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ASSESSMENT FRAMEWORK OF ZAKAT ON REAL ESTATE PROPERTY DEVELOPERS IN MALAYSIA

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ABSTRACT

This study aims to develop a more appropriate and equitable zakat assessment framework for real estate property developers in Malaysia by considering the differing operational realities between formally registered companies (Sdn. Bhd. or Berhad) and small-scale property developers operating individually. The property sector plays a significant role in Malaysia's economic growth. However, existing zakat guidelines are predominantly based on manufacturing and production models, which emphasize inventory in the form of raw materials, work-in-progress, and finished goods. This approach does not reflect the nature of the property development business, where the core assets consist of land, completed houses, and buildings. This study adopts a qualitative methodology involving semi-structured interviews with seven informants comprising academics, industry experts, zakat officers, and both formal and informal property developers. Informants were selected through purposive sampling to ensure their expertise and experience in the subject of zakat for property businesses. Data were analyzed using thematic analysis to identify key similarities, differences, and emerging themes in the assessment of zakat on real estate ventures. Findings show a unanimous consensus among informants on the obligation of zakat on property development activities, as such ventures are categorized as 'urud tijarah (trading assets). However, it was strongly emphasized that current zakat accounting frameworks fail to address the operational distinctions of property developers. For formal developers, zakat assessment should include current assets such as completed property inventories (buildings, houses, land lots), accounts receivable (net of doubtful debts), short-term investments, fixed deposits, and company cash holdings. Allowable current liabilities include payables, short-term borrowings, lease liabilities, outstanding taxes, and non-Shariah compliant income that must be excluded from zakat calculations. In contrast, *small-scale developers are only liable for zakat upon the sale of the property and the realization of profit. Assessable assets include only the proceeds from property sales, while deductible liabilities include costs such as land development, labor, legal fees, licensing, and annual land taxes. This exception aligns with the Maliki school of thought, which considers such developers as tajir al-mutarabbis thereby granting them zakat relief by requiring payment only after the property is sold and zakat conditions are fulfilled.*

***Keywords**: Property zakat, Formal developers, Small-scale developers, Zakat assessment framework, Malaysia.*

1. INTRODUCTION

The real estate development industry plays a pivotal role in driving national economic growth and is one of the key sectors contributing to job creation, infrastructure development, and the improvement of societal living standards. Real estate development encompasses not only construction activities whether commercial or residential buildings, but also commercial engagements such as property sales, leases, and rentals that are fundamentally based on property value (Ariffin & Omar, 2022).

In recent years, real estate has become a highly demanded asset, especially in urban areas due to population growth, infrastructure expansion, and the increasing need for housing. These factors have led to a significant appreciation in property values, generating substantial profits for property developers (Asli & Safian, 2021). From a Shariah perspective, real estate business activities are fundamentally classified under business zakat (*zakat tijarah*), as they are based on *'urud tijarah* trade assets acquired with the intention of resale for profit (Abu Zayd, 2000).

In current practice, most state zakat agencies, such as the State Islamic Religious Councils (Majlis Agama Islam Negeri, MAIN) and the Department of Waqf, Zakat, and Hajj (Jabatan Wakaf, Zakat dan Haji, JAWHAR), adopt the net working capital approach in calculating business zakat (JAWHAR, 2008). This approach applies the formula: ((Current Assets – Current Liabilities) × Percentage of Muslim Ownership × 2.5%). Current assets include sales inventory, accounts receivable, cash on hand, fixed deposits, and short-term investments, while current liabilities cover short-term loans, accounts payable, and current operational costs due for payment.

When JAWHAR issued a general calculation guideline for zakatable business assets, the method was adopted by many state zakat agencies to determine business zakat assessments. For instance, Lembaga Zakat Selangor (LZS, 2025) classifies sales inventory items under zakatable assets, a model that is more applicable to manufacturing companies dealing with raw, semi-finished, or finished goods. A similar approach is evident in the business zakat calculation method of Zakat Majlis Agama Negeri Pulau Pinang (MAINPP, 2025), which categorizes finished goods inventory as zakatable assets.

Furthermore, most other state zakat agencies only provide a general formula for business zakat assessment, as outlined by JAWHAR, which is also adopted by institutions such as the Federal Territory Islamic Religious Council's Zakat Collection Centre (PPZ-MAIWP) (PPZ, 2025). This generic reference may lead to confusion among zakat officers and real estate developers, particularly in determining which items should be classified as zakatable assets and which current liabilities are eligible for deduction in the zakat calculation.

The real estate business possesses characteristics that significantly differ from inventory-based or manufacturing-oriented businesses. Real estate operations do not involve raw materials or products that are rapidly produced and sold in short cycles. Instead, the focus lies in the acquisition of land or buildings, development processes, and strategically timing the resale to generate profits. In many cases, properties are held for extended periods typically several years before they are resold (Marzuki & Manaf, 2020).

Table 1: Key differences between manufacturing-based and real estate business accounting

Aspect	**Manufacturing Business Assessment**	**Real Estate Business Assessment**
Inventory / Main Assets	Involves raw materials, work-in-progress (WIP), and finished goods that circulate regularly	No conventional raw materials; main assets are land or buildings
Asset Recognition	Finished goods and raw materials are classified as current assets in regular circulation	Real estate is recognized as fixed assets or development stock with potential value appreciation
Profit Measurement	Measured by margin between raw material cost and selling price of finished goods over short periods (monthly or yearly)	Profit is typically realized only after successful real estate sale, which may take years
Current Liabilities / Debts	Supplier debts are usually directly proportional to current production and sales	Development-related debts are substantial, including legal fees, land premiums, and compliance costs

Source: Compiled by the researcher

Another critical issue arises from the distinction between two categories of developers: formal developers and small-scale developers. Formal real estate developers are typically structured as registered companies either private limited (Sdn. Bhd.) or public limited (Berhad) and include property brokerage firms, developers, and contractors. These entities engage in continuous property development using active assets and capital resources (Khan et al., 2024). Their revenue is generally earned from the progressive sale of homes or buildings. Consequently, it would be inappropriate to delay zakat obligation for this group, as their assets are consistently productive and generate annual profit.

Conversely, small-scale developers usually operate on a part-time or informal basis. They tend to hold onto property for longer periods, waiting for more favorable market conditions to resell often taking years. Additionally, they are burdened with ongoing costs for land maintenance, landfill works, and associated property taxes (Junaidi & Salleh, 2016). If annual zakat were imposed based on the market value of the property without actual sales proceeds, it could place a significant financial strain on these developers.

Therefore, there is an urgent need to formulate a specific zakat assessment framework for the real estate business sector that differentiates between formal and informal (small-scale) property developers, ensuring a fair and context-sensitive zakat application. In line with this aim, the objectives of this study are to examine the applicability of current zakat assessment practices to real estate developers in Malaysia, to identify the challenges and limitations faced by both formal and small-scale developers in fulfilling zakat obligations, and to propose a context-sensitive zakat assessment framework that accommodates their differing operational realities.

Previous studies on zakat and business assessment frameworks have largely focused on manufacturing-oriented enterprises and general trading businesses, where zakat calculation is based on inventory cycles, raw materials, and finished goods (JAWHAR, 2008; LZS, 2025; MAINPP, 2025; PPZ, 2025). However, limited attention has been given to the real estate development sector, which has distinct characteristics such as long development cycles, high capital intensity, and the holding of assets for extended periods before resale (Marzuki & Manaf, 2020; Jagun et al., 2022). Recent discussions on zakat accounting have also emphasized the urgent need for more context-specific frameworks that reflect industry realities rather than applying generic formulas (Bilal et al., 2019; Othman et al., 2021). In addition, while several recent studies have examined innovative dimensions of zakat management such as the effectiveness of zakat funds in supporting microcredit financing for asnaf entrepreneurs (Asni et al., 2025; Asni et al., 2024), the focus on real estate developers as a distinct business entity has received little scholarly attention. This study addresses this gap by specifically focusing on real estate developers in Malaysia, differentiating between formal and small-scale developers, and proposing a zakat assessment framework that is tailored to Shariah principles and the practical realities of business operations.

2. LITERATURE REVIEW

2.1 *Concept of Real Estate*

The term *land* carries a broad meaning, encompassing all resources derived from the air, sea, and mountains. Geographical features, wind, and climate are also included in the interpretation of land. From a political perspective, land forms the foundation for the establishment of society and the development of human life. In legal dictionaries, land is defined as the solid surface portion of the earth

From the perspective of Islamic law, the term *land* is referred to as *al-arḍ*, which is also known as *'aqar* and *ghayr al-manqūl* (immovable property). The word *al-arḍ* encompasses areas such as hills, seas, airspace, and all that they contain, whether visibly apparent or hidden. According to the Hanafi school of thought, *'aqar* refers to anything that cannot be transferred from one place to another, including land that is not associated with buildings (Badran, 1968).

Various definitions of real estate exist under relevant acts and legal frameworks. According to Section 5 of the National Land Code 1965 (Malaysia), the term *land* includes:

a) The surface of the earth and all substances forming it,
b) The soil beneath the surface and all things contained therein,
c) All vegetation and natural produce, whether or not periodic labour is required for their production, whether above or below ground,
d) All things attached to the earth or permanently fastened to anything attached to the earth,
e) Land covered by water.

Generally, real estate is a legal term referring to land and anything permanently affixed to it, including buildings and natural resources. Real estate is commonly considered synonymous with *real property*, which contrasts with movable property. Real estate represents immovable assets, encompassing land and everything situated on it, such as structures and plantations.

2.2 *The Contemporary Reality of the Real Estate Business*

The real estate business today plays a significant role in the economic and social development of a country. Real estate serves not only as the foundation for infrastructure and housing development but also as an investment asset that is increasingly attracting the interest of corporate entities and individual investors (Bilal et al., 2019). This business activity involves the purchase, development, leasing, and sale of land and buildings, each of which has distinct characteristics that influence business and investment strategies (Jagun et al., 2022).

Conceptually, real estate is considered a capital asset with long-term value appreciation potential (Fah Choy et al., 2011). Property ownership is a strategic choice because real estate tends to appreciate in value in line with economic growth, population increase, and infrastructure development. This value appreciation is seen as a source of capital gain, making investment in this sector more stable compared to other assets that are more vulnerable to market volatility (Bakari, 2017).

In addition to capital gains, real estate also offers opportunities to generate passive income through rental activities. Rental income from residential properties, commercial premises, and industrial spaces serves as a stable additional source of revenue for owners. Thus, real estate becomes a long-term investment asset that not only provides profit through value appreciation but also continuous income throughout the ownership period (Marzuki & Manaf, 2020).

From a practical standpoint, real estate business differs from manufacturing or consumer goods businesses that involve faster sales cycles. Real estate owners or developers typically hold their assets over longer periods before selling them to maximize profits (Khan et al., 2024). Moreover, the cost of real estate development is high and complex as it includes land costs, development premiums, legal fees, approval charges, and marketing expenses (Maududy & Gamal, 2019). These factors necessitate meticulous financial planning and risk management to avoid losses and ensure business sustainability.

The long development cycle of real estate is another critical feature. Compared to consumer goods businesses that involve continuous production and sales, property development may take several years to complete and sell. This situation creates market uncertainty risks, requiring owners and developers to be more cautious in planning their sales timing and pricing strategies (Othman et al., 2021).

Finally, the real estate business landscape in Malaysia encompasses various types and scales of operations. There is large development companies involved in mega projects with massive investments, as well as small-scale developers focusing on medium-sized projects or individuals purchasing land for future investment. This diversity demands differentiated approaches in planning, legal compliance, and risk management, in line with the diverse challenges faced in the property market.

2.3 *The Concept of Real Estate Business Liable for Zakat*

There is a specific category of real estate ownership that is liable for zakat, namely, property acquired with the intention of commercial trade (*tijarah*). In such cases, the property is considered capital asset (*ra's al-mal*) (Abu Zayd, 2000). This obligation is based on the general command concerning zakat in the Qur'anic verse from Surah al-Baqarah (2:267), which means: "O you who believe! Spend of the good things which you have (legally) earned, and of that which We have produced from the earth for you." According to al-Tabari (1994), this verse signifies that one must give zakat from lawful earnings gained through trade or manufacturing involving gold and silver.

The obligation is further supported by Surah al-Tawbah (9:103): "Take from their wealth a charity by which you purify them and cause them increase." Ibn Kathir (1999) explains that this verse commands the Prophet to collect zakat from the wealth of the believers to purify and cleanse them.

The liability of zakat on real estate is also derived from the generality of the hadith in which the Prophet sent Mu'adh ibn Jabal to Yemen and said: "Inform them that Allah has made it obligatory upon them to pay zakat, to be taken from their rich and given to their poor" (Muslim, 2006). The apparent meaning of this hadith applies to all types of wealth. Al-'Uthaymin (2002) clarifies that *'urud tijarah* (trade assets) fall under the category of zakatable wealth.

Additionally, the hadith of Umar ibn al-Khattab (RA) affirms: "Actions are but by intentions, and each person shall have what he intended..." (al-Bukhari, 2003). Based on this, al-'Uthaymin (2002) states that if merchants were asked what they aim to achieve from their trade goods, they would answer: "I want gold, silver, or money." Therefore, zakat on trade goods is obligatory by textual evidence and analogy (*qiyas*).

There is also supporting *athar* (narrations of the companions). Ibn 'Umar reported: "There is no zakat on land unless it is intended for trade" (al-Bayhaqi, 2003). Similarly, 'Abd al-Rahman ibn 'Abd al-Qari reported: "I was the treasurer of the public treasury during the caliphate of Umar ibn al-Khattab, and when he issued disbursements, he would collect wealth from traders whether residents or travelers and then compute zakat accordingly" (Ibn Abi Shaybah, 1982).

Furthermore, the obligation is based on scholarly consensus (*ijma'*). Ibn al-Mundhir (1999) states that scholars have agreed that any asset intended for trade is subject to zakat upon the completion of one lunar year (*hawl*). He also recorded this consensus from authorities such as Ibn Qudamah, al-San'ani, al-Nawawi, Ibn Taymiyyah, and al-Shawkani.

Zakat on real estate is also affirmed through analogy (*qiyas*). Al-Nawawi (2006) argues that zakat on *'urud tijarah* is obligatory based on the hadith narrated by Abu Dharr (RA). This is because trade activities typically lead to capital growth, which makes them analogous to livestock raised for commercial purposes, which are zakatable. Al-Jaziri (2003) affirms that all four major Sunni schools of law obligate zakat on trade inventory.

According to Ibn Qudamah (1405H), "It is narrated from Imam Ahmad that a matter is considered a trade simply by intention, as indicated by the statement of Samurah: 'The Messenger of Allah ordered us to give charity from what we had prepared for sale.' Hence, it is not deemed as trade through mere possession or exchange, but by intention for commercial gain." Therefore, real estate is unequivocally subject to zakat when it is acquired with the intention of trade.

2.4 *Method of Paying Zakat on Real Estate Business*

The payment of zakat on real estate encompasses both the capital value and the profit, provided that the total amount meets the *nisab* (minimum threshold) and completes the *hawl* (one lunar year). If the property value alone does not reach the *nisab*, but reaches it after adding the profits, then the *hawl* calculation begins from the point when the combined value meets the *nisab*. If the capital value of the business increases or decreases during the *hawl*, then zakat is to be paid based on the current market value at the end of the *hawl* period (Ibn Qudamah, 1405H).

Zakat on real estate must be paid based on the current market value once *hawl* and *nisab* are completed. If the market value of the property at the end of the *hawl* is lower than the *nisab*, zakat is not obligatory. For example, if a man purchases a building for one million Egyptian pounds with the intention of trading, and after a full *hawl*, its value rises to three million pounds, zakat is to be paid on the three-million-pound valuation. Thus, the zakat is determined based on the property's value at the completion of the *hawl* (Abu Zayd, 2000).

According to Ibn Qudamah (1405H), zakat should be paid based on the value of *al-'urud* (trading assets) and not in kind. Ibn Rushd (2004) notes that the majority of scholars including Abu Hanifah, al-Shafi'i, Ahmad, al-Thawri, al-

Awza'i, and others are of the view that if someone purchases land (*'ard*) for trading purposes, it is subject to zakat once the *hawl* is completed, and zakat is to be paid based on its market value.

If a real estate property has completed the required *hawl* and reached the *nisab*, it becomes obligatory to pay zakat based on the current market value, and the payment should not be delayed. However, if the owner is unable to pay zakat due to a lack of liquid assets besides the property itself, then it is permissible to defer the zakat payment until the property is sold. Once sold, the owner must pay zakat retroactively for each missed year, calculated based on the property's value at the end of each respective *hawl* regardless of whether the value was greater or less than its original price at the time (Ibn Qudamah, 1405H).

The assessment of zakat for a real estate business can also be derived from a narration of Maimun ibn Mihran, who said: "When your zakat is due (after one full year), count the amount of cash you possess, evaluate your trade goods based on currency, and include any receivable debts that are expected to be repaid. Then, deduct your own debts, and zakat shall be paid on the remaining balance" (Ibn Abi Shaybah, 2008).

2.5 *Categories of Zakat for Property Developers and Zakat Calculation Method According to the Maliki School of Thought*

According to the Maliki school of thought, property developers who engage in formal business operations are classified under *zakah al-tājir al-mudīr*. This refers to developers who acquire land for development projects without any form of delay or deferment. Ibn 'Abd al-Barr (1993) stated: "Zakat is obligatory upon wealth used in business that is conducted in a formal and continuous manner, and it must be paid annually." Therefore, zakat must be paid on properties intended for trade as long as they meet the *nisab* and *hawl*, even if the properties remain unsold during the first, second, or subsequent years.

However, in cases where formal developers are unable or face constraints in paying zakat annually due to not yet realizing profits from project sales or due to the burden of high development costs, the majority of scholars from the Maliki, Shafi'i, and Hanbali school of thought allow for zakat payment to be postponed until the developer has sufficient liquidity (Ibn Qudamah, 1405H). Nonetheless, the developer is required to account for the number of *hawl* years that have passed and must later pay zakat retroactively.

On the other hand, small-scale property developers fall under the Maliki classification of *tājir al-mutarabbis*, which refers to developers who acquire land with the intention of holding it for a certain period while waiting for its market value to increase. According to Ibn Abi al-Qasim (1994), *al-mutarabbis* is a person who purchases land or similar assets and monitors market developments until conditions are favorable and prices rise. This category includes many real estate traders and grain merchants who purchase land when prices are low, with no intention to sell immediately. Instead, they wait for days, months, or even years in hopes that prices will increase. In such cases, zakat is only due upon the realization of profit through the sale of the property even if the property remained unsold for several years. The trader is only obligated to pay zakat for one year and is not required to back-pay for the previous years.

This is because zakat is not to be paid using other wealth, particularly when the asset in question (the property) has not yet been sold. Hence, zakat cannot be paid from alternative resources. Ibn ʻAbd al-Barr (1993) stated: "No zakat is due upon someone who purchases an item until he sells it. Once he sells it even if it has been years, he must only pay zakat for one year. This is similar to a debt that the creditor is seeking to reclaim but has yet to be retrieved, in which case the debt remains with the debtor."

Furthermore, zakat is an obligation upon the wealth (*ʻayn al-māl*) itself. This is supported by the hadith of Muʻadh ibn Jabal (RA), in which the Prophet said: "Inform them (the people of Yemen) that Allah has made zakat obligatory upon their wealth; it is taken from their rich and given to their poor" (al-Bukhari, 2003). This hadith clearly affirms that zakat is tied to the *wealth itself*. Accordingly, zakat is not due until the wealth is in the owner's possession, and one cannot discharge zakat from other sources of wealth.

Abu ʻUbayd (1989) wrote: "When it is established that zakat is related to the very essence of the wealth (*ʻayn al-māl*), then the owner is not obligated to pay zakat from any other property, just as he is not required to pay zakat for an item using wealth other than that item." This is further echoed by Ibn ʻAbbas (RA), who said: "There is no issue (*lā baʼsa*) for a *mutarabbis* trader to delay paying zakat until he sells the property." In other words, once the trader receives the full proceeds from the sale of the property, he is obliged to pay zakat for one year only. If he receives only part of the sale price, he is required to pay zakat proportionally based on what has been sold.

3. METHODOLOGY

3.1 *Research Design*

This study adopts a qualitative research approach, emphasizing an in-depth understanding of the realities and experiences related to the issue of zakat assessment for property development businesses. This approach provides a systematic framework to identify themes, patterns, and codes relevant to the subjective interpretation of data (Muzari et al., 2022). According to Tokona (2024), the qualitative method allows researchers to directly engage with informants in order to gain profound insights that cannot be obtained through quantitative means. This method is highly suitable for the objective of the study, which seeks to produce a zakat assessment framework grounded in the realities of property developers and aligned with current practical needs.

3.2 *Data collection*

In terms of data collection, this study employed semi-structured interviews, which allow for flexibility in question formulation and provide space for informants to openly share their views (Wallwey & Kajfez, 2023). Furthermore, the semi-structured interview format facilitates the development of rapport and trust between the researcher and informants, thereby enhancing the credibility of the data obtained (Ramy et al., 2018).

Informants were selected using a purposive sampling method, which enables the researcher to choose individuals with the expertise and relevant experience pertaining to the study topic (Etikan et al., 2016). A total of seven informants were interviewed, comprising academics, industry experts, zakat officers, and both formal and small-scale property developers. This number was deemed sufficient as it ensured diversity of perspectives across all key stakeholders directly involved in zakat assessment for the property development sector, while also allowing the researcher to achieve data saturation where no new themes were emerging. The selection was not random but was based on the consideration that the chosen informants could provide rich and meaningful input on issues related to zakat calculation in property development. The table below presents the details of the interviewed informants:

Table 2: List of interviewees

Interviewee	Position	Institution
IV1	Academia in Shariah	University
IV2	Academia in Zakat Accounting	University
IV3	Accounting expert from the industry	Company
IV4	Zakat officer	Zakat Institution
IV5	Zakat officer	Zakat Institution
IV6	Formal property	Company

IV7	developer Small-scale property developer	Individual

Source: Compiled by the researcher

3.3 *Data Analysis*

To ensure that the collected data were analyzed thoroughly and systematically, the study employed thematic analysis. This process involves steps such as reading interview transcripts, identifying main themes, and synthesizing the data systematically (Lisa M. Given, 2008). Thematic analysis is crucial for ensuring that the study's findings genuinely reflect the perspectives of the informants while capturing the similarities and differences in their experiences (Nowell et al., 2017). This approach is considered suitable for this study as it facilitates the development of comprehensive and contextually relevant conclusions for the zakat assessment practices within the Malaysian property development sector.

4. RESULTS & DISCUSSION

The findings of this study are presented as the following themes: -

Theme 1: Obligation of Zakat on Property Development Business

Findings from the interviews reveal that all informants agreed on the obligation to pay zakat for property development businesses. IV1 stated:

"I support the imposition of zakat on property development business because it is a highly profitable venture today."

This view aligns with the opinion of Ibn Qudamah (1405H) and Ibn Abd al-Barr (1993), who recognize the obligation of zakat on *'urud tijarah* (trade assets), which includes properties intended for sale and profit. Abu Zayd (2000) and Othman et al. (2021) also affirm that the property sector is one of the key contributors to the modern economy and is subject to zakat when the *nisab* and *hawl* conditions are fulfilled.

Although zakat on property business is obligatory upon meeting the required conditions, several informants suggested the need for a specific accounting framework tailored for property businesses. This is because the existing zakat accounting methods are more aligned with working capital-based businesses, such as factories, which involve raw materials, work-in-progress, and finished goods. This mismatch makes it difficult for property development companies to fulfill zakat obligations due to the lack of suitable calculation models. IV2 stated:

"I support the development of a specific zakat accounting method for the property development sector because the accounting nature of property companies is different from manufacturing-based businesses. For instance, factories deal with raw materials and inventory, while property businesses do not. Therefore, the zakat calculation method must differ. Having a specific model will make it easier for developers to use as a reference and reduce confusion."

This view was also supported by IV3:

"I believe that zakat for property development businesses requires a specific accounting framework… a tailored calculation method will simplify the process for property companies and reduce confusion."

These findings indicate that some stakeholders share concerns about the current generic zakat formula, which is largely based on business models involving inventory and raw materials, rather than the unique nature of the property sector, where inventory consists of land or buildings categorized as current assets. Similar concerns were echoed by zakat officers. IV4 explained:

"We know that property-based companies are obliged to pay zakat because their holdings qualify as 'urud tijarah, but we often face confusion in the calculation due to existing references that are based on manufacturing businesses with raw materials and finished goods."

IV5 reiterated:

"We know that property-based companies must pay zakat… but we often encounter confusion in the calculation because the reference is based on manufacturing companies with raw materials and finished goods."

These findings show that although awareness of the obligation to pay property zakat exists, the practical implementation still faces challenges due to the absence of a specific accounting framework for this sector. This confusion was also acknowledged by developers, as IV6 noted:

"We pay business zakat, but we are quite confused because the current zakat calculation formula is based on business models involving raw materials and finished goods, which suits manufacturing or production industries."

Meanwhile, IV7 described a unique situation:

"I run a small-scale property business. I usually buy land and hold it. Once I have enough capital, I clear the land, level it, and prepare it for housing. Typically, I hold the land for 3 to 5 years before selling it."

This highlights that for small-scale developers, their assets have not yet generated income or annual profit.

In summary, the interview findings confirm that the majority of informants agree with the obligation of zakat on property development businesses, consistent with the principle of zakat on *'urud tijarah* established in prior research. This obligation is relevant as the property sector represents a high-value business category with unique characteristics. However, the findings also underscore significant concerns about the confusion surrounding zakat accounting in this sector particularly because existing guidelines are based on manufacturing models, which do not align with the property business structure.

The confusion is acknowledged not only by developers but also by zakat officers who implement the practice in the field. This indicates an urgent need to develop a specialized and contextual zakat accounting framework for the property sector that reflects the realities of both formal and small-scale developers. Such a framework is crucial for reducing ambiguity, facilitating compliance, and ensuring that the maqasid al-Shariah principles such as justice and societal welfare are upheld in zakat administration.

Theme 2: Categorization of Property Development Business in Zakat Assessment

Findings from the interviews, especially with academics specializing in zakat, highlighted the urgent need to distinguish between two categories of property developers in the context of zakat calculation and payment: formal property developers (i.e., registered companies such as Sdn. Bhd. or Berhad) including property broker companies, developer companies, and contractor companies; and small-scale or individual developers. IV1 stated:

"In the Maliki school of thought, there is a discussion on formal traders referred to as tajir al-mudir and informal ones known as tajir al-mutarabbis. In that discourse, formal property developers face no issue in paying zakat annually based on the value of their 'urud tijarah (trade assets), since property sales and profits typically circulate within a short timeframe due to their multiple ongoing projects. However, for small-scale developers, it is difficult to pay zakat annually based on trade inventory value.

Therefore, it is suggested to follow the Maliki opinion for small-scale developers, which allows them to pay zakat only once the property is sold, even if that happens in the third year, without needing to pay zakat annually."

This view is consistent with the opinion of Ibn Abd al-Barr (1993), who stated that owners of property intended for trade (*urud tijarah*) are obliged to pay zakat annually based on the property's current market value. However, small-scale developers categorized as *tajir al-mutarabbis*, who are simply waiting for the value to be appreciated and are not actively selling can fulfill zakat obligations only upon sale. This indicates the recognition in fiqh of diverse economic realities and the differing capabilities of property developers.

IV2 agreed:

"If there are Shariah-based concessions for zakat accounting tailored to small-scale property developers, that would be ideal, as their profit cycle is not as strong as that of formal developers."

This shows that practically, a one-size-fits-all formula is unfair for the two categories of developers. IV3 supported this:

"I support having distinct zakat accounting systems for formal and informal categories of property developers."

Both zakat officers interviewed (IV4 and IV5) also emphasized this reality. IV4 stated:

"If there is a specific zakat accounting method for the two types of property developers, it would be very beneficial, because even small-scale developers come to us for guidance on zakat, even though they haven't earned any profit from their land yet. In fact, they still have to bear costs for annual land tax, land leveling, and clearing."

IV5 added:

"It would be very beneficial to have two separate zakat accounting systems for formal and informal developers for their benefit, since their situations differ significantly."

This proves that even field zakat officers face dilemmas when dealing with small-scale developers who have yet to realize profits but are expected to pay zakat based on current market value. Such expectations would impose hardships on these smaller players.

From the developers' perspective, IV6 explained:

"We are a registered company (Sdn. Bhd.) with many projects for residential and commercial buildings, so our sales cycle is ongoing. We also have accounting officers to manage profits, expenses, taxes, debts, and so on."

This shows that formal developers operate like conventional businesses with active cash flows, enabling them to pay business zakat annually. On the other hand, IV7 described their constraints:

"It is not feasible for me to pay zakat annually based on the value of the land… I have not received any income yet, and I even need to spend money to fill the land and pay the necessary land taxes."

The findings from both types of informants in the field clearly demonstrate the distinct situations faced by these two categories of developers. Therefore, applying a single zakat accounting system to all developers is not aligned with contemporary *maslahah* (public interest). Consequently, the proposal to create specific zakat accounting frameworks for both developer types aligns with *maslahah* and is supported by the Maliki school, which permits *tajir al-mutarabbis* to pay zakat for only one year upon sale of the property, without retroactive payments for previous years (Ibn Abd al-Barr, 1993).

Theme 3: Zakat Assessment Accounting for Formal Property Developers and Small-scale Developers

Having identified the need to differentiate zakat accounting for formal and small-scale property developers, the following are the interview findings proposing zakat accounting methods for both developer categories.

IV1 referred to the narration of *Maimun bin Mihran*, which serves as a fundamental basis for all business zakat assessments:

"For modern zakat calculation, the foundation should refer to the zakat calculation guidelines issued by JAWHAR, but the fundamental basis is the narration of Maimun bin Mihran, which means: 'When the time has come for you to pay zakat (i.e., a complete hawl), calculate how much cash you have, then value your trade inventory in currency, also account for customer debts that are likely to be repaid, and then deduct your own debts. Zakat is to be paid on the remaining amount.'"

This view aligns with those of Ibn Qudamah (1405H) and al-Nawawi (2003), who state that the basic assessment of zakat is to value productive assets, subtract current debts, and assess the net wealth subject to zakat.

In practical terms, IV2 explained:

"Usually, if we refer to the zakat calculation manual by JAWHAR, what is considered for business zakat using the working capital method includes sales inventory as part of current assets… For property business zakat calculation, it is proposed that the property inventory held for sale, completed buildings (including land cost), completed houses (including land cost), and land lots for sale be included in the current assets (of the assessment year) subject to zakat."

This indicates that for formal developers, zakat accounting must consider active property inventories whether land, completed buildings, or houses as the company's main trade stock. This is different from the general zakat assessment method by JAWHAR (2008), which typically includes merchandise inventory as zakatable assets. While JAWHAR provides a general calculation method, most state zakat agencies such as Lembaga Zakat Selangor (LZS, 2025) still use assessment formulas naming saleable goods as zakatable assets, which is more appropriate for manufacturing companies that deal in raw materials, semi-finished, and finished goods.

In contrast, most state zakat agencies provide only general business zakat formulas, like that of PPZ MAIWP: (Current Assets – Current Liabilities) × % of Muslim Ownership × 2.5% (PPZ, 2025). This general reference may create confusion among zakat officers and property developers, especially in identifying items that fall under zakatable assets and permissible deductible liabilities.

More specifically, IV3 elaborated:

"For formal companies (Sdn. Bhd. / Berhad), the current assets (of the assessment year) that are zakatable include property inventory (inventories held for sale), completed buildings (including land cost), completed houses (including land cost), land lots for sale, business receivables (after deducting doubtful debts), short-term investment securities, fixed deposits/investment accounts in banks, and company cash in hand and in bank. As for the allowable current liabilities (of the assessment year), these include trade payables, provisions, contract liabilities, current borrowings/financing, lease liabilities, tax payable, and non-Shariah-compliant income such as bank interest."

Although these interview findings have identified zakatable asset items for property developers, there needs to be alignment with the principles of contemporary zakat accounting issued by JAWHAR (2008), which supports using the net working capital method (i.e., current assets minus current liabilities) to determine the zakatable amount.

Conversely, IV3 also emphasized that for small-scale developers without formal companies, the zakat assessment approach must be simpler and more focused:

"The current assets (assessment year) subject to zakat for small-scale property developers are property sale proceeds (upon reaching nisab), while the allowable current liabilities include sale costs, rental costs, staff costs, legal fees, licensing fees, annual taxes, and other related costs."

Based on interview findings from zakat scholars, zakat accountants, and industry accounting experts, the proposed zakat assessment formulas for both categories of developers are as follows:

Table 3. Zakat Assessment for Formal Companies (Sdn. Bhd. / Berhad Including Property Broker, Developer & Contractor Companies)

A. Current Assets (Assessment Year) Subject to Property Business Zakat	**B. Allowable Current Liabilities (Operational Liabilities)**
1. Property inventories held for sale: i. Completed buildings (incl. land cost) ii. Completed houses (incl. land cost) iii. Land lots for sale	1. Trade creditors i. Provisions ii. Contract liabilities iii. Current loans/financing iv. Lease liabilities v. Tax payable
2. Business receivables (net of doubtful debts)	2. Non-Shariah-compliant income, e.g., bank interest
3. Short-term investment securities	
4. Fixed deposits / investment accounts	
5. Company cash at bank & in hand	
Total Zakatable Current Assets = RM	**Total Allowable Current Liabilities = RM**
C. Zakatable Value (A - B) = RM **D. Zakat Rate: 2.5%** **E. % of Muslim Ownership** **F. Total Zakat Payable = RM**	

Table 4. Zakat assessment for small-scale developers without formal companies (*tajir al-mutarabbis*)

A. Current Assets (Assessment Year) Subject to Zakat	B. Allowable Current Liabilities
Property sale proceeds (meeting *nisab*)	Business expenses: i. Sale cost ii. Rental cost iii. Staff cost iv. Legal fees v. Licensing cost vi. Annual taxes vii. Others
Total Sale Revenue = RM	**Total Business Operating Expenses = RM**
C. Zakatable Value (A - B) = RM **D. Zakat Rate: 2.5%** **F. Total Zakat Payable = RM**	

4.1 *Implications of the Study*

The findings of this study were presented at the 57th Meeting of the Perlis State Fatwa Committee held on 7 April 2022, which resulted in the following resolutions:

1. Real estate is considered an immovable asset that includes land and everything permanently affixed to it, such as buildings.
2. As a general rule, zakat is not imposed on real estate in the following cases:
   a. If it is owned for personal use or residence (*al-qinyah*/القنية).
   b. If it is owned for personal use or residence (*al-qinyah*/القنية), but the owner may sell it later to obtain a reasonable profit or due to specific reasons.
   c. If it is used for public benefit, such as for roads or dedicated as *waqf* (endowment).
3. If a real estate asset is owned to generate income such as through rentals or agriculture then it is subject to zakat al-mustaghallat (المستغلات) and agricultural zakat accordingly.
4. Real estate assets are subject to zakat if they are held for business purposes as trade inventory. The zakat period (*hawl*) begins from the time the real estate is owned with the intention of trade. The zakat rate for real estate business is 2.5%, provided that the *nisab* and *hawl* requirements are fulfilled.
5. In general, there is a need to distinguish the zakat assessment formulas between:
   i. Formal developers who own registered companies (e.g., Sdn.

Bhd. or Berhad) (*al-mudir*), and

ii. Small-scale developers or individual owners without formal companies (*al-mutarabbis*/المتربص).

6. The zakat assessment formula for formal companies such as property broker companies, developer companies, and contractor companies (Sdn. Bhd. / Berhad) is as follows:

Table 5. Zakat Assessment Formula for Formal Companies

A. **Current Asset (Assessment Year) Subject to Zakat**	**B. Allowable Current Liabilities (Operational Liabilities)**
1. Property inventory available for sale: i. Completed buildings (including land cost) ii. Completed houses (including land cost) iii. Land lots for sale	1. Current trade payables: i. Provisions ii. Contract liabilities iii. Currentloans/borrowings iv. Current lease liabilities v. Tax payable
2. Business receivables (net of doubtful debts)	2. Non-Shariah-compliant income such as bank interest
3. Short-term investment securities	
4. Fixed deposits / investment accounts	
5. Company cash at bank and in hand	
Total zakatable current assets = RM	**Total allowable current liabilities = RM**
C. Net zakatable amount (A - B) = RM **D. Zakat rate: 2.5%** **E. Muslim ownership percentage** **F. Total zakat = RM**	

7. Assets used for operations (*al-isti'mal*), such as company buildings, vehicles, equipment, and the like, are not included as zakatable company assets.

8. The zakat assessment formula for small-scale developers without formal companies (*al-Mutarabbis*/المتربص) is as follows:

Table 6. Zakat Assessment Formula for Small-Scale Developers Without Formal Companies

A. Current Assets (Assessment Year) Subject to Zakat	**B. Allowable Current Liabilities**
Real estate sale proceeds (upon meeting *nisab*)	Business expenses: i. Cost of property sale

	ii. Rental cost iii. Employee wages iv. Legal fees v. Licensing feesvi. Annual land tax vi. Others
Total sales revenue = RM	**Total business operating expenses = RM**
C. Net zakatable amount (A - B) = RM **D. Zakat rate: 2.5%** **F. Total zakat = RM**	

In summary, the members of the Perlis State Fatwa Committee agreed with the categorization of property developers into formal developers and small-scale developers, as well as with the zakat assessment formulas proposed by the researcher.

5 CONCLUSION

This study aims to develop a more appropriate and equitable zakat assessment framework for real estate property developers in Malaysia by considering the differing operational realities between formally registered companies (Sdn. Bhd. or Berhad) and small-scale property developers operating individually. The property sector plays a significant role in Malaysia's economic growth. However, existing zakat guidelines are predominantly based on manufacturing and production models, which emphasize inventory in the form of raw materials, work-in-progress, and finished goods. This approach does not reflect the nature of the property development business, where the core assets consist of land, completed houses, and buildings.

Findings show a unanimous consensus among informants on the obligation of zakat on property development activities, as such ventures are categorized as *'urud tijarah* (trading assets). However, it was strongly emphasized that current zakat accounting frameworks fail to address the operational distinctions of property developers. For formal developers, zakat assessment should include current assets such as completed property inventories (buildings, houses, land lots), accounts receivable (net of doubtful debts), short-term investments, fixed deposits, and company cash holdings. Allowable current liabilities include payables, short-term borrowings, lease liabilities, outstanding taxes, and non-Shariah compliant income that must be excluded from zakat calculations.

In contrast, small-scale developers are only liable for zakat upon the sale of the property and the realization of profit. Assessable assets include only the proceeds from property sales, while deductible liabilities include costs such as land development, labor, legal fees, licensing, and annual land taxes. This exception aligns with the Maliki school of thought, which considers such developers as *tajir al-mutarabbis* thereby granting them zakat relief by requiring payment only after the property is sold and zakat conditions are fulfilled.

This study provides a practical contribution to zakat institutions and property developers in formulating zakat assessment practices that are more contextualized and relevant to the real-world nature of the property development sector in Malaysia.

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