

Zakat payment from cryptocurrencies and crypto assets

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482

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Abstract

Purpose – This paper aims to examine the existing practice of accepting zakat payments using cryptocurrencies and crypto assets by discussing its Shariah issues.

Design/methodology/approach – This is qualitative research in nature, as unstructured interviews with experts in the field were conducted to understand the existing practice regarding zakat on cryptocurrencies/crypto assets while literature on the topic was reviewed to derive conclusions.

Findings – It is found that there are divergent views among contemporary Shariah scholars on the Shariah permissibility of cryptocurrency and crypto assets. As such, by evaluating the existing practices of some companies, this study has concluded that there is room to pay zakat using cryptocurrencies and from investments made on crypto assets. As long as they have been screened and classified as Shariah-compliant, they can be qualified to be part of one's wealth from which zakat shall be paid. However, the findings of this research shall be subject to the fatwa and rules adopted in the specific jurisdiction in which the zakat payer resides. Laws made by the ruler to benefit the public ought to be considered in upholding the *masalih* (public interests) of all, which is in line with the legal maxim of "tasarruf al imam manut bi al-maslahah" (the ruler's decision is dictated in favor of the people).

Originality/value – It is anticipated that the findings of this research will benefit zakat organizations and zakat payers in understanding how they should deal with cryptocurrencies and crypto assets in the collection and payment of zakat.

Keywords Shariah, Islamic economics, Zakat, Blockchain, Cryptocurrencies, Crypto assets

Paper type Research paper



1. Introduction

Zakat, as the third pillar of Islam, is a religious and socio-economic impactful obligation. With Industry 4.0, cryptocurrency has emerged as a medium of exchange, while crypto assets have become part of an individual's wealth. As cryptocurrency and crypto assets are modern innovations, the question of whether one must pay zakat from them has arisen. The word "crypto" means secret or hidden, indicating the secured technology used in doing transactions (Bank of England, 2021).

Cryptocurrencies can be defined as a form of digital currency that uses cryptography to validate the transaction. This transaction is verified and recorded via a decentralized peer-to-peer system, instead of having a centralized authority, as in the case of fiat money (Meera, 2018; Norton Rose Fulbright, 2015). Meanwhile, crypto assets are defined as private digital assets that are created based on cryptography and distributed ledgers, or a similar technology. To generate a medium of exchange for financial transactions, cryptocurrencies may include utility coins and security tokens as different types of crypto assets (Financial Stability Board, 2020; Quantifi, 2021; European Banking Authority, 2019). Cryptography is used to enable the network to verify that each transaction is valid and ensure the legitimacy of that record (Abu-Bakar, 2018).

Technology has no religion, and thus, innovations related to technology can be used for the benefit of human beings within the parameters of Shariah (Muneeza and Mustapha, 2019). Various organizations around the world, such as GlobalSadaqah and Blossom Finance, have started collecting zakat using cryptocurrencies (Paizin, 2021). To date, although there is a lack of literature on the issue of zakat using cryptocurrencies in general, the extant limited studies have looked into such issue conceptually (Beik *et al.*, 2019; Yusof *et al.*, 2021). Thus, the novelty of the present study emerges from the following: the present work is likely the first research examining the potential of paying zakat on cryptocurrencies based on empirical evidence. Through a doctrinal approach, the present study is a pioneer attempt to analyze cryptocurrencies as an asset subject to zakat from Shariah perspective, while adding value to the literature in this field.

This paper is divided into seven sections. This introduction is followed by Section 2, which presents the literature review. Section 3 presents the research methodology, while Section 4 presents two case studies where cryptocurrencies have been used in zakat collection. Section 5 discusses the issues related to payment of zakat on cryptocurrencies and crypto assets, followed by Section 6, which presents policy recommendations. The final section is the conclusion.

2. Literature review

Cryptocurrencies and crypto assets are contemporary innovations and have recently received growing interest within research community. So far, there is no comprehensive study conducted on payment of zakat from cryptocurrencies and crypto assets. What is found in this regard is for academic research: Yusof *et al.* (2021) have conducted a study on the implementation of zakat payment platform for cryptocurrencies where they concluded that zakat institutions must be ready with crypto zakat platforms as the number of Muslims dealing with digital assets are increasing; for column in newspapers: Wang (2021) has deliberated on cryptocurrencies, digital currencies and zakat. In addition to this, there are some zakat institutions, such as the National Zakat Foundation, who have given their opinion on zakat on cryptocurrencies (National Zakat Foundation, 2022), and institutions advising zakat institutions or dealing with it like Blossom Finance where they have clarified in their official website on frequently asked section on where they explain the concept of zakat, zakatability of crypto assets and the calculation of zakat payment (Blossom Finance, 2021) and Amanah Advisors who on their official website have provided the answer for the question related to zakat treatment on crypto assets (Amanah Advisors, 2021). Academic research in this area is

rare to find, and as such, this research intends to fill this gap. This section covers: the basics of zakat and money and cryptocurrency from Shariah perspective.

2.1 Zakat

The obligatory payment of zakat is paid annually from all financial assets, such as currency, gold and silver, as well as all types of property that are kept with the intention of trading, or for accumulating wealth. Muslims who meet the essential criteria of having a specific threshold amount according to nisab (3 ounces of gold) must comply. Upon the anniversary of one year (haul) of attaining nisab, they must pay one out of 40 parts (or 2.5%) of their wealth. This money will be distributed to eight asnaf (beneficiaries), as mentioned in Surah Al-Tawbah, Verse 60. If a Muslim does not meet the essential criteria of zakat nisab, zakat payment by that person is exempted. If performed and paid properly, zakat has the undeniable potential to eradicate poverty and to alleviate the pains and sufferings of the society. Additionally, zakat bears a religious importance, as it is mentioned in the Quran 27 times adjacent to salah (prayer), the most important form of worship or ibadah (Raja, 2021). Zakat is divided into two types, namely, zakat al-fitr and zakat al-mal. Several conditions need to be met for any of these to be considered an obligatory act of worship upon a person. These two types of zakat are similar to each other, albeit differing in several key areas. Zakat al-fitr is an amount paid by the caretaker of the family (in most cases, the father) in place of the entire family members based on the meal of the night before Eid al Fitr, while zakat al-mal is only paid by those who are qualified. The qualification is mainly based on acquiring enough savings, or nisab and holding onto it until a full lunar year has passed. Zakat al-mal can be paid throughout the year when and if the nisab is fulfilled. However, with the emergence of new sources of wealth, some scholars argued that the guidelines of zakat assessment may vary in regard to the fatwa and law from the experts' opinion, according to the time, context and environment in question (Bin-Nashwan *et al.*, 2020).

2.2 Money and cryptocurrency from shariah perspective

Electronic money or digital currency has been used to describe cryptocurrencies as well (Fatarib and Sali, 2020; Al-Jumaili, 2019). Fatarib and Sali (2020) state that the difference between electronic money with fiat money and coins is that fiat money and coins originated from the respective central bank of a country that is internationally recognized and accepted as money. But, for electronic money, it is issued by unknown parties, and there is no international recognition for it making it ideal to be used in financing crimes. This is because there is no centralized body regulating it, and the decentralized nature of it makes it ideal to be used in an untraceable manner. On the issue of unacceptability of digital currencies as it is decentralized and out of central authority of administration, it is proposed to regulate them in a way that is Shariah acceptable by treating them as a branch of financial services (Al-Jumaili, 2019). Further, Fatarib and Sali (2020) also observe that electronic money is highly volatile in a short period of time as the value of it is influenced by the demand of it, and there is room to manipulate its value easily. However, as the value of fiat money depends on the economic strength of the country, the value of it is much more stable. Some scholars like Alzubaidi and Abdullah (2017) view the price volatility in electronic currency similar to gambling. In the words of Fatarib and Sali (2020; p. 243), "electronic money is basically just computer software which is turned into an object of value which means computer software as money."

Recently, in a scientific symposium entitled "digital currencies," which was held in Jeddah, 2021, Shariah and economic scholars have argued that Fiqh characterization of cryptocurrencies with clarifications can be made in light of two main issues:

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- (1) the extent to which these currencies are considered a commodity or a benefit (price and valuator); and
 - (2) the extent to which digital currencies are a real-valued property and a tradable item.

For instance, [Mohammed Elgari \(2021\)](#) claimed that cryptocurrency is a kind of money as long as it has spread and has become familiar among people; it is just a natural conclusion of a long journey from stones, salt and animals, to gold, silver and paper money. As a currency, cryptocurrencies can be used in business activities, leases and other contracts as long as can be subject to zakat, he argued. Furthermore, [Alnoubani \(2021\)](#) suggested that businesses and money have undergone rapid changes and innovative tools are emerging, and thus changing the forms of money is possible. Cryptocurrencies could be a real-valued property and a tradable item, but they need to be free of gharar and fraud. In a similar vein, [Koutoub Sano \(2021\)](#) suggested that it is permissible to use cryptocurrencies as currency in trading activities, and it should be ruled by all Shariah provisions in terms of earning and spending, as it is subject to all Shariah rules to which money is subject.

[Yusof et al. \(2021\)](#) summarized the Islamic views on cryptocurrencies in three ways: some scholars, such as Darul Iftaa Misriyyah, Syekh Ali Qaradaghi, Wifaq al-Ulama, Dr Ahmad Sufyan Che Abdullah, Datuk Dr Zulkifli Al-Bakri, believe that cryptocurrencies are haram in Islam. On the other hand, Islamic scholars, such as Datuk Dr Mohd Daud Bakar, Dr Zaharuddin and Mufti Muhammad Abu Bakar, believe that it is permissible in Islam. The third category observed by [Yusof et al. \(2021\)](#) is those who have not given an express or an official view on the matter yet and an example provided them is International Shariah Research Academy (ISRA) for Islamic finance. The International Islamic Fiqh Academy, a subsidiary of the Organization of Islamic Cooperation (OIC), also falls in this last category as in its Resolution no. 237 (8/24) on electronic currencies, they resolved that the academy needs more time to conduct research prior to forming an opinion on the matter ([International Islamic Fiqh Academy, 2021](#), p. 591).

The Shariah views on the permissibility and impermissibility of cryptocurrencies and crypto assets have been elaborated with the justifications in the subsequent part of this section.

2.2.1 Cryptocurrencies and crypto assets are permissible. The Chairperson of the Shariah Advisory Council of Bank Negara Malaysia (BNM), Dato' Dr Mohd Daud Bakar, said that cryptocurrency and digital currency are permissible from the Shariah perspective, unless there is a legal ban in a particular jurisdiction. In his opinion, it is unreasonable to determine a currency to be impermissible due to the nature of its fluctuating price, as many currencies happened to be depreciated and appreciated in the past depending on economic activities ([Bakar, 2018](#)). Even fiat money fluctuates in the global market, and it is not declared illegal or impermissible. He also stated that even though cryptocurrencies, such as bitcoins, may not become a global currency, the legality of using them as a currency should be encouraged because of the safe transactions. Crypto transactions could also prevent illegal activities, such as money laundering, by using crypto assets compared to fiat money ([Bakar, 2018](#)).

A South African Islamic Seminary, Darul Uloom Zakariyya, has issued a fatwa on the Shariah permissibility of cryptocurrencies to be used as maal (or wealth) ([Abu-Bakar, 2018](#)). However, the fatwa does not agree that cryptocurrencies qualify as a currency, unless the currency is being recognized by a central or government-authorized body. As such, the Islamic legal criteria for money are as follows:

- treated as a valuable thing among the people;
- accepted as a medium of exchange by all, or a substantial group of people;

- is a measure of value; and
- serves as a unit of accounts (Abu-Bakar, 2018).

Abu-Bakar (2018) concluded that bitcoins, as a cryptocurrency, are permissible from the Shariah point of view. The principles behind this view were that this currency is being treated as valuable and widely accepted around the globe. Nevertheless, Abu-Bakar offered this opinion with several conditions, including not using cryptocurrency in any jurisdiction that prohibits, or ban its use. However, it is permissible if regulators have accepted cryptocurrencies as a financial asset, or an alternative currency in their jurisdiction. He also stated that it is permitted from the Shariah point of view for jurisdictions where the regulators are silent on the permissibility of using cryptocurrencies. However, the public or individuals themselves must be willing to take the appropriate risks associated with buying crypto assets.

On the website of the Zakat Foundation of America (2021), justifications were made on the Shariah permissibility of cryptocurrency, which included its similarity to any other fiat currency, whereby the value of the currency is derived from its capacity to store value and being accepted as a unit of exchange. Furthermore, the wide acceptance of cryptocurrencies and the agreement of having a value for the currency requires zakat to be paid on it, which indicates the general permissibility of cryptocurrencies from the Shariah perspective.

Based on all permissible views and opinions, the general usage of cryptocurrencies is allowed, but only in the particular jurisdiction that allows its usage. Like any other currency available in the current global market, cryptocurrencies are permissible because of their wide acceptance among the people, while Shariah does not require a currency to be issued by any central government body. Furthermore, these views have also focused on the justification for the price volatility of cryptocurrency, in terms of the volatility of any other fiat currency in the global market.

2.2.2 Cryptocurrencies and crypto assets are impermissible. Even though some fatwas and opinions were made on the permissibility of using cryptocurrencies, other fatwas have been issued on the impermissibility view. As it is essential to identify the reasons behind these views before considering paying zakat, this section will highlight the literature available on the impermissible opinions and their reasons.

The most recent literature on the impermissibility of cryptocurrencies was issued by the head of the National Ulama Council of Indonesia, Dr Asrorun Niam Sholeh, on November 11, 2021, justifying that it has elements of gharar (uncertainty), wagering and harm, which are against the teaching of Islam (Aditya, 2021). However, this opinion does not legally ban the usage of cryptocurrencies in Indonesia because it is not a legal decree. The reason for issuing this opinion was rather to inhibit Muslims from investing in crypto assets and to encourage local institutions to reconsider issuing them (Aditya, 2021). Nevertheless, Dr Asrorun Niam Sholeh has also mentioned that cryptocurrencies can be made permissible, if they can show a clear benefit to prevail over the harms (Mellor, 2021). Simultaneously, the central bank of Indonesia, Bank Indonesia (BI), has declared crypto as an illegitimate currency, or method of payment in 2018. However, trading of cryptocurrencies has not been banned in the country (Feuer, 2021).

The Grand Mufti of the Arab Republic of Egypt, Shawqi Allam, believes that it is impermissible to use bitcoin and virtual currencies due to the high risks (al-gharar) resulting from unexpected price fluctuations. These risks could lead to deception, ignorance, fraud and dealing on the basis of speculation, which creates harm (BBC News, 2018). He also added that there is no approval, monitoring or oversight on the issuance of cryptocurrencies, no requirement to provide any customer's personal identification and a highly dependent virtual network, which supports the impermissible opinion based on Shariah in the usage of cryptocurrency and its circulation (BBC News, 2018).

The Secretary-General of the International Union of Muslim Scholars (IUMS), Sheikh Ali Qaradaghi, was of the view that cryptocurrencies do not meet all the requirements for being a currency, which are a medium of exchange, a store of value (*mahkzunan lil tsarwah*), general acceptance measure (*Mi'yar li Tadawul*) and stability measure (*Miqyas lil Qiyam*) (Tarmizi, 2018). The high-risk factor of holding the currency to price volatility is the major reason for his view of not recommending it to Muslims. Sheikh Ali further stated that the issuance and online network systems are highly vulnerable to illegal activities and misuse by certain parties, such as money laundering. These could undermine the integrity of the country's financial system, which are the contributing reasons for his view. Nevertheless, there is potential for cryptocurrencies to be permissible, and further enhancements and studies will be required for that (Tarmizi, 2018).

Abu Bakar *et al.* (2017) have identified three factors that exclude cryptocurrencies from being considered money from the Islamic perspective:

- cryptocurrencies have no intrinsic value;
- being held by an anonymous party; and
- instability due to high volatility.

Meera (2018) similarly raised the issue that cryptocurrencies (e.g. bitcoins) are neither real money nor fiat money, are not backed by any physical commodity or precious metal and do not have intrinsic value. Therefore, bitcoins, the most popular cryptocurrency, do not meet the requirements of Shariah principles for money, even though the majority of Shariah scholars are working toward approving bitcoins from the perspective of *maslahah* (public interest) (Meera, 2018). On the other hand, metal-backed cryptocurrencies are considered desirable and compliant if they follow the rules of Shariah (Hassan *et al.*, 2020, 2021).

The major reason for the impermissibility was due to the easy use of cryptocurrencies in illegal activities, such as money laundering and speculation, as well as being unregulated by a centralized authority (Moore, 2017). According to Nurhisam (2017), cryptocurrency is impermissible as money because the government does not regulate it, while the risks and weaknesses far outweigh the benefits. It would undoubtedly pose a larger hazard to the community or bitcoin users, as it would include the authority of an individual or business that uses bitcoins as a digital currency (Nurhisam, 2017). In 2017, the Turkish religious authority announced that bitcoin is not in compliance nor in accordance with Islamic Shariah.

Even with the differences in opinions, some fatwas have been made on paying zakat on cryptocurrency, thus strengthening the permissibility of cryptocurrency usage from the Shariah perspective. A large number of Muslims holding and using cryptocurrencies would definitely affect the concentration of wealth being held in different forms of crypto assets. Thus, it is important to pay zakat to redistribute this wealth. As cryptos are used as assets or currency, there is no strict or direct impressibility from Shariah, except the fatwas issued, which were mostly due to price volatility.

3. Research methodology

This research adopts a qualitative approach, where a series of unstructured interviews with experts in the field was conducted to understand the existing practice regarding zakat on cryptocurrencies. Furthermore, the relevant literature on payment of zakat using cryptocurrencies and crypto assets was reviewed. To understand the existing practice in this regard, due to the lack of literature on it, interviews with experts directly dealing with such institutions were identified and unstructured interviews were conducted. Minichiello *et al.* (1990) define unstructured interviews as where social interaction between the

researcher and the informant is relied on with no predetermined categories for question or answer is made. For this research, as the interviews are made to understand the existing practice in zakat payment in cryptocurrencies and crypto assets, the interviews have been used to obtain information and insight that are not available in the public domain. Due to the novelty of this part of the research, the best way to obtain incomplete information is found to be through unstructured interviews, and as Patton (2002) has pointed out, the merit of the conduct of the interview will depend on this case on nature of the conversation made. Further, as Boddy (2016) has stated, there is no specific sample size required for qualitative research, and in the context of this research, the sole purpose of conducting the interview is to obtain information about how two organizations deal with payment of zakat using cryptocurrencies and crypto assets. The list of experts interviewed is shown in Table 1.

4. Institutions that accept zakat using cryptocurrencies

To understand the issues and challenges facing the acceptance of zakat using cryptocurrencies, two institutions that have practical experience are chosen in this study. In this section, the experience of Blossom Finance and GlobalSadaqah is discussed.

4.1 Blossom Finance

Blossom Finance is a company that focuses on providing ethical financial services based on Islamic principles was initially founded in October 2014 at the BoostVC startup incubator program in San Mateo, CA, and expanded its operations to Indonesia in March 2015, which conducted research on microfinance for financial inclusion (Blossom Finance, 2022). Blossom Finance is the first institution to accept zakat paid on cryptocurrencies. An interview was conducted with Matthew Martin, the CEO and Founder of Blossom Finance, on August 25, 2021, to understand how the collection of zakat from cryptocurrency holders was initiated and conducted. In response, Martin highlighted that around four years ago, Blossom Finance was contacted by several Muslims from different parts of the world about how they could pay zakat for their cryptocurrency assets. As crypto assets are a liquid form of assets similar to cash, they were determined as being an acceptable form of zakatable wealth by Blossom Finance.

However, the major issues in paying zakat and why Muslim crypto holders approached Blossom Finance were due to difficulties in converting the cryptocurrency zakat portion to cash and reaching eligible zakat beneficiaries to pay their zakat. To address these issues, Blossom Finance contacted zakat donors in an Indonesian orphanage in the province of Aceh to pay zakat, which would benefit the orphans. Next, Blossom Finance helped facilitate the transaction between zakat payers and zakat beneficiaries free of charge or commission, where they played the role of an intermediary. For the first year, Blossom Finance facilitated these transactions by converting crypto assets into cash and channeling the cash to the orphanage.

In the second year, this institution was able to directly accept cryptocurrencies. Payments were converted to Indonesian Rupiah, and the cash was channeled to the orphanage. After the second year and onward, crypto wallet addresses were published on

Table 1.
Interviews

Type of meeting	Name of the expert(s)	Affiliation
Zoom interview	Matthew J. Martin	Founder and CEO, Blossom Finance
Zoom interview	Ifran Tarmizi, Mohammad Zahid Mateen Mohammed Alim	CEO, Business Development Head and Co-Founder of GlobalSadaqah

the Blossom Finance website; thus, zakat holders could pay directly into the wallets, or later Zakat payment channel cash to the beneficiaries.

4.2 GlobalSadaqah

GlobalSadaqah is a charity crowdfunding institution based in Malaysia that accepts zakat paid on cryptocurrencies and pays zakat using cryptocurrency. An interview was conducted with Ifran Tarmizi, Chief Executive Officer (CEO), Mohammad Zahid Mateen, Business Development Head, and Mohammed Alim, Co-Founder of GlobalSadaqah on September 2, 2021. The purpose of the interview session was to understand the operational procedures and challenges faced in accepting cryptocurrency as zakat payment.

GlobalSadaqah was able to accept zakat and sadaqah (charity) from cryptocurrencies for fund-raising campaigns worldwide, which include waqf and cash waqf since 2020. In each campaign, charity partners on the ground were verified for integrity and trustworthiness in fulfilling their purpose. With charity partners in more than 60 countries, these partners are informed upfront of a charge of 7.5% of the total funds raised by GlobalSadaqah; however, this percentage is negotiable.

For zakat campaigns, proper documents must be submitted by the charity partner. Based on the documents and other information, the in-house Shariah team from GlobalSadaqah would examine and analyze whether the zakat project meets the criteria for asnaf (zakat receivers). Upon receiving approval from the Shariah team, the campaign will be launched on the GlobalSadaqah platform. As of September 2, 2021, five zakat campaigns remain active on their official website, which accepts both cryptocurrency and bank transfers. Table 2 highlights the current status of these campaigns.

Table 2 shows that zakat payers are keen on paying their due zakat. However, as there is no classification on the type of payment on zakat from cryptocurrencies or fiat currency, a question was asked during the interview session regarding the total amount of zakat funds collected using cryptocurrencies. The interviewees from GlobalSadaqah responded that the total funds collected from cryptocurrencies were approximately RM90,000 (about US \$21,266.55) up until 2021. This number indicated the significance of paying zakat using cryptocurrencies on the online platform, which is expected to grow.

It has been identified that zakat paid on cryptocurrencies is zakat due to holding crypto assets. The zakat amounts have to be calculated by the zakat payers themselves. However, upon the request of the zakat payers, guidance on zakat calculations has been provided by GlobalSadaqah. The following section will be focusing on the requirements that must be fulfilled for paying zakat based on fatwas and guidance, including the calculation of zakat due on cryptocurrencies.

No.	Name of the zakat campaign	Target (RM)	Raised (RM)
1	Paying Zakat to the Poorest Families in Northern Nigeria	24,282	50,000
2	Covid-19 Emergency: Help India Breathe	73,379	70,000
3	Emergency Help and Medical Aid for Palestinians Attacked by The Israeli Occupation	300,793	300,000
4	Fighting Hunger: Free Bread For 2000 Poor Families in Yemen	119,725	120,000
5	Emergency Relief: Massive Floods Wreak Havoc in Yemen	42,457	40,000

Table 2.
Active zakat campaigns by GlobalSadaqah

Source: Extracted from the official website of GlobalSadaqah

5. Issues related to payment of zakat on cryptocurrencies and crypto assets

5.1 Can zakat be paid on cryptocurrencies and crypto assets?

Various recent literature focuses on the permissibility of payment of zakat on cryptocurrencies. A fatwa issued by the Perlis Fatwa Committee (Malaysia) stated that zakat payment can be made using cash or bitcoin (BTC) units, thus expressing the general permissibility of using cryptocurrencies as a medium to pay zakat. Even though zakat payments have been accepted in Malaysia for holding cryptocurrency, no state in this country accepts direct payment of cryptocurrencies, as they would rather accept payment in fiat currency (Yusof *et al.*, 2021). On the other hand, the National Zakat Foundation (NZF) in the UK accepts bitcoin and Ethereum for paying zakat for holding cryptocurrency directly to their cryptocurrency wallet (National Zakat Foundation, 2021). They also allow paying full zakat amount using cryptocurrencies, indicating the general permissibility of zakat payment using cryptocurrencies.

Looking into this practice, the payment of zakat on cryptocurrencies has been implemented in several jurisdictions, such as Indonesia and some states in Malaysia. As such, Blossom Finance, a Shariah-compliant microfinance company based in the USA, offers free service to Muslims for paying the obligatory zakat of holding cryptocurrency using cryptos through blockchain. Zakat payments in the form of cryptocurrency were collected to Blossom-controlled wallets in Indonesia. After receiving zakat payments, the funds were converted into Indonesian Rupiah and channeled to zakat beneficiaries, which include orphans and widows living in Central Java and Sumatra of Indonesia through trustable and compatible organizational bodies (Blossom Finance, 2021). Blossom Finance facilitates the payment of zakat by crypto holders directly into crypto wallets, or later channels to the beneficiaries, according to the interview conducted with Martin.

According to Beik *et al.* (2019), cryptocurrency holds a similar position as gold and cash in hand, as a maal (wealth). Therefore, zakat must be imposed and calculated on cryptocurrencies similar to zakat on gold and cash. Shariah allows using technology under *Mubah* (permissible). Therefore, the payment of zakat using blockchain would be permissible by considering its efficiency, reliability and manageability during the zakat payment process (Beik *et al.*, 2019).

Several studies supported zakat payment using blockchain technology because of multiple reasons. Hamdani (2020) concluded that zakat payment using blockchain technology provides quality, efficiency, accountability and professionalism in the distribution process. Moreover, it would increase the confidence of Zakat Managers/institutions (as Amils) in the zakat management process, as all data sourced can be tracked easily through the system.

Rejeb (2020) strongly encouraged the use of blockchain technology in zakat management based on the perspectives of Shariah and technicality. This indicates the potential and significance of cryptocurrencies based on blockchain technology to be used as the medium of payment for Muslims' obligatory annual almsgiving on their wealth (Rejeb, 2020). According to a publication by the Capital Markets Company (UK) (2021), zakat institutions must adapt their zakat management systems to handle payments made using cryptocurrencies; as Muslims' holdings of cryptocurrencies and crypto assets increase, they will be required to pay zakat (Beik *et al.*, 2019).

5.2 What are the requirements that need to be fulfilled in paying zakat using cryptocurrencies and crypto assets?

In 2020, the Perlis Fatwa Committee officially announced that zakat can be imposed on bitcoin (one of the digital currencies) once it fulfills the haul and nisab (zakat threshold) requirements for being considered a commodity (Abdul Rahman, 2020). The calculation for zakat on bitcoins is as shown in the following formula:

$$\begin{aligned} &[(\text{Lowest Value of Bitcoin Units in One Year} \times \text{Number of Bitcoin Units}) \\ &+ \text{Profit on Trading Results During the Year}] \times 2.5\% \end{aligned}$$

Zakat payment

491

The formula provided by the Perlis Fatwa Committee considers calculating zakat on crypto asset holdings, as wealth and zakat on income, as any profit gained from trading throughout the year. This view was opposed by Martin during the interview session, stating that imposing zakat on income is a concept of Malaysian and Indonesian practice. However, according to US-based Blossom Finance, zakat is imposed only on crypto holdings as wealth from crypto holders. Although Blossom Finance provides zakat to eligible beneficiaries in Indonesia by partnering with local microfinance institutions, zakat due on cryptocurrencies is calculated by zakat payers themselves.

Similarly, the Zakat Foundation of America published a notice on their official website, stating that zakat on cryptocurrency holdings shall be calculated the same way zakat is calculated for money, with a specified zakat rate for currency at 2.5% ([Zakat Foundation of America, 2021](#)). This publication provided the general requirements applicable to zakat on wealth, including cryptocurrencies as assets. The requirements include holding the absolute ownership of the assets, growth in the asset value, holding the minimum quantity of wealth (nisab) for zakat, the asset value is in abundance above need, the person is solvent or free from debt and zakat payment is to be paid in the lunar year (Islamic year) ([Zakat Foundation of America, 2021](#)).

From all the fatwas and opinions, it is clear that zakat on cryptocurrencies must be paid on the same basis as any other acceptable wealth in Islam. Zakat must be paid upon meeting nisab (zakat threshold) and the anniversary of holding the wealth. There is no requirement to pay from the same crypto assets/cryptocurrency holdings; rather, it could be converted into an acceptable form of zakat payment available. However, upon the wish of zakat payers, paying zakat using cryptocurrencies would have no restrictions, as long as zakat collectors accept them as zakat. Therefore, the following section will be focusing on the permissibility of paying zakat using cryptocurrency and its practical application.

It is imperative to note that no matter how volatile the cryptocurrencies could be, just like the fiat currencies, the nisab, which is the minimum amount obliged by zakat, would be determined using the same standards used in fiat money as well. However, due to the high volatility of cryptocurrencies, the zakat organizations would have to discuss with their respective Shariah committees or Shariah scholars to come up with a standard that could be used in this regard based on public interest (maslahah). For instance, even the gold price is volatile at times and the official nisab set by the zakat institutions might not reflect the effect of these volatilities in the gold price. Therefore, even now people do question zakat authorities whether they have to follow the nisab set by the zakat institutions or current value of it ([Adlie, 2021](#)). In response to this query, Mufti of Federal Territory, Malaysia, states that:

Firstly, the zakat institution states the nisab for zakat by considering the gold price for the past year as the standard rate for nisab of the next year. After the mean is acquired, the value will be used until the end of the next year. Any increase or decrease of the gold price during the current year is not considered due to uniformity. Secondly, regarding the question of which one is better to be followed whether the current gold price or the standard value set by zakat institution, we are of the opinion that it is better to choose any value which is lower between these two. This is to allow more people to become eligible to pay the zakat hence the zakat fund collected may be given to the asnaf in need.

In response to the above query, the basis for arriving to the decision was provided where it is stated that the nisab for zakat on wealth, including zakat in income and savings, are originally determined based on nisab for gold and silver, which is derived from the following hadith of Prophet (SAW):

When you possess two hundred Dirhams at the end of the year (if you still have all of them), five Dirhams are levied on them as Zakah. There is nothing upon you (to be paid) in gold, until it reaches (the value of) twenty Dinars. When you possess twenty Dinars, at the end of the year, then there is half a Dinar levied on it (as Zakah). Any additional amount will be calculated in the same manner (Sunan Abu Dawud:1573 in [Abu and Hasan, 1984](#)).

It is based on the above hadith that the nisab for zakat in the form of money and other fixed property is being set to where 20 mithqal of gold is considered as 85 g or 200 dirhams of silver, which is 595 g. It is observed that the difference in this regard may happen when the current value for any currency is volatile, and this has happened in the year 2020, wherein the Federal Territories of Malaysia, the nisab for gold was set to RM15,762 (RM185.44/g), while for the year 2021, the nisab increases to RM20,299 (RM238.81/g) ([Adlie, 2021](#)).

In calculating zakat nisab, the procedure followed Pusat Pungutan Zakat (PPZ), the zakat organization for Federal Territories of Malaysia considers the mean based on the previous year as the standard of nisab value for the next year. After the mean value is acquired, the value is used until the end of the next year before being re-evaluated based on the current gold price. Any increase or decrease in the price for 1 g of gold that takes place during the current year is not considered to synchronize the process of zakat payment.

The reason why it has been suggested to choose any value that is lower between the nisab value set by the zakat organization and the current gold price is to ensure that more people are qualified to pay zakat, ensuring the eligible zakat recipients would have enough funds. The basis for reaching this conclusion has also been explained as follows ([Adlie, 2021](#)):

This approach is also used by scholars when choosing the most suitable interpretation for one unit (mithqal) of gold based on the modern value. In the end of the discussion, they state, "The safer and more cautious way in this matter is we hold onto the lower value which is the first value (between 95 to 100 gram). This is seen as more protecting to the maslahah of those in need" (refer al-Fiqh al-Manhaji, 2/30).

Whether one holds digital currency or digital tokens, as it is qualified to be wealth from Shariah perspective, one should pay zakat from it if he/she is eligible to pay it. This is evident from the Shariah opinion given by Shariah Advisory Council of the Securities Commission Malaysia where deliberations were made to answer the following three questions in relation to digital assets from Shariah perspective:

- (1) whether digital assets can be recognized as mal (asset) from Shariah perspective?;
- (2) whether digital assets can be classified as currency or urudh (goods)?; and
- (3) how to determine the Shariah status of a digital token? ([Securities Commission Malaysia, 2020](#)).

It is imperative to note that this Shariah opinion is not applicable to any digital asset that is beyond the jurisdiction of Securities Commission Malaysia. In this regard, [Mirza and Sabur \(2021\)](#) also observe that the nature of the cryptocurrency will determine whether it is subject to zakat or not and their view is shown in [Table 3](#).

Type	Definition	Example	Is it applicable for zakat?
Cryptocurrencies	This is the most popular type of crypto. It is treated and can be used as an alternative currency. The value of this type of holding will be impacted by standard demand and supply market conditions	Bitcoin, Ethereum	Yes – Zakat must be paid on any holdings in their entirety
Security token	As per the standard security investment process described above, this type of coin is used to support a product. These are subject to federal laws that govern security	BCap (Blockchain Capital), SiaFund	Yes – As the application gains popularity, the value of the coin can increase; therefore, any value held on this will be applicable to zakat
Utility token	Used to pay for internal app purchases for a product or a service, and not for any external resell value Note some tokens can now be exchanged for other cryptos, which can be exchanged for fiat currencies	FileCoin, SwissBorg token (CHSB)	No – If it is used for the purpose of the specific platform services, it is not applicable for zakat If it is transferred out for additional resell value then it is applicable for zakat

Table 3.
Whether a cryptocurrency held is subject to zakat

Source: [Mirza and Sabur \(2021, p. 3\)](#)

[Mirza and Sabur \(2021; p. 3\)](#) also state that if there is any loss suffered from crypto investments, then there is no need to pay zakat, and they give an example by stating that: if you start out with £1,000 investment and due to market activity your holdings at the time of Zakat is valued at £500, you will not be required to pay zakat unless you liquidate the remaining holdings into cash.

6. Policy recommendations

Several policy implications can be derived from the findings of this research. There is no unanimity of opinion regarding the Shariah position on cryptocurrencies and crypto assets. The International Islamic Fiqh Academy, a subsidiary of OIC, in its Resolution no. 237 (8/24) on electronic currencies, have resolved that the Academy needs more time to conduct research prior to forming an opinion on the matter ([International Islamic Fiqh Academy, 2021; p. 591](#)). As such, there is a need to expedite this issue in the academy as the resolution passed by them will give clarity in this regard to the Muslim world. The academy also needs to deliberate on the zakatable issues of crypto assets and Shariah parameters that could be used in this regard. Organizations dealing with zakat in different parts of the world also need to seek out ways in which cryptocurrency-related zakat payment could be accepted. They need to create awareness among younger tech-savvy generations (millennials and Gen Z) regarding their religious obligation to pay zakat from crypto assets they hold as well. This is to ensure that the full potential of zakat is unlocked, as it is important to collect zakat from all eligible recipients. Without creating awareness in this regard, there is a possibility

that crypto asset holders or investors may be large in number, yet they might not understand their religious obligation to pay zakat. Furthermore, organizations dealing with zakat organizations in their annual gatherings, such as in World Zakat Forums, need to agree to the zakat calculation methods for crypto assets and provide guidance to zakat payers. Standard-setting bodies in Islamic finance, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), can also play a pivotal role in crystalizing a Shariah-based and accounting standard for it.

7. Conclusion

The analysis results showed that zakat can be paid using cryptocurrencies and crypto assets because they can be considered as zakatable assets. However, the use of cryptocurrencies can only be allowed in jurisdictions that have permission from any legal body, or are not prohibited directly by any such authority. This is based on the legal maxim of “*tasarruf al imam manut bi al-maslahah*” (the ruler’s decision is dictated in favor of the people). For instance, zakat cannot be paid using cryptocurrency as it is not legally recognized as a legal tender in Malaysia. However, as crypto assets are considered as a legal investment, using the Shariah parameters provided by the Shariah Advisory Council of the Securities Commission Malaysia, one may invest in Shariah-compliant crypto assets and can pay zakat if he/she is eligible. As stated in the resolution, digital assets qualify as wealth, and as such, they must be subject to zakat (Securities Commission Malaysia, 2020). The Shariah advisory council of securities commission Malaysia has approved the use of digital tokens as digital assets on the condition that the rights, or benefits of using the asset be for Shariah-compliant purposes (Securities Commission Malaysia, 2020). As the Perlis Fatwa Committee allows paying zakat due on cryptocurrencies, the significance of considering zakat in redistributing income from the Shariah perspective stands. The rulings have been decided as cryptocurrencies hold a large portion of the wealth of Muslim communities. The committee’s opinion on paying zakat does not indicate the exact use of any form of cryptocurrency is permissible. Rather, it highlights the notion that zakat is an obligatory charity of purifying wealth, which must be enforced on the recurring wealth of the people, especially those held as assets, or a currency that the people have accepted. The limitation of this research includes lack of secondary data available on the practice of institutions and issues related payment of zakat using cryptocurrencies and crypto assets. As such, this research will pave way to conduct further research on the topic. It is anticipated that the findings of this research will benefit zakat organizations and zakat payers in understanding how they should deal with cryptocurrencies and crypto assets in the collection and payment of zakat.

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