

Legal Fiction of Corporate Zakat: Ontological Paradox and Functional Hypocrisy in Islamic Financial Reporting

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Abstract

This study aims to examine the ontological paradox and systemic inconsistency of the corporate status as a legal subject of zakat (muzakkī) in contemporary Islamic jurisprudence. Adopting a critical interpretive paradigm and abductive design, this study synthesizes Foucauldian genealogy, John Searle's "Institutional Facts," Gunther Teubner's "Legal Hypocrisy," and the epistemic decomposition of the AAOIFI FAS 39 zakat-based accounting equation to deconstruct the corporate status. It is revealed that the recognition of the corporate status as muzakkī is an incoherent legal fiction. Genealogically, a corporation is an institutional fact that lacks the spiritual instruments of taklīf prerequisites, namely 'aql (reason) and niyyah (intention). The epistemic decomposition of the zakat-based accounting equation proves the occurrence of an ontological paradox. Formally, a corporation is recognized as muzakkī, but operationally it is treated only as an agent (wakīl) of shareholders. This incoherent legal fiction is identified as "legal hypocrisy," intended to maintain religious legitimacy amidst economic pragmatism. Classical Islamic jurisprudence is substantively far more "honest" and anticipatory than modern legal theory in responding to the corporate phenomenon. This study implies that without an ontological reform of corporate zakat standards by global bodies like AAOIFI, Islamic finance risks losing its public credibility to mere legal formalism. Therefore, adopting a unified

interdisciplinary framework is critical to align operational realities with substantive social justice.

Keywords: Corporate Zakat, AAOIFI, Legal Hypocrisy, Institutional Facts, Sharia Financial Reporting, *Shakhṣiyyah I'tibāriyyah*

A. Introduction

The transplantation of the legal person doctrine from Western legal traditions into contemporary Islamic jurisprudence has led to the recognition of corporations as subjects of wealth zakat (*muzakkī*). However, this recognition creates a paradox in the form of a dual status: formally, the corporation is recognized as a legal subject of zakat, yet substantively, it merely functions as an intermediary agent (*wakīl*) for the shareholders. Through the terminology of *shakhṣiyyah i'tibāriyyah*, the legal person has been reduced to simply a group of natural persons engaged in a collective business partnership.

However, this ontological-normative inconsistency in corporate zakat seems to have escaped critical scrutiny by Islamic scholars. Yet, this contradiction is clearly documented in Financial Accounting Standard (FAS) 39, codified by the AAOIFI.¹

The position of FAS 39 as the global Islamic financial accounting standard has systematically affected the ontological-normative inconsistency of corporate zakat across various jurisdictions. This is evident in the practice of Islamic banks that disclose zakat payments in their financial statements. From Bank Al Rajhi in Saudi Arabia² to Bank Panin Dubai Syariah in Indonesia³, they share identical operational models. Formally, banks are recognized as *muzakkī* (obligatory zakat payers), but substantively, they are reduced to mere intermediary agents (*wakīl*). Corporate zakat is not, in fact, a substantive obligation of the company, but rather a distribution of shareholder rights.

This anomaly is not merely a technical issue of wealth zakat accounting, but rather points to a fundamental epistemological problem. Corporate zakat as it is currently practiced does not align with the essence of the obligations of an independent legal person. Consequently, the status of the corporation as a *muzakkī* appears to function only as a legal fiction—an instrument designed solely to facilitate the collective mobilization of funds.

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Without reconstructing its ontological foundation, corporate zakat will remain trapped in an inconsistent legal fiction. If allowed to persist, this situation risks delegitimizing the credibility of sharia institutions in the eyes of the public and global market players. Ironically, however, this ontological divergence in corporate status is peripheral to mainstream sharia scholarly discourse.

¹ Accounting and Auditing Organization for Islamic Financial Institutions, *Zakat*, Financial Accounting Standard No. 39 (Manama: AAOIFI, 2021).

² Al-Rajhi Bank, *Al-Rajhi Integrated Annual Report 2024* (Riyadh: Al-Rajhi Bank, 2025)

³ Panin Dubai Syariah Bank, *Annual Report 2024* (Jakarta: Panin Dubai Syariah Bank, 2025)

To date, studies on corporate zakat have been concentrated in two major streams: the normative debate regarding its validity^{4,5} or technical evaluations surrounding disclosure levels.^{6,7} This trend continues. Contemporary studies spend more energy on issues of standard harmonization and the impact of zakat transparency on the market.^{8,9} Although Adnan & Abu Bakar¹⁰ and Andriani et al.,¹¹ have begun to highlight the challenges of implementing AAOIFI standards, current mainstream studies have yet to address the fundamental gap: why the ontological and conceptual inconsistencies within FAS 39 continue to be maintained.

Unlike studies that agree on the recognition of corporations as muzakkī, this research starts from the premise that the recognition of corporations as muzakkī is an epistemological ambiguity. The novelty of this research lies in its critical deconstruction of the status of corporate muzakkī as an incoherent legal fiction, detached from mainstream normative debates. It builds a unique multidisciplinary framework by synthesizing Foucauldian genealogy, John Searle's "Institutional Fact,"¹² and Gunther Teubner's "Legal Hypocrisy."¹³ Furthermore, through an epistemic decomposition of the AAOIFI FAS 39 accounting equation, the research mathematically uncovers a structural paradox in which zakat functions as an equity allocation rather than a corporate expense. This proves that corporations operate strictly as agents (wakīl) for shareholders, exposing systemic "legal hypocrisy" while highlighting the superior ontological rectitude of classical Islamic jurisprudence.

This study argues that the status of the corporation as a subject of zakat (muzakkī) is an incoherent legal fiction. The claim and declaration of the legal person as a zakat subject is substantively invalidated by operational practices that position it merely as an agent (wakīl) or a mandate executor for the shareholders' zakat payments. This conceptual asymmetry is not a technical failure, but rather a form of 'legal hypocrisy' intended to maintain the religious legitimacy of Islamic financial institutions amidst the pressures of global economic pragmatism.

⁴ Yusuf Al-Qaradhawi, *Fiqh al-Zakah: A Comparative Study of Zakah Regulations and Philosophy in the Light of Quran and Sunnah*, trans. Monzer Kahf, 3rd ed. (Kuala Lumpur: Islamic Book Trust, 2011), (Orig. pub. 1973).

⁵ M. Nejatullah Siddiqi, *The Role of the State in the Economy: An Islamic Perspective* (Leicester: Islamic Foundation, 1988).

⁶ Roszaini Haniffa and Mohammad Hudaib, "Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports," *Journal of Business Ethics* 76, no. 1 (2007): 97-116, <https://doi.org/10.1007/s10551-006-9272-5>.

⁷ Moutaz Abojeib, Mohammad Ghaith Mahaini, and Mhd Osama Alchaar, "An Analysis of Zakat Disclosure in Islamic Banks," *Journal of Islamic Accounting and Business Research* 16, no. 4 (2025), <https://doi.org/10.1108/JIABR-04-2021-0123>.

⁸ M. Kabir Hassan, Magda Ismail Abdel Mohsin, and Aishath Muneeza, *Application of Zakat: From Classical and Contemporary Perspective* (Singapore: World Scientific, 2024).

⁹ K.P. Raja, "Analysing the AAOIFI Shari'ah Standard on Zakat," *Journal of Money Laundering Control* 24, no. 2 (2021): 446-460, <https://doi.org/10.1108/JMLC-10-2020-0117>.

¹⁰ M. Akhyar Adnan and Nor Barizah Abu Bakar, "Accounting Treatment for Corporate Zakat: A Critical Review," *International Journal of Islamic and Middle Eastern Finance and Management* 2, no. 1 (2009), 32-45. <https://doi.org/10.1108/17538390910946258>.

¹¹ Andriani et al., "Corporate Zakat Regulation and Zakat as Proxy for CSR: What Is Their Role on Islamic Banks' Performance?," in *Integrating Big Data and IoT for Enhanced Decision-Making Systems in Business*, ed. R. K. Hamdan (Cham: Springer Nature Switzerland, 2025), 485, https://doi.org/10.1007/978-3-031-97609-4_42.

¹² John R. Searle, *The Construction of Social Reality* (New York: Free Press, 1995).

¹³ Gunther Teubner, *Law as an Autopoietic System* (Oxford: Blackwell, 1993), 53-55.

By synthesizing Foucauldian genealogical thinking, John Searle's 'Institutional Facts', and Gunther Teubner's 'Legal Hypocrisy', this study presents an original critique of FAS 39. The focus is to uncover the paradox in the standard, which formally recognizes corporations as muzakki, but at the same time, establishes an accounting treatment that actually negates this status. This synthesis is proven by dissecting the logic of accounting equations in the zakat-based method stipulated in the AAOIFI standard.

As an 'institutional fact' born of collective agreement, the corporation leaves behind philosophical issues that remain unresolved to this day. This research will reveal the superiority of classical Islamic jurisprudence, which is more transparent and anticipatory in viewing the corporation as a social reality. Unfortunately, the clarity of this classical Islamic jurisprudence perspective seems to be obscured by the choice of contemporary Islamic jurists (*fuqaha*) to recognize the corporation as a legal subject of zakat.

The urgency of this research is twofold. Theoretically, it seeks to mitigate the risk of "functional hypocrisy" that threatens the epistemological integrity of zakat jurisprudence—a condition where Sharia law becomes trapped as a formalistic instrument while its operational reality moves in a different direction. Practically, this research provides a critical foundation for standard-setting bodies like the AAOIFI to realign the theoretical claims of muzakkī status with honest and transparent accounting practices.

Starting from this paradox, this study seeks to address three interconnected questions: (1) How do the historical roots of the corporation as a legal person create a gap between its formal legal status and its moral capacity to bear zakat obligations? (2) Why does the contemporary Islamic economic system maintain the status of muzakkī for corporations despite its operational rejection by the market, and how does 'legal hypocrisy' function to preserve the legitimacy of Sharia authority? (3) How can an epistemic dissection of the zakat accounting structure reveal the anomaly of corporate status, and to what extent can the logic of classical Islamic jurisprudence provide a more anticipatory resolution to the current reality of the corporation?

The main contribution of this study lies in its attempt to uncover the rift between the historical roots of legal entities and their operational realities—a dimension of ontological paradox deconstruction that will reveal the mechanisms of 'legal hypocrisy' that have been overlooked in conventional corporate zakat studies. Ultimately, this study offers a crucial foundation for global bodies such as the AAOIFI to undertake ontological reconstruction that aligns corporate status with honest accounting practices and maintains the religious credibility of Sharia institutions.

B. Research Methodology

This study adopts a qualitative research approach within a critical interpretative paradigm^{14,15} to critique the status of corporations as muzakkī (person obligated to pay zakat). Through an interdisciplinary framework, this study integrates accounting logic, social theory, and legal philosophy to uncover the ontological contradictions underlying modern Islamic corporate zakat practices.

Methodologically, this study is literature-based, employing an abductive design (systematic integration) to establish a constant dialogue between documentary data—including historical

¹⁴ Gibson Burrell and Gareth Morgan, *Sociological Paradigms and Organisational Analysis: Elements of the Sociology of Corporate Life* (London: Heinemann, 1979).

¹⁵ Mats Alvesson and Kaj Skoldberg, *Reflexive Methodology: New Vistas for Qualitative Research*, 2nd ed. (London: SAGE, 2009)

texts, legal documents, financial reporting, and accounting standards—and attempts at theoretical reconstruction.¹⁶ The analysis is conducted through three layers of synthesis: first, using Foucauldian genealogy to trace the adoption of the concept of legal entity; second, dissecting corporate ontology through John Searle's theory of 'Institutional Fact'; and third, dismantling legal fictions using the analytical lens of Gunther Teubner's 'Legal Hypocrisy'. This theoretical framework is then tested through a decomposition of the accounting structure to reveal the gap between formal claims as background music and operational realities on the ground

C. Result and Discussion

This section operationalizes a qualitative abductive framework to answer the three main research questions posed in this study. The findings are structurally organized into three interrelated analytical domains. First, a genealogical and ontological investigation is conducted to examine how the historical evolution of legal entities creates fundamental gaps regarding the moral capacity of corporations under Islamic law. Second, the analysis utilizes Searle's Institutional Facts and Teubner's legal hypocrisy to explain why the contemporary Islamic economic system maintains the *muzakkī* status of corporations despite their operational rejection by the market. Finally, an epistemic decomposition of the accounting structure of AAOIFI FAS 39 is conducted to uncover the operational anomalies of corporations, comparing these findings with the advantages and anticipatory clarity offered by classical Islamic jurisprudence.

1. Genealogical-Ontological Analysis :The Historical Gap Between Legal Entity Roots and Moral Capacity for Zakat Obligations

Historical tracing of the status of the legal person reveals a consistent pattern across various legal systems. This began with Roman Law, which originated the basic concept, followed by its crystallization in Canon Law, and subsequent adoption by Continental European Law and Common Law. Throughout this historical trajectory, the concept of the legal person was specifically designed to maintain a moral dimension separate from the legal person itself. This pattern is fundamental, enabling corporations to function effectively as instruments for capital accumulation and ownership.

a. Roman Law

Roman law laid the conceptual foundation for the legal person¹⁷. Etymologically, 'person' is derived from the word *persona*, meaning the mask worn by actors in a theater. This term is used as a conceptual metaphor in the legal realm to represent an individual's 'role,' such as the role of a head of household, property owner, or citizen.

The Roman legal system utilized the concepts of *corpus* or *universitas* to manage collective property. Both were designed as value-free and unconscious entities. These entities were declared to lack *animus* (intent or spiritual consciousness). Classic jurists such as Gaius and Justinian emphasized that although a corporation possesses the capacity to hold assets and

¹⁶ Anna Dubois and Lars-Erik Gadde, "Systematic Combining: An Abductive Approach to Case Research," *Journal of Business Research* 55, no. 7 (2002): 553–560. [https://doi.org/10.1016/S0148-2963\(00\)00195-8](https://doi.org/10.1016/S0148-2963(00)00195-8).

¹⁷ Visakumar A. J. Kurki, *A Theory of Legal Personhood* (Oxford: Oxford University Press, 2019), 15.

enter into contracts, it remains a soulless entity whose operations depend entirely on human agents.^{18,19}

b. Adaptation in Canon Law

Medieval Canon Law succeeded in structuring a legal system for religious institutions, such as *universitas* and *collegia*, through the contributions of Sinibaldo Fieschi, also known as Pope Innocent IV (d. 1254). Fieschi conceived the term *persona ficta* (fictitious person) to resolve a theological-legal dilemma: how to demand collective accountability without having to attribute a transcendental soul to the entity.

By defining the corporation as *persona ficta*, Fieschi detached the entity from any spiritual or moral essence. Since it lacks a soul (*anima*), a corporation can neither be excommunicated nor found guilty of sin (*delictum*). It functions purely as an administrative vessel, not a moral agency. The corporation's will does not originate from the entity itself, but from the individuals within it—such as monks—as conscious moral agents acting on behalf of the organization.^{20,21}

c. Developments in Continental European Legal Jurisprudence

It can be stated that the Continental European legal tradition is the result of the development and secularization of Canon Law. Prominent figures in Continental European law, most notably Friedrich Carl von Savigny, expanded the framework of the *persona ficta* doctrine while maintaining its basic structure.

Corporations are recognized as possessing legal capacity (*Rechtsfähigkeit*), yet are strictly separated from moral responsibility (*moralische Verantwortlichkeit*). Under the influence of Hegelian philosophy, the legal person was ultimately framed as an abstract foundation for juridical relations, without requiring consciousness or a moral burden from the entity itself.²²

d. Developments in Continental European Legal Jurisprudence

In the Common Law tradition, the legal person is understood as a legal fiction (*persona ficta*) intentionally created by legal authorities²³. As Chief Justice Marshall famously stated in the case of *Dartmouth College v. Woodward* (1819), a corporation is not a living organism. It is more accurately described as an instrument of policy created to maintain the stability of group identity. Thus, its status as a legal subject is not because it is 'born' with such rights, but purely through a 'legal grant.' It is an artificial being that exists to facilitate civil affairs^{24,25}

Since the corporation is a legal abstraction often utilized as a 'shield' for liability, Lord Chancellor Edward Thurlow scathingly critiqued this artificiality by sarcastically remarking that

¹⁸ Ron Harris, *Industrializing English Law: Entrepreneurship and Business Organization, 1720–1844* (Cambridge: Cambridge University Press, 2000). 16.

¹⁹ Adriano Broleze, "Persona Ficta: A Gênese da Pessoa Jurídica no Direito Medieval Canônico," *Revista Jurídica* 1, no. 63 (2021):442-443.

²⁰ Frederic William Maitland, "Moral Personality and Legal Personality," in *The Collected Papers of Frederic William Maitland*, ed. H. A. L. Fisher, vol. 3 (Cambridge: Cambridge University Press, 1911), 310.

²¹ Joseph Canning, *The Political Thought of Baldus de Ubaldis* (Cambridge: Cambridge University Press, 1987),192

²² Frederick Hallis, *Corporate Personality: A Study in Jurisprudence* (Oxford: Oxford University Press, 1930),51-52.

²³ John W. Salmond, *Jurisprudence or the Theory of the Law* (London: Stevens and Haynes, 1902),335-336.

²⁴ William Blackstone, *Commentaries on the Laws of England: Book I: The Rights of Persons* (Oxford: Oxford University Press, 2016),305-306.

²⁵ Dewey, J. "The Historic Background of Corporate Personality." *The Yale Law Journal* 35, no. 6 (1926): 661–662. <https://doi.org/10.2307/788782>.

a corporation has 'no soul to be damned, and no body to be kicked.' The logic is straightforward: it lacks a soul for moral punishment and a physical form for tangible sanctions. Ultimately, this pragmatic perspective locks the corporation into the position of an unconscious entity²⁶ —one that is inherently incapable of bearing personal responsibility, much less a religious one

2. Islamic Law

a. Prerequisites of Divine Obligation

Classical Islamic jurisprudence establishes three prerequisites for *taklīf* (divine obligation). First, the presence of *ʿaql* (rational capability or consciousness). Second, the presence of *niyyah* (spiritual intent). And third, *masʿulīyyah* (moral accountability) within a conscious actor. This principle refers to Surah al-Baqarah (2:286): 'Allah does not burden a soul (*nafs*) beyond that it can bear.' This verse affirms that the burden of obligation can only be borne by an entity possessing the conscious capacity to endure it.²⁷

Classical Islamic jurists (*fuqaha*), from al-Ghazali (d. 1111 CE)²⁸ to Ibn Qudamah (d. 1223 CE)²⁹, consistently grounded the anthropocentric character of Islamic law. For them, all legal and moral categories center on human roles and responsibilities. Al-Shatibi (d. 1388 CE)³⁰, the architect of *maqāṣid al-syarīʿah*, argued that divine objectives are only imposed upon human subjects who are capable of both understanding and consciously pursuing those goals. This principle remains preserved in modern Islamic legal philosophy^{31,32}. Only human beings, with their consciousness and moral capacity, serve as the implementative subjects of Islamic law.

Therefore, ascribing *taklīf* to an unconscious entity clearly contradicts the fundamental principles of Islamic jurisprudence, which require a conscious and morally responsible subject. Al-Ghazali's classical methodology regarding zakat perfectly exemplifies this principle. Zakat applies only to conscious individuals who possess wealth and fulfill the obligation with sincere intentions (*niyyah*). This demonstrates that sharia bases the mandate of worship on subjects who possess the capacity to act morally.

b. Transplanting Legal Persons into Contemporary Islamic Jurisprudence.

When 20th-century Islamic finance adopted the concept of the legal person (*persona ficta*) through contemporary fatwas and AAOIFI standards, an extraordinary historical rift emerged. For the first time in the history of the encounter between Western and Islamic legal traditions, an 'unconscious institutional fact' was deemed to possess a direct divine obligation. This is a fatal category mistake, rooted in a profound misunderstanding of the ontological nature of the legal subject itself.

²⁶ Joel Bakan, *The Corporation: The Pathological Pursuit of Profit and Power* (New York: Free Press, 2004), 79.

²⁷ Mohammad Hashim Kamali, *Principles of Islamic Jurisprudence*, 3rd ed. (Kuala Lumpur: Islamic Book Trust, 2003), 445-448.

²⁸ Abū Ḥāmid Al-Ghazālī, *The Revival of the Religious Sciences (Iḥyāʾ ʿulūm al-dīn)*, vol. 1, trans. Maulana Fazlul Karim (Karachi: Darul Ishaat, 2010). (Orig. pub. c. 1105).

²⁹ Muwaffaq al-Dīn Ibn Qudāmah, *Al-Mughnī*, vol. 4 (Cairo: Dār ʿĀlam al-Kutub, 1997). (Orig. pub. c. 1223).

³⁰ Ibrāhīm Al-Shāṭibī, *Al-Muwāfaqāt fī uṣūl al-sharīʿah (The Reconciliation of the Fundamentals of Islamic Law)* (Cairo: Al-Maktabah Al-Tawfiqiyyah, 2003). (Orig. pub. c. 1388).

³¹ Kamali, M. H. *Principles of Islamic Jurisprudence*. 3rd ed, 445-448

³² Mohammad Hashim Kamali and Umar A. Oseni, *Islamic Legal Tradition and Transition: Sharīʿah in the Contemporary World* (London: Routledge, 2016), 118-121.

1) Linguistic Recognition

The Arabic term *shakhṣiyyah i'tibāriyyah* is etymologically a reflection of the Catholic Canon Law concept of *persona ficta*. Both terms explicitly acknowledge their artificial nature: the Latin word *ficta* (fictitious/made-up) and the Arabic word *i'tibār* (mental assumption) both affirm that this entity lacks independent existence and is merely a construction. It exists solely because the institutional system decrees it so.

This is where contemporary Islamic jurists fall into a paradox: they adopt an institutional form recognized as 'artificial,' yet simultaneously claim that this artificial entity possesses the most fundamental theological attribute—the capacity to bear divine obligation. Searle's framework clarifies the core of the issue: the utility of an institutional fact depends heavily on the properties assigned to it from its inception. We cannot attach attributes to an institutional fact if those attributes contradict its original design, without fundamentally altering the nature of the entity itself.³³

2) The Waqf Analogy: A Common Misconception

Several contemporary scholarly discussions consistently present waqf as a historical precedent for unconscious entities. Their arguments are based, among other things, on the perpetual nature of waqf. Waqf continues to exist even after the death of its founder, thus being considered an entity with independent obligations^{34,35}. However, this reasoning is logically flawed because it equates the status of waqf (which is a form of asset dedication) with that of a legal entity.

Classical Islamic law does not recognize legal persons; not even the public treasury (*bayt al-mal*).³⁶ As stated by Nyazee, *waqf* is not equivalent to a legal person;³⁷ it represents a regime of ownership rather than a subjective agent of rights. In classical Islamic jurisprudence, *waqf* is essentially a legal status applied to property (*māl*), not a legal entity (*shakhṣiyyah*).

The definition of *taḥbīs al-aṣl wa tasbīl al-manfa'ah* describes the freezing of assets and the utilization of their usufruct; however, the locus of rights, obligations, and decision-making remains with human agents: the *wāqif*, *nāzir* or *mutawallī*, and the *qādī*. All legal actions are executed by these conscious agents, not by the *waqf* itself. The *waqf* possesses no voice, will, or moral standing; it is merely an object through which mediated actions occur, taking place under the supervision of a trustee.

Conversely, the status of the legal person (*shakhṣiyyah i'tibāriyyah*) elevates the corporation to the status of a subject: it can own property independently, enter into contracts as a principal, and bear regulatory obligations. When contemporary Islamic legal experts designate the corporation as a *muzakkī* (zakat payer), they are effectively adopting the modern concept of corporate subjectivity, rather than merely extending the classical framework of *waqf*.

The legal person doctrine is not a direct heritage of Islamic law. It was a 20th-century juridical innovation that integrated the Western concept of the legal person into the Islamic institutional framework. This very innovation triggered a serious theological-legal tension. The

³³ Searle, *The Construction of Social Reality*, 43-45

³⁴ Mahdi Zahraa, "Legal Personality in Islamic Law," *Arab Law Quarterly* 10, no. 3 (1995), 193-206. <https://doi.org/10.1163/157302595X00120>

³⁵ Muhammad Taqi Usmani, *An Introduction to Islamic Finance* (The Hague: Kluwer Law International, 2002), 133-135.

³⁶ Schacht, Joseph. *An Introduction to Islamic Law* (New Delhi: Universal Law Publishing Co. Pvt. Ltd, 1997), 125.

³⁷ Imran Ahsan Khan Nyazee, *Islamic Law of Business Organization: Corporations* (Islamabad: International Institute of Islamic Thought, 1998), 183-185.

waqf model, when accurately understood, provides no doctrinal precedent for corporate *taklif*. By adopting the legal person—this 'soulless abstraction'³⁸—the framework has, whether intentionally or not, created a 'moral vacuum'. Consequently, an entity is forced to fulfill a religious obligation despite lacking the inherent capacity for intent (*niyyah*) or a conscience.

3. Corporate Zakat as an Institutional Fact: Market Pragmatism and the Function of 'Legal Hypocrisy'

1. Institutional Facts

Searle explains that a legal person is not a 'brute fact' like a biological organism, but rather an 'institutional fact.'³⁹ This means that such an entity exists solely because humans collectively assign a specific function to it through formal institutions.

There is no natural property that makes something a 'corporation.' A corporation exists because the legal system stipulates that a group should be treated 'as if' it were a single agent for specific legal purposes.

X counts as Y in C

The entity (X) is recognized as a legal subject (Y) within the context of legality C.

The corporation is a social reality created through collective agreement to perform specific functions. It is designed as an administrative vehicle. For two millennia, the evolution of jurisprudence has maintained a consensus that corporations possess the legal capacity to act, own assets, and enter into contracts.⁴⁰ However, as structural fabrications of the law, they are inherently incapable of thinking, possessing will, or making moral decisions like humans.⁴¹ This conceptual chasm separates mere juridical existence from genuine moral agency, rendering the corporate form a value-free, unconscious entity designed exclusively for civil and economic expediency..⁴²

2. Legal Hypocrisy

Gunther Teubner (1993) provides a robust analytical framework for understanding how legal systems respond to structural pressures.⁴³ When external actors force a legal system to adopt norms that are inherently incompatible with its core logic, the system develops an "immune response"—maintaining a doctrinal affirmation of the external norm while operatively rejecting it to maintain its operational closure and internal coherence.

Corporate zakat jurisprudence has created a structural impossibility. The Islamic legal system is under pressure to recognize corporations as legal subjects. However, the core logic of basing moral categories on awareness of actions within the system makes such recognition untenable.

The response of the Islamic legal system manifests as an inconsistency: maintaining the formal recognition that 'the corporation is a zakat subject,' while simultaneously developing an operational structure that upholds the underlying theological reality—namely, that the shareholders are the obligated parties, and the corporation is merely an agent.

³⁸ Joel Bakan, *The Corporation: The Pathological Pursuit of Profit and Power*, 56-57

³⁹ John R. Searle, *Making the Social World: The Structure of Human Civilization* (Oxford: Oxford University Press, 2010), 100.

⁴⁰ Harris, *Industrializing English Law*, 16; Broeze, "Persona Ficta," 442-443.

⁴¹ Maitland, "Moral Personality and Legal Personality," 3:310; Canning, *The Political Thought of Baldus de Ubaldis*, 192; Hallis, *Corporate Personality*, 51-52.

⁴² Blackstone, *Commentaries on the Laws of England: Book I*, 305-306; Salmond, *Jurisprudence*, 335-336; Bakan, *The Corporation*, 56-57.

⁴³ Gunther Teubner, *Law as an Autopoietic System* (Oxford: Blackwell, 1993), 52-55.

The resulting inconsistency does not reflect moral dishonesty. In Teubner's discourse, it is termed 'legal hypocrisy'—a protective mechanism of the legal system when confronted with the infiltration of incompatible external norms. Through this duality of status, the Islamic legal system is effectively negotiating its autonomy: adopting formal compliance on the surface to maintain functional stability, while substantively preserving its ontological logic within operational practices.

In contrast to the Roman or Canon law traditions, which understand the corporation as an administrative instrument devoid of moral capacity, modern Islamic jurisprudence paradoxically imposes *taklif* upon this recognized artificiality. Contemporary *fuqaha* have failed to adequately examine the institutional ontology of the construction they have imported. Searle's framework both permits and necessitates such an examination: before assigning a new function to an institutional fact, one must investigate whether that entity—as institutionally constructed—can coherently perform said function.

Assigning moral capacity to the corporation as an independent legal subject is not a minor adjustment, but a category mistake. Teubner's framework explains why the Islamic legal system cannot simply accept this impossible demand: recognizing the corporation as a *muzakkī* fundamentally violates its own internal logic. Consequently, the contemporary Sharia legal system develops 'hypocrisy' as a self-protection mechanism—maintaining a doctrinal facade while preserving the underlying logic of the Islamic system through operational rejection. Essentially, the Sharia legal system 'agrees to disagree' with itself in order to remain operational without losing its identity.

The power aspect explains that this hypocrisy serves as a crucial instrument for institutional survival. Religious authorities have a vested interest in proving the significance of Sharia in managing the macroeconomy. By recognizing the corporation as a *muzakkī*, the contemporary Islamic legal system gains the fiscal efficiency to mobilize large-scale liquidity collectively, while simultaneously securing the political legitimacy to exert moral claims over modern capitalism without overhauling its theological foundations.

However, this shift in function toward becoming a fiscal instrument creates a profound dilemma: when managed through operational 'hypocrisy,' the essence of spirituality risks being reduced to mere administrative compliance. Consequently, although zakat funds are successfully mobilized in large volumes, this mechanistic and impersonal process potentially erodes the transformative dimension of *tazkiyatun nafs* (purification of the soul), which necessitates personal intent. Ultimately, the divine obligation is at risk of shifting into a mere corporate operational burden, entirely disconnected from the religious consciousness of its shareholders.

4. Epistemic Decomposition of FAS 39 Accounting Structure: Revealing Corporate Anomalies and the Anticipatory Resolution of Classical Islamic Jurisprudence

1. Epistemic Decomposition of the Accounting Equation

Referring to the paradigm of Burrell and Morgan ⁴⁴ (1979), the method of measuring zakat is understood not merely as a technical accounting calculation. It functions as both an institutional instrument and an epistemic mechanism for representing Sharia compliance.

AAOIFI mandates the Net Asset Method in FAS 39 as the sole method for converting corporate wealth into a zakat base, aligning with the provisions of AAOIFI Shari'ah Standard

⁴⁴ Gibson Burrell and Gareth Morgan, *Sociological Paradigms and Organisational Analysis: Elements of the Sociology of Corporate Life* (London: Heinemann, 1979).

(SS) 35⁴⁵. This method is more accurately described as the Net Current Asset Method because it focuses on liquidity and short-term productive assets. It directly aligns with the fundamental principles of zakat on trade (*urud al-tijarah*), effectively framing the modern corporation through the lens of a traditional trader.

In principle, by establishing the Net Asset Method in FAS 39, AAOIFI institutionally applies the label 'Corporate Zakat' to align with modern corporate law doctrine, which treats the corporation as a legal person. Yet, simultaneously, it retains the fundamental principles of classical Islamic jurisprudence.

2. Algebraic Decomposition of the Basic Zakat Equation

Formally, Sharia-based corporate balance sheets are founded on the principle of balanced recording, which is formulated in the following equation

$$A = L + \text{URIA} + E$$

Where (A) represents total assets, (L) represents liabilities, (URIA) represents Unrestricted Investment Account Holders, and (E) represents equity. Algebraically, the epistemic transformation from financial statements to Zakat Basis (ZB) as regulated by AAOIFI, can be formulated as follows:

$$\text{ZB} = A_z - L_c - \text{URIA} + P_{\text{ext}}$$

Where:

- a) A_z (Zakatable Assets): Assets that meet the requirements of *nisab* and productivity.
- b) L_c (Current Liabilities): Short-term obligations deducted from the calculation base.
- c) P_{ext} (External Party Interests): Interests held by non-shareholders or minority interests.

The exclusion of Unrestricted Investment Accounts (URIA) and minority interests from the corporate zakat base calculation demonstrates that the corporation is not an entity endowed with religious obligations. Zakat is imposed on individual wealth. By eliminating these accounts, the zakat calculation focuses strictly on the net equity belonging to the shareholders as the actual *muzakkī*. The corporation's position is merely that of an agent (intermediary) in the distribution of zakat, rather than an independent legal subject

The 'Net Current Assets' method filters out assets with growth potential (*namī*) and assets with perfect ownership (*milkun tām*). Because perfect ownership can only be held by individuals, not legal entities, this method ensures that the zakat paid is truly derived from the net assets of the shareholders. The individual rights of the company owners are maintained and are compliant with Sharia law.

This approach reinforces that in practice, within Sharia accounting, the legal person is not viewed as a fully autonomous entity, but rather as a transparent vessel through which the obligations of the actual owners are channeled. This structural decomposition also demonstrates an effort to prevent miscalculation of assets that—while legally recorded on the corporate balance sheet—are in economic substance owned by external parties, such as creditors and investors

3. Epistemic Decomposition of Zakat Presentation in Financial Statements

Shari'ah Standard 35 AAOIFI, complements the net asset method by mandating that zakat be treated as an equity attribution post-net profit, equivalent to dividends rather than an operational expense. This mandatory classification, alongside designating the corporation as a *muzakkī* in formal discourse, reinforces the conceptual paradox of 'legal hypocrisy'.

⁴⁵ Accounting and Auditing Organization for Islamic Financial Institutions. *Shari'ah standards*. AAOIFI. (Manama: AAOIFI, 2017)

The algebraic decomposition of the Statement of Changes in Equity is formulated as follows:

$$\Delta \text{Equity} = \text{Net Income} - \text{Zakat} - \text{Dividends}$$

The similar position of zakat to dividends in the Statement of Changes in Equity indicates that the corporation does not function as a muzakkī. If the corporation were the bearer of taklīf (legal-religious obligations), then zakat should be recognized in the Income Statement as an expense—deducted before determining the owners' rights. However, by classifying it as an equity allocation, the Sharia Accounting Standards emphasize that the corporation only acts as a zakat-paying agent (wakīl) tasked with distributing the obligations of its shareholders.

4. Empirical Evidence: Al Rajhi Bank and Panin Dubai Sharia Bank

The financial statements of Al Rajhi Bank ⁴⁶ and Panin Dubai Sharia Bank⁴⁷ provide empirical evidence for the epistemic negation of corporations' status as muzakki. Both banking institutions present zakat as a deduction from equity. In their income statements, zakat is found to be a deduction from net profit.

Epistemically, this banking accounting treatment reveals that the bank is not actually the subject of zakat, but merely functions as a *wakīl* or a zakat collection agent, channeling the zakat obligations of the shareholders. By separating zakat from net income, the bank's profitability metrics remain institutionally 'clean' from religious levies. This pattern is identified as a strategy to remain aligned with global investment metrics that demand profit performance, without having to abandon the image of Sharia compliance in the eyes of the public.

Connecting the dots, this practice ultimately culminates in a form of legal hypocrisy sanctioned by accounting standards. Consequently, an ironic disconnection occurs: the bank enjoys an institutional 'aura of religiosity,' yet when the time comes to bear the financial burden of those values, it suddenly retreats behind the fiction of being a mere administrative agent. This is no longer just a survival strategy, but a form of legal space manipulation, where the entity seeks recognition as a Sharia subject for the sake of image, while remaining a 'neutral object' regarding its liabilities.

5. The Transparency and Anticipatory Advantages of Classical Islamic Jurisprudence.

Islamic accounting standards (AAOIFI) essentially reformulate this classical Islamic jurisprudence logic into technical language. They perform an algebraic separation of assets (separating beneficial and ownership rights) without necessarily assigning "human" status to these entities.

If we dissect the theory of rights and legal personality through what Kurki (2019) describes as the legal bundle, it becomes evident that classical Islamic jurisprudence is actually far more 'honest' and anticipatory than modern legal theory in responding to the corporate phenomenon..

Rather than falling into a binary trap—whether something is a legal subject or merely an object—Kurki views the legal person as a 'bundle' or a cluster of decomposable legal incidents. This is where the superiority of classical Islamic jurisprudence lies. Through what is observed in the algebraic decomposition of AAOIFI standards, classical *fiqh* inherently performs a sharp 'ontological separation'.

Classical Islamic jurisprudence does not need to create the fiction of the corporation as a *shakhṣiyyah i'tibāriyyah* to enable its transactions. By granting specific legal incidents, such as the capacity to manage assets, while withholding moral attributes or *dhimmah* (ultimate

⁴⁶ Al-Rajhi Bank. *Al-Rajhi integrated annual report 2024*

⁴⁷ Panin Dubai Syariah Bank. *Annual report 2024*.

responsibility) from such an abstraction, classical Islamic law successfully separates an entity's administrative-economic functions without obscuring the moral responsibility that remains inherently borne by the humans behind it.

D. Conclusion and Implication

1. Conclusion

This study concludes that the status of corporations as *muzakkī* (subjects of zakat on wealth) in contemporary Islamic jurisprudence is an incoherent legal fiction. The main findings of this study are formulated as follows:

First, genealogically and ontologically, there is a fundamental failure in transplanting the concept of a legal person into Islamic jurisprudence. Historical inquiry reveals that since its origins in the Roman, Canon, Continental European, and Anglo-Saxon traditions, the concept of *persona ficta* was deliberately constructed as an administrative instrument that "lacks moral agency." Drawing on John Searle's theory of 'Institutional Facts,' a corporation is not a 'brute fact' possessing consciousness, but a social construction designed to be morally neutral. Assigning the function of *taklif* (divine obligation) to a corporation, which is an artificial entity, is a category mistake. Ontologically, the corporation lacks the spiritual instruments—namely intellect (*‘aql*), intention (*niyyah*), and soul (*nafs*)—required to bear *dhimmah* (moral accountability).

Second, the recognition of the corporation's status as a subject of wealth zakat is a manifestation of 'legal hypocrisy.' It serves as a systemic 'immune response' of the Islamic economic legal system to preserve the religious legitimacy of Islamic financial institutions amidst the pressures of global economic pragmatism. By maintaining the doctrinal facade of the corporation as a *muzakkī* while operatively rejecting it, Shari'ah authorities attempt to align the demands of the modern market with the anthropocentric principles of classical Islamic jurisprudence.

Third, through the epistemic decomposition of the accounting equation, this research concludes that Islamic banking systematically negates the corporation's status as a legal subject. The classification of zakat as an allocation of equity—rather than an entity expense—mathematically confirms that the zakat obligation remains attached to the economic rights of the shareholders (natural persons). Operationally, Islamic financial institutions function merely as payment agents (*wakīl*), not as *muzakkī* who bear the actual burden of the religious obligation. Classical Islamic jurisprudence is far more 'honest' and anticipatory than modern legal theory in responding to the corporate phenomenon. Classical Islamic law separates the administrative-economic functions of an entity without obscuring the moral responsibility that remains mandatory for the humans behind it.

2. Implications and Contributions

Theoretically, this study makes an interdisciplinary contribution by bridging technical accounting analysis, legal philosophy, and sociology to uncover epistemological rifts in Islamic finance. Practically, this study urges global standard-setting bodies, such as the AAOIFI, to undertake an ontological reconstruction of corporate zakat standards to promote transparency and coherence between legal claims and operational realities.

Without these steps, the integrity of zakat jurisprudence risks degenerating into a mere formalistic instrument, thereby losing its credibility in the eyes of the public and global market players. However, this reconstruction is not an attempt to weaken the position of corporations in the Islamic economy, but rather a crucial step towards strengthening it. By pursuing this

ontological reorientation, Islamic finance will move beyond simply adopting conventional legal fictions to developing a legal framework truly grounded in its own substantive values. This is a strategic step to ensure that zakat remains a transparent instrument of social justice, grounded in genuine moral action.

Limitations and Future Directions

While this study provides in-depth critical insights into the ontology of corporate zakat, it acknowledges several limitations. First, the epistemic decomposition is strictly limited to the global standard AAOIFI FAS 39, thus local regulatory frameworks (such as Indonesia's PSAK or Saudi Arabia's ZATCA) are not thoroughly examined. Second, as a qualitative-interpretive inquiry utilizing specific social theories, the research findings do not provide quantitative empirical validation of how corporate managers and sharia board members understand legal hypocrisy in practice. Finally, this research is conducted from a general corporate perspective, not addressing complex stratifications such as state-owned enterprises, local companies, or cross-border multinational corporations and the diversity of their business activities.

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