FRAMEWORK FOR *ZAKAT* ON INCOME OF ISLAMIC FINANCIAL INSTITUTIONS: A JURISPRUDENTIAL ANALYSIS OF RETAINED EARNINGS AND JOINT WEALTH*

Abstract
This article develops a Shari'ah-based framework for determining Zakat on the income of Islamic financial institutions, with particular attention to retained earnings, investment assets and the juristic doctrine of joint wealth (khultah). It argues that the Zakat treatment of Islamic banks cannot be resolved merely by classifying them as modern corporations; rather, the inquiry must identify the legal character of the income, the ownership relationship between the institution and shareholders, the nature of the assets in which the income is held, and the authority under which the institution pays Zakat on behalf of those liable. The article adopts a doctrinal and analytical method, relying on the Qur'an, Sunnah, classical fiqh, contemporary juristic resolutions and Islamic finance governance standards. It finds that Zakat is due only where the conditions of Zakat are satisfied, including Islam, nisab, full ownership, growth, hawl and lawful source of income. It further finds that retained earnings of Islamic banks may be treated through the principle of khulṭah, especially where the bank pays Zakat under its constitutional documents, a shareholders' mandate, law or regulatory requirement. The article recommends that Islamic financial institutions adopt a transparent Zakat policy, distinguish zakatable from non-zakatable assets, exclude non-liable shareholders' portions, cleanse prohibited income rather than treat it as zakatable profit, and disclose the basis of computation in audited financial reports.

Keywords: *Zakat,* Islamic Banks, Retained Earnings, Khulṭah, Islamic Financial Institutions, Shares, Shari'ah Governance

1. Introduction

Zakat is both an act of worship and a legal obligation attached to wealth. In its literal sense it conveys growth, purification and increase, while in juristic usage it denotes a fixed right in specified wealth payable to those entitled under Islamic law.[1] Ibn Qudāmah's concise definition of Zakat as a right due in wealth captures this dual character: it is religious in origin, but financial in incidence.[2] This dual character becomes more complex when the wealth is not held by an individual trader or farmer, but by an Islamic financial institution operating through deposits, shareholder capital, investment accounts, retained earnings and reserves. The issue addressed in this article is the Zakat treatment of income retained by Islamic financial institutions, especially Islamic banks. The income contemplated is not ordinary salary income of employees or dividend income already distributed to shareholders. It refers to the part of annual profit retained by the institution after meeting expenses, allocations and dividend decisions, and which is accumulated for business expansion, capital strengthening, risk management or future investment. In corporate finance this is ordinarily described as retained earnings.[3] In Shari'ah analysis, however, retained earnings must be examined through the rules of ownership, growth, nisab, hawl, lawful source, and the doctrine of mixed or joint wealth.

The practical importance of the subject is obvious. Islamic financial institutions hold themselves out as institutions governed by Shari'ah principles. Their credibility depends not only on avoiding riba and prohibited transactions, but also on discharging wealth-related obligations transparently. Zakat is not a voluntary corporate social responsibility payment; it is a duty imposed by revelation and explained by the Sunnah. The Qur'an commands the taking of alms from wealth for purification and sanctification,[4] and the Prophet's instruction to Mu'ādh ibn Jabal established the principle that Zakat is taken from the wealthy and returned to the poor.[5] For banks and other institutions offering Islamic financial services, the challenge is therefore how to translate a classical obligation into an institutional accounting framework without violating classical requirements.

The article proceeds on the premise that the problem is not whether Zakat exists as an obligation; that is settled. The more precise questions are: which income of an Islamic financial institution is zakatable; who is the person or entity legally responsible for payment; how should retained earnings and investment assets be valued; how should shares, and trade assets be treated; and how can the classical doctrine of khulṭah justify institutional

***By Abdul Ganiyi Abdurroheem ZUBAEDY, LLB, BL, LLM,** Lecturer, Faculty of Law, Nasarawa State University, Keffi; and
***Jalaludeen Bala AHMED II, LLB, BL, LLM,** Lecturer, Faculty of Law, Nasarawa State University, Keffi.

[1] Ibn Manzur, Lisan al-Arab (Cairo: Dar al-Hadith, 2003) v. 4, 386-87.

[2] Ibn Qudamah al-Maqdisi, Abū Muhammad ‘Abd Allah ibn Ahmad ibn Muhammad, *Al-Mughnī* (Riyādh: Dār ‘Ālam al-Kutub, 3rd edn., 1997), 2:433.

[3] Retained earnings are the accumulative portion of a business's profits that are not distributed as dividends to shareholders but instead are reserved for reinvestment back into the business. See: Walter T. Harrison Jr; Charles T. Horngreh and William Thomas, *Financial Accounting* (Pearson Education Ltd, 11th edn, 2019), 594-595.

[4] Qur'an 9:103.

[5] Sahih al-Bukhari, hadith concerning the mission of Mu'adh ibn Jabal to Yemen; see Zayn al-Din al-Zubaydi, Mukhtasar Sahih al-Bukhari, tr Muhammad Muhsin Khan (Dar al-Salam 1994) hadith 702, 349.

calculation of Zakat on pooled shareholders' wealth? These questions are particularly important in jurisdictions such as Nigeria, where non-interest financial institutions operate within a secular regulatory environment but are also expected to observe Shari'ah governance internally.

2. Methodology

The article adopts a doctrinal legal research methodology. It analyses primary Islamic legal sources, namely the Qur'an and Sunnah, together with classical juristic writings on Zakat, commercial merchandise, shares, debt, joint wealth and the conditions of Zakat. It also examines contemporary institutional materials, including resolutions of the International Islamic Fiqh Academy and governance standards relevant to institutions offering Islamic financial services. The method is analytical rather than empirical: the objective is to construct a normative framework for determining Zakat liability, not to measure the actual Zakat practices of a particular bank. The article also employs a comparative fiqh approach. Where jurists differ, the discussion identifies the competing opinions, the evidential basis of each position and the view that is more suitable for modern Islamic financial institutions. Particular attention is given to the extension of khulṭah beyond livestock to corporate assets, the Zakat treatment of shares based on the shareholder's intention, the exclusion of non-liable shareholders' portions, and the distinction between lawful income that may be subject to Zakat and prohibited income that must be cleansed through disposal to charity.

3. Conceptual and Legal Foundation of Zakat on Income

Meaning of Zakat

Zakat literally conveys purification, growth and increase.[6] Its juristic meaning, however, is narrower: it is a mandatory transfer or allocation of a defined portion of zakatable wealth to lawful beneficiaries when prescribed conditions are met.[7] Classical jurists describe it as a right established in wealth, not merely a personal act of generosity.[8] This explains why Zakat is treated as one of the pillars of Islam and why its neglect is regarded as a serious religious breach.[9] The obligation does not arise from state taxation theory alone; it arises from revelation and from the proprietary right that the poor and other eligible classes have in the wealth of those who meet the conditions of liability. The Qur'anic foundation of Zakat also reveals its social function. It purifies wealth and the owner, but it also redistributes resources, protects vulnerable persons and curbs excessive concentration of wealth.[10]

Conditions Relating to the Zakat Payer

The first condition is Islam. Classical jurists generally agree that Zakat is obligatory upon Muslims, because it is an Islamic act of worship and a financial obligation attached to Muslim-owned wealth. The hadith of Mu'ādh is especially instructive because it links the obligation of Zakat to acceptance of Islam and prayer before payment is demanded.[11] Al-Qaradawi accordingly argues that Zakat is not only not demanded from non-Muslims as an act of worship, but is not valid from them as Zakat in the technical sense.[12]

The second condition is legal capacity and freedom of disposal over the wealth. Classical fiqh discussions often included the requirement of freedom because a slave did not possess independent proprietary capacity. In modern corporate settings, the relevant lesson is not the historical institution of slavery, but the legal requirement that the party whose wealth is charged with Zakat must own, control or have a recognisable beneficial interest in the wealth.[13] This becomes important when distinguishing shareholders' equity from depositors' funds, investment account holders' funds, charitable funds, waqf funds and public treasury funds.

The third condition is attainment of nisab. Zakat is a duty on wealth that has reached a prescribed minimum threshold. In commercial and monetary assets, contemporary practice commonly values nisab by reference to gold

---

[6] Ibn Manzur, Lisan al-Arab (Cairo: Dar al-Hadith, 2003) v. 4, 386-87.

[7] Al-Juzayrī, 'Abd al-Raḥmān. *Kitāb al-Fiqh 'Alā al-Madhāhib al-Arba'a*, (Bayrūt: Dār al-Kutub al-'Ilmiyyah, 1990), v. 1, 536.

[8] Ibn Qudāmah al-Maqdisī, Abū Muḥammad 'Abd Allah ibn Aḥmad ibn Muḥammad, *Al-Mughnī* (Riyādh: Dār 'Ālam al-Kutub, 3rd edn., 1997), 2:433.

[9] Narrated Abū Hurayrah: Allah's Messenger (PBUH) said, 'Whoever is made wealthy by Allah and does not pay the *Zakāh* of his wealth, then on the Day of Resurrection his wealth will be made like a bald-headed poisonous male snake with two black sports over the eyes (or two poisonous glands in its mouth). The snake will encircle his neck and bite his cheeks and say, 'I am your wealth, I am your treasure.' 'Then the Prophet (PBUH) recited the holy Verse: 'Let not those who covetously withhold…' (to the end of the Verse). 3:180.

[10] Qur'an 9:103

[11] Al-Qaraḍāwī Yūsuf, *Fiqh al-Zakāt*, Trans. by Monzer Kahf (London: Dār al-Taqwā Ltd., 1999), 43.

[12] Ibid.

[13] Al-Qaraḍāwī Yūsuf, *Fiqh al-Zakāt*, Trans. by Monzer Kahf (London: Dār al-Taqwā Ltd., 1999), 42.

or silver, with 85 grams of gold and 595 grams of silver frequently cited as benchmarks.[14] Classical hadith evidence also links nisab to minimum measures of silver, camels and agricultural produce.[15] The logic of nisab is that Zakat is imposed on wealth above a minimum level of sufficiency, not on destitution. Thus, a bank calculating Zakat on shareholders' funds must determine whether the zakatable base attributable to liable shareholders meets the relevant threshold.

Conditions Relating to Zakatable Income and Assets

The Qur'an expressly commands believers to spend from the good things they have earned.[16] Classical jurists relied on this and other sources to treat earnings from trade, investment and productive wealth as potentially zakatable. The conditions usually identified are full ownership, growth, nisab, passage of a lunar year, freedom from debt where applicable, and lawful source. These conditions are essential for Islamic financial institutions because their balance sheets include different categories of assets with different legal and accounting character. Full ownership means that the owner has effective proprietary authority over the wealth: the ability to manage, invest, transfer, donate or withdraw it. This condition explains why public funds, purely charitable endowments and certain trust funds are not treated in the same way as privately owned zakatable wealth. In the context of Islamic banks, retained earnings ordinarily form part of shareholders' equity until validly distributed, capitalised or otherwise dealt with. They are therefore not a neutral institutional fund with no owner; they represent wealth attributable to the shareholders, subject to the legal structure of the institution and applicable rules. Growth is also central. Al-Kasānī explains that Zakat is connected to growing wealth, whether growth is actual or potential.[17] Actual growth occurs through trade, investment, industrial activity or profit generation. Potential growth exists where wealth is capable of productive deployment even if it has not yet produced profit. The hadith that there is no Zakat on a Muslim's horse or slave was understood to exclude assets held for personal use rather than growth.[18] Islamic banks, by their nature, hold most assets for investment, trading, financing or liquidity management; such assets therefore require careful Zakat classification.

The condition of hawl requires the passage of one lunar year over zakatable wealth in categories such as money, trade goods and livestock. The hadith that there is no Zakat on wealth until a year has passed is central to this rule.[19] For corporate income, the hawl problem is addressed through the institution's Zakat year or financial year, provided that the computation reflects Shari'ah requirements. Profits attached to an existing zakatable capital are generally treated by reference to the hawl of the capital, which is important for retained earnings formed during the year.

Debt is another relevant consideration. A number of jurists, including Maliki authorities and others, maintain that debts may reduce zakatable wealth where they affect the owner's real financial capacity.[20] In institutional computation, this supports the deduction of genuine current liabilities from zakatable assets, but not artificial liabilities created to avoid Zakat. The deduction must therefore be governed by audited accounts, Shari'ah review and transparent accounting policy.

Finally, the source of income must be lawful. Zakat does not purify income generated from activities prohibited by Shari'ah such as interest, gambling or other unlawful business. Such income is not treated as owned halal wealth upon which Zakat is due; rather, it must be removed from the institution's income and disposed of to charity without expecting spiritual reward for the prohibited gain itself.[21] The hadith that ‘Allah accepts only lawful earnings in charity’[22] supports separating Zakat from the cleansing of unlawful income. This distinction is critical in Islamic banking, where accidental or legacy non-compliant income may arise from late payment charges, conventional placements or impermissible securities.

[14] Omer Faruk Senturk, A Comprehensive Guide to Zakat: Charity in Islam, tr Erdinc Atasever (The Light Inc 2007) 87.
[15] Sahih al-Bukhari, hadith on the nisab of five uqiyyah, five camels and five wasaq. Hadith 708/
[16] Qur'an 2:267.
[17] Al-Kāsānī, ‘Alā‘ al-Dīn Abū Bakr ibn Mas‘ūd, *Badāi‘ al-Ṣanāi‘*, (Bayrūt: Dār al-Kutub al-‘Arabī, 1982), v. 2, 11
[18] Sahih Muslim, Kitab al-Zakat, hadith on the absence of Zakat on a Muslim's horse and slave.
[19] Abd al-Salam ibn Muhammad al-Shuway'ir, al-Tawqit al-Hawli fi al-Zakat wa ma Yatarattab 'alayhi min Athar (Dar Ibn al-Jawzi 2008), 35-37.
[20] Ibn Rushd, Bidayat al-Mujtahid wa Nihayat al-Muqtasid (Dar al-Kitab al-Arabi 2006), 199.
[21] Aznan Hasan, 'Who Needs to Pay Zakah: A Focus on Legal Entity' (National Business Zakah Symposium, Malaysia, 8 October 2013), 34.
[22] Sahih al-Bukhari, hadith that Allah accepts only lawful earnings in charity; hadith 709, 352.

4. Zakatable Investment Assets of Islamic Financial Institutions

Retained Earnings as Institutional Income

Retained earnings are profits kept within the institution rather than distributed as dividends. They may be retained for capital adequacy, expansion, liquidity management, investment opportunities or regulatory buffers.[23] From a Shari'ah perspective, the fact that profit is retained does not automatically remove it from Zakat analysis. The decisive questions are whether it is attributable to Muslim shareholders or other Zakat-liable owners, whether it is represented by zakatable assets, whether the hawl and nisab conditions are satisfied, and whether the institution has authority to pay on behalf of those liable. The retained profit of an Islamic bank may be represented by cash, receivables, financing assets, inventory, investment securities, fixed assets, sukuk, shares or other balance sheet items. It would therefore be legally imprecise to impose Zakat on the accounting figure of retained earnings without examining the asset composition of the institution. A principled framework must move from accounting profit to zakatable base. This requires identifying zakatable current assets, deducting allowable liabilities, excluding non-zakatable assets and exempt portions, and then applying the applicable rate, usually 2.5 per cent for monetary and trade assets.

Commercial Merchandise and Business Assets

Islamic banks may deploy income into trade, asset financing, commodities or other business assets. Commercial merchandise is known in fiqh as 'urūḍ al-tijārah. It refers broadly to assets acquired for sale or trade with the intention of profit.[24] The obligation of Zakat on trade goods is supported by the Qur'anic command to spend from lawful earnings, which al-Tabari interpreted as including earnings from trade and industry.[25] It is also supported by the report that the Prophet ordered Zakat to be paid on what was prepared for trade.[26] Classical and contemporary jurists therefore treat commercial inventory as a standard zakatable asset where its conditions are fulfilled.

The Zakat base for trade goods is usually determined by valuing cash, commercial goods and collectible receivables, then deducting genuine debts or liabilities. Abu Ubayd reports an early practice requiring merchants to estimate cash, value goods in cash, include collectible debts and subtract their own debts before paying Zakat on the balance.[27] In modern bank accounting, this principle translates into a requirement that Islamic financial institutions classify trade assets, financing receivables and cash equivalents carefully, and that doubtful or bad debts should not be treated as collectible zakatable wealth without qualification.

Where business assets are held for use rather than trade, such as office buildings, computers, operational equipment or furniture, they are generally not treated as trade goods. The return generated from such assets may be zakatable if it becomes income and meets the conditions, but the fixed asset itself is not ordinarily included in the Zakat base unless held for sale. This distinction is crucial because Islamic banks hold both operational fixed assets and investment assets.

Shares and Equity Investment

Shares represent units of ownership in a company and entitle the holder to a proportionate claim in profits and, subject to law, residual assets.[28] Contemporary jurists generally permit the buying and holding of shares in companies whose core activities and financial structures are Shari'ah compliant.[29] Shares held by Islamic financial institutions may therefore form part of zakatable investment assets, but the method of calculating Zakat depends on the nature of the company and the intention with which the shares are held. The International Islamic Fiqh Academy in its Resolution No 28 (3/4) provides that Zakat on shares is originally an obligation of shareholders, but the company may pay on their behalf where authorised by the company's statute, the general assembly, state law or shareholder mandate.[30] The resolution further states that where a company pays Zakat, it does so as if the shareholders' capital were the property of a single person, taking into account the kind and value of zakatable assets and making deductions for shares not liable to Zakat.[31] This resolution is central to any modern framework

[23] See the reference of retained earnings above.
[24] Al-Suyūṭī al-Raḥbānī, Mustafā *Maṭālib ulī al-Nuhā*, *Sharḥ Ghāyat al-Muntahā*. (Damascus: al-Maktab al-Islāmī, 1380 AH), v. 2, 96.
[25] Al-Ṭabarī, Muḥammad ibn Jarīr*, Jami' al-bayān 'an ta'wīl āy al-Qur'ān* ed. by Mahmud Muhammad Shākir (Cairo: al-Ḥalabī), v. 5, 555.
[26] Abū Dāwūd, *Sunan Abī Dāwūd,* (Bayrūt: Dār al-Fikr, n.d), v. 2, Hadith 195.
[27] Abu Ubayd al-Qasim ibn Sallam, Kitab al-Amwal, Trans Noor Mohammad Ghifari (Pakistan Hijra Council, 1991), 362.
[28] See *Borland's Trustee Steel Brothers & Co Ltd* [1901] 1 Ch 279 (CA) 288, per Farwell J.
[29] Al-Qaraḍāwī Yūsuf, *Fiqh al-Zakāt*, Trans. by Monzer Kahf (London: Dār al-Taqwā Ltd., 1999), 331.
[30] International Islamic Fiqh Academy, Resolution No 28 (3/4), 'Zakah on Company Shares' (4th Session, Jeddah, 6-11 February 1988). <https://iifa-aifi.org/en/32294.html> accessed 9 May 2026.
[31] Ibid.

for Zakat on the income of Islamic financial institutions because it recognises institutional payment while maintaining the shareholder basis of the obligation. The IIFA also differentiates between shares held for annual return and shares held for trading. Where the shareholder holds shares for income and cannot determine the exact Zakat due on the company's assets, Zakat is paid on dividends after the relevant conditions are met. Where the shares are held for trading, they are treated as commercial goods and valued at market price, with dividends added where applicable.[32] Islamic financial institutions that hold equity investments must therefore disclose whether such investments are trading assets, long-term strategic investments or income-yielding investments, because the Zakat treatment differs.

5. Khulṭah as the Jurisprudential Basis for Institutional Zakat Obligation

Meaning and Types of khulṭah

Khulṭah literally denotes mixing or intermingling. It means: 'the partners whose assets are mixed together and no longer distinguishable except by apportioning'.[33] The Qur'an uses the related term khulaṭā' in the context of partners who may wrong one another.[34] In Zakat jurisprudence, khulṭah refers to the mixing of assets of two or more persons in a way that may cause their combined property to be treated as one for Zakat purposes.[35] Jurists usually distinguish khulṭat ishtirāk or khulṭat 'ayn from khulṭat jiwār or khulṭat awṣāf. While the former connotes when ownership shares are jointly held in the property itself,[36] the latter is where assets of two or more persons separately owned are kept together and are distinguishable from one another.[37] The relevance of khulṭah to Islamic financial institutions lies in the fact that a bank's retained earnings and reserves are not the wealth of a single individual. They are pooled funds attributable to shareholders or participants. If each shareholder were required to calculate Zakat independently from complex institutional accounts, the result would often be uncertainty, duplication or non-payment. The doctrine of khulṭah provides a juristic mechanism for treating pooled Zakatable wealth as a single base, subject to proper deductions.

Effects of Khulṭah and the Classical Debate

The principal hadith on khulṭah states that 'separate property should not be combined nor joint property separated for fear of paying more or less Zakat'.[38] The majority of Maliki, Shafi'i and Hanbali jurists understood this as giving legal effect to mixed livestock, so that joint property may be treated as the property of one person for Zakat assessment.[39] The Hanafi school and some other jurists were more restrictive, maintaining that khulṭah does not alter individual liability in the same way.[40] The conditions for khulṭah include that the partners be persons liable to Zakat that the combined wealth reaches nisab, that the required period is satisfied, and that the mixing is genuine rather than artificial.[41] The requirement that the partners be Zakat-liable explains why portions owned by non-Muslims, public treasury, charitable institutions and similar bodies are deducted from the Zakat base.[42] Jurists differed on whether each partner's individual portion must reach nisab or whether the combined property reaching nisab is sufficient. The Shafi'i and Hanbali approach, which treats the total as a single base, is more suitable for corporate zakah because it reflects the pooled nature of corporate assets.[43] There is also a debate on the duration of mixing. Some jurists require the khulṭah to exist throughout the hawl, while others accept meaningful mixing during the year where the legal and accounting relationship is clear.[44] In institutional settings, the annual audited financial period provides an administratively reliable framework. The relevant question should be whether the

---

[32] The resolution distinguishes shares held for income from shares held for trading and requires Zakat on market value plus dividends in the latter case.

[33] Ibn Manẓūr, Jamāl al-Dīn, Abū al-Fadl Muḥammad ibn Mukram, *Lisān al-'Arab*,(Cairo: Dār al-Tawfīqiyyah li al-Turāth, 2009), v. 4, 205.

[34] Qur'an 38:24.

[35] Al-Shīrāzī, Abū Ishāq, Ibrahim ibn 'Alī ibn Yūsuf al-Fayrūz Ābādī, *Al-Muhadhdhab fī fiqh al-Imām al-Shafi'ī* (Bayrūt: Dār al-Ma'rifah, 2nd edn., 1959), v. 1, 150.

[36] Al-Nawawī, Abū Zakariyyā Yaḥyā ibn Sharaf ibn Muriyy ibn Ḥasan al-Ḥawrānī, *Al-Majmū' Sharḥ al-Muhadhdhab*, (Jaddah: Maktabat al-Irshād, n.d), v. 5, 389.

[37] Ibid.

[38] Sahih al-Bukhari, hadith 733.

[39] Al-Ḥaṭṭāb, Abū 'Abd Allāh Muḥammad ibn Muḥammad ibn 'Abd al-Rahmān, *Mawāhib al-Jalīl li Sharḥ Mukhtaṣar Khalīl,* (Bayrūt: Dār al-Kutub al-'Ilmiyyah, 1995), v. 2, 266-267, Al-Nawawi, Al-Majmu', v. 5, 388; Ibn Qudamah, *al-Mughni*, v. 4, 52.

[40] Al-Sarkhasi, al-Mabsut (Bayrūt: Dar al-Ma'rifah, 2nd edn, 1989), v. 2, 153; Ibn Abidin, *Hashiyat Radd al-Muhtar 'ala al-Durr al-Mukhtar* (Bayrūt: Dar al-Fikr, 2nd edn, 1966), v. 2, 304.

[41] Al-Ramli, *Nihayat al-Muhtaj ila Sharh al-Minhaj* (Bayrūt: Dar al-Kutub al-Ilmiyyah 1993), v. 3, 59-60.

[42] Ibid.

[43] Al-Shafi'i, *Kitab al-Umm* (Bayrūt: Dar al-Fikr, 2nd edn, 1983), v. 2, 14; Al-Bahuti, *Kashshaf al-Qina'* (Bayrūt: Dar al-Kutub al-Ilmiyyah, 1997), v. 2, 197.

[44] Ibn Abd al-Barr, *Al-Istidhkar* (Bayrūt: Dar Qutaybah 1993), v. 1, 107; Al-Dardir, *al-Sharh al-Kabir* (Bayrūt: Dar al-Kutub al-Ilmiyyah 1996) vol 1, 440.

assets formed part of the institution's zakatable pool at the Zakat valuation date and whether manipulation occurred to reduce liability.

Applicability of Khulṭah to Non-Livestock and Retained Earnings

The main juristic controversy is whether *khulṭah* is confined to livestock or extends to other zakatable wealth such as cash, trade goods, shares and corporate income. The later and more useful Shafi'i position, and one view in the Hanbali school, extends the doctrine to other zakatable assets where its conditions are satisfied.[45] The contrary position confines it to livestock, relying on reports that describe mixed herds through shared pasture, watering and breeding facilities.[46] The response is that those descriptions explain the historical form of livestock mixing rather than restrict the doctrine absolutely to animals. The broader view is stronger for modern Islamic finance. The rationale of *khulṭah* is shared ownership, shared management, combined risk and administrative fairness. These features exist in corporate assets no less than in livestock. If mixed animals may be assessed together because their management, costs and benefits are pooled, then shareholders' wealth represented in an Islamic bank's retained earnings may also be assessed as one zakatable fund where Shari'ah conditions are met. Contemporary jurists have therefore used khulṭah as a basis for Zakat on companies and Islamic banks.[47]

The IIFA resolution on company shares adopts this logic by requiring a company that pays Zakat to calculate it on the assumption that the capital of all shareholders is the property of one person, subject to the type and value of zakatable assets and the exclusion of non-liable shares.[48] This is perhaps the strongest contemporary institutional authority for using *khulṭah* to justify Zakat on retained earnings and reserves of Islamic banks. It does not make the company an independent liable (mukallaf) in the same sense as a natural person; rather, it allows the company to function as an authorised payer and calculator of the shareholders' Zakat.

6. Proposed Framework for Zakat on Income of Islamic Financial Institutions

Authority to Pay Zakat

The first step is to identify the legal authority for institutional payment. An Islamic financial institution should pay Zakat on behalf of shareholders only where its constitutional documents require it, the general assembly approves it, applicable law or regulation mandates it, or shareholders authorise it. This preserves the classical position that Zakat is originally attached to the owner of the wealth while allowing modern institutions to calculate and discharge the obligation efficiently. Where authority exists, the institution should state clearly whether it pays Zakat on shareholders' equity, investment account holders' funds, specific investment pools or only on certain categories of retained earnings. Ambiguity may lead to double payment by some shareholders and non-payment by others. The Zakat policy should therefore be part of the institution's governance documents and annual report.

Exemptions and Deductions

A valid Zakat framework must exclude portions attributable to persons or funds not liable to Zakat. The IIFA resolution expressly requires deduction of shares owned by the public treasury, waqf institutions, charitable organisations and non-Muslim shareholders.[49] The resolution reads: 'In calculating Zakat, the company shall take due account of shares not liable to Zakat, such as shares owned by the Public Treasury, charitable institutions, philanthropic societies and non- Muslim shareholders, and make the necessary deductions.[50]

7. Conclusion and Recommendations

The first finding is that Zakat on the income of Islamic financial institutions is not determined by profit alone. It depends on the existence of zakatable wealth, lawful source, full ownership, growth, nisab, hawl and deductible liabilities. Retained earnings are relevant because they represent accumulated profit attributable to shareholders, but they must be analysed through the assets in which they are represented.

The second finding is that Islamic banks may validly pay Zakat on behalf of shareholders where authorised by statute, shareholders' resolution, law or mandate. This does not negate the classical rule that Zakat is attached to the owner; rather, it converts the institution into an authorised calculating and paying agent. The third finding is that the doctrine of khulṭah provides a persuasive jurisprudential basis for treating shareholders' pooled wealth in Islamic banks as a single zakatable base. The stronger contemporary view extends khulṭah beyond livestock to

---

[45] Al-Shirazi, Abū Ishāq, Ibrahim ibn 'Alī ibn Yūsuf al-Fayrūz Ābādī, *Al-Muhadhdhab fī fiqh al-Imām al-Shafi'ī* (Bayrūt: Dār al-Ma'rifah, 2nd edn., 1959), v. 1, 150; Ibn Qudamah, a*l-Mughni*, v. 4, 64.
[46] Ibn 'Abd al-Barr,Yūsuf ibn 'Umar, *Al-Istidhkār*, (Bayrūt; Dār Qutaybah, 1993), v. 3, 143.
[47] Wahbah al-Zuhayli, al-Mu'amalat al-Maliyyah al-Mu'asirah (Bayrūt: Dar al-Fikr, 2002), 376.
[48] International Islamic Fiqh Academy, Resolution No 28 (3/4).
[49] International Islamic Fiqh Academy, Resolution No 28 (3/4).
[50] Ibid.

corporate wealth because the rationale of pooling, shared management and administrative fairness applies equally to modern financial institutions. The fourth finding is that a credible framework must exclude non-liable portions, including shares of non-Muslims, public treasury, waqf institutions, charitable organisations and funds held in trust. It must also disclose the treatment of investment account holders and avoid double counting.

This article has argued that Zakat on the income of Islamic financial institutions requires a structured jurisprudential and accounting framework. The obligation of Zakat is clear in Islamic law, but its application to modern Islamic banks depends on careful classification of wealth, ownership and institutional authority. Retained earnings are not immune from Zakat merely because they remain within the bank. Where they represent zakatable wealth attributable to Muslim shareholders or other zakāh-liable owners, and the conditions of Zakat are satisfied, they should be included in the zakatable base. The doctrine of khulṭah supplies a strong juristic bridge between classical Zakat law and corporate Islamic finance because it allows pooled wealth to be treated as one fund for assessment while preserving the underlying ownership of the liable persons. The article therefore recommends, first, that every Islamic financial institution should adopt a formal Zakat policy approved by its Shari'ah board and board of directors. The policy should state whether the institution pays Zakat on behalf of shareholders, investment account holders or both, and the legal authority for doing so. Second, Islamic banks should compute Zakat by reference to a disclosed zakatable base rather than by applying a percentage mechanically to net profit. The computation should classify cash, receivables, trade assets, investments, fixed assets and liabilities according to Shari'ah rules. Third, retained earnings should be analysed through asset composition. Where retained earnings are represented by cash, trading assets or zakatable investments, they should be included. Where they are represented by operational fixed assets or exempt funds, they should be excluded to the extent recognised by Shari'ah. Fourth, Islamic banks should exclude non-liable portions, including non-Muslim shareholders, public funds, waqf interests, charitable institutions and Zakat funds held in trust. This is necessary to avoid imposing an Islamic act of worship on persons or funds not legally subject to it. Fifth, regulators in Nigeria should encourage a standardised Zakat disclosure template for non-interest financial institutions. Such a template should require disclosure of authority to pay, computation basis, asset classification, deductions, amount paid and the channel of distribution. This would promote transparency, protect shareholders and strengthen public confidence in Islamic financial institutions.