment products that simplify zakah compliance. This includes identifying zakatable components and dividend information.
- Strengthen Shariah Transparency: Institutions should openly share the outcomes of their Shariah screening processes, detailing business activities and financial ratios. This enables investors to make informed, ethical investment choices and supports their zakah obligations.
- Provide Customized Zakah Reports: Offering personalized, yearly zakah reports can significantly benefit clients. These reports should outline each portfolio's market value, dividend income, and zakah due, helping investors stay compliant.
- By implementing these measures, investors and institutions can foster a more equitable, transparent, and spiritually mindful financial environment. This reinforces Islamic ethical standards and enhances zakah's role as a practical mechanism for achieving economic justice and promoting inclusive financial practices.

7.3 Future Research Directions

The treatment of zakah on stocks is a relatively modern issue in Islamic jurisprudence and finance, and its dynamic nature requires continued academic investigation. As financial systems become more intricate and digital assets transform investment habits, future studies must strive to align traditional Islamic rulings with evolving financial practices. The following areas are suggested to guide future research and practical advancements in this field:

Comprehensive comparative research is needed to examine how the four major Sunni madhahib—Hanafi, Maliki, Shafi'i, and Hanbali—and modern scholars approach zakah on different stocks. Understanding the foundational jurisprudential differences could help formulate more unified and context-aware guidelines for Muslim investors globally. Limited empirical data exists on how Muslim investors manage zakah on equities in real-life situations. Country-specific surveys or case studies could uncover common behaviors, areas of misunderstanding, and the influence of religious teachings on financial choices. This would be valuable for designing more effective educational tools and advisory services. With the rise of blockchain-based investments and tokenized assets, scholars must examine how classical zakah principles apply to these emerging forms of ownership. Key issues such as determining ownership, assessing liquidity, and evaluating asset backing of digital tokens present new jurisprudential questions that need attention. Organizations such as AAOIFI have initiated work on zakah accounting standards, but more detailed, sector-specific models are necessary. Investment funds, pension schemes, and exchange-traded funds (ETFs), where ownership is widely distributed, and intentions vary, particularly require tailored zakah accounting systems. Research should explore how zakah obligations can be seamlessly incorporated into Islamic fintech platforms. Integrating automated zakah calculators within investment apps could improve compliance and awareness. However, these tools must be carefully designed to uphold Shariah principles and maintain user transparency.

Future research should remain responsive to the ongoing evolution of financial practices while staying anchored in zakah's moral and spiritual objectives. By addressing these emerging areas, scholars and practitioners can help develop zakah systems that are more accessible, relevant, and ethically grounded in today's global financial landscape.

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