

ZAKAT POLICY



The Compassion Fund

SEPTEMBER 2025

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INTRODUCTION & POLICY STATEMENT

The Compassion Fund (TCF) is entrusted with the responsibility of receiving, safeguarding, and disbursing zakat funds in accordance with the Qur’anic injunctions and relevant scholarly guidance.

As a Donor-Advised Fund (DAF) and charitable grant-maker, TCF does not deliver programmes directly. Instead, its role is to:

- Receive zakat contributions from donors and DAF clients.
- Verify the eligibility of delivery partners to receive zakat.
- Ensure zakat is allocated only within the eight categories set out in the Qur’an (Surah At-Tawbah, 9:60).
- Monitor and report on zakat utilisation in a manner that upholds both shariah compliance and charity law obligations.

TCF IS COMMITTED TO THE FOLLOWING PRINCIPLES IN ADMINISTERING ZAKAT:

INTEGRITY

All zakat is managed transparently and applied faithfully to the purposes intended.

COMPLIANCE

Funds are disbursed only to eligible partners, activities, and beneficiaries, within the limits of Islamic law and regulatory frameworks.

ACCOUNTABILITY

Donors, trustees, and beneficiaries are provided with clear and accurate reporting.

EQUITY

Zakat is allocated without discrimination, based on need and eligibility under Qur’an 9:60.

While shariah permits a portion of zakat to be allocated to administrators, TCF does not deduct administration costs from zakat funds it receives.

- **100% of zakat contributions are passed to delivery partners**
- Partners may, where appropriate, **allocate a proportion of zakat to eligible administration costs at no more than 12.5%**, but this must be explicitly approved and reported separately.
- **Gift Aid is not considered part of Zakat** and is treated as a separate transaction from zakat donations.
 - TCF and delivery partners are not bound by zakat restrictions on Gift Aid and may use these funds as they would general donations, in line with their charitable objectives.
 - TCF applies a 3% fee on Gift Aid claims it processes on behalf of charities. This charge relates only to the administration of Gift Aid and has no impact on zakat funds.

This policy provides the framework through which TCF manages zakat, ensuring clarity for donors, trustees, staff, and partner organisations.

100%

**OF ZAKAT
CONTRIBUTIONS ARE
PASSED TO DELIVERY
PARTNERS**

UP TO

12.5%

**FOR ESSENTIAL
ADMINISTRATION,
WITH PRIOR APPROVAL
AND CLEAR REPORTING.**

SCOPE & OBJECTIVES

SCOPE

This policy applies to:

- All zakat funds received by The Compassion Fund, regardless of source (individual donors, fundraising platforms, or DAF clients).
- All TCF entities and operations, across every jurisdiction in which the Fund manages zakat.
- All grants designated as zakat-funded, whether in whole or in part.

It is binding on:

- TCF trustees, management, and staff.
- All delivery partners receiving zakat allocations through TCF.

OBJECTIVES

The objectives of this policy are to:

- Provide clear guidance on the collection, management, and disbursement of zakat funds.
- Ensure zakat is applied only within the categories ordained by Allah (SWT) in the Qur'an (Surah At-Tawbah, 9:60).
- Strengthen TCF's governance, transparency, and accountability in handling zakat.
- Ensure zakat is disbursed swiftly and reaches eligible beneficiaries without unnecessary delay.
- Clarify roles and responsibilities of trustees, staff, and partners in managing zakat.
- Enhance donor and beneficiary confidence that zakat funds are administered with full compliance to both shariah and charity law.

QUR'ANIC BASIS & ELIGIBLE CATEGORIES

The Qur'an specifies eight categories of people eligible to receive zakat:

“Alms are only for the poor, the needy, those employed to administer it, those whose hearts are to be reconciled, for freeing those in bondage, for those in debt, for the cause of Allah, and for the wayfarer – an obligation from Allah. And Allah is All-Knowing, All-Wise.”

(Surah At-Tawbah, 9:60)

TCF recognises its accountability before Allah (SWT) for the faithful distribution of zakat, ensuring strict adherence to these divinely mandated categories.

1 Fuqara (The Poor)

- Defined as those without sufficient means to meet their basic needs and reliant on others for survival.
- Zakat may fund essential assistance such as food, shelter, clothing, healthcare, education, water, and sanitation.
- Priority should be given to those with no income or assets at all.

2 Masakin (The Needy)

- Defined as those whose income or resources are insufficient to meet all of their essential needs, but who may not be as destitute as the fuqara.
- Zakat may support them through food, clothing, education, healthcare, and other necessities.
- It may also support sustainable livelihoods and poverty alleviation initiatives, provided beneficiaries remain zakat-eligible.
- Zakat may not be used where conditions represent an exchange of value (e.g. cash-for-work).

3 'Amil alayha (Administrators of Zakat)

- Refers to those legitimately engaged in the administration and delivery of zakat.
- TCF does not deduct any administration costs itself; 100% of zakat received is passed to delivery partners.
- Where zakat is explicitly designated under this category by donors, funds may be applied fully to administration costs.
- Where zakat is designated for other categories (e.g. Fuqara, Masakin), delivery partners may allocate a reasonable proportion of the funds to essential administrative support (e.g. project delivery staff, finance, IT, compliance).
- As a guideline, this proportion should not normally exceed 12.5%, and must be:
 - Explicitly included in the grant application.
 - Approved by TCF prior to disbursement.
 - Reported separately in financial and narrative reports.
- Ineligible costs include fundraising, marketing, sponsorships, influencers, general training, and governance overheads not directly tied to zakat project delivery.

4	Mu'allafati qulubuhum (Those Whose Hearts Are to Be Reconciled)	<ul style="list-style-type: none"> Historically applied to individuals whose reconciliation benefits the Muslim community. TCF will only fund under this category where a partner provides a certified case supported by legitimate Islamic scholarly opinion, and this has been reviewed and approved by the TCF's Board of Trustees.
5	Riqab (Those in Bondage)	<ul style="list-style-type: none"> Includes modern slavery such as bonded labour, forced labour, and human trafficking. Zakat may be used to emancipate individuals, provided no funds benefit perpetrators. Only projects implemented by registered and compliant partners will be supported.
6	Gharimin (Those in Debt)	<ul style="list-style-type: none"> Support to individuals unable to meet immediate debts. Zakat may cover unrecoverable debts (e.g. microfinance write-offs). Organisational debt is not eligible. All debt support requires robust verification processes.
7	Fi Sabilillah (In the Cause of Allah)	<ul style="list-style-type: none"> TCF interprets this category within widely accepted scholarly views to include: <ul style="list-style-type: none"> Communal welfare assets (e.g. water wells, clinics, schools) where the majority of beneficiaries are zakat-eligible. Essential service providers (e.g. doctors, teachers, health workers) where services directly benefit zakat-eligible people. Skills training and education that demonstrably lifts zakat-eligible people out of poverty. Peacebuilding projects where reducing hardship is the direct outcome. Excluded activities include advocacy, communications, or indirect work where beneficiary impact cannot be verified.
8	Ibn as-Sabil (The Wayfarer)	<ul style="list-style-type: none"> Defined as travellers, refugees, and internally displaced people who are stranded from their wealth. Zakat may provide food, clothing, shelter, transport, healthcare, and other essentials. Applies to refugees not yet resettled and not otherwise classified as fuqara or masakin.

ALLOCATION PRINCIPLES

- Zakat does not need to be distributed equally across categories; allocation is based on rights-holder needs and partner capacity.
- Zakat must be allocated and disbursed within one lunar year of receipt, unless prevented by regulatory or operational constraints.
- Zakat cannot be invested, lent, or used for endowments.
- TCF will ensure zakat is disbursed swiftly, in line with the obligation that zakat is not fulfilled until it reaches the eligible recipient.

COLLECTION & MANAGEMENT OF ZAKAT

ACCOUNTING & DESIGNATION

- All zakat funds are restricted and may only be used for purposes eligible under Qur'an 9:60.
- TCF's accounting systems must:
 - Tag all zakat income separately from other funds.
 - Track zakat disbursements distinctly from other restricted or unrestricted funds.
- Where zakat is blended with other income (e.g. unrestricted donations), zakat must be ring-fenced to eligible activities and cost lines.
- Zakat must be disbursed within one lunar year of receipt, unless there are exceptional regulatory or operational reasons.

RESTRICTIONS & PROHIBITIONS

- Zakat cannot be used for:
 - Loans, revolving credit funds, or microfinance lending.
 - Endowments, investments, or income-generating activities for TCF.
 - Organisational debt (whether TCF's or a partner's).
 - Any activity outside the eight Qur'anic categories.
- Zakat may not be accepted or disbursed where donor-imposed conditions conflict with Islamic principles (e.g. restrictions that prevent swift or equitable distribution).

FUNDRAISING RULES

- TCF encourages donors and fundraising partners to contribute to a general zakat fund, to maximise flexibility and swift disbursement.
- Donors may specify a zakat category, but:
 - TCF trustees retain ultimate discretion to ensure shariah compliance.
 - Where donor conditions cannot be met, TCF will:
 - Inform the donor and suggest reallocation to another zakat-compliant purpose.
 - Decline the zakat donation if compliance cannot be achieved.
- Marketing and fundraising communications must:
 - Clearly state that zakat is restricted to Qur'an 9:60 categories.
 - Avoid presenting zakat as a "restricted by country or project" option, unless such projects are already identified and available.
 - Comply with applicable data protection and fundraising regulations (e.g. GDPR, UK Fundraising Regulator standards).

GOVERNANCE OF ZAKAT FUNDS

- All zakat decisions must be documented, including category allocation, grant agreement terms, and disbursement date.
- TCF trustees remain accountable for the faithful management of zakat, regardless of donor instruction.
- A quarterly internal review of zakat funds will be conducted by the Grants & Finance teams to confirm:
- All zakat is tagged, tracked, and disbursed correctly.
- Allocations remain zakat-compliant.
- No prohibited activities have been funded.

USE OF ZAKAT FUNDS

As set out in Section 3.2 (Eligible Categories), zakat may only be used for activities within the eight Qur'anic categories (Surah At-Tawbah, 9:60).

ELIGIBLE EXPENDITURE [SUMMARY]

- Direct relief (food, shelter, clothing, healthcare, education, water, sanitation).
- Programmes that alleviate hardship for zakat-eligible beneficiaries.
- Communal assets (e.g. wells, clinics, schools) where the majority of beneficiaries are zakat-eligible.
- Service providers (e.g. teachers, health workers) delivering direct services to zakat-eligible people.
- Peacebuilding or protection initiatives where the direct outcome is poverty alleviation or relief.

PROHIBITED EXPENDITURE [SUMMARY]

- Zakat cannot be used for:
- Loans or revolving credit funds.
- Investments, endowments, or income-generating activities.
- Organisational debt repayment.
- Fundraising, marketing, advocacy, or governance costs not directly benefiting zakat-eligible beneficiaries.
- Any activity outside the Qur'anic categories described in Section 3.2.

ADMINISTRATION COSTS

- **TCF's Position:** The Compassion Fund does **not deduct any administration costs** from zakat funds it receives.
- **100% of zakat received is disbursed to delivery partners** for zakat-compliant activities.
- **Partner Administration:** Delivery partners may allocate up to **12.5%** of zakat funds for eligible administration costs, provided that:
 - The allocation is explicitly stated in their grant application.
 - It is approved by TCF before disbursement.
 - It is reported separately in financial and narrative reports.
- Eligible partner admin costs include:
 - Direct project delivery costs.
 - Direct support costs linked to specific zakat projects.
 - A proportion of indirect but essential support costs (e.g. IT, finance, HR) that can reasonably be attributed to zakat project delivery.
- Ineligible partner admin costs include:
 - Fundraising, marketing, and event sponsorship.
 - General training and governance overheads.
 - Non-project-related organisational expenses.

PARTNER ELIGIBILITY & DUE DILIGENCE

ELIGIBILITY CRITERIA

- **Zakat funds will only be granted to registered, verifiable charitable organisations in good standing with their national regulator.**
- Partners must demonstrate capacity to deliver zakat-compliant activities within one or more of the eight Qur'anic categories (see Section 3).
- Grants will not be made to:
 - Unregistered or informal groups.
 - Organisations under regulatory sanction, suspension, or investigation.
 - Partners with unresolved serious governance, safeguarding, or financial integrity issues.

DUE DILIGENCE REQUIREMENTS

All partners must pass TCF's risk-based due diligence process, which includes:

- Verification of legal registration and bank account in the organisation's name.
- Sanctions and adverse media screening of organisation and key personnel.
- Review of governance, safeguarding, anti-fraud, and financial management policies.
- Financial health assessment through recent audited or certified accounts.
- Risk tier assignment (Tier 1, 2, or 3) based on grant size, partner maturity, and country risk.

ZAKAT-SPECIFIC CHECKS

For zakat-funded grants, additional checks must confirm:

Category Eligibility –
Partner must specify the zakat category under which funds will be applied.

Expenditure Alignment – Proposed activities are zakat-eligible (see Section 5.1).

Prohibitions – No zakat funds will be allocated to ineligible activities (see Section 5.2).

Ring-Fencing –
Where zakat is combined with other funds, zakat must be tracked and reported separately.

The zakat category(ies) will be explicitly stated in the grant agreement and will form part of the monitoring and reporting obligations.

ESCALATION

Any of the following identified during due diligence requires escalation to the Global Desk Coordinator (GDC) and Global COO before approval:

- Sanctions match or adverse media concerns.
- High-risk country operations (automatic Tier 3).
- Major governance or safeguarding gaps.
- Complex or unclear organisational structures.
- Proposed zakat activity falling into disputed or grey areas under shariah.

TCF's Trustees retain final discretion on approving or declining any zakat-funded partnership.

MONITORING, VERIFICATION & REPORTING

MONITORING FRAMEWORK

All zakat-funded grants are subject to TCF's **Global Monitoring & Evaluation (M&E) Procedure**.

Monitoring frequency and depth are determined by the partner's **risk tier** (Tier 1, 2, or 3) in line with TCF's Due Diligence Framework.

Every zakat monitoring cycle must include a **Quick Internal Due Diligence Refresh**, with zakat-specific checks embedded.

ZAKAT VERIFICATION

A dedicated Zakat Verification step must be completed during each M&E review.

TCF's Officers must:

- Confirm zakat category eligibility was stated in the grant agreement.
- Verify expenditure aligns only with the agreed zakat category.
- Ensure no prohibited activities (e.g. loans, investments, non-eligible activities) were funded.
- Confirm zakat expenditure is reported separately from other funds in financial and narrative reports.
- Where zakat is combined with other funding in a single grant, confirm it has been ring-fenced to eligible cost lines.
- Ensure partner reporting provides sufficient beneficiary and activity detail to evidence zakat use.

REPORTING REQUIREMENTS FOR PARTNERS

Provide **narrative and financial reports** that separately identify zakat income and expenditure.

Specify the **Qur'anic category(ies)** applied.

Provide beneficiary data (numbers, profiles, locations) without breaching data protection rules (i.e. no personal data or identifying information).

Report variances between planned and actual expenditure, with justifications.

TCF REPORTING TO DONORS

TCF will provide donors with confirmation of:

- The zakat category funded.
- The delivery partner receiving zakat.
- The date and amount disbursed.
- A summary of impact and beneficiaries reached (based on partner reports and M&E findings).

ESCALATION

Any breach of zakat compliance identified through M&E will be treated as **material non-compliance** and escalated in line with TCF's escalation procedures (suspension of funds, corrective action plan, or referral to TCF's Trustees).

DONOR INSTRUCTIONS & TRUSTEE DISCRETION

DONOR INSTRUCTIONS

- Donors and DAF clients may indicate a preferred zakat category for their contributions (e.g. supporting the poor, refugees, or debt relief).
- TCF will seek to honour donor preferences where they align with zakat compliance and operational feasibility.
- If donor conditions cannot be met:
 - TCF will inform the donor promptly.
 - Donors will be encouraged to reallocate to another zakat-eligible purpose.
 - Where compliance cannot be achieved, TCF may decline the zakat donation.

TCF'S TRUSTEE DISCRETION

- Under UK charity law and Islamic principles, **trustees retain ultimate discretion** over the allocation of zakat funds to ensure compliance and integrity.
- Trustees must be satisfied that:
 - Allocations fall strictly within the Qur'anic categories (Surah At-Tawbah, 9:60).
 - Zakat is disbursed swiftly and without undue restriction.
 - No prohibited activities are funded.
- If donor instructions conflict with zakat compliance, trustees will reallocate the funds to an appropriate category in consultation with the donor.

SCHOLARLY GUIDANCE

- In cases of uncertainty or differing scholarly opinion, TCF will rely on **recognised scholarly guidance** to ensure allocations are shariah-compliant.
- Trustees may seek external advice (e.g. Islamic scholars or advisory boards) for complex or borderline cases.

GOVERNANCE & POLICY REVIEW

GOVERNANCE & ACCOUNTABILITY

- The Board of Trustees of The Compassion Fund is ultimately responsible for the faithful management and distribution of zakat funds.
- Trustees must ensure zakat allocations comply with both:
 - The Qur'anic categories (Surah At-Tawbah, 9:60).
 - UK charity law and relevant regulatory requirements in other jurisdictions where TCF operates.
- Day-to-day responsibility for zakat administration is delegated to TCF management and staff, who must act within this policy and related procedures (Grant Policy, Due Diligence Framework, M&E Procedure).
- All zakat decisions must be documented and auditable, with a clear record of category allocation, disbursement, and partner reporting.

POLICY REVIEW

- This policy will be reviewed **every two years**, or sooner if:
 - There are significant changes in UK charity law or international regulatory requirements.
 - Relevant scholarly guidance on zakat allocation evolves.
 - Operational experience highlights the need for clarification or improvement.
- Reviews will be led by the **Global Desk Coordinator** and **Global COO**, with input from trustees and, where necessary, external Islamic scholars.
- Any substantive changes must be formally approved by the **Board of Trustees**.

CLOSING NOTE

The Compassion Fund is committed to ensuring zakat is applied faithfully and effectively, in line with the Qur'an's categories and legal requirements.

Our framework is designed to protect donors, partners, and beneficiaries by upholding the highest standards of governance and accountability.



The Compassion Fund