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A Comprehensive Analysis of The Varied Interpretations among Islamic Scholars Concerning Bitcoin Transactions

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Abstract
At present, there is a notable divergence in viewpoints among Islamic scholars pertaining to the legality of Bitcoin transactions. A subset of these scholars categorically prohibits its use, while another endorses it. This disparity has precipitated confusion within the Muslim community, thereby complicating the task of adopting one stance over the other. The primary aim of this study is to meticulously examine and analyze the arguments presented by both subsets, with the objective of shedding light on the underlying causes of this divergence of viewpoints. To achieve this, the study utilizes a blend of descriptive and inductive analytical methodologies. The findings indicate that the scholars who prohibit Bitcoin largely base their arguments on external factors, with a minority of objections directly related to the inherent attributes of Bitcoin itself. In contrast, the subset that endorses the use of Bitcoin tends to focus on the intrinsic system of Bitcoin, often minimizing the importance of external factors. However, even the endorsers of Bitcoin acknowledge that current Bitcoin transactions are not without risks. They suggest that these risks should be addressed by the appropriate authorities through the implementation of effective preventive measures.
Keywords: Bitcoin, Bitcoin Transaction, Blockchain, Prohibition of Bitcoin, Obligation of Bitcoin

Introduction

Since the emergence of bitcoin in 2009 after its introduction by Nakamoto (2008), it has invited various perceptions and views from the public regarding its use. The emergence of bitcoin is a result of the development of financial technology (fintech) in the present time that aims to facilitate online payments without involving third parties, save costs, be more transparent and safer (Masruron, 2021). This cryptocurrency appeared as a result of technological advancement to replace minted money such as fiat money, coins, and others. However, it has received various reactions from authorities, academics and the general public.

According to some Islamic scholars, bitcoin does not meet the criteria of riba and *gharar* in Islam, two crucial principles in financial transactions in the religion. Riba refers to the profit gained through the application of interest or an unequal rate, while *gharar* is characterized by a high level of uncertainty in financial transactions. The scholars believe that bitcoin is also associated with a high and unstable level of risk, making it unsuitable as a payment method or source of income. Additionally, the ownership of digital currency is perceived as uncertain and raises ethical issues. Hence, those who hold the view that prohibits bitcoin believe that its ownership and usage contravene Islamic principles and should not be incorporated into Islamic financial practices. (Afrizal et al., 2021; Al-Saad & Al-Rawabidah, 2020; Asep & Elsa, 2018; Hardian & Ahmad, 2021; Masruron, 2021).

Bitcoin is a digital currency that boasts several advanced features, one of which is its blockchain system. This technology has become a trend in the fintech industry due to its ability to create various forms of currency. The blockchain operates by securely storing all cryptocurrency transactions and protecting against any issues related to cybercrime. The introduction of the blockchain system coincided with the creation of bitcoin in 2009, and it serves as a record of all transactions made with the currency. Each node or user computer has a copy of the blockchain that is automatically downloaded upon joining the bitcoin network. The blockchain stores a complete history of transactions, from the first ever made to the most recent, including the time and date of each. This information is shared among participants in the peer-to-peer network for validation. Essentially, the blockchain is an open record accessible to the public, allowing for full transparency of all bitcoin transactions (Nakamoto, 2008). Beyond Bitcoin, the blockchain is also the central technology for other decentralized digital currencies.

The blockchain has the characteristic of a peer-to-peer network that is decentralized, meaning anyone in the network without prior acquaintance can communicate or conduct business with others without the involvement of a third party. Every transaction will be recorded on the blockchain (Nababan, 2019; Sapra & Dhaliwal, 2021). For a transaction, the sender initiates it by signing its digital signature in the transaction (Nakamoto, 2008). This transaction request will be broadcasted in the computer network for the purpose of confirming the transaction by ensuring whether the sender is eligible or not to make the transaction. The confirmed transaction will then be linked to previous transactions. After a certain period, the transactions are used to create a new block. In the new block, all transactions are converted to a hash (digital signature) using a specific hash algorithm based on the consensus protocol. The new block will be added to existing blocks that are connected through the previous block hash. The transaction is now finally completed. The transaction becomes valid only after it is added to the blockchain (Sapra & Dhaliwal, 2021). Blockchain information can only be added and cannot be changed because each block has been converted to a hash value to guarantee its safety and reliability (Sapra & Dhaliwal, 2021).

Due to the bitcoin is a newly relatively technology, it has received varied reactions from Islamic scholars. Some of them consider the ownership and transaction of bitcoin as haram (forbidden), while others consider it as halal (permissible).

Acceptance of Bitcoin Around the World

Although bitcoin is a digital currency and stored in the highly secure blockchain system, its acceptance varies among communities around the world. Most countries do not permit bitcoin and cryptocurrency transactions such as China, Indonesia, Jordan, Morocco, and others (Afrizal et al., 2021; Al-Mabtul, 2021; Central Bank of Jordan, 2020; Hardian & Ahmad, 2021; Umar, 2021).

Despite this, there are countries that allow bitcoin trading. One of them is Japan, which allows purchases and payments using bitcoin, even though it is not considered as an official currency (Umar, 2021). South Korea is also one of the countries that allows bitcoin trading and has a good monitoring system. However, bitcoin is still not recognized as a valid means of payment (Afrizal et al., 2021).

Switzerland is also a significant center for cryptocurrencies and bitcoin. Switzerland categorizes bitcoin as an asset on par with gold and real estate and allows it to be purchased through ATMs. Nevertheless, bitcoin is still not classified as a legally accepted standard of payment. In Singapore, bitcoin is considered an asset and can be traded and is subject to Anti Money Laundering (AML) and Counter Financing of Terrorism (CFT) regulations (Afrizal et al., 2021; Umar, 2021).

In the United States, there is no single specific regulation for bitcoin as it falls under the jurisdiction of each state. However, trading of bitcoin is allowed and there are major cryptocurrency exchanges like Coinbase, Binance, Bittrex, and Poloniex (Afrizal et al., 2021; tripleA, 2021). Profits from cryptocurrency trading are taxed and payments using cryptocurrencies are also allowed (Umar, 2021).

In Britain, bitcoin is considered as a foreign currency and is taxed (Umar, 2021). Meanwhile in Hong Kong, bitcoin is not recognized as a valid currency but is considered a virtual commodity that is not supported by any physical item, producer, or real economy and does not have a fixed value. Bitcoin is also outside the purview of the Hong Kong Financial Authority (Hong Kong Police Force, 2022).

Germany became the first country to officially recognize bitcoin as a digital currency in 2013 and taxes are also imposed on companies involved in bitcoin trading. However, individual profits from bitcoin transactions are exempt from these taxes (Umar, 2021).

Besides, from the issue that occurred Singapore does not look down upon cryptocurrencies and has begun to follow the growths in cryptocurrency technology. This matter is also supported by its Prime Minister, Lee Hsien Loong, who urges the banking sector to look at new innovative approaches in utilizing their economy and trade to become more advanced. In addition, the Singapore Central Bank in March 2014 planned to control cryptocurrencies by addressing the issues of money laundering or other financial risks that may arise in the future (Zulhuda & Sayuti, 2017).

In Malaysia, bitcoin is not considered a legally recognized currency. In the meantime, bitcoin is not regulated by the Central Bank (Bank Negara Malaysia, 2014). However, there are some cryptocurrency trading platforms that are allowed to operate and register at with the Securities Commission Malaysia (2019).

In addition, there are also large companies that accept payments using bitcoins. One of them is Microsoft, which has begun accepting payments for some of its products using bitcoins since 2014 and has begun experimenting with blockchain technology. The software giant has launched its first blockchain product Azure Blockchain Service in 2015. This is a managed cloud service that makes it easy to develop, use, and apply blockchain applications. This move is seen as a way to make it easier for developers to create bitcoin-based applications (Lassuyt, 2022; Lisa, 2021).

In October 2020, PayPal (PYPL) announced that its customers were allowed to buy, hold and sell cryptocurrencies directly from their PayPal accounts. This step was seen as a way for PayPal to capitalize on the growing interest in cryptocurrencies. PayPal has been one of the largest payment processors in the world for years, handling millions of transactions every day. According to reports, the company has over 346 million active accounts and processed payments worth over 200 billion USD in the first quarter of 2021 alone (Lassuyt, 2022).

In line with Microsoft's footsteps, AT&T partnered with BitPay to become the first mobile phone company to offer cryptocurrency payment options to its customers starting in May 2019. AT&T customers can choose to pay their bills using bitcoin. It is one way to make it easier for customers to settle bills received (Lassuyt, 2022).

In January 2020, the famous fast food chain Burger King announced the acceptance of cryptocurrency payments in selected restaurants in Venezuela. This step aimed to help the people of Venezuela who are struggling with hyperinflation. Burger King's ability to accept cryptocurrency is through its partnership with Cryptobuyer, which is one of the companies that processes cryptocurrency payments. Through this partnership, Burger King in Venezuela began accepting bitcoin, litecoin, ethereum, dash, and tether (Lassuyt, 2022).

The Japanese company, Rakuten, has started allowing its customers to make payments using bitcoin since 2015. It started from its branches in the United States before expanding its acceptance to Germany and Austria. Now, Rakuten has developed the Rakuten Wallet which has evolved to support other cryptocurrencies such as bitcoin cash and ethereum. Users can add value to their Rakuten Cash balance directly using cryptocurrency assets (Lisa, 2021).

Analysis of Islamic Scholar's View on Bitcoin Transactions

It seems that the issue is complicated. Yet, after all the issues raised, there are two views of Islamic scholars regarding transactions of bitcoin, one of them among the scholars mention that the bitcoin is to be prohibited and the other views of scholars consider it to be permitted. Both views will be analyzed to determine the underlying basis for these views.

a) Analysis of Reasons for the Prohibition of Bitcoin

Certain Islamic scholars maintain that Bitcoin fails to satisfy the criteria of *riba* and *gharar*, two crucial principles in Islamic financial transactions. According to this view, bitcoin also has a high and unstable risk, making it unfit to be used as a means of payment or source of income. The concept of owning digital currency is also placed at an uncertain level and raises many ethical questions. Therefore, the view that prohibits bitcoin considers that ownership and use of it are not in line with Islamic principles and should not be used in Islamic financial practices (Afrizal et al., 2021; Al-Saad & Al-Rawabidah, 2020; Asep & Elsa, 2018; Hardian & Ahmad, 2021; Masruron, 2021).

Several institutions and financial bodies prohibited cryptocurrency include the Turkish Religious Affairs Office, the Syrian Islamic Council, the Palestinian Fatwa Body, the Egyptian Fatwa Body, Pakistan, the UAE, Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, Indonesia, Iran, and Algeria (Afrizal et al., 2021; Al-Saad & Al-Rawabidah, 2020). The Indonesian Ulama Council (Majelis Ulama Indonesia, 2021) has also prohibited cryptocurrency, but they have required it if it is based on a commodity or asset.

Based on the issues above, several reasons for the prohibition of cryptocurrencies categorized by the Islamic scholars as the following:

- Not being recognized as an official currency and being rejected by most countries (Asep & Elsa, 2018; Jad Allah, 2018).
- The source being unknown, not being monitored by authorities, lacking guarantees and audits on its system, causing it to be unreliable and creating *gharar* (Afrizal et al., 2021; Faizal, 2021). However, according to Jad Allah (2018), this reason alone does not make bitcoin haram because it has a sophisticated blockchain system which makes it trustworthy and open to monitoring.
- Unstable and manipulable prices, leading to bubbles (Afrizal et al., 2021). However, according to Allah (2018), changes and instability in prices do not make bitcoin haram because it can also happen to the currencies of a country and stocks in the market.
- Easy to use for illegal activities such as money laundering, funding terrorism and drug trafficking because its transactions can be hidden from authorities (Afrizal et al., 2021; Asep & Elsa, 2018). However, according to Allah (2018), the misuse of bitcoin for illegal purposes does not make it haram because there are other currencies and stocks used for illegal purposes, but it does not affect their legality.
- Not considered to have any value (Al-Saad & Al-Rawabidah, 2020).
- Considered to be gambling due to the lack of guaranteed returns on purchases and considered to be consuming someone else's property unlawfully (Afrizal et al., 2021; Hardian & Ahmad, 2021; Allah, 2018).
- Lacking intrinsic value and not anchored to any asset, making it unable to serve as currency (Afrizal et al., 2021; Asep & Elsa, 2018).
- Unable to serve as the price of a commodity due to its constantly changing value (Jad Allah, 2018).

- Disrupts to a country's financial system (Asep & Elsa, 2018; Faiz et al., 2019).
- The security system of bitcoin exchanges can also pose problems, as they have been hacked several times, causing losses worth millions of dollars (Faiz et al., 2019).
- The emergence of various bitcoin investment scams, mostly based on get-rich-quick schemes (Faiz et al., 2019).

Based on the reasons mentioned before, this issue can be summarized that the forbidden of bitcoin transactions is mostly due to external factors such as not being officially recognized as a currency by any country, the unstable price that cannot be a commodity price and the price that can be manipulated leading to a bubble, ease of use for illegal activities, lack of guarantee of profits when buying it, causing chaos to a country's financial system, an insecure bitcoin exchange that can cause scams based on Bitcoin. Therefore, some analysts suggest that the use of Bitcoin be restricted to avoid the drawbacks that will arise based on the principle of *sadd al-dhara'i* (closing the way that can lead to harm) so that it does not spread in society. Something that should originally be prevented when it turns out to be able to cause greater harm. Therefore, the government and authorities have the right to block any Bitcoin transactions for the sake of protecting the general welfare of society (Faiz et al., 2019). This is in line with the principle of fiqh which states: The meaning is: An individual's action by the government towards the people is based on the welfare (Al-Zarqa, 1989).

On the other hand, only a few reasons are given due to the nature of Bitcoin itself, such as lacking intrinsic value and not being based on an asset and its source being unknown. However, these reasons are not strong enough to completely ban Bitcoin. This is because the fiat currency used today also does not have intrinsic value and is not based on an asset, but it is not banned from use. While the claim that the source of Bitcoin is unknown is an unfounded claim because Bitcoin has a secure, trustworthy and monitorable blockchain system.

In conclusion, the firm reason for the forbidden of bitcoin is based on external factors and not the system of Bitcoin itself. Therefore, if these external factors can be overcome. Eventually, bitcoin transactions as well would be permitted.

b) Analysis of the Reasons Behind the Legitimacy of Bitcoin Transactions

Some Islamic scholars allow the ownership and transaction of bitcoin, but they have different opinions on whether bitcoin can be considered a currency or not (Afrizal et al., 2021; Al-Saad & Al-Rawabidah, 2020; Asep & Elsa, 2018; Hardian & Ahmad, 2021; Faiz et al., 2019).

According to the Selangor State Fatwa Committee Meeting (Anhar Opir, 2021), digital currency transactions are permissible and can be used as a means of payment, a medium for transferring money and a savings asset. However, users of digital currency are advised to have sufficient knowledge of the following matters

- The type, main characteristics and risks associated with digital currency.
- Adequate technicalities on how to obtain digital currency and where it needs to be stored to ensure its safety.
- Regulations set by licensed digital currency exchange platforms that are approved and supervised by authorized parties; and
- Laws and regulations related to digital currency.

In addition, the Malaysia Securities Commission's Shariah Advisory Council (Suruhanjaya Securiti Malaysia, 2020) determined that digital currencies have three types:

- A digital currency based solely on technology without being based on anything and is considered speculative and not a currency from a Shariah perspective. This type of digital currency is not categorized as a *ribawi* item. Therefore, it is not subject to the principle of bay al-sarf (currency exchange) in trade.

- A digital currency based on gold, silver, and other currencies is categorized as a currency from a Shariah perspective. Therefore, the trade of this type of digital currency is subject to the principle of *bay al-sarf*.
- A digital currency based on *ribawi* items other than gold, silver, and currencies is categorized as *ribawi* assets. Therefore, trade in this type of digital currency is subject to the conditions of exchanging *ribawi* items, which form its basis.

The Sharia Advisory Council of the Securities Commission Malaysia (Suruhanjaya Securiti Malaysia, 2020) also decided that investment and trade in Digital Assets that meet the above criteria is only allowed if traded through a registered Digital Asset Exchange (DAX) with the SC. Some of the approved platforms include Luno Malaysia Sdn Bhd, SINEGY Technologies (M) Sdn Bhd, Tokenize Technology (M) Sdn Bhd, and MX Global Sdn Bhd. Therefore, all other DAX operators not listed are required to immediately stop all activities related to digital asset trading and directed to return all funds and assets collected from investors (The Securities Commission Malaysia, 2019).

The meeting of the Perlis State Fatwa Committee also holds the view that bitcoin has a legitimate value and it is characterized as a unique form of digital asset and has its own benefits that are permissible, especially for the community who knows how to use and benefit from it. However, at this time, bitcoin is also considered insufficient for currency classification, so it cannot be considered as currency and is not subject to the guidelines of the exchange policy. Therefore, since Bitcoin is recognized as a valuable asset, any ownership exceeding the value of 85 grams of gold and a sufficient period of ownership for one year, the owner of bitcoin must pay 2.5% of the current value of bitcoin as wealth tax (Jabatan Mufti Negeri Perlis, 2018).

Based on the above views, bitcoin is considered as a valuable asset according to Islam and it can be stored and traded. According to the Hanafi school of thought (Al-Zuhayli, 2012), property is defined as anything that can be possessed and utilized in its customary manner. Property must have two characteristics according to them:

- Can be possessed. Anything that cannot be possessed cannot be considered as property, such as knowledge.
- Can be utilized in its customary manner. Anything that cannot be utilized according to Islamic law, such as a dead body or a grain of wheat or a handful of soil, cannot be considered as property.

While property according to the majority of Islamic scholars other than the Hanafi school is defined as anything that has value and the person who damages it must compensate for it (Al-Zuhayli, 2012). Based on this definition, anything that can be utilized, whether it has a physical form or not, is considered property. Therefore, intangible rights such as intellectual property rights are considered as property according to the majority of scholars. However, according to the definition of the Hanafi school, even if it is owned by someone, it is not considered as property.

Based on the definition of property above, some scholars categorized bitcoin as a virtual asset that can be owned and sold, similar to other virtual works such as films, nasheed songs, computer applications, and so on. This is because bitcoin is generated through mining performed by computers, making it a virtual work with property value. Additionally, bitcoin is seen as truly having a price and is valued with existing currencies and can be transferred from one owner to another. Therefore, bitcoin is considered a virtual asset because it cannot be seen or held physically but its existence can be proven in the blockchain (Al-Mabtul, 2021).

Based on the views above, Mohd Daud Bakar (Faiz et al., 2019) also agrees and believes that bitcoin does not contain uncertainty (*gharar*), which can make it haram. However, it still contains a high level of risk (*khatar*) and this element of risk alone cannot make something haram. The volatility of bitcoin's price cannot be used as a reason to prohibit bitcoin and does not play a role in determining the sharia compliance status of a thing. This is because the price of gold also has an unstable value, but it does not mean that buying and selling gold should be prohibited. The step that needs to be taken is to introduce regulations and regulations to control the stability of value and manage its transactions. Regarding the risk of converting illegal money associated with bitcoin, he believes that paper money is also exposed to illegal activities before some regulations and regulations are introduced to deal with the problem. He believes that this problem can be managed and monitored by the authorities.

This viewpoint of Mohd Daud Bakar has been taken into consideration by the Shariah Advisory Council of the Securities Commission of Malaysia (Suruhanjaya Securiti Malaysia, 2020) which decided that digital currency is considered a tradable commodity (*urud*) whether it has backing or not. This decision is in line with the fatwa issued by the states of Perlis and Selangor (Opir, 2021). However, the Perlis fatwa requires owners of bitcoin that reaches the value of 85 grams of gold to pay zakat if a year has passed since ownership (Jabatan Mufti Negeri Perlis, 2018). Therefore, based on the Perlis fatwa, bitcoin is seemingly similar to gold which has the characteristic of *al-namiah* and is therefore required to pay zakat.

According to Nashirah et al (2017), bitcoin cannot be categorized as a currency because it does not meet three criteria: (a) it has no intrinsic value; (b) the holder is unknown; and (c) its price is not stable. Meanwhile, according to the Central Bank of Jordan (2020), cryptocurrencies cannot be a currency because it does not meet the following three functions: (a) it cannot store value due to significant changes in price; (b) it cannot serve as a medium of exchange because it is only accepted by a limited number of merchants; (c) it does not have a stable price, causing difficulties in setting prices for goods or services.

Bitcoin cannot be a currency because although it has value, it cannot be used as a medium of exchange due to its limited amount (Allah, 2018). Only 150-350 thousand, or about 2% of bitcoin in circulation is used for transactions. The limited amount in the market can cause sudden price increases due to the small amount and the increasing demand. The maximum number of bitcoins is only 21 million, which also makes it unable to accommodate all transactions in the market (Dodik et al., 2020; Hardian & Ahmad, 2021; Kurniawan et al., 2021).

In addition, bitcoin also lacks stable prices, making it unsuitable for evaluating goods and services (Al-Saad & Al-Rawabidah, 2020; Kurniawan et al., 2021). The public will not use bitcoin to store their wealth due to fears of a large decline in prices and it is not recognized by banks and financial institutions (Al-Saad & Al-Rawabidah, 2020; Jad Allah, 2018). The price of bitcoin also cannot be predicted using technical analysis, such as stock prices, as its increase is in line with an increase in transactions and its decrease is in line with a decrease in transactions. Therefore, investing in bitcoin is similar to gambling as its price cannot be accurately predicted (Dodik et al., 2020).

Bitcoin cannot become a currency because it is not accepted by most countries and is not under government regulation (Afrizal et al., 2021; Asep & Elsa, 2018; Kurniawan et al., 2021). Bitcoin is also not widely accepted as a payment medium due to many people still being skeptical of its safety and some unable to use it due to internet access limitations

(Nababan, 2019). Therefore, it is limited and cannot function like existing currencies to meet the needs of society.

However, Zaharuddin Abd Rahman Faiz et al (2019) stated that bitcoin meets the characteristics of a currency as outlined by Islam, but it is not a legal tender, meaning a currency issued by a government. Therefore, he warned anyone who has involved themselves with bitcoin to pay zakat on their savings when it becomes due. This view is agreed upon by some researchers who believe that bitcoin has monetary value, and it is not based on interest, unlike fiat money (Dodik et al., 2020).

According to Mohd Faizal (2021), the view that legitimizes bitcoin transactions is based on a micro perspective without considering the external factors of its use on a macro level. This is because from a micro perspective, bitcoin is a digital number that exists in the blockchain and can be transferred to another account. Therefore, it does not contain elements of uncertainty (*gharar*) or ignorance (*jahalah*) that can create doubt.

In conclusion, the notion of bitcoin being permissible based on the aforementioned reasons is grounded on the bitcoin system itself without considering external factors. Despite not being recognized as an official currency by a country, it can be considered ~~as~~ a valuable asset and has value in the eyes of Islamic law.

Conclusion

Based on the above study, the reasons behind the ban of Bitcoin transactions are based on external factors such as not being officially recognized as a currency by any country, its unstable price that cannot be used as a standard for goods and services, its susceptible to manipulation and the possibility of creating bubbles, it can easily be used for illegal activities, there is no guarantee of profit if investing in it, it can cause chaos in a country's financial system, the security of Bitcoin exchanges is not guaranteed and it can lead to scams based on Bitcoin. These reasons do not make Bitcoin inherently haram in and of itself. On the other hand, the reasons behind the permission of Bitcoin transactions are based on the Bitcoin system itself. Nevertheless, they do not deny the existence of harm if Bitcoin is abused, and appropriate action must be taken by the authorities. Therefore, in general, Bitcoin transactions are permissible by default, but can become haram if they cause harm.

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