

REASSESSING ZAKAT OBLIGATIONS ON ISLAMIC BANK DEPOSITS: A FIQH MU'ĀMALĀT-BASED IJTIHĀD FOR ISLAMIC BANKING 5.0 CONCEPT

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ABSTRACT

Islamic banking today grapples with a crucial question: should third-party deposit funds (DPK) be subject to zakat? While current fatwa such as DSN-MUI treat these funds as zakat-obligated like cash, this paper offers a new ijtiḥād. It argues that DPK, when invested productively by Islamic banks, should be exempt from annual zakat obligations. This article clarifies that the discussion concerns zakāt al-nuqūd in current practice, while the proposed framework repositions zakat obligation from deposit principal to realized returns, conceptually aligned with contemporary treatments of al-māl al-mustafād. This study employs a qualitative normative (doctrinal) approach using document-based data collection. Data were gathered through a structured review of: (i) primary classical fiqh sources on zakāt, debt (dayn), and productive wealth (e.g., al-Mughnī, Bidāyat al-Mujtahid, al-Muwaṭṭa', al-Mustasfā, al-Muwāfaqāt), (ii) contemporary fatwas and standards relevant to Islamic banking deposits and zakāt governance (including DSN-MUI and AAOIFI-related guidance), and (iii) selected academic and policy studies on Islamic banking intermediation and zakāt-based socio-economic impact. The collected documents were analyzed using thematic content analysis to extract juristic propositions and legal reasoning patterns, followed by a ta'sīl fiqhī reconstruction and maqāṣid-maṣlahah evaluation to assess the implications of exempting deposit principals while maintaining zakāt on realized profits and proceeds. The research demonstrates that exempting such deposits can enhance capital preservation and mobilization. Instead of diminishing over time through zakat deductions, these funds can fuel microfinance, SME development, and inclusive economic growth. The core argument is that Islamic bank deposits, when functioning as tools for social utility and productive intermediation, are not idle wealth. Therefore, they should not be measured by zakat in the same way as dormant cash. This perspective aligns more closely with the spirit of sharī'ah, promoting justice, poverty alleviation, and wealth

circulation. The paper ultimately invites a rethinking of DSN-MUI and similar fatwas to better reflect today's financial realities without departing from Islamic legal ethics. It offers a path forward where Islamic banks are not only Shariah-compliant but also socially impactful and economically empowering.

Keywords: *Zakat Exemption, Islamic Banking, Fiqh Mu'āmalāt, Maqāṣid al-Sharī'ah, Productive Financial Intermediation.*

1. INTRODUCTION

Islamic banking operates under a dual mandate: to adhere to sharī'ah principles and to promote socio-economic justice (Anwar & Haji-Othman, 2023). However, a growing body of literature observes that some Islamic banks increasingly converge with conventional banking practices, particularly in product structuring and profit-driven orientation, raising concerns about whether the social-ethical mandate of Islamic finance is sufficiently realized (e.g., Chapra, 2000; El-Gamal, 2006; Asutay, 2007), prompting questions about their commitment to Islamic ethics—particularly in the area of zakāt, the compulsory alms on wealth. Traditionally, zakāt is levied at 2.5% on idle assets such as cash, gold, or trade goods, once they exceed a set threshold (niṣāb) and are held for a full lunar year (ḥawl). In this article, the zakat under discussion is primarily zakat al-māl applied to monetary assets (zakāt al-nuqūd), which in prevailing practice treats Islamic bank deposits as cash-equivalent wealth subject to niṣāb and ḥawl requirements. However, since Islamic bank deposits are typically utilized as productive funds in intermediation, this paper proposes repositioning zakat liability away from the deposit principal and toward realized returns (profits/yields). In jurisprudential terms, this is closer to the contemporary discourse on zakat over incremental and newly generated wealth which is often associated with the concept of al-māl al-mustafād, where zakat is levied on newly realized gains once they materialize, rather than on the deployed principal (al-Qaraḍāwī, 1999).

A central point of debate is whether third-party deposits (dana pihak ketiga/DPK) in Islamic banks—comprising savings, checking, and investment accounts—should be zakatable. Current fatwās from bodies like DSN-MUI (Dewan Syariah Nasional – Majelis Ulama Indonesia) treat these funds as depositors' wealth, making them subject to zakāt. The contracts underlying Islamic bank deposits are governed by DSN-MUI fatwas on wadī'ah and muḍārabah deposits, which define the legal nature of depositor funds and the bank's role in managing them. This fatwa-based contractual structure is essential to the present zakat debate, because it determines whether deposit balances should be treated as static cash holdings or as funds continuously

deployed in lawful intermediation. On this basis, the paper's proposal is developed as a maqāṣid-driven ijtihād to refine how zakat liability is assigned. While this view follows classical jurisprudence, it may create unintended consequences. Depositors could avoid maintaining balances above niṣāb to escape zakāt liability, thereby limiting the funds available for financing. This not only reduces banks' capacity for socio-economic impact—such as supporting SMEs and underserved communities—but also weakens their competitiveness relative to conventional banks.

This paper proposes a rethinking of zakāt obligations on bank deposits through the lens of ijtihad as to implement our so-called Islamic banking 5.0 concept as shown at <https://myfalahbanking.com/>. The website is a maqāṣid-driven ijtihād model that treats deposit principal as *productive deployed wealth*, while zakat is applied to *incremental realized gains*, consistent with contemporary discussions on zakat over newly generated wealth. We argue that DPK, when invested in productive, shari'ah-compliant ventures by the bank, should be exempt from zakāt, as they no longer constitute idle wealth. The idea finds precedent in classical thought: Caliph 'Umar ibn al-Khaṭṭāb once advised guardians to invest orphans' wealth to prevent its depletion by zakāt. This reflects the Islamic preference for wealth circulation over hoarding. The study has three objectives: (1) to develop a jurisprudential basis for exempting such deposits from zakāt using classical sources and uṣūl al-fiqh; (2) to demonstrate alignment with maqāṣid al-shari'ah, particularly in protecting wealth and advancing social justice; and (3) to assess how such an approach could affect Islamic bank operations and financial inclusion. Using a combination of textual analysis and qualitative scenario modeling, this research contributes to a more dynamic understanding of zakāt in modern finance—bridging the gap between classical ethics and contemporary economic realities.

A small but growing body of contemporary research has started to question whether classical rulings need adaptation for modern banking contexts. Kholidah et al. (2020) analyzed factors influencing zakat expenditures by Islamic banks and implied that regulatory or policy changes could enhance how banks channel zakat funds. Bayinah (2017) and Oktaviani et al. (2022) examined the role of social funds like zakat and qarḍ hasan in Islamic bank performance, finding that participating in social financing did not necessarily hurt profitability and in some cases could enhance the bank's reputation and customer loyalty. These studies suggest that there is room for synergy between the commercial and social roles of Islamic banks, rather than treating them as separate domains.

To date, no major fatwa-issuing body has openly declared general deposit funds to be zakat-exempt. The DSN-MUI itself, being cautious, tends to uphold

classical positions unless a clear maqāṣid justification is presented. The idea of conditional exemption has been floated in academic and conference circles, especially in Indonesia, where the concept of “Islamic Banking 5.0” was introduced as a paradigm that tightly integrates commercial banking with social welfare goals, leveraging technology (AI, blockchain) to optimize this integration. In that framework, one key proposition was exempting third-party deposits from zakat so that Islamic banks could channel these funds more aggressively into social impact financing. The model posits a tiered approach: depositors’ principal would not be annually diminished by zakat (Layer 1), enabling more financing to large enterprises; the profits earned from these ventures, and the zakat on those profits (as well as zakat from the financed companies), would form Layer 2 funds dedicated to SME financing; and additional charity-based funds (like corporate social responsibility contributions, waqf, ṣadaqah) form Layer 3 for purely benevolent loans to micro-entrepreneurs. This approach, though still conceptual, directly challenges the traditional view by suggesting a systemic reallocation of when and how zakat is collected – effectively shifting it from individual depositors on their principal to the level of profits and corporate funds.

The DSN-MUI’s prevailing fatwas do not yet reflect this paradigm shift. However, the literature review shows an emerging consensus that to achieve financial inclusion and poverty alleviation, Islamic finance may require innovative jurisprudential solutions. Works by contemporary scholars, such as Kahf (1989) and Mannan (1988), though dealing with zakat generally, encourage utilizing zakat funds in investments that can generate income for the poor (e.g., small businesses for zakat recipients), effectively multiplying the benefit. Our research extends this logic to the source of funds: if zakat obligations on certain assets can be realigned to promote greater good, then that should be explored through proper scholarly channels.

2. LITERATURE REVIEW

2.1 *Zakat in Classical Fiqh: Conditions, Asset Types, and Wealth Circulation*

Zakāt (almsgiving) is an established pillar of Islam and an area of extensive discourse in classical fiqh literature. It is levied on specific categories of wealth that meet conditions of *niṣāb* (minimum value) and *ḥawl* (one lunar year possession) at a standard rate (zakāt rate vary according on the type, commonly 2.5% for monetary assets). Classical jurists categorized zakatable assets into various classes: livestock, agricultural produce, currency (gold/silver), and merchandise for trade (*‘urūḍ al-tijārah*), each with detailed rules. Cash and its equivalents (gold, silver, and by extension modern currency)

have universally been recognized as zakatable if exceeding niṣāb, because of their liquid and growth-oriented nature (niṣāb itself being often set in terms of gold or silver value). However, the treatment of wealth that is not directly in one's possession or is earmarked for productive use has been a nuanced matter in the classical tradition.

Ibn Qudāmah, born in 1147 CE and passing away in 1223 CE, is the Ḥanbalī jurist renowned for his encyclopedic work *Al-Mughnī*, discusses scenarios involving debts and loans under zakat obligations. According to Ibn Qudāmah (1984), if a Muslim's wealth is held as a debt by others, its zakat treatment depends on the debt's recoverability. A *strong debt* (*al-dayn al-qawī*) – for instance, money owed by someone able and likely to pay – is effectively part of one's wealth and thus subject to zakat, though some jurists allowed that the zakat on such debt could be delayed until actual receipt of the funds. In contrast, a *weak debt* (*al-dayn al-ḍa'if*), whose recovery is doubtful, may not be counted for zakat until it is realized. This distinction indicates a classical awareness of liquidity and access in determining zakat liability. Notably, Ḥanafī jurists have historically permitted zakat on debts to be paid upon collection rather than during the period the money is lent out, which means the creditor could postpone zakat on loaned funds, then pay a lump sum for the past years once the debt is repaid. Such leniency was intended to avoid hardship (*raf' al-ḥaraj*) in cases where the creditor lacks access to their wealth. In the context of Islamic bank deposits – often structured legally as a debt (*qard*) from depositor to bank – this classical allowance for deferred zakat on loaned money provides a potential precedent for flexibility: if the funds are continuously out of the depositor's direct possession and tied up in financing activities, one could argue, by analogy (*qiyās*), that zakat might not be due until the depositor actually withdraws and holds the cash.

Another relevant principle in classical fiqh is the exemption of productive assets or means of production from zakat. Islamic law differentiates between wealth that is *nāmī* (productive or capable of growth) versus non-productive assets (Al-Qaradawī, 1999). While *namī* assets like cash and trade goods are zakatable, tools and capital equipment used in one's trade or business are generally not subject to zakat. For example, a farmer's plow or a weaver's loom, though valuable, are considered instrumental assets, not idle wealth – only the agricultural output or manufactured goods (if intended for sale) would be zakatable, not the tools themselves. As Ibn Qudāmah (1984) notes, “no zakat is due on the means of production”, a rule meant to encourage economic activity and not penalize one for holding assets that generate livelihood rather than being hoarded. This is a critical insight: classical zakat law inherently favors productive use of wealth by focusing the levy on the output or stored accumulation, not on assets actively engaged in generation of income.

Imām al-Ghazālī), although more famous for works on theology and ethics, provides in his uṣūl work *al-Mustasfā* a formulation of the *maqāṣid al-sharī'ah* (objectives of Shariah) that includes *ḥifẓ al-māl* (preservation of wealth) as one of the five essential goals of Islamic law. Preservation of wealth in this context means protecting property from destruction or unwarranted loss and ensuring it is used beneficially (Hammad, 1987). Zakat serves to purify wealth and assist the poor, but scholars like al-Ghazālī and later al-Shāṭibī (d. 1388 CE) caution that the application of such obligations should not produce outcomes that undermine the very economic well-being that Shariah aims to foster. Al-Shāṭibī, in *al-Muwāfaqāt*, elaborates that Shariah rulings are intended to secure benefits (*maṣāliḥ*) and prevent harms (*mafasid*) for people in this world and the next. If a literal application of a rule in a new context leads to significant public harm or obstruction of a greater Islamic objective, scholars are to weigh the situation carefully. This concept opens the door for *istiqrā'* (inductive reasoning from overall Shariah principles) and *istiḥsān* (juristic preference) in exceptional cases. For instance, some classical jurists allowed suspension or modification of certain rulings under extraordinary circumstances for the sake of the greater good – a well-known example being the second Caliph 'Umar's suspension of the ḥadd punishment for theft during a famine to prevent injustice to the starving. While zakat is a pillar and not to be lightly set aside, these examples illustrate that context and consequences matter in fiqh application.

It is within this classical discourse that we find a compelling precedent closely related to our topic: the case of orphan wealth under 'Umar ibn al-Khaṭṭāb's leadership. Historical reports (including one recorded in Imām Mālik's *al-Muwatṭa'*) recount that 'Umar noticed how the wealth of orphans (minors under guardianship) could diminish over time if zakat was taken from it annually without the wealth being invested or increased. To address this, he instructed: "Trade with (or invest) the property of orphans, so that zakat will not consume it" (Malik ibn Anas, 1989). This effectively meant that if the guardian actively invested the orphan's assets in commerce, any yields could cover the zakat dues, thereby preserving the principal. Some narrations even indicate that 'Umar temporarily suspended the zakat on the orphan's principal if it was being used as capital in trade, ensuring that the wealth was kept intact for the orphan's benefit. This policy is strikingly relevant: it shows a practical adjustment of zakat implementation for a subset of wealth (orphan funds) to serve a maṣlahah – protecting the vulnerable orphan's wealth from erosion – by leveraging productive investment. Classical scholars like al-Kāsānī (a Ḥanafī jurist) cited this incident when discussing zakat on endowments and minors' wealth, noting that the Caliph's approach was rooted in public interest considerations within the bounds of Shariah.

In summary, the classical fiqh literature provides several insights and principles that can inform the zakat treatment of modern bank deposits: (a) wealth that one does not have full access to (like debts) can justifiably have modified zakat rules; (b) assets employed for production are treated more leniently than idle assets; and (c) early Muslim authorities showed flexibility in zakat administration to prevent harm (such as wealth depletion) and to encourage investment for growth. These principles form a foundation upon which a modern ijtihād might be built to classify actively invested bank deposits as a form of “productive wealth” warranting special consideration.

2.2 *Islamic Bank Deposits and Contemporary Fatwās: DSN-Mui Stance and Debates*

Islamic banks operate by mobilizing deposits from customers and channeling them into financing activities. Structurally, these deposits can be held under different contracts: wadi‘ah (safekeeping agreement) where the bank guarantees the return of the funds and may give discretionary hibah (gifts) instead of interest, or muḍārabah (profit-sharing investment) where the depositor acts as rabb al-māl (capital provider) and the bank as muḍārib (entrepreneur), sharing any profits according to a pre-agreed ratio. In both cases, depositors expect their principal back (with profit in the muḍārabah case), making Islamic deposits functionally similar to conventional deposits but with Shari‘ah-compliant profit structures.

From a fiqh perspective, if the deposit is structured as wadi‘ah with guarantee, the bank is essentially debtor to the depositor (a loan from the depositor’s view), whereas in muḍārabah the depositor owns an undivided share of the financed assets. The default view among contemporary scholars and fatwā bodies is that in either scenario, the underlying funds remain the property of the depositor, thus the zakat duty remains on the depositor to pay on his/her balances if conditions are met. This stance is reflected in fatwās and guidelines issued by bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and national Shari‘ah boards. For instance, AAOIFI’s Shariah standards affirm that account holders are responsible for zakat on their funds, though the bank may assist in calculating or even deducting it with permission.

In Indonesia, the DSN-MUI has issued various fatwās on Islamic banking products (e.g., DSN-MUI Fatwa No. 3/2000 on Deposits, Fatwa No. 02/2000 on Savings), which outline the Shari‘ah contracts and rights of depositors. While these fatwās primarily address avoidance of interest (ribā) and permissible profit mechanisms, the implicit understanding aligns with classical fiqh: any Muslim depositor’s balance is part of their personal wealth for zakat purposes.

Indonesian zakat regulations (such as those by BAZNAS) typically list “savings in banks” as zakatable assets, combining with cash in hand for nisab calculation. The prevailing practice has been that either individuals calculate and pay 2.5% of their bank balance yearly (if it stays above nisab), or in some cases banks offer services to deduct zakat from accounts at a specific time (for example, some Indonesian Islamic banks coordinate with BAZNAS to allow automatic zakat debits on a voluntarily chosen date each year). The prevailing stance, therefore, is that there is no blanket exemption for bank deposits – they are treated like any other cash holding.

This conventional approach, however, has invited critique and discussion among Islamic economists and banking practitioners, especially in terms of its impact on the mobilization of funds for development. Scholars note that when depositors remove money to pay zakat (or anticipate that obligation), the immediate beneficiaries are the zakat recipients (*fuqarā'*, *masākīn*, *āmilūn 'alayhā*, *al-mu'allafah qulūbuhum*, *al-riqāb*, *al-ghārimūn*, and *fi sabilillāh* (Qur'an, at-tawbah:60), which is virtuous, but those funds exit the banking intermediation cycle. If large numbers of depositors draw down their accounts by 2.5% annually to pay zakat, the aggregate funding available for banks to extend financing shrinks proportionally, potentially reducing lending growth over time. Moreover, from a competitiveness standpoint, depositors might perceive that keeping money in an Islamic bank carries an extra cost (a religious tax) that would not apply if they kept it in a safe or perhaps even in a conventional bank (strictly in secular terms). While devout individuals may not base their decisions purely on that, it remains a psychological and financial factor in savings behavior.

Islamic economists like Chapra (1985) have long advocated integrating Islamic social finance (like zakat) with commercial finance to achieve developmental objectives. Chapra (2000), while not specifically addressing zakat on deposits, emphasizes that Islamic finance should *not* succumb to the same pitfalls as conventional finance where wealth circulates only among the rich; instead, instruments like zakat should complement finance by redistributing wealth and encouraging investment in the real economy. Some have interpreted this to mean that Islamic banks could play a more proactive role in zakat management – for instance, acting as *amil*s (collectors/distributors of zakat) on behalf of clients or even on behalf of the institution's earnings (Zafar and Sulaiman, 2022). In practice, a few Islamic banks in Malaysia and the Gulf voluntarily pay a form of “corporate zakat” on their profits (deducting it as an expense), thereby contributing to social funds. However, these practices concern the bank's own income, not the deposits (Shariff & Abdullah, 2023).

2.3 *Maqāṣid al-Sharī'ah and Maṣlaḥah-Mafsadah Analysis in Financial Ijtihād*

Any significant deviation from classical jurisprudence must be justified by the higher intents of Islamic law (maqāṣid) and a careful analysis of public interest (maṣlaḥah) versus potential harm (mafsadah). Maqāṣid al-sharī'ah, as articulated by scholars like al-Ghazālī and al-Shāṭibī, encompass the preservation of five essential values: religion (dīn), life (nafs), intellect ('aql), progeny (nasl), and property/wealth (māl). In the economic realm, the maqāṣid framework emphasizes justice, elimination of extreme poverty, and circulation of wealth rather than concentration. Al-Shatibi (2012) emphasizes that the laws of transactions (mu'āmalāt) are largely aimed at facilitating human welfare and preventing harm in social dealings, and that these laws have a certain elasticity to accommodate custom and changing circumstances if they do not contravene clear texts.

Applying a maqāṣid perspective to zakat on bank deposits involves asking: What outcome best preserves wealth and achieves justice in today's financial context? The traditional application ensures 2.5% of idle money benefits the poor yearly. The proposed exemption aims to preserve the principal wealth of depositors so it can be leveraged to create more wealth (through investment) that ultimately also benefits the poor (through increased zakat from profits and greater economic opportunities). In maqāṣid terms, this proposition appears to serve *ḥifẓ al-māl* (protecting wealth) by preventing the gradual erosion of the depositor's capital and advances *taqṣīm al-tharwah* (wealth distribution) by potentially growing the overall pie from which zakat and charity are given. It is crucial, however, to ensure that this does not violate another maqāṣid – for example, ensuring the immediate needs of the poor are met. If exempting deposits from zakat drastically reduced funds going to the poor in the short term, that could be a concern. The *maṣlaḥah-mafsadah analysis* must weigh short-term reduction in zakat disbursements against long-term gains in poverty alleviation via economic growth and larger zakat pools.

A classical tool for such analysis is the concept of *istiṣlāḥ* (public interest) or *maṣlaḥah mursalah* – considerations of benefit that are not explicitly mentioned in scripture but are in harmony with Shariah's spirit. The Maliki school utilized *maṣlaḥah mursalah* to validate new rulings for governance and public welfare. For instance, the collection of welfare taxes or establishment of state institutions not directly detailed in primary texts was justified by *maṣlaḥah*. In our scenario, one could argue that exempting deposit funds from zakat is a policy in the public interest: it encourages Muslims to deposit and keep funds within Islamic banks, thereby increasing the funds available for financing entrepreneurs, affordable housing, and other development projects. This translates to job

creation and income generation, which ultimately lifts more people above poverty – a clear maṣḥalah consistent with zakat’s purpose. Conversely, the potential mafsadah (harm) is that zakat-eligible recipients may receive less direct aid if a significant portion of wealth is temporarily not being taxed. To mitigate this harm, our framework does not suggest abolishing zakat but rather redirecting its collection to a later stage in the economic cycle: when profits are generated or when financed businesses flourish, zakat is taken at that point. In effect, the poor are likely to benefit more from a strong, inclusive economy and possibly even larger zakat disbursements in absolute terms, albeit delayed.

Contemporary Islamic economists support such dynamic interpretations when they align with maqāṣid. Siddiqi (2004) wrote about the need for Islamic financial innovation that keeps social welfare at the core, arguing that rigid adherence to form over substance can defeat the very purpose of an Islamic economic system. Similarly, M. U. Chapra (2000) underscores that poverty and inequality in Muslim societies cannot be tackled by zakat alone as a simple charity but require integration with growth strategies and financial policies that empower the poor. This implies that if financial policies (like how zakat is assessed on certain assets) can be adjusted to yield better poverty outcomes without violating Shariah, they should be given due consideration.

In terms of Shari’ah governance, any new ijtihād must pass through the scrutiny of qualified jurists and institutions. The classical fatwa framework for mu’āmalāt issues, as described by recent studies (e.g., Salisu et al., 2023 on fatwa frameworks in Islamic banking), involves a collective ijtihād process: examining Quranic injunctions (e.g., verses on zakat and charity), relevant ḥadīth, opinions of ṣaḥābah (Companions) like the aforementioned stance of ‘Umar, and positions of the four madhāhib (schools of law). If an existing consensus (ijmā’) or near-consensus exists on an issue, departing from it requires very strong justification. However, as argued above, the issue of zakat on modern bank deposits is *not a matter explicitly addressed in classical fiqh* – it is a new amalgamation of classical concepts (money, debt, investment) in an institutional setting. Thus, jurists have some leeway to reason by analogy and consideration of public interest. The role of institutions like DSN-MUI would be to validate that such an exemption does not contravene any explicit Shariah text (naṣṣ). The Quranic verses on zakat list broad categories of recipients (Qur’an 9:60) but do not enumerate the specific items of wealth beyond hints (e.g., “produce of the earth”, “treasures of gold and silver” hoarded – Qur’an 9:34). The ḥadīth literature provides rates and nisab for gold, silver, etc., but again, no direct mention of bank accounts. Therefore, a *fiqhī* argument can be made that this is an area of legitimate ijtihād, especially since the proposal aims to uphold the spirit of zakat (helping the needy and circulating wealth) through perhaps a novel mechanism.

In conclusion of the literature review, we observe that the idea of exempting Islamic bank deposits from zakat, though novel, finds supporting strands in classical jurisprudence, contemporary scholarship, and the overarching objectives of Shariah. It challenges an existing norm, so it must be approached with careful juristic reasoning and empirical validation. The next sections of this paper will describe how we methodologically approach this task and then discuss the findings of that analysis, building the case for this *ijtihād* and exploring its practical ramifications.

3. METHODOLOGY

This study employs interdisciplinary methodology combining a qualitative normative (doctrinal) approach for Islamic legal analysis combining with scenario-based economic analysis following Schoemaker (1995), because the main objective is to develop and evaluate a jurisprudential argument (*ijtihād*) regarding the zakat treatment of Islamic bank deposits, rather than to test statistically measurable relationships. Therefore, the methodology is required to ensure that the proposed *ijtihād* is sound both in theory (*fiqh* and *uṣūl*) and in practice (economic impact on Islamic banking and society). Specifically, the qualitative methodological design is consistent with established practices in normative/doctrinal legal research, where authoritative legal texts, juristic opinions, and institutional rulings constitute the primary unit of analysis, and conclusions are derived through structured interpretive reasoning rather than statistical inference. Within Islamic legal scholarship, the analytical reconstruction of rulings through *uṣūl al-fiqh* and the evaluation of policy implications through *maqāṣid al-sharī'ah* represent recognized methodological pathways for contemporary *ijtihād*-oriented research. In addition, the document corpus in this study was examined using qualitative thematic analysis to systematically code recurring legal propositions, reasoning patterns, and stakeholder implications across classical sources, contemporary fatwas, and standards ((Hutchinson & Duncan, 2012; Auda, 2008; Braun & Clarke, 2006).

The comprehensive methodological including procedures for data gathering steps and procedures for data analysis steps are as follows:

3.1 Classical Textual Analysis

We conducted a careful review of classical *fiqh* texts (*kitāb al-turāth*) relevant to zakat and financial assets. Primary sources examined include major jurisprudential compendia such as *Al-Mughnī* by Ibn Qudāmah, *Bidāyat al-Mujtahid* by Ibn Rushd, *al-Muwatta'* of Imām Mālik (for historical *athar* like 'Umar's statement), and the writings of al-Ghazālī (*al-Mustasfā*) and al-Shāṭibī

(*al-Muwāfaqāt*) on maqāṣid and maṣlahah. This analysis identified key juristic positions and principles that could support or oppose the zakat exemption thesis. The findings from this step formed the backbone of our fiqh-based justification. We also reviewed fatwā compilations and contemporary fiqh resolutions (e.g., those of the International Islamic Fiqh Academy and AAOIFI) to gauge current juristic consensus or diversity on matters of zakat and modern assets.

3.2 *Contemporary Scholarly Review*

In parallel, we performed a literature review of modern academic publications on Islamic banking, zakat, and social finance (as reflected in Section 2). This included journal articles, conference proceedings, and studies by Islamic economists. Key topics of interest were prior proposals for integrating zakat with banking, analyses of zakat's economic impact, and case studies of Islamic banks' social initiatives. This step ensured our ijtihād proposal addresses real-world concerns and incorporates the knowledge of finance professionals and economists.

3.3 *Maqāṣid and Maslahah Evaluation*

Using the information gathered, we applied a maqāṣid al-sharī'ah framework to qualitatively evaluate the proposed ruling's alignment with Islamic objectives. This involved an iterative process of identifying potential benefits (maṣāliḥ) and harms (mafasid) associated with exempting deposit funds from zakat. We systematically listed expected outcomes for different stakeholders: depositors, Islamic banks, zakat recipients, and the wider economy. We then consulted classical guidelines on maṣlahah (notably Maliki usūl principles and examples from fiqh) to judge whether the benefits outweigh the harms and whether any Sharī'ah constraints would be breached. This was akin to a balancing test and formed a crucial part of the argument development.

3.4 *Scenario-Based Simulation*

To ground the discussion in practical terms, we devised simplified financial scenarios demonstrating how zakat exemption on deposits could play out. Drawing on data from existing studies and reports on Islamic banking in Indonesia, we constructed hypothetical models: for example, comparing an Islamic bank's balance sheet and socio-economic contributions under two scenarios – the "Current Scenario" (with depositors paying zakat individually, leading to annual outflow of some portion of deposits) versus the "Proposed Scenario" (with depositors not paying zakat on principal, allowing the bank to utilize that additional 2.5% annually in financing). These models incorporated

typical financial ratios and growth rates reported in literature (such as average financing-to-deposit ratios, profit rates, and zakat payout ratios from profits). While purely illustrative, the scenarios were informed by real data points (e.g., SME financing multipliers, or how much increase in financing might result from a given increase in deposits). This simulation helped us discuss in concrete terms the potential increase in financing volume, the delay and eventual increase of zakat disbursement through profits, and the effect on depositors' wealth over time.

3.5 Expert Consultations (Literature-Based)

Rather than primary interviews, we relied on published expert opinions and analyses, treating them as a form of secondary consultation. For instance, we incorporated viewpoints of Shari'ah advisors quoted in articles or opinions of economists from reports. This provided a multi-faceted perspective and ensured our reasoning resonates with both juristic and financial expertise. In a few cases, where contemporary fatwā were available on analogous matters (such as zakat on retirement funds or investment funds), we analyzed how those fatwās were reasoned, as they present a methodology for handling pooled assets.

3.6 Synthesis and Writing

Finally, the information from all these methods was synthesized to formulate the arguments in the Discussion section. The writing process involved rigorous citation of sources for each factual claim or classical opinion. We adhered to academic standards in presenting the argument, ensuring that each claim is backed by either classical reference or empirical study.

By combining traditional Islamic legal scholarship with modern financial analysis, this methodology aims to produce a well-rounded, credible research output. It acknowledges that purely theoretical fiqh arguments must be tested against economic realities, and vice versa, any economic proposal in Islamic finance must pass the litmus test of Shariah compliance and ethical soundness. The approach is thus both descriptive (explaining existing rulings and data) and prescriptive (proposing a new ruling), embodying the spirit of *ijtihad* which marries textual fidelity with contextual understanding.

One limitation of our method is the lack of actual implementation data – since no Islamic bank has yet formally adopted a policy of zakat exemption on deposits, our scenario analysis remains a simulation. Future empirical research, as noted in the conclusion, would be needed to validate assumptions (for example, measuring how much deposits might grow if such an incentive is introduced, or how zakat recipient livelihoods are affected over a long term).

Nonetheless, the present research lays the theoretical groundwork and initial evidence for policymakers and scholars to consider pilot programs or further investigations.

4. RESULTS & DISCUSSION

The zakat treatment of Islamic bank deposits requires *ta'sīl fiqhī*—a systematic anchoring of contemporary financial structures within recognized fiqh classifications—before maqāsid-based policy conclusions are drawn (Auda, 2008). In classical jurisprudence, zakat obligations attach to *māl zākawī* (zakatable wealth) under defined legal attributes: ownership (*milk*), potential/actual growth (*namā'*), and the fulfillment of conditions such as *niṣāb* and *ḥawl* for monetary assets (Ibn Qudāmah, 1984; Al-Qaradawī, 1999; Al-Zuhayli, 1997). Accordingly, the central *ta'sīl* question is whether Islamic bank deposits should be classified primarily as (i) *nuqūd* (monetary holdings), (ii) *dayn* (a debt claim owed by the bank to the depositor), or (iii) deployed productive capital (*māl mustathmar*) continuously engaged in lawful intermediation (Ibn Ahmad & Rushd, 1981; Al-Qaradawī, 1999; Kahf, 1997).

First, under the *nuqūd* classification, deposits resemble cash-equivalent wealth held by the depositor; hence zakat becomes due at the standard monetary rate once *niṣāb* and *ḥawl* conditions are met. This view aligns with the conventional treatment of savings and liquid monetary assets in zakat jurisprudence (Ibn Qudāmah, 1984; Al-Zuhayli, 1997). Second, under the *dayn* classification, deposits may be interpreted as the depositor's financial claim upon the bank. Classical fiqh demonstrates that zakat treatment of debts depends on debt strength and recoverability (e.g., strong vs weak debts), implying that zakatability is tied to certainty of repayment and the depositor's ability to exercise effective ownership (Ibn Qudāmah, 1984; Ibn Ahmad & Rushd, 1981.; Al-Qaradawī, 1999). Third, under the *māl mustathmar* / productive-capital classification, deposits—particularly those based on *muḍārabah* investment structures—function as continuously deployed wealth producing returns and supporting real-sector financing. This classification strengthens the argument that zakat should not necessarily be imposed on the principal during deployment, but rather on realized increments (profits/yields) as the primary manifestation of growth (*namā'*) (Al-Qaradawī, 1999; Kahf, 1997; Chapra, 2000; Iqbal & Mirakhor, 2011).

Based on this *ta'sīl* mapping, the paper's proposal is constructed as a maqāsid-driven *ijtihād*: the principal remains protected as productive capital during active deployment, while zakat is assigned to realized gains and proceeds once the wealth becomes materialized and available for consumption or accumulation (Auda, 2008). This structure aims to maintain zakat's distributive

justice while preventing systematic erosion of productive principal, consistent with classical reasoning on protecting and developing wealth (*tanmiyat al-māl*) and ensuring fairness in zakat incidence (Al-Qaradawi, 1999; Al-Zuhayli, 1997). The underlying intuition is also supported by the well-known report from ‘Umar ibn al-Khaṭṭāb urging guardians to invest orphans’ wealth so that zakat does not consume it, reflecting the juristic concern that idle principal may be eroded by repeated zakat obligations (Mālik ibn Anas, 1989.).

Nevertheless, we acknowledge that several Shariah issues still require further deliberation (*taḥqīq al-manāṭ*) for fatwa adoption, including: (i) the precise determination of “effective ownership” (*milk*) over deposit principal under modern banking operations; (ii) whether the growth attribute (*namā*) should be attached to principal or only to returns; (iii) the impact of withdrawal rights and liquidity features on zakat classification; and (iv) the appropriate boundary between zakat obligation on individuals (depositors) and the institution (bank) under integrated governance models (Auda, 2008; Kahf, 1997; Al-Qaradawi, 1999).

4.1 *Fiqh Basis for Zakat Exemption on Deposits: An Ijtihād in Practice*

This paper proposes that third-party depositor funds in Islamic banks, when continuously invested in Sharī‘ah-compliant ventures, be classified as productive wealth and thus temporarily exempt from annual zakat. The exemption applies only to the principal, not to profits or withdrawn amounts. Profits received remain zakatable if combined wealth exceeds the niṣāb and one lunar year passes. This approach preserves zakat's spirit while encouraging investment, as the duty is shifted from the capital to its generated returns.

This position finds support in several juristic foundations. First, the case of orphan wealth under Caliph ‘Umar ibn al-Khaṭṭāb offers a precedent. He urged that such wealth be invested to avoid erosion by zakat, implying zakat should target profits, not the core asset. Analogously, depositor entrusting funds to a bank is akin to an orphan's guardian placing money in trade. In both cases, the funds are not idle but purposefully engaged. Through *qiyās* (analogy), zakat on deposits may be deferred until funds are liquidated, as supported by the Hanafi view on debt receivables.

Second, deposits can be re-characterized as quasi-productive capital. Classical jurists distinguish between zakatable assets and tools of production. If money is used directly for trade, it is zakatable; but if it's converted into productive capital (e.g. business assets), the zakat applies to the output, not the input. Islamic bank funds serve as capital in financing activities. If profits and returns are already subject to zakat at the level of borrowers or shareholders, applying

zakat again on deposit principals' risks duplication—an outcome classical scholars like Ibn Qudāmah warned against.

Third, the principle of *istihsān bi'l-maṣlahah* allows juristic preference in the public interest. Modern Islamic finance operates in contexts classical texts did not fully anticipate. Recognizing long-term deposits as invested assets aligns with *maqāṣid al-sharī'ah* by protecting capital, promoting economic activity, and preventing hardship. Selecting this view, based on *takhayyur* (valid legal choice), does not negate zakat, but refines its application to be more impactful.

Finally, this exemption is conditional. If banks merely hold deposits or invest passively, the zakat obligation resumes. Only when funds are actively channeled into productive sectors—such as SME financing or *qard ḥasan*—can exemption be justified. This guards against hoarding and ensures zakat continues to flow through real economic activity, aligning with the Qur'anic condemnation of idle wealth (Qur'an 9:34).

In conclusion, this *ijtihād* offers a balanced, legally sound, and socially beneficial approach that harmonizes *fiqh* tradition with modern financial realities.

4.2 *Shariah Governance Debate: Individual vs Institutional Responsibility for Zakat on Deposits*

The question of whether zakat on Islamic bank deposits constitutes an individual responsibility of depositors or an institutional responsibility of the bank requires careful Shariah and governance clarification. In classical *fiqh*, zakat is fundamentally a personal obligation (*farḍ 'ayn*) attached to the owner of wealth (*ṣāhib al-māl*) once the legal conditions of zakatability are satisfied. Thus, the depositor—being the legal owner of the deposit claim or principal—remains the primary subject of zakat liability, particularly under the conventional classification of deposits as zakatable monetary holdings (*zakāt al-nuqūd*) (Al-Qaradawi, 1999).

However, contemporary Islamic banking practice introduces an operational dimension: banks may facilitate zakat calculation and payment not as original obligors, but as agents (*wakīl*) acting on behalf of depositors. Under such an agency framework, the bank's role is administrative and procedural—providing zakat computation, deducting zakat upon authorization, and channelling funds to authorized zakat institutions while the depositor remains the ultimate bearer of the religious obligation. This arrangement is widely recognized in modern Shariah governance and aligns with the general permissibility of appointing an agent for zakat payment, provided that

transparency, consent, and distribution compliance are ensured (Al-Qaradawi, 1999).

In light of this debate, the proposed zakat exemption framework in this paper maintains that zakat responsibility remains individual at its core but allows for two policy-consistent operational models. Model A (Individual direct-payment): depositors pay zakat on realized returns or proceeds independently, consistent with personal accountability in worship-finance obligations. Model B (Bank-as-agent / *wakālah* model): the bank facilitates zakat payment on realized returns by acting as an agent, subject to explicit depositor consent and Shariah supervisory oversight. Importantly, the exemption is not designed to shift zakat liability away from individuals toward the institution; rather, it redefines the zakat base from principal balances to realized gains, while preserving the depositor as the primary zakat obligor.

Nonetheless, the paper acknowledges that more Shariah deliberation is needed regarding governance boundaries, particularly where banks adopt integrated social finance functions. For example, if an Islamic bank formally assumes zakat collection as part of its institutional mandate, additional deliberation is required to ensure that agency does not transform into liability substitution, and that zakat distribution remains compliant with the eight Qur'anic categories (Qur'an, At-Tawbah 9:60). Therefore, this study positions the issue as a governance-sensitive domain: individual obligation remains primary, while institutional facilitation remains permissible under well-defined *wakālah* and compliance parameters.

4.2.1 *Avoiding Double Zakat: Clarifying Bank Payment vs Depositor Liability*

A recurring governance concern is whether depositors must pay zakat again if the bank or Islamic financial institution pays zakat annually. From a Shariah perspective, zakat is not due twice on the same zakatable base within the same cycle when payment has already been discharged properly. If the bank pays zakat as an agent (*wakīl*) on behalf of depositors—based on explicit authorization, disclosed computation rules, and clear reporting—then the depositor's obligation is considered fulfilled, and no additional payment is required for that same zakatable amount (Al-Qaradawi, 1999; Al-Zuhayli, 2006).

However, confusion may arise when “bank zakat” is paid in a different capacity. If the institution pays zakat as corporate zakat on its own balance sheet—reflecting the bank's shareholders' wealth, retained earnings, or zakatable institutional assets—this does not automatically discharge

depositors' personal zakat obligations, because the zakat subject and ownership base are not identical. Accordingly, depositors are liable only where zakat has not been paid on their behalf as owners of wealth. To prevent double counting, the manuscript emphasizes governance safeguards: the bank must clearly state whether zakat is paid (i) as *wakālah* for clients, (ii) as corporate zakat, or (iii) both, with separate bases, transparent rates, and auditable disclosure. This distinction is essential in implementing the proposed exemption framework, particularly when zakat is assigned to realized returns, because agency-based deduction can be applied directly to profits/yields without generating duplicate liabilities.

4.3 Alignment with Maqāṣid al-Sharī'ah: Preserving Wealth and Promoting Justice

The next part of the discussion addresses how the above juristic reasoning fulfills the higher objectives of Shariah, thereby strengthening its validity. We recall two primary maqāṣid that are at play: *ḥifẓ al-māl* (preservation and growth of wealth) and *taḥqīq al-'adl* (realization of justice through equitable distribution).

4.3.1 Preservation and Growth of Wealth (*ḥifẓ al-māl*)

By preventing the automatic depletion of 2.5% of depositors' principal each year, the policy directly preserves individual wealth. Over multiple years, the compounding effect is significant (Figure 1).

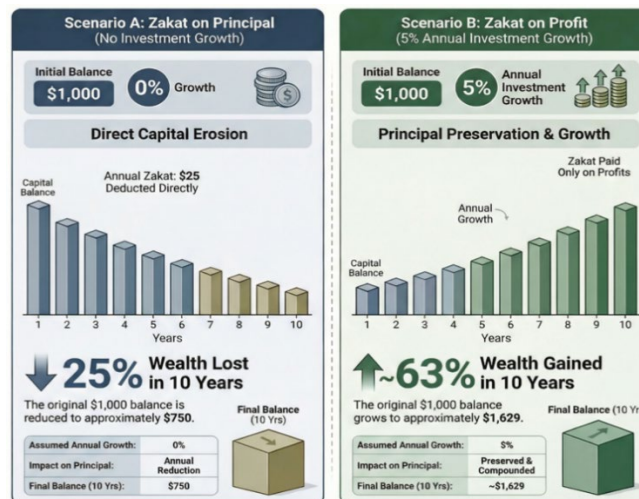


Figure 1. The Compounding Effect

For example, consider a modest depositor with a balance of \$1,000 that just exceeds nisab. With a normal zakat, about \$25 would go annually. If the depositor is not earning much profit, that \$25 is effectively a reduction of

principal, and over 10 years could sum to \$250 (assuming no growth)—a quarter of the original wealth gone. If the bank invests that \$1,000 in a profitable venture yielding, say, 5% annually, the depositor's balance grows to \$1,050 in a year. Zakat on the \$50 profit would be \$1.25 if taken (or the depositor can combine it with other income). The principal remains intact and even grows. After 10 years of compounding at 5%, the \$1,000 becomes ~\$1,629. If zakat had been subtracting 2.5% of principal yearly, the balance might only grow to around \$1,350, which is a lower asset base. In an economy-wide view, when thousands of depositor's experience growth in their savings, the community's wealth base enlarges, enhancing financial stability and people's capacity to make larger investments or expenditures in the future (like buying homes, education, etc.). Al-Shāṭibī (2012) would call this an instance of *jalb al-maṣāliḥ* (bringing forth benefits) for the community.

4.3.2 *It is not just individual wealth that is preserved*

By exempting deposits, Islamic banks get a stronger capital base to work with. They can extend slightly more financing than they otherwise could (since they do not anticipate as much seasonal withdrawal for zakat payments). This can improve banks' liquidity management and reduce their reliance on external funding. In essence, more wealth is kept circulating through the formal financial system, which aligns with the Islamic injunction that wealth should circulate and not remain confined or constantly drained. According to Hammad (1987), Al-Ghazālī's principle that Shariah seeks to *protect property from loss* finds a modern expression here: rather than "loss" to the economy by distributing principal as zakat, we protect it to generate recurring incomes. It is a shift from immediate consumption (by recipients of zakat) to investment – a shift that classical law does in other spheres too (for example, the law permits delayed gratification in business for greater eventual gain, as in salam contracts or deferred payments).

4.3.3 *Promoting Justice and Redistribution (taqṣīm al-tharwah / 'adl)*

At first glance, removing any wealth from the zakat pool might seem to diminish economic justice, since zakat is the right of the poor. However, our model does not abolish zakat; it redistributes the timing and source. By empowering Islamic banks to direct more funds into inclusive financing, we address justice from another angle: equal access to capital. One of the biggest hurdles for the poor and lower-income entrepreneurs is access to financing. Islamic banks, despite their social mandate, often have only a small portion of assets in truly pro-poor instruments like microfinance or qard hasan, partly because these are seen as charity and affect profitability (Sairally, 2013; Shariff & Abdullah, 2023). With our approach, Islamic banks could fulfill a social role

without eroding their depositor's base or profitability, essentially using depositors' non-zakat outflow as an *implicit social investment fund*. For instance, if an Islamic bank has \$100 million in zakat-eligible deposits, normally \$2.5 million might be expected to go out as zakat (if all depositors paid). If instead that \$2.5 million stays, the bank could allocate a significant portion of it as qard hasan loans to micro-entrepreneurs or finance a social infrastructure project. This is directly promoting financial inclusion – a dimension of economic justice often underemphasized. Over time, the businesses or individuals empowered by this additional financing create jobs or improve their incomes, moving from zakat recipients to zakat payers, which is the ultimate goal of zakat (to eliminate poverty).

Additionally, consider the *Layered model* referenced in the literature review. In Layer 2 of that model, zakat funds (collected from profits and from corporations financed by Layer 1 funds) are used to finance SMEs at a subsidized rate. This exemplifies how justice is served by giving smaller enterprises a chance to grow under favorable terms. If depositors' principals were depleted each year, banks might not have had enough excess to dedicate to such schemes. But with principals intact and growing, banks can afford to allocate a share of profits or even forego some profit via subsidized financing, knowing that the overall system will compensate via greater volumes or government support.

In terms of *maslahah-mafsadah* which the *mafsadah* (harm) of possibly reducing direct zakat distribution in the short run is mitigated by the fact that zakat will still be paid on profits and by financed entities. One can argue that corporations and businesses financed by Islamic banks should be paying zakat on their net assets or earnings (especially if they are Muslim-owned, as posited in the Islamic Banking 5.0 model). Thus, wealth is still being transferred to the poor, but indirectly and after being utilized. If need be, scholars could also require that once deposit funds are withdrawn or if they stay idle in an account beyond a certain period of not being invested, then back-dated zakat should be paid. Such conditions would ensure that the poor's right is not permanently lost but rather strategically delayed. The net *maslahah* is high: increased investment, economic growth, empowerment of the *mustahiqqin* (eligible zakat recipients) through jobs and financing, and potentially greater zakat amounts in the future due to a wealthier society. This aligns with the Prophetic approach to zakat, where Mu'adh ibn Jabal was instructed when sent to Yemen: "Teach them that Allah has enjoined on them a charity (zakat) to be taken from their rich and given to their poor" (Ṣaḥīḥ al-Bukhārī, Hadīth 1395). The assumption is some members become rich enough to give. By making more people richer (or at least not letting them become poorer), we are expanding the pool of givers in the long term.

Competitiveness and Integrity of Islamic Finance: Another objective often cited by contemporary scholars (though one might classify it under *ḥifẓ al-māl* or *ḥifẓ al-dīn* in a community sense) is ensuring Islamic finance remains viable and true to its ideals. A subtle outcome of this zakat exemption is that Islamic banks become more attractive to depositors (Muslim and even non-Muslim). As noted in the critical literature, Islamic banks are at times seen as converging with, or mirroring, conventional banking practices—often criticised for failing to sufficiently internalise Islamic finance’s socio-ethical and redistributive objectives (El-Gamal, 2006; Sairally, 2013; Asutay, 2012). By operationalizing a mechanism that clearly ties deposits to social good – essentially promising depositors that by banking with us and not even paying zakat on your savings, you are enabling a social impact – Islamic banks strengthen their ethical brand. This could attract customers who might otherwise bank elsewhere, including those interested in ESG (Environmental, Social, Governance) investments. The influx of more funds and clients contributes to a more robust Islamic banking sector, preventing it from being sidelined. One could argue that preserving the Islamic finance industry’s health is part of *ḥifẓ al-māl* on a communal scale, as it is the means through which Islamic economic principles materialize in society.

From a maqāṣid of *ḥifẓ al-dīn* (preservation of religion) perspective, our proposal could reduce a form of what some see as “double burden” on pious Muslims. If a devout Muslim perceives that by engaging with an Islamic bank they end up with multiple obligations (e.g., avoiding interest, possibly lower returns, plus still paying zakat on their account), some might find it easier to avoid the formal system. While true believers will not forsake obligations for worldly gain, Islam does not encourage making things needlessly difficult. The Prophet ﷺ said: “*Make things easy and do not make them difficult, spread good news and do not spread fear*” (*Ṣaḥīḥ al-Bukhārī*, Hadith no. 6125). In context, by slightly easing the zakat obligation on those who commit their wealth to Islamic banks, we are encouraging more people to come into the sphere of Islamic financial practice (*tatlīf al-qalb*, winning hearts towards good practice). This ultimately helps in preservation of the religious practice in finance. They still pay zakat on other assets, just not on this portion which is working for the community in the interim.

In conclusion, the alignment with maqāṣid al-sharī‘ah serves as a powerful endorsement for this ijtihād. By demonstrably furthering the goals of wealth preservation, circulation, and social justice, the proposed ruling shows that it is not a capricious divergence from tradition but a contextualization *in service of the tradition’s aims*. It is a living example of how Islamic jurisprudence can respond to *al-‘awārīḍ al-zamāniyya wa al-makāniyya* (temporal and spatial contingencies) through recognized uṣūlī mechanisms—particularly *tahqīq al-manāṭ* and maqāṣid-based reasoning—while remaining anchored in timeless

principles (Auda, 2008).

4.4 Implementation and Implications: Case Studies and Expected Outcomes

Moving from theory to practice, how would this zakat exemption *ijtihad* be implemented, and what implications would it have for Islamic banks and their stakeholders? We consider both the regulatory/policy implementation and the socio-economic outcomes, drawing on case-like scenarios to illustrate points.

4.4.1 Regulatory Implementation

In jurisdictions like Indonesia, a change of this nature would likely require a *fatwā* from DSN-MUI endorsing the concept. This *fatwā* could be styled as an optional mechanism – meaning Islamic banks could adopt it with the approval of their Shariah Supervisory Boards, and depositors would be informed that if they keep funds in the bank’s productive use, the zakat obligation on those funds is lifted. The *fatwā* would detail the conditions: e.g., “Zakat is not due on principal of deposits invested in financing, whereas zakat remains due on any profit paid out and, on the principal, once withdrawn or if idle for a year.” To avoid confusion and ensure compliance, banks might integrate a zakat tracking system: each depositor’s account statement can show which portion of their funds are zakat-exempt under this rule, and automatically calculate zakat if conditions change (such as if funds remain unused).

The role of Shariah governance is critical. Shariah boards would need to certify annually that; indeed, the bank’s utilization of deposits meets the productive criteria. Islamic banks already undergo Shariah audits; an additional check could be on the ratio of deposits deployed in permitted financing versus just parked in interbank markets. The DSN-MUI and regulators like OJK (Indonesia’s Financial Services Authority) could require disclosure of how the retained zakat amounts (the money that otherwise would have gone out) are contributing to social finance. For example, if each year Rp 100 billion is “saved” from zakat outflows across the Islamic banking sector, regulators might want evidence that approximately that amount in additional financing went to priority sectors (SMEs, microfinance, etc.). This ensures accountability and helps in getting broader acceptance (the public and Islamic scholars will accept the change if they see tangible benefits to society).

4.4.2 Bank Level Implementation

An Islamic bank adopting this would likely redesign some of its deposit

products to highlight the benefit. A marketing angle (with Shariah approval) could be: *“Save and invest without diminishing your principal – no zakat charged on your savings, as your funds are helping build the community. We take care of distributing zakat from the returns.”* This could attract savers who are on the fence about where to put their money. Particularly, it may encourage the middle class and lower-income savers to use Islamic banks. Often, small savers fear fees or complexities; knowing that even the religious due is optimized might be a selling point. This dovetails with findings that improved financial literacy and structured zakat systems boost inclusion. In rural areas or among the unbanked, banks can explain that keeping cash at home will require zakat without growth but keeping it with the bank means it can grow and help others, and you won’t have to pay zakat on the principal. This narrative could shift behaviors gradually from informal saving (or even spending down to avoid nisab) to formal saving.

One potential case study to mention is Malaysia’s Tabung Haji, the pilgrims’ savings fund. Although the discussion is centred on Islamic banks, the proposed zakat framework is equally relevant for non-banking Islamic financial institutions (e.g., takaful-linked investment funds and Islamic investment/savings products), particularly in Malaysia’s mature Islamic finance ecosystem. A cross-institutional comparison suggests that harmonising zakat treatment—focusing on realized gains rather than eroding principal—may foster a more level playing field and encourage favourable competition based on socio-ethical value creation rather than product mimicry. While not exactly an Islamic bank, Tabung Haji pools savings of millions of Malays to help them perform Hajj. Notably, Tabung Haji historically has managed zakat on behalf of its depositors: it pays zakat on the depositors’ funds (from the fund’s earnings) so that depositors consider their obligation fulfilled. This means depositors do not pay zakat individually on their savings in Tabung Haji; the institution handles it through productive investments (the fund invests in plantations, real estate, etc., and from profits pays zakat). This model has been quite successful – it encouraged people to save for Hajj, knowing their money also purified through zakat centrally. Our proposal is slightly different (exempting principal until profit arises), but it’s akin to saying the institution will manage the social obligation in an optimized manner. Tabung Haji can be seen as an existence proof that Muslims are comfortable with an institutional approach to zakat on savings when properly structured. It also shows that such pooling can lead to large-scale investment projects that benefit the community (Tabung Haji investments have been significant in Malaysia’s economy). Another example, some Islamic banks in the Gulf (e.g., in Saudi Arabia or Bahrain) automatically calculate 2.5% of certain accounts and either notify the customer or transfer to a charity if the customer consents. If these banks were to instead tell depositors, *“We won’t deduct it because we are using your*

money to fund Qard Hasan loans, etc.," many depositors might gladly opt in, especially if they trust the bank's Shari'ah board. It shifts the framing from a tax to a *voluntary reinvestment for social good*.

4.4.3 *Macroeconomic Implications*

If widely adopted, this policy could lead Islamic banks to have a slightly higher growth rate in deposits compared to the counterfactual. Over years, this could increase the market share of Islamic banks (which in Indonesia is around 6-7% of total banking assets as of mid-2020s) to higher levels, since more funds retained and attracted means more financing and thus better reach. A dynamic simulation (as we conceptually did) might show, for example, that deposit growth could be 0.5-1% higher per annum due to the incentive, which compounded can significantly enlarge the Islamic banking sector's asset base in a decade.

4.4.4 *Financial Inclusion*

Importantly, a chunk of these new or retained funds can be funnelled to underserved sectors. We anticipate a boost in SME financing. SMEs often struggle to get financing from banks due to perceived risks and lower returns. But if banks have a mandate or moral obligation due to this policy, they might create special financing lines (like the Layer 2 in the earlier model). For instance, Bank Syariah XYZ might establish that out of the "zakat-exempt funds" pool, 20% will go to a microfinance division that provides small loans at minimal profit rates or via partnerships with microfinance institutions. This could translate into thousands of new small business loans. Each of those, as case studies in microfinance have shown (e.g., BMTs – Baitul Maal wat Tamwil in Indonesia, or Grameen-type Islamic microfinance), can improve incomes of families, reduce reliance on high-cost debt, and empower communities. Over time, successful SMEs grow to become medium businesses that pay zakat on their inventory and profits, thus feeding the cycle of charity from a stronger position.

4.4.5 *Zakat Institutions and Recipients*

From a zakat management perspective, how would BAZNAS or other zakat collectors view this? Initially, they might worry about reduced direct collections. But one way to address this is to involve them in the new mechanism. Islamic banks could partner with zakat agencies by saying, for example, "we will direct our financing to eligible entrepreneurs who are also mustahiq (zak at recipients), effectively giving them a form of zakat in the shape of capital rather than cash." In Islamic jurisprudence, giving a poor

person a zero-interest loan (*qard hasan*) is not *zakat* (since *zakat* must be transfer of ownership), but it is still charity (*sadaqah jariyah* perhaps). However, one could combine approaches: use some of Layer 2 actual *zakat* funds to provide partial grants or capital investments to poor entrepreneurs, alongside Layer 3 *qard hasan*. The net effect for the recipient is an empowered situation rather than just consumption. *Zakat* agencies can report these as innovative disbursements – which is in line with a modern view of *zakat* that seeks to make recipients productive. Many *fiqh* councils have allowed giving *zakat* in forms like tools, training, or productive assets to the poor to help them earn (not strictly cash always). Our mechanism would likely yield fewer *zakat* recipients receiving cash handouts from depositors, but possibly more recipients receiving financing or job opportunities funded by deposit money.

4.4.6 *Bank Profitability and Risk*

There are implications for banks as businesses too. If banks allocate more to SMEs or *qard hasan*, what about credit risk and profitability? Interestingly, the proposal can be framed such that banks do this without undermining profitability because the funds allocated are exactly the portion that would have left as *zakat* (which doesn't earn profit anyway). It's like saying to a bank: you have an extra 2.5% of deposits each year to play with; you can afford to deploy that in higher risk or low-return avenues because that money would have been gone otherwise. In practice, Islamic banks might invest a part of those funds in even government *sukuk* or low-risk assets and use the freed-up capital from elsewhere for social projects. There's flexibility. The key is they have more net income because of more investments; even if some portion is set aside for CSR or *qard hasan*, their bottom line might not suffer. Some empirical work supports this such as, Oktaviani et al. (2022) found that Islamic banks giving out *qard hasan* (which is effectively an expense or negative on profit) did not see a significant negative effect on overall profitability – possibly because those activities enhance goodwill and customer base. So, banks can remain sound while doing more social financing – a win-win (Hossain et al., (2025)).

4.47 *Shariah Compliance Perception*

Implementing this *ijtihad* would likely draw global attention. It could inspire debate among scholars beyond Indonesia. If successful, other countries with Islamic banks might consider similar fatwas. It would mark one of the first major instances of *ijtihad jadid* (new independent reasoning) in the arena of *zakat* and banking, which historically has seen relatively conservative positions. Success in this context means: deposit growth, sustained or increased *zakat* collection through alternative channels, and positive socio-economic

indicators (like more SME financing, higher inclusion). It would validate the idea that Islamic finance can innovate within Shariah to better serve society. This is crucial for the long-term credibility of Islamic finance as a movement; as critics often say Islamic banks are just “reverse-engineered” conventional products, an initiative like this proves there are indigenous solutions driven by Islamic principles that conventional banks haven’t thought of (conventional banks don’t have a concept of turning a religious obligation into a development tool, obviously). In fact, conventional policymakers might even take note: it’s somewhat analogous to how governments sometimes give tax breaks to encourage investment in certain sectors. Here, the tax break (Zakat exemption) encourages socially beneficial investments – a convergence of Islamic wisdom and modern policy tools.

Not to paint only a rosy picture, we should mention challenges. One, as noted, is convincing all scholars. There may be resistance on theological grounds by those who worry it sets a precedent of tampering with pillars. Continuous scholarly dialogue and perhaps limiting the scope (maybe as a temporary policy with review) could address that. Two, monitoring use of funds needs transparency. Blockchain or other fintech mentioned in Islamic Banking 5.0 concept could be used to publicly track how these retained zakat monies flow, increasing trust. Three, ensuring that depositors don’t misunderstand this as an “escape from zakat” and then forget to ever pay. Public education will be needed: banks can send reminders, “Your principal is zakat-exempt this year under policy X; please remember any profit you earned is still zakatable.” Clarity that this is a communally sanctioned mechanism, not individual neglect of duty, must be maintained to avoid moral hazard.

In evaluating the outcomes, we refer to the goals which is increasing productive financial intermediation – evidence would be increased financing-to-deposit ratio possibly and more diverse financing portfolios; increasing financial inclusion – evidence would be more accounts opened by those previously unbanked and more financing going to smaller customers. Already, digital finance is helping Islamic banks reach more people. Coupling that trend with a zakat-friendly policy could accelerate inclusion in rural or poorer segments.

Consider Bank Wakaf Mikro (BWM) in Indonesia – an initiative of micro-Islamic banking that provides tiny loans to the ultra-poor without collateral, funded by charitable capital. If mainstream Islamic banks had extra “social capital” thanks to not paying zakat out, they could support or replicate such initiatives on a larger scale. In one BWM case, a small injection of funds created hundreds of micro-entrepreneurs in a pesantren (Islamic boarding school) community. Scaling this up with, say, 1% of the Islamic banking assets could have dramatic impacts on poverty in targeted communities.

Lastly, an often-neglected point which so-called *falah* (well-being) – an Islamic economic ideal encompassing happiness and spiritual well-being – was mentioned in the vision of Islamic Banking 5.0. By structurally embedding a benevolent element into banking operations, depositors may feel a sense of contribution beyond just earning profit. This could increase their trust and satisfaction (which in modern marketing translates to customer retention). Additionally, those benefiting from the financing will likely feel a stronger social bond, knowing it is fellow Muslims’ money that is helping them in a virtuous cycle. This communal aspect is something unique Islamic finance can foster; conventional banking is impersonal, but Islamic banking can be personal when framed as believers helping each other via institutions.

4.5 Comparative Analysis: Lost Multiplier Effect vs. Current Productive Zakat Distribution by BAZNAS

This section presents a simulation of the economic potential of zakat funds if retained and utilized productively within the Islamic banking system. Rather than immediate disbursement, zakat contributions could be structured into inclusive financing mechanisms, such as SME funding, micro-enterprise loans, or other high-impact Shari‘ah-compliant sectors.

Using a conservative real-sector multiplier of 2.0 in table 1, which reflects observed economic returns from small-scale enterprise investment and community-level consumption cycles, we estimate the broader economic value that could be generated by zakat retention. The simulation covers the period from 2015 to 2024 and assumes that 2.5% of total depositor funds are zakat-liable each year.

Table 1. Estimated Economic Impact of Retained Zakat (2015–2024)
Assumed multiplier: 2x real-sector productivity from zakat utilization

Year	Total Depositor Fund (Rp Billion)	Zakat 2.5% (Rp Billion)	Estimated Economic Impact (2x, Rp Billion)
2015	296,262	7,407	14,814
2016	325,385	8,135	16,27
2017	357,272	8,932	17,864
2018	384,498	9,612	19,223
2019	416,049	10,401	20,803
2020	434,548	10,864	21,728
2021	477,357	11,934	23,868
2022	525,185	13,13	26,26

2023	561,62	14,041	28,082
2024	511,374	12,784	25,568
Total Accumulative Impact		107,240	214,477

The cumulative zakat potentially withdrawn from the Islamic banking ecosystem over the ten-year period amounts to Rp 107.24 trillion. This estimate is derived from annual Islamic banking deposit (DPK) figures reported in OJK's Statistik Perbankan Syariah and applying the standard 2.5% zakat rate to the assumed zakatable base under the prevailing principal-based zakat practice. If these funds were retained and allocated to productive Shari'ah-compliant sectors, the total economic contribution could exceed Rp 214.48 trillion. This represents a significant lost opportunity for sustainable economic impact, especially considering the capacity of Islamic banks to extend this financing to micro, small, and medium enterprises (MSMEs), housing, agriculture, and other high-multiplier sectors.

In contrast, according to official reports by BAZNAS (National Amil Zakat Agency):

- i. In 2022, total zakat collection nationally reached approximately Rp17 trillion,
- ii. Of this, only 18% (approximately Rp3 trillion) was allocated to productive economic empowerment programs such as microbusiness capital assistance, training, and equipment support.

It is important to highlight that when zakat is immediately deducted from depositor funds and disbursed for consumptive purposes, its economic impact is largely one-time in nature. In such cases, the zakat proceeds—typically amounting to 2.5% of total deposits—are distributed directly to eligible recipients (mustahiq), who use the funds primarily for basic needs such as food, healthcare, or temporary relief. While this fulfills the spiritual and humanitarian objectives of zakat, it does not establish a productive financial cycle. There is no capital retention, reinvestment, or revolving mechanism through which the same funds can generate repeated or scalable economic benefits over time.

In contrast, when zakat funds are retained within Islamic banks and deployed in structured financing schemes—such as micro-enterprise development, SME lending, or impact-driven qard ḥasan—the initial amount can yield multiple rounds of real-sector output. Over time, these returns may translate into job creation, asset accumulation, and the graduation of recipients from zakat dependence to zakat contributors. Thus, the immediate withdrawal and consumption of zakat from the banking system may produce social relief, but

it forecloses the opportunity to build cumulative, long-term economic empowerment (Prawatya & Pimada, 2024). This distinction underlines the rationale for rethinking zakat management in financial intermediation terms, not only in terms of ritual compliance.

5. CONCLUSION

This paper has presented a comprehensive academic inquiry into the proposition that depositor funds held by Islamic banks should be exempt from zakat, provided they are invested in productive ventures as if implemented in Islamic banking 5.0 concept as shown at www.myafalahbanking.com. Through a multi-disciplinary analysis rooted in classical Islamic jurisprudence (*fiqh al-mu'āmalāt*) and informed by contemporary economic realities, we have argued that this *ijtihād* is not only Islamically legitimate but also socially desirable. It challenges the prevailing DSN-MUI fatwa stance, and by extension the orthodox consensus, which treats bank deposits as conventionally zakatable wealth, and it offers a well-substantiated alternative based on *maṣlahah* (public interest) and *maqāṣid al-sharī'ah* (the higher objectives of Islamic law).

Exempting Islamic bank deposit funds from zakat – when those funds are actively invested in socially productive avenues – is an *ijtihād* that stands on solid juristic and moral grounds. It reflects the adaptive capacity of Islamic finance to meet current challenges of development and inclusion, all while staying true to the letter and spirit of *Sharī'ah*. Far from weakening the institution of zakat, this approach seeks to strengthen it by making its impact more transformative. The envisaged model positions Islamic banks as key players in achieving the *maqāṣid* of economic justice, effectively turning them into conduits of zakat and charity in a more organized and growth-oriented fashion.

It is our hope that this scholarly work will spark constructive debate and eventually inform policy, leading to pilot implementations. If successful, the Muslim world could witness a new era where Islamic banking not only avoids what is forbidden (like *ribā*) but proactively amplifies what is encouraged – mutual support, equitable growth, and the upliftment of the less fortunate. Such harmonization of profit and purpose would indeed bring Islamic finance closer to the Quranic ideal of “*cooperation in righteousness and piety*” (Qur'an 5:2) and the prophetic ideal of a community like a single body, caring for all its parts.

In terms of implementation, this study suggests that Shariah boards and regulators clarify the zakat base for deposit-like products and standardise governance disclosure to prevent double counting. A practical path forward

would involve staged Shariah deliberation (taḥqīq al-manāṭ), governance design for wakālah-based deduction on realised returns, pilot testing in selected Islamic banks, and subsequent evaluation and standardisation. Future research should test the socio-economic consequences of this framework using scenario-based and empirical designs.

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