

Are There Any Zakat Surplus Funds? A Case Study

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Abstract

Zakat, or almsgiving, is one of the main pillars of the Islamic faith. In Malaysia, zakat institutions play an important role in managing zakat funds, especially issues relating to the collection and distribution of zakat. Given the many background critics regarding the inefficiencies in managing zakat, particularly about the perception of having zakat surplus funds, it is pertinent to get insights into the existence of such funds. Applying a single case study approach, this study conducted semi-structured interviews with a few officers in charge.

Other than that, the current collection process of the zakat funds is examined. A framework is provided to elucidate such a process. Findings confirm that there is no zakat surplus fund, all zakat collected is distributed accordingly. However, a few aspects need to be improved for the betterment of the zakat institution and to enhance the public's understanding of the issue regarding the zakat surplus funds. Recommendations to tackle these aspects are discussed.

Keywords: zakat funds, Malaysia, zakat institutions, zakat management

1. Introduction

Zakat, or almsgiving, is one of the main pillars of the Islamic faith. The literal meaning of zakat is cleanliness, purification, improvement, growth, righteousness, blessing and praise (de Zayas, 2008; Qardhawi, 2009). Muslims believe that zakat may bless people's wealth and purify the souls and minds of both zakat payers and recipients. In short, zakat among Muslims is viewed as a form of worship. It reflects the understanding that the wealth of Muslims is not solely for themselves, but it is a blessing from Allah and must be shared with the needy. The Quran says: "*You shall observe the Salah and give the obligatory charity (zakat) and bow down with those who bow down* (Note 1)". The Quran emphasises that the distribution of zakat should be done to eight groups of *asnaf* (zakat beneficiaries). These groups are categorised as the poor (*al-fuqara'*), the needy (*al-masakin*), zakat administrators (*amil*), those whose hearts are to be reconciled (*muallaf*), those in bondage (*al-riqab*), the debt-ridden (*al-gharamin*), in the cause of God (*fisabilillah*) and the wayfarer (*ibn sabil*) (Note 2).

Given the above basis of zakat, which involves distributing wealth from the affluent to those categorised as *asnaf*, zakat is a way to narrow the wide socio-economic gaps. Moreover, zakat is an Islamic philanthropy mechanism consisting of social, economic, and religious elements (Qardhawi, 2009). Therefore, much effort has gone into investigating issues related to zakat. For instance, scholars posit that proper usage of zakat funds may not only help eradicate poverty (Hassan, 2010; Aziz et al., 2020; Abdul Razak, 2020) but also minimise dependency on tax set aside for welfare schemes (Setianingrum et al., 2021; Djatmiko, 2019) and stimulate economic opportunity, as well as development (Johari et al., 2013; Machado et al., 2018; Shaukat & Zhu, 2021).

The management of zakat funds has been an issue of concern among scholars. In Malaysia, the management of these funds falls under the jurisdiction of the State Islamic Religious Council (SIRC). Each state has its zakat institution that helps manage the zakat funds based on Islamic administrative law (Ahmad Nadzri et al., 2012). Administering a huge amount of zakat funds indirectly exposes the zakat institutions to intense scrutiny and criticism. The efficiency in collecting and the effectiveness of distributing zakat has been a topic of discussion among the public (Ahmad, 2020; Utusan Borneo Online, 2020) and scholars (Zainal et al., 2016; Ab Rahman et al., 2012). Previously, it was claimed that failures to utilise zakat effectively are mainly due to zakat institutions' inefficiency or incompetency (Umer Chapra, 1992).

Another managerial issue that previous researchers have argued and highlighted is the existence of the zakat surplus fund. However, these previous studies look at the issue from a broad managerial perspective and lack the depth to find reasons behind the existence of the zakat surplus fund. For instance, by applying the secondary data analysis method, Taha et al. (2017) confirmed that there appear to be undistributed zakat or surplus funds managed by zakat institutions in the East Coast Region of Malaysia. Utilising a similar methodological approach, Saad et al. (2016) shed light on the development of zakat surplus fund management.

They reported that in the era of the Prophet Muhammad (p.b.u.h), the management of zakat was very efficient in that all zakat collected was promptly distributed to the needy. As such, there was no surplus fund. However, during the reign of Caliph Umar Abdul Aziz, there were surplus funds. Still, the only reason for having the surplus fund was because poverty was successfully alleviated, and there were difficulties finding *asnaf* (zakat beneficiaries).

This paper explores a different perspective. Specifically, this paper aims to elucidate the reasons behind the existence of zakat surplus funds by examining the current practices of collecting zakat funds. A case study on Kedah Zakat Board (Lembaga zakat Negeri Kedah (LZNK)) is undertaken to explore this issue. LZNK is a zakat institution responsible for managing the zakat fund for the state of Kedah (a state located in the northern part of Peninsular Malaysia). Relying on the qualitative approach through the application of semi-structured interviews, this study attempts to confirm whether the zakat surplus funds exist.

This study contributes to the literature in two main ways. First, it extends general discussion (Saad et al., 2016; Taha et al., 2017), which could be considered an early platform for highlighting the issue of the zakat surplus fund. In this way, clearer reasons are given to explain the existence of such a fund. Secondly, the collection process of zakat handled by LZNK is examined. The story of how the collection process is carried out is one small but telling piece of the larger one of how LZNK performs the huge responsibility of managing the zakat fund to benefit Muslims. Therefore, this study is significant because it provides insights into the zakat surplus funds, potentially avoiding any misconception among the public, especially Muslims.

This paper is structured as follows: The following section provides a brief review of the literature. Section three describes the research methodology employed. The findings and discussion are presented in section four. Finally, the last section contains the conclusion of this study.

2. Literature Review

2.1. *The evolution of zakat management in Malaysia: An overview*

Zakat is a mandatory charitable contribution among affluent Muslims, symbolising purity and kindness. The legal obligation to pay zakat began the second year after the hijra (NZF, 2021). The Quran says,

“Take alms out of their property; you would cleanse them and purify them thereby and pray for them; surely your prayer is a relief to them, and Allah is Hearing and Knowing” (Note 3).

The obligation to pay zakat was enforced by the Prophet (p.b.u.h). According to an authentic hadith, the Prophet (p.b.u.h) sent his companion, Muadh, to Yemen and commanded him to invite Yemen’s people to Islam. Furthermore, the Prophet (p.b.u.h) ordered Muadh to follow the four steps: 1) Call them to bear witness that none has the right to be worshipped but Allah, and that I am the messenger of Allah. 2) If they obey that, tell them that Allah enjoined five

prayers upon them daily and night. 3) If they obey that, then tell them that Allah has enjoined upon them zakat (obligatory annual charity) from their wealth, to be taken from the rich and given to the poor, and 4) if they obey that, then beware of (taking) the best of their wealth and beware of the supplication of the oppressed, for there is no barrier between them and Allah.

In Malaysia, during the pre-colonial period, the collection and distribution of zakat were not carried out systematically (Ghazali, 1988; Ganiyev, 2020). Religious teachers functioned as the collectors of zakat. Showing gratitude to the religious teachers was also believed to be a form of acknowledging the credibility of these figures in deciding the best way to distribute the zakat. It was reported that most zakat funds were used to maintain mosques during this period. As a result, zakat funds failed to reach the *asnafs*. Yassin (1957, p.11) stated, “This practice did not benefit people who really were entitled to zakat. The poor and the needy very seldom got their share of the collected zakat by Muslims”.

Zakat management’s evolution began at the end of the 18th century during the British colonial period. It was reported that in 1880, Sir Hugh Low, the Resident of Perak at that time, prohibited the *Qadhi* (Islamic Judge) and Assistant *Qadhi* from receiving zakat from the zakat payers (Ganiyev, 2020). Historical evidence indicates that the British administration treated zakat as a form of tax (Ganiyev, 2020). This action put an extra burden on the Malays (Muslims), and at the same time, religious leaders appeared to lose their authority in managing zakat. However, through experience, the British realised religious matters were sensitive among the Malays (Muslims). Thus, getting involved in religious matters would have discouraged Malay cooperation (Means, 1969). Consequently, they decided to adopt a non-interference policy towards matters related to the religion and customs of the Malays. These issues are handled by the SIRC (State Islamic Religious Council), while other issues beyond these aspects fall under the British civil and criminal law system (Ab Rahman et al., 2012).

Later, the idea of having centralised management of zakat started to take place. In 1915, Kelantan was recorded as the first state in Malaysia to establish centralised administrative institutions known as the Council of Religion and Malay Customs, which operated to take charge of religious matters (MAIK, 2021), and other states later followed this in Malaysia. Nowadays, in Malaysia, each state has its zakat institutions administered and supervised by the SIRCs except for Kedah; the Kedah Zakat Board (LZNK) is independent of the Kedah Islamic Religious Council. Subsequently, the management of the zakat funds is handled more structured way. However, the zakat collection was still considered relatively minimal, and the distribution of zakat was not as efficient as it was supposed to be (Ab Rahman et al., 2012).

Realising the need to enhance the efficiency of zakat management in fulfilling the socio-economic needs among Muslims and the potential to remove poverty, several SIRCs started to introduce a modern corporate style of management in the 1990s (Wan Ahmad, 2012) through the privatisation of zakat institutions (Ahmad Razimi et al., 2016; Ab Rahman et al., 2012). The privatisation process changed the traditional landscape of managing zakat. For example, Wan Ahmad (2012) reported that computerised systems enable databases of payers and recipients of zakat to be created, and modern payment channels such as automatic

deduction at the source of income and phone banking were introduced. Although the corporatisation of zakat institutions has improved various aspects of zakat management, the credibility and ability of zakat institutions to function well remain a concern among the public, particularly Muslims in Malaysia.

2.2 Kedah Zakat Board (*Lembaga Zakat Negeri Kedah-LZNK*)- A Brief Note

The first appointed committee to handle issues relating to zakat was established in 1936 (Mohamad Zaki et al., 2020). In that year, information about the obligation to pay and the management of zakat was officially disseminated to Muslims in the State of Kedah (LZNK, 2022). Later, in 1955 *amil*s were appointed to help collect and distribute zakat funds and to overcome complaints about the inefficiency of zakat distribution to the *asnaf* in Kedah. In the same year, Kedah State Zakat Committee Enactment came into force to deal with zakat issues in Kedah.

For 60 years, the 1955 Kedah State Zakat Committee Enactment acted as the foundation and guidelines for managing the zakat fund. However, various amendments were made throughout the years to improve zakat management. For instance, in December 1961, a new rule was implemented where farmers needed to hand over the whole amount of zakat to the appointed *amil*s. Previously, only 50% was handed over to the *amil*s, and the farmers could distribute the balance of zakat to the *asnaf* in their localities (Othman et al., 2019). Another example is an amendment related to the penalty of not paying zakat was altered in 1977. Instead of being liable for a penalty of RM100 or imprisonment for a period not exceeding six months, any person found guilty must pay a fine of RM 5000 or imprisonment for a period not exceeding three years (Othman et al., 2019). Finally, in 2015 a new enactment was in force to replace the 1955 enactment. Subsequently, the Kedah zakat institution, formerly known as the Department of Zakat (*Jabatan Zakat*), was officially named Kedah Zakat Board (LZNK).

In the early days, zakat in Kedah was only collected based on the agricultural output. However, nowadays, there are various sources of zakat, such as business, livestock, earnings, savings, mining, gold etc. The multiple sources of zakat lead to a tremendous increment of the collected zakat fund. Besides bringing positive impacts to Muslims at large, it is also worth noting that the management of the zakat fund has become more complicated compared to the early days. Currently, the administration of LZNK is led by the Chief Executive Officer (CEO) and supported by three Deputy CEOs: administration and finance, collection operation and distribution operation and development of *asnaf*. Each Deputy CEO is responsible for managing their department according to their portfolio. To improve decision-making efficiency, the CEO has delegated some executive power to the Deputy CEO. This is reflected in the response made by the first respondent, “*Like me, I could approve the disbursement of zakat up to RM50 thousand. More than that, we need to bring the issue to the board meeting*”.

3. Method

This study adopted a qualitative method following Warren and Karner (2005), who argue that

such a methodology is appropriate when a question needs to be described and investigated in depth. Thus, semi-structured interviews were applied to collect data. The interviews offered several relevant and distinct advantages, such as it allows researchers to tackle complex issues that cannot be readily addressed by the survey method through the distribution of questionnaires. It also elicited spontaneous and unprompted responses from respondents while simultaneously allowing the possibility of probing their knowledge and views more deeply. Moreover, semi-structured interviews are claimed to be suitable for exploring attitudes, values and opinions through the indirect form of information they provide and their ability to adapt the wording of the questions to the respondents' background (Berg, 2007). Also, the semi-structured interviews enabled the researchers to capture "all aspects of the practices undertaken" (Landry et al., 2016).

In recruiting respondents for this study, the Director of Kedah Zakat International Research Centre at LZNK was contacted by email. Information letters that stated the objectives of this study and outlined the types of information needed were sent. Based on this information letter, the Director appointed the most suitable respondents. When the Director granted permission, the respondents were contacted individually and provided with semi-structured interview forms before interviews commenced. Semi-structured interview forms (guides) were designed after an extensive literature review. To assess validity, the semi-structured interview guide was reviewed by two experts: an academic from Malaysia's public university and someone who works in the industry. The reviewers were requested to uncover any flaws in the interview guides and provide comments on the suitability and clarity of the questions. Feedback from the reviewing process was incorporated into the interview guides. This validity procedure is sufficient to establish the survey's clarity and reliability. According to Stenbacka (2001), reliability is irrelevant when judging the quality of qualitative research. If a qualitative study is discussed with reliability as a criterion, the outcome is that an analysis is substandard. In another study, Lincoln and Guba (1985) stated that demonstrating validity in a qualitative approach is sufficient to establish the study's reliability.

No specific numbers of respondents are applied in the qualitative research (Yin, 2016), and the exact number will depend on the saturation point (Guest et al., 2006). Interviews were conducted with two Deputy CEOs of LZNK and an officer from Kedah Zakat International Research Centre, who has previously been in charge of zakat collection. This study's key informants can be considered expert spokespersons representing LZNK. In terms of "how many" key informant is sufficient, Glesne (1999) emphasised that when expert interviews are planned, the number of experts in the field may be very limited, so that is sometimes difficult to think of more than ten interviews. Any number of experts is sufficient as long as it can generate enough in-depth data to illuminate the phenomena' patterns, concepts, categories, properties, and dimensions. Therefore, the number of interviews for this study is deemed appropriate because the interviews were conducted with people considered experts in the field and could generate more than enough in-depth data.

Two online interview sessions through the google meet platform were conducted. All participants permitted the interview sessions to be recorded. All interviewees demonstrated a high level of professionalism in their understanding of zakat funds management at LZNK.

Two researchers conducted each interview, and the principal researcher participated in all interviews. Interviews were recorded and transcribed in their entirety. To support and corroborate interview data, additional information was collected from secondary data sources such as annual reports, online zakat applications, social media postings and other material that LZNK was willing to share. This was done as a means of triangulation to increase the research findings' reliability and internal validity (Yin, 2013).

3.1 Data Analysis

Thematic analysis based on an interpretive approach was employed (Braun & Clarke, 2006). The analysis involves encoding qualitative data to search for patterns and themes that help explain social phenomena (Boyatzis, 1998). The data analysis process was aided using NVivo10, a software used to analyse qualitative data. Themes are developed through the careful iterative and reflexive examination and re-examining of the raw interview data.

Following the standard practice of qualitative research (Miles & Huberman, 1994), a close reading of the transcripts was undertaken to familiarise the researcher with the content and understand the text's details. Then, each transcript was entered into NVivo software to assist with content analysis. Initial codes were generated across the corpus of interview data based on the respondents' actual words or terms using a coding system taken directly from the participants' discourse (Creswell, 2009). By the end of this first step, first-order codes were derived.

The second step of the process was to examine the first-order codes for relationships between and among the passages to assemble them into first-order themes (Sharma & Vredenburg, 1998). Next, analysis was carried out to look for links and relationships among first-order themes so they could be collapsed into distinct clusters (Platt, 1981) or second-order themes. Finally, the second-order themes were organised into final themes that reflect the overarching dimensions merging from the data.

A final step in the inductive approach requires an assessment of trustworthiness. Data robustness was generally ascertained through the corroboration of interview data with information derived from secondary sources. To assess validity, the researchers independently made the coding process and compared the findings with the initial results. The researchers collaborate to resolve the anomalies if there are any observed discrepancies.

4. Findings and Discussion

The main function of LZNK is to manage the zakat fund for the state of Kedah. The two critical managerial areas are handling the collection and distribution of zakat funds to the *asnaf* (zakat beneficiaries). As mentioned by the second respondent, “*we are given a huge responsibility by the Sultan of Kedah to manage the zakat fund-the collection and distribution; our power to collect and distribute zakat is confined by the LZNK Enactment 2015*”.

The current process of collecting zakat is examined to confirm whether a zakat surplus fund exists (Figure 1). Generally, there are two categories of zakat (Note 4): i) zakat *al-fitr* and ii) zakat *al-mal* (Wan Ahmad, 2012). Zakat *al-fitr* refers to the special obligatory alms paid by

all Muslims at the end of the Ramadhan (the fasting month). On the other hand, zakat *al-mal* or zakat on wealth is an amount Muslims need to pay for certain types of wealth owned when it reaches a certain minimum threshold (*nisab*) and the completeness of *hawl* (Note 5).

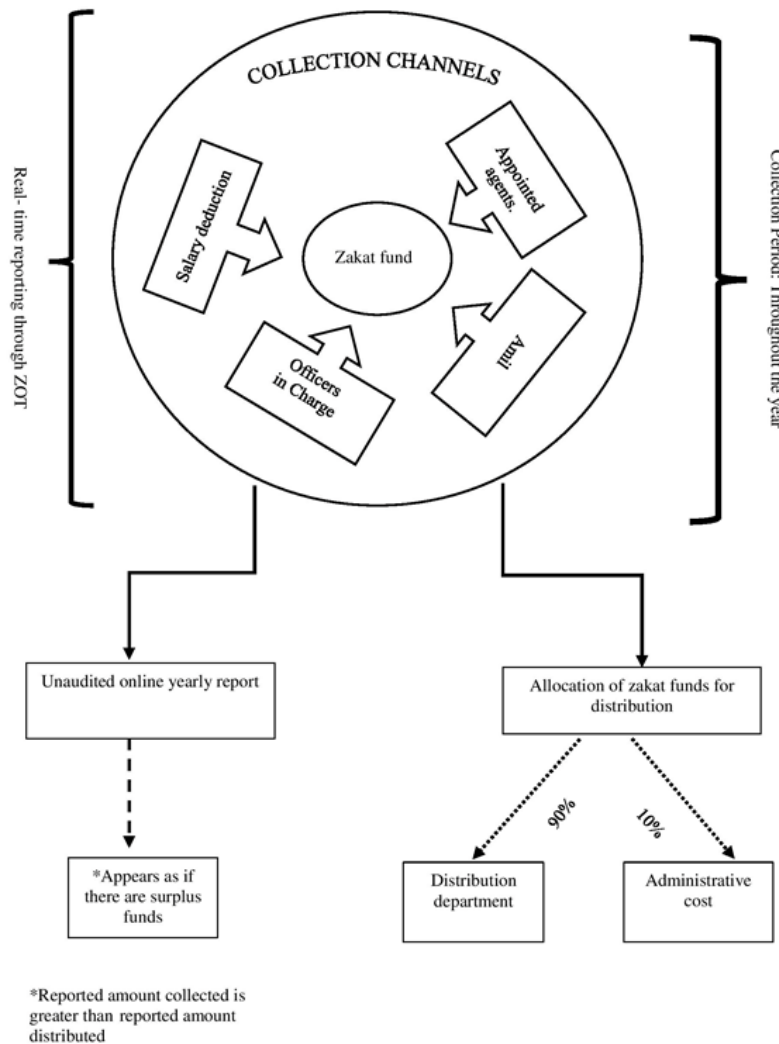


Figure 1. The Current Practice of Collecting Zakat Funds

The collection of zakat is carried out using various methods. Contribution of zakat could be made through the appointed officers in charge at LZNK. Other than that, the contribution could be made through salary deduction. There are also appointed agents to take control of the collection zakat. All mosques in the state of Kedah act as agents for LZNK. Besides, LZNK also appoints a few professional agents such as accounting firms, organisations registered with the Registrar of Societies (ROS), selected banks and *amil* (zakat collector).

The collection period is open throughout the year. However, the highest collected amount commonly occurs during Ramadhan and at the end of the year. The third respondent

highlighted this: “Normally, the zakat collection will boost during Ramadhan and at the end of the year”. This statement was further seconded by the second respondent “Of course, Ramadhan is the month where everybody is in the spirit of giving (making sadaqah), and at the end of the year, many businesses contribute zakat because it somehow affects their tax payable”.

The availability of various collection methods indicates the effort made by LZNK to ease the contribution process and encourage Muslims to perform their obligation. Likewise, the collection period is open throughout the year. So far, providing various collection channels seems to bring a positive outcome regarding the total amount of zakat collected. This is evidenced by the escalating trend of zakat collected yearly (Table 1). However, there appears to be a surplus zakat fund in most of the reported years for Kedah. The amount is considered surplus because the amount collected was not fully distributed during the year, and there were no disclosures in the reported data to explain such a situation. For example, in 2021, only 88.4% of the zakat collected was distributed, leaving a surplus of RM27 049 136.69.

Table 1. Summary of the surplus zakat funds

Year	Amount Collected (RM)	Amount Distributed (RM)	Surplus (RM)
2011	101 560 708.76	79 021 340.42	22 539 368.34
2012	101 558 130.36	99 434 434.47	2 123 695.89
2013	116 091 541.73	101 770 089.75	14 321 451.98
2014	128 930 825.31	120 955 434.63	7 975 390.68
2015	134 488 295.96	154 774 347.03	(20 286 051.07)
2016	141 144 268.80	162 110 128.07	(20 965 859.27)
2017	166 955 966.15	152 533 824.66	14 422 141.49
2018	178 093 158.54	178 621 610.00	(528 451.46)
2019	197 253 799.38	192 622 521.12	4 631 278.26
2020	217 918 496.42	195 698 217.47	22 220 278.95
2021	232 793 958.19	205 744 821.50	27 049 136.69

Source: Collection and Distribution Report LZNK 2011–2021.

Similarly, in 2020, the amount distributed was less than the amount collected, leaving RM22 220 278.95 as a surplus fund. Based on the reported online data on the LZNK website, up to 15th September 2022, it seems there are RM36 903 866 surplus zakat funds because the total amount collected was reported to be RM161 264 040. In contrast, the total amount distributed was only RM124 360 174 (LZNK, 2022).

This scenario raises an important question; is there a surplus fund? Respondent two explained, “Not really a surplus, but our collections always boost up at the end of the year and Ramadhan. Usually, we get a tremendous increment of zakat at the end of the year. You can see from our graph on our mobile application- ZOT (Note 6)”. He added, “For example,

there were cases where 30 to 40 million contributed during the last month of the year. Definitely, we cannot distribute the whole lot during that year. We will bring that figure to the coming year". Respondent one further clarified the issue "No surplus, let's say the total amount collected is RM240 million, RM220 million will be distributed. The other RM20 million is for administrative purposes such as administration of our amils".

Once asked about the accuracy of the online annual reports, respondent three confirmed that the available online data were not audited. The data act just as guidelines of what had happened during the past years because nowadays public can view real-time data on a mobile application known as ZOT; "We don't really worry about the excess amount of collection because we now rely more on our real-time data on ZOT. Anybody can access ZOT; they will know how much we collect and distribute". All respondents stressed that they are very careful in performing their responsibilities, must follow the Zakat Enactment 2015 and are transparent about the collection and distribution of zakat. For instance, the second respondent described the situation, "We at LZNK are very transparent. Even if someone who works in KL (Kuala Lumpur) wants to check the asnaf in his village, located in Kedah, that person can do so through ZOT. We even provide online reports; anybody can see the amount collected and distributed".

The current process of collecting the zakat fund reflects the commitment and seriousness of LZNK in performing its responsibility. Nevertheless, several aspects of reporting could be considered for improvement. First, LZNK needs to determine the cut-off point of the zakat collection for reporting purposes, which will allow LZNK to report the amount brought forward to the next year accurately. Secondly, having proper disclosures explaining the different amounts of zakat collected and distributed in the yearly annual report would enhance understanding among the public about such issues. Also, LZNK could provide a brief description of the collection process, particularly explaining the monthly trend of the zakat collection. A graphical monthly collection in a year may help to illustrate and provide a visual explanation to the readers about the surplus amount.

Thirdly, instead of providing unaudited yearly reports, LZNK should ensure that only audited information is disseminated for public view. Having an audited report offers independent verification that all data reported are a true representation of the current situation. Hence, this will reflect LZNK's credibility in handling such issues and stimulate the confidence level of readers. Finally, using ZOT to give real-time information about zakat in Kedah needs to be further publicised. This is important to ensure that the public, especially the old generation, is alert about ZOT. For example, posters or infographics displaying the function of ZOT should be disseminated to all mosques in Kedah. This effort helps to improve awareness among the public about the real-time reporting made by LZNK.

4.1 Limitations and Direction for Future Research

This study is not without limitations. First, a single case study approach was employed, limiting generalizability. However, while the findings from LZNK may not be generalised to other zakat institutions, the suggestions for improvement in the reporting aspect are flexible, such that they can be applied to other zakat institutions. Secondly, each state in Malaysia has

its zakat institutions where the management aspects may slightly differ from LZNK. Thus, the findings result from the current practice of LZNK. Yet, the perception of the existence of zakat surplus fund is also faced by other zakat institutions in other states in Malaysia (e.g., Taha et al., 2017; Saad et al., 2016), demonstrating that this is the common criticism towards zakat institutions in Malaysia.

Several future research opportunities exist. First, a comparative study between all zakat institutions in Malaysia may provide a better understanding of the management of zakat funds. Similarities and differences in managerial processes between zakat institutions can be highlighted, and improvements can be made. Secondly, this paper focuses only on the collection process of zakat; there remain some questions regarding the distribution aspect of zakat. Examining the current practices of distributing zakat fund to the *asnaf* may enhance understanding and reveals other factors that may lead to the issue of surplus funds. Lastly, a mixed method approach also could be applied to get a better insight into the management of the zakat fund.

5. Conclusion

This paper aims to elucidate the reasons behind the existence of the zakat surplus fund. To do this, the current practices of collecting zakat funds are explored by examining the semi-structured interview data with the officers in charge. Findings confirmed that there is no zakat surplus fund in Kedah. All zakat funds are distributed immediately to the *asnafs* (zakat beneficiaries). LZNK has performed its duty according to the Enactment of Zakat 2015. However, confusion among the public might have arisen due to a few loopholes in reporting the funds. A few suggestions were made to improve this situation. The public's perceptions about surplus or undistributed funds should be treated as a small but significant issue that may tarnish the credibility of LZNK. A proactive response by LZNK towards this issue, particularly on the reporting aspect, may help to rectify confusion and stimulate confidence among the public.

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Notes

Note 1. Qur'an, 2:43

Note 2. Qur'an, 9:60

Note 3. Qur'an, 9:103

Note 4. In this paper, the term zakat is used to cover both categories of zakat.

Note 5. The length of time an individual must possess the wealth that they will pay zakat on.

Note 6. Zakat on Touch (ZOT) is a mobile application that can be freely downloaded by public.

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