Zakat for Businesses: The Issues of Profits, Assets, Tax Calculation and Corporate Social Responsibility (CSR)

Effa Natasha Anuar, Nor Sarini Nawi, Nur Izzati Zulkifli & Nur Fatin Nabila Ilias

sarininawi2002@gmail.com

The complex issue of zakat will involve certain facets underlying profits, assets, tax calculation, and corporate social responsibility (CSR). The first challenge is determining whether gross or net profit should be used for zakat calculations, since this will determine the space of such liabilities. Second is the question of timing, since a business would have to face the trial of either paying zakat yearly or quarterly. Additionally, reinvested profits raise questions about their zakatability.

Another complication arises upon treatment of assets. Businesses have diverse types of assets that may include cash, inventories, other investments, and non current assets. Although disputes arise over the zakatability of certain assets particularly non-liquid assets, further confusion comes about regarding valuation and possible depreciation. More confusion arises as to whether these depreciation value costs take much out of the asset's usefulness for productive purposes.

Tax calculation is another issue. In certain states, zakat is deductible to corporate income tax, and in others, it's a distinct obligation. Companies also face the issue of calculating zakat prior to or after tax. In addition, if the government imposes zakat laws that differ from the acceptable Islamic rulings, more inconsistencies arise.

Zakat also led to broader questions on CSR strategies integration. Many companies include zakat as part of their CSR initiatives, which is acceptable. However, there is growing concern about ensuring that, at the very least, these funds are genuinely used to provide some form of assistance to the poor or needy. Lastly, companies were questioned whether they use zakat donation for self-gain in building up a good image of the clientele, which is the root of goodwill and among other conditions for authentic zakat implementation in Islamic ethics.

These are wider problems connected with the supply of common guidelines on zakat computation, perhaps especially because of multinational corporations and poor awareness of most companies concerning their responsibilities. These concerns would generally be resolved by common frameworks, enhanced education, and integration of zakat in CSR strategies in consonance with Islamic beliefs and modern accounting practices.

The practical application of calculation and inclusion of zakat into the company’s financial and social reporting fabric is already an issue. The issues include identifying whether zakat should be computed on the gross or net income, the issue of when zakat payments should be made, and the issues of which assets are zakatable, and the process of valuation of the assets with special reference to reinvestment income and other forms of assets that are not easily saleable. Furthermore, these inconsistencies are seen in the tax treatment whereby some jurisdictions allow a deduction for zakat while others consider it as a separate obligation hence the clashes between governmental zakat and Islamic shariah.

Moreover, companies are confronted with ethical issues in the zakat payments made for CSR purposes because such funds must indeed help the poor and needy and not be used merely to build good reputations and gain goodwill for businesses. Our literature reviews confirm that there is no universal Islamic accounting standard, adequate company awareness, and difficulties of international companies to implement fully the Islamic legal framework to reflect zakat as a significant part of CSR initiatives to the present day.

This article holds value to corporate organizations, zakat authorities, and policymakers by sharing insights regarding zakat obligations, governance structure, and socio-economic implications. It elaborates on if, when, and how zakat should be calculated by businesses, especially on contentious issues like gross versus net profit, when to pay, and zakatability of various assets, and offers solutions to help corporations better align their financial practices with Islamic principles and local tax laws. The authorities may find the analysis of inconsistencies within zakat regulations helpful, as it assists in establishing umbrella guidelines for other authorities.

For policymakers, the insights of this article can assist in aligning zakat with the tax systems to cut conflicts. It denotes how zakat could be embedded as part of CSR activities to help social justice and economic equity. Concurrent with the above, it helps businesses, authorities, and policymakers improve zakat compliance and its visibility into the realm of ethical business practices and community development.

Key Challenges in Zakat Implementation

Deficiencies in Corporate Awareness and Compliance

A significant number of businesses currently operating still have low consciousness concerning zakat because of limited knowledge on Islamic financial systems and lack of specific directions. This causes especially challenges for multinational companies or firms that operate in countries with low populations of Muslim consumers. For instance, business people face difficulties in choosing between the gross or net income base on which zakat should be paid and this may cause under or over payment of zakat. Furthermore, there is ambiguity about the treatment of such incomes like reinvested profits, non current assets, or depreciated machinery etc. For instance, a logistics company may try to establish whether their personal fleet of vehicles through which they earn their income since it is an annual depreciating asset is *zakatable* or not. This lack of clarity is actually responsible for the inconsistency of practice and decreased adherence to best practice from businesses.

Ethical Concerns in Zakat-Driven CSR Initiatives

Ethical misappropriation of zakat funds under CSR programs is one of the major issues concerning corporate zakat management. Zakat payments tend more and more to be used by companies as a tool to beautify their image rather than fulfill the primary Islamic purpose of zakat which is lowering poverty and neediness (The Daily Star, 2019). Although CSR activities are positioned to achieve social good, the linking of zakat with a marketing strategy leads to misalignment with Islamic ethical considerations. For instance, zakat donations that will be collecting the most publicity or goodwill from one's clients and other stakeholders may be preferred rather than going to the genuinely needy groups. This practice undermines the spiritual-societal essence of zakat, whereby zakat is directed to redistribution of wealth and alleviation of poverty. Since there were no universal Islamic accounting standards and their enforcement, such practices would go unpunished. Diverting zakat by self-presentation erodes public trust and questions the sincerity of the company's intentions, which can negatively affect consumer attitudes towards the company within Muslim-majority markets. This calls for a change of heart from corporations, making zakat payments in accordance with the intended purpose, rather than just putting it to reputational gain.

Opportunities for Enhancing Zakat Governance

Digitalization: A Catalyst for Zakat Transparency and Efficiency

Digitalization brings about the right solution by enabling the use of automatic systems to improve the operations of zakat. They are useful in evaluating the business' liabilities in terms of *zakatable* items, determining the amount owing and following payments in actual time. For instance, for a specific financial technology platform, the programs could sync with the firms' accounting programs to determine zakat on cash, stock and investment while excluding fixed assets that are non-*zakatable*. In turn, digital platforms are able to use other forms such as educational aids like simplified guides, videos, and other legal compliances to support the information provided. For instance, an e-commerce company can use the digital platform to determine the value of zakat on the business's year-end cash and stock balances while adhering fully to Shariah law. This also improves disclosure since companies can produce and disclose reports as to how they have benefited stakeholders.

Strengthening Ethical and Strategic CSR through Zakat Integration

Integrating zakat into corporate CSR strategies can actually create a unique opportunity for the fortification of ethical business practices, while also promoting the cause of community welfare. When effectively disbursed, zakat aligns much closely with CSR goals, as both uphold social responsibility and equitable distribution of resources. By accommodating zakat within CSR programs, companies can showcase their commitment to Islamic principles while responding to societal issues such as poverty and inequality. This approach not only fulfills the religious obligation of zakat, but also enhances a company's reputation as a socially responsible entity. For example, companies may allocate zakat tournaments to education, healthcare, or financial assistance programs for needy communities so that funds can be passed directly onto those in need. Moreover, such initiatives can trigger a virtuous cycle that enhances community welfare and instills sustained economic development. In markets where Islamic values exert a strong influence, this convergence reaches customer loyalty and trust, positioning the concerned companies above others in the competition.

Pathways for Institutionalizing Zakat in Corporate Frameworks

Standardizing Zakat Calculation Across Jurisdictions

To overcome the problem of difference in computation of zakat in different jurisdictions, there is a need to set universal rules and regulations. For instance, a set of global standards can prescribe that gross domestic product less operating cost is the basis for determining zakat; and the definitions of assets, which are subject to zakat, such as cash, receivables, and short-term financial assets. The standards could also help clear up how non-liquid assets and reinvested profits are to be dealt with. These standards could be backed up by laws and then enhanced by promoting usage of the appropriate online platforms. For example, a global organization of multi-nationals might use consistent software to calculate its zakat liability in accordance with Islamic precepts, while conforming to the legal provision of specific nations. This standardization would not only make compliance easier but also enhance trust in the organisations among the stakeholders would be developed through strong ethical business standards.

Institutionalizing Zakat within Corporate Governance and Ethical Reporting

In response to the challenges discussed above, companies must integrate zakat into their CSR strategies and use collected money for determining on the ground social changes and improvements. It means that zakat contribution is made in a manner that champions the organization's general CSR goals of regarding issues like poverty, education, and community. In this way, companies can guarantee that zakat has been paid correctly on the basis of Islamic rules while the payment will result in positive and constructive social impact. An important part of this integration is accountability firms need to develop an efficient system of reporting on zakat distribution and its effectiveness. This may include preparing and disseminating reports on how zakat funds are disbursed and the extent of the impacted beneficiaries. Zakat institutions can also use strategic partnerships to ensure that the funds will get to their rightful beneficiaries.

Furthermore, it is thought to increase the awareness of companies' financial and cooperation with CSR teams toward the Islamic zakat principles. Integration of zakat into CSR frameworks also offer a possibility to prevail employees and stakeholders as active participants of social projects, as well as the improvement of the corporate culture. This way, it not only meets religious and ethical requirements but also places the company in a socially responsible category of business representatives who create sustainable value for the society and the organisation in the long term.

In conclusion, the integration of zakat into corporate financial and ethical frameworks presents both challenges and opportunities for businesses operating within or in alignment with Islamic principles. Key issues such as unclear guidelines on zakat calculation, inconsistency across jurisdictions, and ethical concerns in CSR-driven zakat distribution continue to hinder optimal implementation. Nevertheless, the path forward lies in greater standardization, education, digital adoption, and embedding zakat within CSR initiatives in a way that remains faithful to its core objective which is alleviating poverty and redistributing wealth. By doing so, companies not only fulfill their religious obligations but also enhance transparency, stakeholder trust, and long-term social value. Ultimately, a concerted effort by corporations, policymakers, and zakat authorities to develop consistent frameworks and promote ethical governance will ensure that zakat becomes a meaningful tool for social equity and sustainable development in the modern business landscape.