

# Establishing zakat on oil and gas in Malaysia: a new insight

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## Abstract

**Purpose** – The purpose of this paper is to deliberate on the establishment of zakat (Islamic alms) on oil and gas in Malaysia. Being one of the five Islamic pillars, zakat contributes significantly to the country's socio-economic development and prosperity. However, in Malaysia and other Islamic countries, there is not yet a proper mechanism for calculating zakat on extracted minerals. Similar to gold and silver, oil and gas are valuable minerals, which, upon extraction, are subject to zakat payment. In Malaysia, however, this is not the case.

**Design/methodology/approach** – This study uses a qualitative method. It presents a thorough review on the stipulation for paying zakat on minerals, specifically oil and gas. The deliberation is based on secondary data entailing a comprehensive content analysis of prominent books on the subject, current zakat rulings and legal acts on oil and gas.

**Findings** – Oil and gas are subject to zakat payment, as indicated in several Qur'anic verses and based on the academic reasoning of Muslim scholars. The zakat calculation for oil and gas entails the *nisab* (minimum threshold value of the assets) but not the *hawl* (the requirement for one full Islamic year of ownership for the assets), by analogy with zakat on agricultural produce. Despite the obligation to pay zakat on minerals under the *zakat al-mal* (alms due on wealth) category, oil and gas is yet to be fully subject to this practice in Malaysia, although the country is known as an oil-producing Muslim country. Several legislative acts covering the managerial and business side of oil and gas operations have long been established, but the provision on zakat remains unclear. Hence, comprehensive legislation is needed to fine-tune the Malaysian oil and gas system, particularly with regard to zakat.

**Research limitations/implications** – This study relies mainly on secondary data and literature without performing any empirical investigations.

**Practical implications** – In terms of academic implication, this study enriches the existing body of knowledge on zakat. Practical implications would include enhanced decision-making concerning zakat on oil and gas on the part of zakat institutions, policymakers and the government of Malaysia.

**Originality/value** – This study provides practical and academic contributions to the deep understanding of zakat on oil and gas, which has received very little attention in the existing body of literature. Despite being limited in literature, this is a breakthrough study that sheds light on zakat on oil and gas.

**Keywords** Zakat, Oil and gas, Socio-economic development, Zakat collection, Zakat on minerals

**Paper type** Research paper



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## Introduction

Zakat (almsgiving) is a key obligation in Islam, being one of the five pillars of the religion and an act of *'ibādah* (devotion). Under its literal definition, zakat means cleanliness, growth, blessing and praise (Ibn Manzūr, 2014). Zakat is an act by which one obtains the blessings of Allah (SWT) and purifies one's wealth so that it grows to produce more goodness. There are two main categories of zakat: *zakāt al-ḥiṭr* (on the individual) and *zakāt al-māl* (on wealth). Despite being an obligatory act, certain conditions must first be met before one is obliged to pay zakat. In particular, there is a need to identify the types of assets that are subject to zakat, complete the *ḥawl* period (clear ownership of an asset for one full lunar year) and fulfil the *nisāb* (minimum threshold value of the assets) (Md Arif *et al.*, 2011).

Zakat contributes to a nation's socio-economic development, particularly in elevating the *asṇāf* (eight eligible categories mentioned in the Qur'ān) (Omar *et al.*, 2017). Zakat is fundamental for helping the needy and poor in the form of financial support. Hence, apart from socio-economic development, zakat also contributes to poverty eradication (Embong *et al.*, 2013; Wahid and Ahmad, 2014; Omar *et al.*, 2017).

Although petroleum was known to the Arabs for more than a millennium, its economic usefulness and intrinsic value were only realized in the 19th century. Major reserves of oil and gas were discovered in the Middle East in the early 1900s. This led to the extraction of the mineral, also known as “the black gold,” which changed the region from an underdeveloped agricultural land into an industrialized modern economy. Reliance on oil and gas eventually led to the region's booming socio-economic growth (Hymel, 2007). As the value of oil and gas was largely unknown in the early Muslim society, there was no requirement to determine any specifics with regard to its zakat payment. Hence, Muslim scholars in the last century – and until today – have depended mainly on existing deliberations and verdicts regarding zakat on minerals, which mainly refer to gold and silver. Resultantly, there is no exact consensus on the calculation of zakat on oil and gas and its mechanism of implementation at present (Omar *et al.*, 2020). Nonetheless, in Saudi Arabia, petroleum companies contribute approximately SAR750bn annually in zakat and tax (Alarabiya, 2014). Zakat is also imposed on all petroleum and gas companies operating in the country, and it is nationally administered under the General Authority of Zakat and Tax (GAZT) of Saudi Arabia (Alarabiya, 2014).

Malaysia has four oil-producing states, namely, Sabah, Sarawak, Kelantan and Terengganu, which have contributed tremendously to the country's economy. Yet, these states, with the exception of Terengganu, are also the most economically underperforming and lacking in infrastructure out of all the states in Malaysia. The rates of impoverishment in these three states are still glaringly high (Nair and Sagarin, 2015). The State Socioeconomic Report 2019 indicated that the mining sector, which mainly carries out activities related to petroleum and natural gas, has a total gross domestic product (GDP) contribution of RM101.44bn as at 2019 [Department of Statistics Malaysia (DOSM), 2020]. Sarawak is the largest contributor at RM29.6bn, followed by Sabah at RM22.54bn. Kelantan and Terengganu, respectively, contributed RM353m and RM183m. Except for Terengganu, the other three states have been identified by the government as underperforming states, with a 30% combined contribution to the Malaysian GDP in comparison to the 40% contribution by Selangor and the Federal Territories (Ministry of Economic Affairs, Malaysia, 2019). Terengganu has a relatively better economic performance than the other mentioned states because of several factors, including the already established oil and gas mining industry in the state, especially as it is the home ground of the Malaysian petroleum company and has a flourishing tourism industry and for certain socio-political reasons. Despite the aforementioned states' wealth in oil and gas and their significant contribution to

the country's socio-economic growth, they have not introduced specific zakat calculations on oil and gas in the light of the obligation to pay zakat on extracted minerals.

Zakat and taxation are crucial elements in the Islamic fiscal system that must be understood and observed by Muslims (Bakar and Rahman, 2007). In the context of the Malaysian fiscal system, the taxation system obliges businesses to pay tax. Zakat, on the other hand, is an Islamic pillar not enforceable by the authorities (Bakar and Rahman, 2007).

The aim of this study is to deliberate on establishing zakat on oil and gas in Malaysia, specifically for the four oil-producing states of Sabah, Sarawak, Kelantan and Terengganu. This is the first study that attempts to discuss this topic in depth. At present, no zakat mechanism exists for oil and gas that covers its specific conditions and the *nisāb* calculation methods that are generally highlighted by zakat institutions. By taking on this new path of inquiry, this study anticipates shedding some light on the zakat collection practices of the State Islamic Religious Councils (SIRCs) and zakat boards or institutions of the selected states.

Following the introduction, this paper discusses the literature review covering the key concepts of zakat in Islam, the role of zakat on socio-economic development, zakat on specific types of wealth and past studies that have discussed the issue of zakat on oil and gas. This is followed by a presentation on prevailing zakat practices in Malaysia, scholarly discussions on zakat on oil and gas and legislation on oil and gas in Malaysia. Next, the study presents the benefits of paying zakat on oil and gas. Finally, the study discusses its theoretical implications, limitations and future research suggestions.

## Literature review

### *Root of zakat in Islam*

Apart from emphasizing rituals and *'ubūdiyah* (acts of devotion), Islam also underlines the significance of the economic, social and political aspects of life based on the teachings of the Qur'ān and the Sunnah (Prophet's teachings). Paying zakat is, on one level, an act of *'ubūdiyah*, but it also contributes to the economic development of the *ummah* (Muslim nation). Islam obliges Muslims to contribute a portion of their wealth after taking into consideration a specific set of criteria. For instance, upon reaching a certain amount of wealth, a Muslim is obligated to pay 2.5% of that amount as zakat. Al-Qaradāwī (2011) highlighted a Qur'ānic verse that asserts the obligation of zakat upon Muslims, as follows:

And be steadfast in prayer; practise regular charity; bow down your heads with those who bow down (in worship) (Qur'ān, 2:43).

This Qur'ānic verse underlines the obligation of paying zakat. The good deeds of a Muslim will be disregarded if he refuses to pay zakat and perform *ṣalāh* (prayer). Zakat and *ṣalāh* are for the benefit of the Muslim individual, but zakat benefits both the payer and beneficiary (Ṣabuni, 1981). Historically, zakat was first introduced in the second year of the Hijrah calendar. Prophet Muhammad (peace be upon him), who was the leader of the *ummah* at the time, appointed zakat officers to collect and distribute the alms to the identified deserving recipients (Kahf, 2000). After the passing of the Prophet (peace be upon him), the four caliphs took over the management of zakat, i.e. each during the terms of their caliphate. For example, Caliph Abū Bakr declared war on Muslims who refused to pay zakat as it is a direct opposition to the teachings of Prophet Muhammad (peace be upon him). Caliph 'Umar ibn al-Khaṭṭāb introduced a state-wide comprehensive recordkeeping system (*al-dawāwīm*) (Kahf, 2000). According to Hayeeharasah *et al.* (2013), the zakat rate and types during the Caliph's era largely followed those of the Prophet's (peace be upon him) era.

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### *Zakat and socio-economic development*

According to Saad *et al.* (1970), zakat is significant in ensuring socio-economic growth through the reduction of poverty. Zakat institutions carry the dual responsibility of gathering zakat funds and distributing them to the rightful recipients, i.e. *aşnāf* groups. The proper implementation of zakat could elevate the *ummah*'s socio-economic standing (Firmansyah, 2013; Debnath, 2015; Romdhoni, 2017; Ayuniyyah *et al.*, 2018; Nahar, 2018). It has been widely indicated that the contribution of zakat should have direct socio-economic benefits for the *aşnāf* (Embong *et al.*, 2013; Wahid and Ahmad, 2014; Omar *et al.*, 2017; Shaikh and Ismail, 2017). Such benefits include but are not restricted to: cash for daily needs, capital for business start-up, education funds and others. Al Matar (2015) asserted that zakat can close the gap between the rich and the poor and thus eradicate income inequality as well as boost the latter's purchasing power. In the same vein, the significance of corporate zakat has also been highlighted in driving economic prosperity through the transfer of wealth (Yusuf and Derus, 2013). There are also suggestions for elevating the *aşnāf*'s standard of living via innovative entrepreneurial programs (Abd Rahman and Ahmad, 2011; Afif Muhamat *et al.*, 2013; Ibrahim and Ghazali, 2014). In short, while tax is mainly channeled for national development and government expenditure, zakat is specifically for the socio-economic development of the *ummah* (Al Matar, 2015; Khamis and Yahya, 2015; Saad *et al.*, 2020).

### *Zakat on wealth*

At present, zakat is generally imposed on wealth such as salary or income, savings, agricultural produce, business earnings, livestock, gold and silver. Past studies of zakat on income focused mainly on the individual's motivation to pay zakat, which led to rising awareness of its significance (Wahid *et al.*, 2007; Abū Bakr and Rashid, 2010; Rosele *et al.*, 2017; Mohd Khalil *et al.*, 2019). In terms of zakat on savings, the compliance rate is satisfactory as the related individuals are well aware of their obligation to pay this zakat upon reaching the *ḥawl* and *nisāb* (Azman and Bidin, 2015; Waluya, 2017). Agricultural produce is also subject to zakat based on several conditions as outlined by relevant scholars (Hamat, 2014; Hamat and Hanapi, 2016; Ab Rahman *et al.*, 2019). However, there are several issues with regard to this type of zakat, including the standardization of zakat assessments for different plantations, the exclusivity of plantations that should be subject to zakat, the compliance to zakat payment and others. Such issues must be clarified for the benefit the *aşnāf* in general (Hanapi and Wan Khairuldin, 2017; Ab Rahman *et al.*, 2019).

Zakat on business earnings has also been the subject of several studies. Akmar and Nasri (2017) highlighted the importance of zakat in the form of business aid provided to *aşnāf*. This type of zakat can help elevate the *aşnāf*'s quality of life and drive them to become more self-reliant rather than just wait for the provision of zakat. Zakat-based business assistance can also significantly help entrepreneurial individuals from among the *aşnāf* (Afif Muhamat *et al.*, 2013; Ibrahim and Ghazali, 2014). Business zakat should be treated as a crucial driver of the economy and *aşnāf* groups in general (Haron and Rahman, 2010; Mohd Rahim *et al.*, 2011; Khamis and Yahya, 2015; Saad *et al.*, 2020).

In terms of zakat on gold and silver, scholars have determined that the *nisāb* or rate is 2.5%. Studies have indicated that the enforcement of zakat on gold and silver is different based on various customs and practices, and that public awareness on the matter could be better (Md Ariffin, 2014; Sukri, 2016; Ali *et al.*, 2018; Nordin *et al.*, 2018; Nordin *et al.*, 2019). Gold and silver are technically minerals, but other categories of minerals such as diamonds, oil, gas and iron are not subject to zakat. In theory, these minerals should be subject to zakat based on the assertions of past scholars.

*Past literature on zakat on oil and gas*

To the best of our knowledge, no known published study has explicitly examined the applicability of zakat on oil and gas. [Omar et al. \(2020\)](#), for one, indicated that oil and gas are indeed subject to zakat. [Isa \(2016\)](#) in his study on scholars' analyses of zakat on petroleum also found that zakat is due on oil and gas. Nevertheless, [Omar et al. \(2020\)](#) only touched upon the theoretical analysis of zakat on minerals in general and not specifically on oil and gas, whilst [Isa \(2016\)](#) did not deliberate on the technical and legislative provisions for zakat on oil and gas. Hence, this current study sets out to fill the aforementioned academic gap and subsequently propose the imposition of a specific zakat on oil and gas, particularly in the case of Malaysia.

***Zakāt al-māl practices in Malaysia***

In Malaysia, the two types of zakat – i.e. *zakāt al-māl* and *zakāt al-ḥiṭr* – are collected by the SIRC in each state. *Zakāt al-māl* entails alms on earnings (salaries, incomes, savings), gold and silver, agricultural yields and livestock. Today, *zakāt al-māl* also entails zakat on Employees Provident Fund (EPF) savings and *takāful* (Islamic insurance) proceeds. In this country, zakat collection and disbursement are under the purview of the state governments; i.e. the SIRC ([Wahid et al., 2015](#); [Razimi et al., 2016](#); [Omar et al., 2017](#)). The Federal Constitution, Ninth Schedule (Article 74, 77) Legislative Lists; List II – State List specifies that all matters related to religious affairs, education, Islamic laws and management of zakat and waqf (Islamic endowment) fall under the purview of the state authority, i.e. the SIRC ([Federal Constitution, 2010](#)). With this power separation, each SIRC is authorized to determine the types of wealth that are subject to zakat, based on the guidelines in the Qur'ān and Sunnah.

As a Muslim-majority country, Malaysia generally adheres to the Shāfi'ī *madh-hab* (jurisprudential school) in matters related to religious laws, approaches and implementations. As the SIRC has the authority to establish new zakat on properties and earnings, *zakāt al-māl* is not only limited to the previously mentioned wealth categories. Additionally, any new *zakāt al-māl* must be enacted and tabled to the state's legislative body. Once passed, the enactment can be implemented at the state level by the SIRC. A fatwa (legal ruling on a point of Islamic law) concerning the obligation to pay the new *zakāt al-māl* will subsequently be gazetted. Hence, the SIRC should expand the list of wealth on which zakat is imposed to boost zakat collection and cater for the growing number of *aṣnāf* recipients, and ultimately contribute to the socio-economic growth of the nation.

*Zakāt al-māl collection*

Zakat is imposed on specific types of wealth. The types of *zakāt al-māl* differ somewhat from one state to another in the country. [Table 1](#) shows that most of the states have similar types of *zakāt al-māl*, i.e. those on savings or income and livestock as well as gold and silver, consistent with the Shāfi'ī School.

Remarkably, some of the oil-producing states do not collect zakat on minerals; in fact, there is no such category as minerals on their zakat list. The justification for this is that, based on the Shāfi'ī School, zakat on minerals only entails gold and silver and other minerals such as oil and gas. However, the establishment of a new type of zakat on oil and gas is still enforceable because of the high value of both minerals.

Ironically, [Table 1](#) also indicates that Selangor has introduced a new type of *zakāt al-māl*, namely, zakat on *takāful*. Meanwhile, Pahang, Johor, Selangor and the Federal Territories have introduced zakat on *rikāz*, i.e. for valuable items found on or beneath

**Table 1.**

Types of *zakāt al-māl*  
collection in all  
Malaysian states

States	Salary/ income	Business	Savings	Types of <i>zakāt al-māl</i> (on property/wealth)					Takaful	<i>Rikāz</i>
				EPF savings	Share/ investment	Gold and silver	Agriculture	Livestock		
Perlis	/	/	/			/	/	/		
Kedah	/	/	/	/	/	/	/	/		
Penang	/	/	/	/	/	/	/	/		
Perak	/	/	/	/	/	/	/	/		
Selangor	/	/	/	/	/	/	/	/	/	/
Federal	/	/	/	/	/	/	/	/		/
Territories*										
Negeri	/	/	/	/	/	/	/	/		
Sembilan										
Melaka	/	/	/		/	/	/	/		
Johor	/	/	/	/	/	/	/	/		/
Pahang	/	/	/	/	/	/	/	/		/
Terengganu	/	/	/	/	/	/	/	/		
Kelantan	/	/	/	/	/	/	/	/		
Sabah	/	/	/		/	/	/	/		
Sarawak	/	/	/	/	/	/	/	/		

**Note:** \* comprised of Kuala Lumpur, Labuan and Putrajaya

**Sources:** Compiled from Annual Zakat Report by Zakat Collection Center (PPZ) MAIWP (2019) and SIRCS and Zakat Board or institutions' respective website (2020)

the ground that are not minerals. All this proves that each state indeed has the authority to determine their zakat affairs, to the extent of establishing new types of *zakāt al-māl*. However, the states would need to specify the exact zakat mechanism they are adopting, put in place the exact legislation related to it and sustain its proper implementation.

As previously pointed out, the oil-producing states of Terengganu, Kelantan, Sabah and Sarawak do not impose zakat on minerals, specifically oil and gas. At the same time, except for Terengganu, the states' economic performance has been much lower than other states. This situation may be caused by a myriad of factors. The oil-producing states do not manage to leverage on their wealth particularly from oil and gas for generating income and improving their socio-economic standing. Oil and gas are not listed in the states' zakat lists. In short, despite being rich in resources, particularly oil and gas, and holding the authority on zakat, the states are not taking advantage of the opportunity of leveraging on the zakat governance legislation to increase their zakat collection. This study, hence, highlights the fact that although the four states have contributed tremendously to the country's socio-economic development via their wealth in oil and gas, they have yet to introduce zakat on oil and gas.

### Scholars' discussion of zakat on oil and gas

This deliberation on zakat on oil and gas is presented from two standpoints: insights from the books of *Al-Qaraḍāwī (2011)* and *Al-Zuhailī (2010)*, and contemporary views or relevant fatwas on the subject matter. Discussion from these two standpoints will hopefully present new ideas and insights on establishing zakat on oil and gas.



*Al-Qaraḍāwī and Al-Zuhailī's viewpoints*

Yusuf Al-Qaraḍāwī and Wahbah Al-Zuhailī are among the most prominent scholars in modern Islamic jurisprudence. This study reviews the books *Fiqh al-Zakah* by Al-Qaraḍāwī (2011) and *Mawsū'at al-Fiqh al-Islāmi wa al-Qaḍāyā al-Mu'āṣirah (Encyclopedia of Islamic Fiqh and Current Issues)* by Al-Zuhailī (2010), with a focus on the issue of zakat on oil and gas. The books compile and summarize opinions from the four major schools of Islamic jurisprudence, namely, Shāfi'ī, Ḥanafī, Malīkī and Ḥanbalī. They further compare the scholars' views on the issue of zakat on oil and gas.

The first book extensively discusses zakat on oil and gas, whilst the second book takes a general look at the topic of zakat on minerals. Both books agree that zakat on properties or wealth such as agricultural produce, livestock and gold and silver are common and widespread; however, zakat on minerals, particularly oil and gas, is largely disregarded. Being highly valuable liquid minerals, oil and gas should be subject to zakat. To determine their zakat value, both minerals should be in their original state following extraction prior to being traded in the market. The inherent value of oil and gas is the main reason for their extraction (Al-Qaraḍāwī, 2011). Muslim scholars have indeed deliberated on zakat on minerals, but not specifically on oil and gas. The general consensus is that zakat applies on all forms of minerals, i.e. solid rock or liquid.

Al-Qaraḍāwī (2011) and Al-Zuhailī (2010) pointed out that oil and gas are forms of minerals, and hence, zakat is imposable upon them. Based on extensive discussions on all zakat-related matters, Muslim scholars in general agree that all minerals extracted from the earth are subject to zakat. Zakat payment is an obligation as stated in the Qur'ān:

O you have believed, spend from the good things which you have earned and from which We have produced for you from the earth. . . (Qur'ān, 2:267).

The phrase “. . . which We have produced for you from the earth. . .” is taken by Muslim scholars to mean minerals. The term “minerals” is generally taken to refer to solid minerals such as gold and silver as well as liquid minerals such as oil and gas; as such, zakat is due upon them (Al-Qaraḍāwī, 2011). Al-Qaraḍāwī (2011) added that oil is referred to as “black gold,” which emphasizes its value; he believes that if past scholars had known about their tremendous value, they would have reached a solid consensus on how zakat is to be imposed on them. Al-Qaraḍāwī (2011) further summarized the scholars' opinions on the subject matter into three inferences. The first opinion is of the Shāfi'ī School, which asserted that “minerals,” as stated in the Qur'ān, refers specifically to gold and silver; hence, zakat on minerals is only imposable on the two. The second opinion is of Abu Ḥanifah, who stated that the only minerals on which zakat is imposable are those that have been extracted from the earth and subsequently melted down, and this is deduced to be gold and silver. The third opinion is of the Ḥanbalī School, which proclaimed that zakat is applicable on all types and forms of minerals extracted from the earth. Al-Qaraḍāwī (2011) is more inclined to follow the third opinion, which he deems to be closer to the description in the Qur'ān.

Al-Zuhailī (2010) also supported the Ḥanbalī opinion that zakat is imposable on all liquid minerals. According to him, two conditions must be met for zakat to be imposed on minerals: firstly, the mineral must reach the *nisāb* after having been cleansed from residues; secondly, the zakat payer must be a Muslim (Al-Zuhailī, 2010). Hence, the zakat ruling on oil and gas is similar to the zakat ruling on gold and silver as all of them are delineated as minerals.

The obligatory zakat rate on all extracted minerals is also divided into three opinions. The first opinion is of Abu Ḥanifah, who asserted that the rate should be 20% (one-fifth) according to the assertion of Prophet Muhammad (peace be upon him) that “one-fifth is due

on *rikāz*.” He asserted that *rikāz* and minerals are not the same, but both are precious valuables found underground and hence would be similar in their zakat rate. The second opinion is of Shāfiʿī, who suggested a rate of 2.5% based on analogy with zakat on gold and silver. The third opinion is of Imam Mālik, who asserted a zakat rate of either 2.5% or 20%, depending on the cost and effort of extracting the minerals. A 2.5% rate is for minerals that require more cost and effort in extracting, while a 20% rate is for minerals that require lesser cost and effort. Al-Qaraḍāwī (2011) follows the third opinion based on the grounds that every mineral necessitates different extraction approaches. The Mālikī viewpoint also discerns that extracted minerals belong to the *bayt ul māl* (the treasury of Islamic state governments). Al-Qaraḍāwī (2011) agrees with the view that such minerals should be managed by the public authority, with no private ownership.

The scholars agree that there is no *ḥawl* (one-year zakat maturity requirement) for zakat on minerals, by analogy with zakat on agricultural yields whereby zakat is paid at the time of harvest (Al-Zuhāilī, 2010; Al-Qaraḍāwī, 2011). Zakat on minerals must, therefore, be paid instantly following its extraction and purification from residues. This zakat payment approach is, hence, applicable to oil and gas as well.

The next discussion on the *nisāb* of zakat on minerals takes a more interesting turn, especially when the question is applied to oil and gas. Muslims scholars argued as to whether or not zakat on minerals requires *nisāb*. Al-Zuhāilī (2010) highlighted that while a majority of scholars agreed that minerals should be imposed with zakat, they must first reach a certain *nisāb*. The Ḥanafī viewpoint states that *nisāb* is not required for zakat on minerals because *ḥawl* is not required as well. The Shāfiʿī and Mālikī Schools asserted that *nisāb* is applicable for zakat on minerals based on the *nisāb* for gold and silver, i.e. 85 grams. Al-Zuhāilī (2010) and Al-Qaraḍāwī (2011) agreed with the view that *nisāb* is required for zakat on minerals.

In comparison, the *nisāb* imposed on zakat on agricultural produce is based on the fact that crops are seasonal, i.e. zakat is collected when a certain amount is reached. Meanwhile, the *nisāb* imposed on zakat on minerals is based on the amount of effort required in extracting the minerals, i.e. zakat is collected when a certain rate is reached. Al-Qaraḍāwī (2011) did not explicate on the required *nisāb* for zakat on minerals and instead leaves the matter to be discussed by experts on the topic as they understand better the mechanism of its implementation and calculation of the zakat. Zakat on minerals is payable upon every extraction and is obligatory. In addition, different types of minerals should have distinct *nisāb* value (Al-Zuhāilī, 2010). Hence, this study believes that the establishment of zakat on oil and gas must be preceded by the establishment of a *nisāb* mechanism.

In his book, Al-Qaraḍāwī (2011) only presented scholarly discussions and opinions regarding zakat on oil and gas and did not elaborate on the exact mechanisms for implementing it. Al-Zuhāilī (2010) presented an even more general discussion regarding zakat on minerals. Al-Qaraḍāwī’s acknowledgment of the massive value of oil and gas signifies the glaring need to establish an all-inclusive zakat mechanism for these minerals.

#### *Contemporary fatwas on zakat on oil and gas*

The second viewpoint in this study is based on contemporary views or relevant fatwas related to zakat on oil and gas. The Islamic Research Center of Al-Azhar University issued a fatwa in 2008 ordering the Egyptian government to pay zakat on its oil and gas at a rate of 20%, to be distributed to the poor and needy of the country (World Bulletin, 2008). The fatwa adheres to the assertion made by Prophet Muhammad (peace be upon him) that zakat



must be paid on all metals as well as solid or liquid minerals. The fatwa was not implemented due to the government's disinterest; however, this study takes the essence of the fatwa, which suggests that oil and gas are minerals and are hence subject to zakat.

The International Islamic Fiqh Academy has not issued any fatwa on the matter. It does, however, have multiple resolutions addressing numerous issues on zakat. Resolution No. 165 (3/18), issued in 2007, addresses the role of zakat in helping the poor by using *fiqh* reasoning. The academy outlined in the first guideline of the resolution that zakat on any wealth not mentioned in the Qur'ān and Sunnah is subject to *fiqh* reasoning, following the fulfillment of the terms and conditions of zakat (International Islamic Fiqh Academy, 2020). This study considers the guideline as an indication of further discussions on matters related to zakat, i.e. an unceasing effort of *ijtihad*, research and study. In the context of this study, the discussion regarding zakat on oil and gas should be based on the fact that oil and gas are precious and valuable minerals, which hence make them subject to zakat. Zakat on oil and gas is imposed upon petroleum and gas companies in Saudi Arabia under the purview of the GAZT of Saudi Arabia (Alarabiya, 2014).

In the context of Malaysia and as far as this study is concerned, none of the states in the country has issued specific fatwas on zakat on oil and gas. Likewise, the National Council for Islamic Affairs Malaysia, being the agency responsible for monitoring religious affairs in the country, has not issued any fatwa on oil and gas. It did, however, issue fatwas in 1992, 1997 and 2003 regarding the obligation of Muslims to pay zakat (JAKIM, 2020). Subsequently, several states in the country issued fatwas on income and business zakat such as Selangor in 2008, Johor in 2009 and Perak in 2016. The four oil-producing states, i.e. Kelantan, Terengganu, Sarawak and Sabah, also did not issue any fatwa regarding zakat on oil and gas. As Malaysia strongly adheres to the Shāfi'ī School in practically all matters related to religious laws, approaches and applications, it is understandable that zakat on minerals is only imposed on gold and silver following the Shāfi'ī viewpoint that zakat on minerals only concerns gold and silver. However, this should not hinder the effort to establish new zakat rulings on oil and gas. At present, discussions regarding zakat on oil and gas are largely ignored by academicians and practitioners.

### Legislation of oil and gas in Malaysia

Being an oil-producing country, Malaysia has solid oil and gas governance legislation in place. The government has established several acts and laws on oil and gas governance since the discovery of oil in the country. The Petroleum Development Act 1974 defines petroleum as the umbrella term for crude oil, natural gas and all forms of petroleum (Attorney General Chamber of Malaysia, 2020b). Sections 2(1) and 3 A(1) under the same Act specify that all matters related to petroleum ownership, rights, exploitation and explorations in Malaysia are to be administered by the governing company, known as Petroliaam Nasional Berhad (PETRONAS). Section 4 of the same Act specifies that the oil-producing states shall receive cash payments in return for their oil and gas administration under the company (Attorney General Chamber of Malaysia, 2020b). Section 3(4) of the Petroleum and Electricity (Control of Supplies) Act 1974 specifies that all regulations under the section must be presented before both the houses of parliament, with regard to any newly introduced or revoked law (Attorney General Chamber of Malaysia, 2020a). The Petroleum (Income Tax) Act 1967 specifies several provisions concerning the management of income tax of personnel involved in petroleum operations, business activities and so on. Section 3 states that a petroleum income tax is imposed upon eligible personnel involved in petroleum operations from which their income is derived (Attorney General Chamber of Malaysia, 2020c).

However, there are no provisions for zakat on petroleum as discovered in this study. The Petroleum Development Act 1974 only refers to cash payments for the states from which petroleum is extracted. Although there is no clear explanation of what the cash payment constitutes, it is generally believed to be royalty payment. Hence, based on the study's rationale, the cash payment may also include zakat payment. This implication is feasible if the states had indeed imposed zakat on oil and gas. The Petroleum (Income Tax) Act 1967 does not indicate anything on zakat provision related to petroleum. Nevertheless, with PETRONAS acting as the administering company on all petroleum-related matters, it is still subject to zakat payment based on business income. Meanwhile, Muslim employees who are earning an income from PETRONAS are subject to zakat payment on income or salary as delineated by the SIRC. This is consistent with the fatwas on zakat payment for business corporations and Muslim individuals such as those issued by the states of Selangor in 2008, Johor in 2009 and Perak in 2016 on business zakat, and the fatwa on income zakat by the National Council for Islamic Affairs Malaysia in 1992, 1997 and 2003 (JAKIM, 2020).

As previously mentioned, these Acts cover all oil and gas governance legislation in Malaysia. However, this study is of the perspective that a new and comprehensive legislation on zakat on oil and gas should be established. Reforming the system and laws that include that of zakat provision is not an easy task. Extensive studies are needed as well as cooperation from all the related parties. From a larger standpoint, this effort is mainly for the benefit of the *aṣṇāf*. This study, hence, emphasizes on the significance of establishing a standalone zakat on oil and gas, just as there is a standalone zakat for gold and silver, which is imposed on minerals while they are still in their original form right after extraction.

### Advantages of paying zakat on oil and gas

Islam emphasizes on zakat payment not only on individuals, but also businesses and governments. Essentially, zakat purifies one's soul and wealth; for businesses, it purifies earned wealth, which may come from Shari'ah non-compliant activities, i.e. non-*ḥalāl* (non-permissible) earnings. Zakat also contributes to the *ummah*'s socio-economic growth, particularly in alleviating poverty among the *aṣṇāf* in general.

Zakat is indicated to guarantee *barakah* (blessings) on earned wealth, which may manifest in the form of continuous prosperity, stable earnings, business expansion, improved productivity and so on. Zakat payment by any government or business entity is deemed as part of Islamic corporate social responsibility, both for fulfilling a religious obligation and for contributing back to the community at large. Corporate social responsibility is entrenched in Islam and acts as a comprehensive standard for the operations and social responsibility of corporations. Examples of corporate social responsibility include paying zakat, giving charity or organizing social services.

### Crux of the matter

In Malaysia, zakat management is under the purview of the SIRC. Undoubtedly, several aspects regarding zakat collection and disbursement require further improvement. However, the crux of the matter still revolves around the development of a new *zakāt al-māl*, which is very much related to zakat administration and its regulatory provisions. In Malaysia, tax revenue is collected by the Inland Revenue Board (IRB), whilst zakat is collected by the respective SIRC. By contrast, in Saudi Arabia, both zakat and tax collections are centrally managed by the GAZT at the national level. Hence, introducing a new zakat provision would be a massive challenge in Malaysia due to its separate administration of zakat and tax collection.

Furthermore, a reform is needed on the existing legislation on oil and gas in Malaysia, i.e. to include the aspect of zakat. Such task would require not only a concerted understanding on the matter, but also a deliberate resolve from all the relevant parties. This massive reform on oil and gas should be accompanied by an all-inclusive zakat mechanism to facilitate the implementation and application of zakat. However, there is a widespread misconception and lack of awareness regarding zakat payment among oil and gas companies, which remains a massive challenge to tackle. In Malaysia, registered companies observe tax regulations strictly; tax evasion will result in them getting a hefty fine. By contrast, zakat has no strict regulations and is often deemed as a religious obligation. Regulating zakat is rather complicated due to various bureaucratic procedures. For instance, new zakat regulations must be tabled at the state assembly prior to receiving approval for implementation. Such challenges should be sorted out to facilitate the administration and implementation of new zakat provisions.

### Conclusion

This paper discusses the possible establishment of a new zakat provision on oil and gas in Malaysia based on the fact that both are valuable minerals and hence should be subject to zakat payment. This study presents thorough reviews on the requisite to pay zakat on minerals, specifically oil and gas. The discussion is based on two perspectives: the works by [Al-Zuhaili \(2010\)](#) and [Al-Qaraḍāwī \(2011\)](#) and the existing scholarly views regarding zakat on oil and gas. Also deliberated are the current practices of *zakāt al-māl* and oil and gas legislation in the country. Overall, this study has covered all the specific topics throughout the discussion. One interesting finding is that the four oil-producing states in the country, namely, Terengganu, Kelantan, Sabah and Sarawak, have not introduced zakat on minerals, particularly on oil and gas.

In terms of its contribution, this study offers academic and practical implications on the understanding of zakat on oil and gas. Academically, this study enriches the existing knowledge and literature on zakat. Practically, it contributes to improving the decision-making of zakat institutions, policymakers and the government regarding the establishment of a new zakat provision for oil and gas. As there is very limited literature on the subject matter, the study depended greatly on the works of Al-Qaraḍāwī and Al-Zuhaili as well as other contemporary views. Hence, this study can be considered a breakthrough in shedding new light on the understanding of zakat on oil and gas.

In terms of recommendations, future research along the same line should discuss a specific *nisāb* calculation mechanism and accounting system for zakat on oil and gas.

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