

## Hidaya Foundation Zakat Information

Information taken from <http://www.hidaya.org/zakat/>

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### 1. What is Zakat (Obligatory Charity)?

Zakat is an obligatory act ordained by Allah (The Glorified and Exalted) to be performed by every adult and able bodied Muslim. It is an important pillar among the five pillars of Islam. Zakat is a part of the wealth and property that Muslims must pay annually, to help the poor of their community. One of the main purposes of Zakat is to keep those who are wealthy clean, monetarily, from sin. It is a form of Sadaqah (charity) which is obligatory on Muslims.

2.0. What is the meaning of Zakat?



### What is the meaning of Zakat?

Zakat literally means "to be clear, to grow, to increase." It comes from the root letters za, kaf, ya, which has several meanings: to be clean [Al-Quran Chapter 24: Verse 21, Chapter 23: Verse 4], to pay the obligatory charity [Al-Quran 2:43], to be pure, innocent [Al-Quran 19:19, 18:74], to be better in purity [Al-Quran 18:81, 19:13], and to praise oneself, to justify [Al-Quran 53:32].

It has been used in the Quran to mean all of these things. It can also be considered a form of sadaqah (charity), given to the poor.

Zakat is:

- Levied on specific assets only, identified by Shariah (Islamic Law) as assets having the potential for growth.
- Levied at the rate of 2.5% each year (calculated according to the lunar calendar\*) on the market value of the Zakat-able assets after deducting therefrom specified liabilities.
- The compulsory transfer of ownership of a portion of the property of the giver, calculated at the rate of 2.5% as aforesaid, to a poor and needy Muslim who qualifies to receive Zakat according to the Shariah.
- An Ibada'h (worship) and not a tax, Obligatory on every Muslim who owns Nisab viz. 613.35 grams of silver, or 87.49 grams of gold or who owns one or more assets liable to Zakat as set out below, equal in value to 613.35 grams of silver or 87.49 grams of gold. .  
(See Sections 12.1 and 12.2 for more on Nisab).

\* Zakat is calculated according to the lunar year. Those who pay Zakat according to the solar year should accordingly, in order to take into account the difference in days, add 3% to the amount of Zakat payable.

With regard to calculations (and specific information throughout this flyer), we have followed the opinion of the Hanafi school of thought. Information on other schools may be found by researching Islamic jurisprudence (fiqh) texts, books, or consulting local scholars in this regard.

### **3. Why should I pay Zakat?**

- Allah (The Glorified and the Exalted- Subhaanahu wa Ta'ala) commands in the Quran, *"Take alms out of their property, you would cleanse them and purify them thereby, and pray for them; surely your prayer is a relief to them; and Allah is Hearing, Knowing."* [Al-Quran 9:103]
- Narrated Ibn 'Umar: *Allah's Apostle said: Islam is based on (the following) five (principles): To testify that none has the right to be worshipped but Allah and Muhammad is Allah's Apostle; to offer the (compulsory congregational) prayers dutifully and perfectly; to pay Zakat (i.e. alms); to perform Hajj. (i.e. Pilgrimage to Mecca), and to observe fast during the month of Ramadan.* (Al-Bukhari, Vol.1, Book 2, No.7).

### **4. What if I don't pay zakat?**

Allah (The Glorified and the Exalted) has strongly warned those who are negligent in the fulfillment of these duties. Thus He said, *"Those who hoard up treasures of gold and silver and spend them not in the way of Allah; give them the news of a painful punishment, on the Day when*

*that (wealth) will be heated in the Fire of Hell and with it will be branded their forehead, their sides, and their backs, (and it will be said to them:) 'This is the treasure which you hoarded for yourselves. Now taste of what you used to hoard.'*" [Al-Quran 9:34-35]

And also: *"And let not those who hoard up that which Allah hath bestowed upon them of His bounty think that it is better for them. Rather, it is worse for them. That which they hoard will be their collar on the Day of Resurrection. Allah's is the heritage of the heavens and the earth, and Allah is Informed of what you do."* [Al-Quran 3:180]

Further, At-Tabarani relates, on the authority of 'Ali, that the Prophet (PBUH) said: *"Allah has enjoined upon rich Muslims a due to be taken from their properties corresponding to the needs of the poor among them. The poor will never suffer from starvation or lack of clothes unless the rich neglect their due. If they do, Allah will surely hold them accountable and punish them severely."* (related by At-Tabarani in Al-'Aswat and as-Saghir).

Narrated Abu Huraira: *Allah's Apostle said, "Whoever is made wealthy by Allah and does not pay the Zakat of his wealth, then on the Day of Resurrection his wealth will be made like a bald-headed poisonous male snake with two black spots over the eyes. The snake will encircle his neck and bite his cheeks and say, 'I am your wealth, I am your treasure.'"* (Bukhari, Vol. 2, Book 24, No.486)

## **5. Why is paying zakat beneficial for me in this world?**

Allah (The Glorified and Exalted) says in the Quran: "*You will not attain piety (righteousness) until you spend of that which you love. And whatsoever you spend, Allah is aware of it.*" [Al-Quran -3:92]

*"And whatever you lay out as usury, so that it may increase in the property of men, it shall not increase with Allah; and whatever you give in charity, desiring Allah's pleasure-- it is these (persons) that shall get manifold."* [Al-Quran 30:39]

*"Allah will deprive usury of all blessing, but will give increase for deeds of charity: For He loves not creatures ungrateful and wicked."* [Al-Quran 2:276]

Additionally, it must be remembered that the Prophet (peace be upon him) said: "*Wealth never decreases because of charity.*" (Muslim, No. 2588).

## **6. Why is paying Zakat beneficial for me in the hereafter?**

*"If you lend to Allah a goodly loan (i.e. spend in Allah's Cause) He will double it for you, and will forgive you. And Allah is Most Ready to appreciate and to reward, Most Forbearing."* [Al-Quran 64:17]

*"Who is he that will lend to Allah a goodly loan, then (Allah) will increase it manifold to his credit (in repaying), and he will have (besides) a good reward (i.e. Paradise)." [Al-Quran 57:11]*

*"Verily, those who give Sadaqat (i.e. Zakat and alms, etc.), men and women, and lend to Allah a goodly loan, it shall be increased manifold (to their credit), and theirs shall be an honorable good reward (i.e. Paradise)." [Al-Quran 57:18]*

*"The believers must (eventually) win through, Those who humble themselves in their prayers; Who avoid vain talk; Who are active in deeds of charity." [Al-Quran 23:1-4]*

*"Ta Sin! These are the verses of the Quran and the Book that makes (things) clear, A guidance and good news for the believers, Who keep up prayer and pay the poor-rate (Zakat), and of the Hereafter, they are sure". [Al-Quran 27:1-3]*

*"...keep up prayer and pay the poor-due and offer to Allah a goodly gift, and whatever of good you send on beforehand for yourselves, you will find it with Allah; that is best and greatest in reward; and ask forgiveness of Allah; surely Allah is Forgiving, Merciful." [Al-Quran 73:20]*

*"Surely they who believe and do good deeds and keep up prayer and pay the poor-rate (Zakat) they shall have their reward from their Lord, and they shall have no fear, nor shall they grieve." [Al-Quran 2:277]*

*"And keep up prayer and pay the poor-due (Zakat) and obey the Messenger, so that mercy may be shown to you." [Al-Quran 24:56]*

*"Truly he succeeds that purifies it (the soul), and he fails that corrupts it!" [Al-Quran 91:9-10]*

*"If you give alms openly, it is well, and if you hide it and give it to the poor, it is better for you; and this will do away with some of your evil deeds; and Allah is aware of what you do." [Al-Quran 2:271]*

*"But those will prosper who purify themselves." [Al-Quran 87:14]*

#### **7. What about the Zakat that I have not paid over the years?**

*Ibn 'Abbas (Allah be pleased with both of them) reported: A woman came to the Messenger of Allah (may peace be upon him) and said: My mother has died, and fasts of a month are due from her. Thereupon he said: Don't you see that if debt was due from her, would you not pay it? She said: Yes (I would pay on her behalf). Thereupon he said: The debt of Allah deserves its payment more than (the payment of anyone else) (Muslim, Book 6, No. 2554).*

Thus, scholars deduce from the above hadith that any missed Zakat must be paid immediately to the deserving.

Note: This certainly applies to a person who is still alive and has outstanding Zakat from previous years. In the case of a dead person, the inheritors are at discretion to pay of the deceased's Zakat from their inherited portions. It is not obligatory.

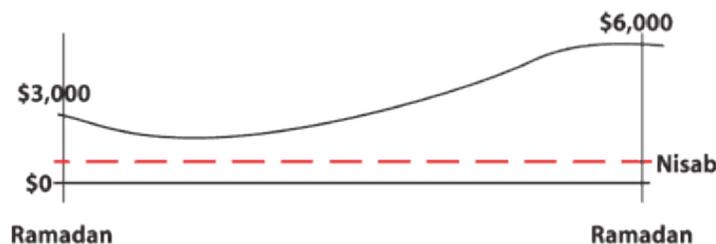
#### **8. Who is required to pay Zakat?**

For people to pay Zakat they must meet the following criteria:

- The person should be Muslim, adult, sane, free (not a slave).
- They must possess a certain minimum amount of extra wealth (called nisab), fully owned by them in excess of personal use (such as clothing, food, shelter, household furniture, utensils, cars, etc).
- They should have had this minimum amount in possession for a complete lunar year (hawl).
- The wealth should be of a productive nature, from which they can derive profit or benefit such as merchandise for business, gold, silver, livestock, etc.
- The minimum amount (or Nisab) should not be owed to someone, i.e., it should be free from debt.

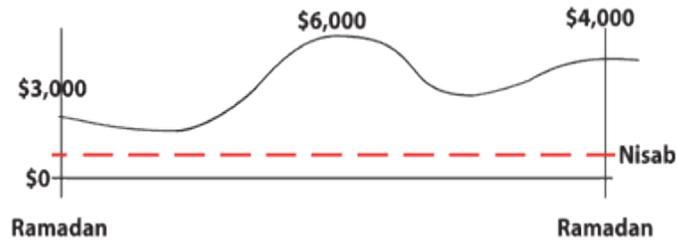
## 8.1 What is the Principle of Joinder of Acquisition in the Same Class during the Lunar year?

The general principle is that one year must elapse over the Zakat-able property in order to render it liable to Zakat. This is subject to a qualification: where a person has Nisab of a particular class of Zakat-able property and during the course of the Zakat year acquires property of the same class from any source whatsoever, then the property so acquired is added to the existing Zakat-able property of the same class and Zakat is payable on the whole, or the remainder thereof, at the end of that Zakat year without calculating a separate Zakat year for each such separate acquisition. For example, a person has cash of \$5,000 and during the course of the Zakat year receives a further sum of \$10,000 by way of a gift. He must pay Zakat on the sum of \$15,000 at the end of that Zakat year and a new year would not be calculated in respect of the subsequent acquisition of \$5,000.



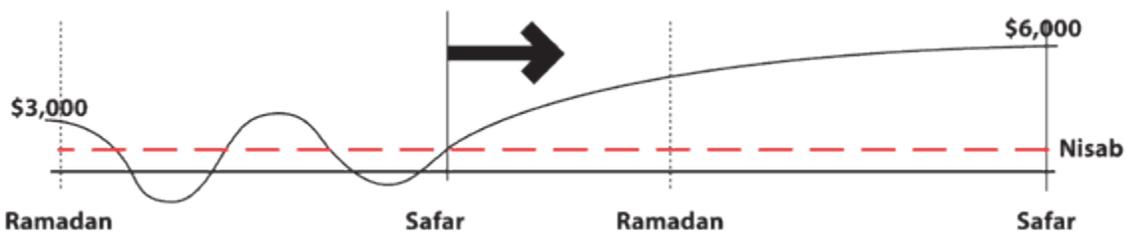
**Figure 1.1**

In this graph, \$3,000 is the amount of wealth owned in Ramadan. This amount exceeds nisab (calculated according to the nisab of silver.) During the year it decreases but does not go below nisab. In this case, Ramadan will be counted as the beginning of the relevant lunar year and Zakat will be due on the amount of wealth in possession during next Ramadan, which is \$6,000.



**Figure 1.2**

In this graph, \$3,000 is the amount of wealth owned in Ramadan. This amount exceeds nisab. During the year the amount decreases, then increases to \$6,000. Then, wealth decreases again before increasing to \$4,000. Despite these fluctuations, the amounts do not go below nisab. Hence, the relevant Zakat year will begin in Ramadan and Zakat will be due on the amount of wealth in next Ramadan, which is \$4,000.



**Figure 1.3**

In this graph, \$3,000 is the amount of wealth owned in Ramadan, which exceeds nisab.

During the year it fluctuates - sometimes going below or above nisab. The individual's relevant lunar year however only begins once the wealth goes above nisab in the month of Safar and remains above that for one complete year until next Safar. Hence, Zakat will be due in Safar on the complete amount, which is \$6,000.

## 9. Who is entitled to receive Zakat?

There are eight groups of people on whom Zakat should be spent, as mentioned in the Quran:

*"The alms are only for the Fuqara' (the poor), and Al-Masakin (the needy) and those employed to collect (the funds); and to attract the hearts of those who have been inclined (towards Islam); and to free the captives; and for those in debt; and for Allah's Cause, and for the wayfarer (a traveler who is cut off from everything); a duty imposed by Allah. And Allah is All-Knower, All-Wise." [Al-Quran 9:60]*

*"They ask you as to what they should spend. Say: Whatever wealth you spend, it is for the parents and the near of kin and the orphans and the needy and the wayfarer, and whatever good you do, Allah surely knows it." [Al-Quran 2:215]*

*"(Alms are) for the poor who are confined in the way of Allah-- they cannot go about in the land; the ignorant man thinks them to be rich on account of (their) abstaining (from begging); you can*

*recognize them by their mark; they do not beg from men importunately; and whatever good thing you spend, surely Allah knows it.*" [Al-Quran 2:273]

*"And give to the near of kin his due and (to) the needy and the wayfarer, and do not squander wastefully."* [Al-Quran 17:26]

- **Fuqaraa:** Those who own property in excess of basic necessities but below the value of Nisab.
- **Masakeen:** Persons of extreme poverty who possess no wealth whatsoever.
- **Aamileen:** (Zakat collector) Those persons who are appointed by an Islamic Head of State or Government to collect Zakat. It is not necessary that this be a needy person.
- **Muallafatul Quloob:** Those poor and needy persons who are given Zakat with the intentions of solidifying their hearts because they maybe recently converted to Islam or to bring them closer to Islam.
- **Ar-Riqaab:** slaves whose masters have agreed to set them free on a payment of a fixed amount. Zakat may be used to purchase their freedom.
- **Ibnus-Sabeel:** A traveler, who, whilst wealthy at his residence, is stranded and in need of financial assistance.

- **Al Ghaarimeen:** A person whose debts exceeds his assets and his net assets (after deducting his liabilities) is below the Nisab limit. To determine whether a person qualifies, his basic necessities of life (house, furniture, clothes, vehicle, etc.) will not be taken into account. It is conditional that the debts were not created for any un-Islamic or sinful purpose.
- **Fi Sabeelillah:** Those who are away from home in the path of Allah. Those in Jihaad, those seeking knowledge or a stranded Haji may be assist with Zakat if they are in need.

#### 9.1 Who cannot be given Zakat?

- Zakat cannot be given to parents, grandfather, etc., or to one's children and grandchildren. A husband and wife cannot give Zakat to each other.
- Zakat contributions cannot be given to such institutions or organizations who do not give the rightful recipients (Masaarif) possession of Zakat, but instead use Zakat funds for construction, investment or salaries.
- Zakat cannot be given to non-Muslims. The same ruling applies to Waajib Sadaqah (charity), i.e., Sadaqatul Fitr, Kaffarah, Ush'r and Naz'r. Naf'l Sadaqah could be given to non-Muslims.
- If one cannot determine whether the recipient is needy or not, then it is better to make certain before giving him Zakat. If Zakat is given without inquiry and subsequently it is known that the recipient is wealthy the Zakat is not valid. It has to be given again.

- Zakat will not be fulfilled by purchasing books for an institution, or land purchased for public utility and made Wak'f.
- Zakat cannot be used for the Kaf'n of a deceased person who has no heirs, because at that time he/she cannot become the owner.
- A dead person's debt cannot be paid from Zakat.

## 9.2 Miscellaneous

- It is not permissible according to Shariah to give Zakat to a person who owns merchandise or wealth in excess of his needs to the value of Nisab nor is it permissible for such a person to accept Zakat.
- A person that does not own an amount equal to the value of Nisab is known as Faqir. This person could be given Zakat and it is permissible for him to accept it.
- If a person owns wealth which in value exceeds the amount of Nisab, but this wealth is not intended for business nor does he require it for his daily needs, such a person is regarded as well-to-do and should not be given Zakat.
- The books of a scholar or tools of a tradesman are among his necessities, irrespective of their value. Besides these if he does not own wealth equal to Nisab, he could be given Zakat.

- When giving Zakat, Sadaqah (charity), etc., one's poor and needy relatives should be given preference. To avoid embarrassing them, it should be given to them without saying that it is Zakat or Sadaqah.
- There is great thawab (reward) in giving Zakat to poor persons who are striving in the way of the Deen or those who are engaged in religious knowledge, or to religious institutions where poor or needy students are being cared for. Care should be taken that only such institutions are given Zakat where it is used according to the Shariah.
- A child of a wealthy father cannot be given Zakat. When such a child becomes mature in age, and does not own wealth to the value of Nisab, he may then be given Zakat.
- Zakat can be given to: brother, sister, nephew, niece (brothers' and sisters' children), uncle, aunt (both paternal and maternal), step-grandfather, step-grandmother, father-in-law, and mother-in-law.

#### 10. **When is Zakat due?**

A complete year in the Islamic calendar should pass, starting from the very day of the nisab's possession, without any decrease to zero during the year, even if it goes below the nisab. In case of its decrease to zero, the yearly cycle (hawl) starts from the day the nisab becomes complete again. Zakat should be given as soon as possible after it becomes due. It is possible that death may occur and thus lead to failure in fulfilling one's obligations. If a person dies before paying Zakat, then it must be taken from his/her estate.

*'Ali reported that the Prophet (PBUH) said: "There is nothing upon you in gold, until it reaches twenty dinars. Thus, if you have twenty dinars at the end of the year, then there is half a dinar levied on it [as Zakat]. Any additional amount will be calculated in this manner. There is no Zakat on property until it has been owned for one year."* (Related by Ahmad, Abu Dawud, and al-Baihaqi).

#### **11. What are the important principles in identifying assets subject to Zakat?**

Gold, silver, cash, and other items specified below are subject to Zakat. Any other asset will only become subject to Zakat if it was acquired or purchased with the clear intention to resell. For example: A person buys a house which is normally exempt from Zakat, with the intention of reselling the house at a profit, then the market value of the property, calculated as at the end of the relevant Zakat year, will be subject to Zakat.

On the other hand, if the immovable property was purchased as an investment (to hold as capital) and not to resell, then the value of the asset is exempt from Zakat. A subsequent change of intention in the case where the owner, who had originally purchased the immovable property for investment (to hold as capital), now decides or intends to sell it for profit will not alter the character of the asset for Zakat purposes and the asset remains exempt from Zakat.

#### **12. What kinds of things require paying Zakat on them?**

- Gold and Silver
- Cash
- Stocks

- Mutual Funds
- Stock Options
- Business Merchandise Inventory
- Private Companies, Corporations and Partnerships
- Retirement Plans (401K, IRA, etc.)
- Real Estate Investments in Property Owning Companies
- Accounts Receivable
- Profits from Investments
- Trusts
- Long-Term Insurance (Life Insurance)
- Lump Sum Payments in Terms of Compulsory Pension and Provident Funds
- Severance Package
- Income Tax
- Liabilities which may be deducted
- Buried Precious Metals or Minerals (Rikaz)
- Livestock, Animals, Cows, Sheep, Camels
- Agricultural Produce

## **12.1 Gold and Silver**

*"Those who hoard up treasures of gold and silver and spend them not in the way of Allah; give them the news of a painful punishment, on the Day when that (wealth) will be heated in the Fire of Hell*

*and with it will be branded their forehead, their sides, and their backs, (and it will be said to them:)*

*'This is the treasure which you hoarded for yourselves. Now taste of what you used to hoard.'*" [Al-

Quran 9:34-35]

Further, Asma bint Yazid reported: *"My aunt and I, while wearing gold bracelets, went to the Prophet (peace be upon him). He asked: 'Did you pay their Zakat?' She related that they had not.*

*The Prophet (peace be upon him) said: 'Do you not fear that Allah will make you wear a bracelet of fire? Pay its Zakat.'*" [Al-Quran -Narrated by Ahmad (6:461) with a good chain, as Haythami

declared in Majma` al-zawa'id (3:67)]

Furthermore, Aisha narrated: *"The Messenger of Allah came to me and saw me wearing silver rings, whereupon, he asked: 'What is this, Aisha?' I replied: 'I made them to adorn myself for you, O Messenger of Allah.'* He said: *'Did you pay their Zakat?' I said: 'No, or what Allah wishes.'*

*Then he said: 'Their punishment in Hell is enough for you.'*" (Narrated by Abu Dawud in his Sunan

with a strong chain, Daraqutni in his Sunan, and Baihaqi in his Sunan (4:140))

Gold and silver, whether in the form of jewelry otherwise, will always be subject to Zakat provided their respective weights exceed the nisab amount. According to scholars, nisab for gold is 20 mithqal (~ 87.49g), and the nisab for silver is 200 dirhams (~613.35g).

	<b>Nisab</b>	Grams	Ounce	Troy Oz
Gold	20 mithqal	87.49	3.086	2.8125
Silver	200 dirhams	613.350	21.635	19.6875

**Table 1: Nisab determination**

The prices of gold and silver vary everyday in international markets. On June 30, 2009, the price of gold was approximately \$29.85/gram and for silver was \$0.43789/gram, hence the nisab for gold is approximately \$2,611.58 (\$29.85 x 87.49 grams) and the nisab for silver is approximately \$268.58 (\$0.43789 x 613.35 grams).

\*Gold and silver prices have been (and can be) obtained from <http://www.goldprice.org/>

The value of gold content in jewelry depends on the gold's purity, as well as its weight. Gold purity is measure on a scale of 1 to 24 karats (kts).

<b>Karat</b>	<b>% Gold</b>	<b>Description</b>
24	100%	pure gold, very soft and very easily bent, too soft for jewelry, therefore the gold is alloyed with silver, copper, nickel or zinc.
22	91.7%	still too soft for most jewelry
18	75.0%	for fine jewelry, the best for beauty and durability
14	58.3%	OK for jewelry but the gold is of a duller color
12	50.0%	not OK for most western jewelry
10	41.7%	legal limit for 'real' gold in USA

**Table 2: Lookup table for Gold Purity**

Zakat on the gold will be according to the gold content in the jewelry (i.e. karats) and its value in the international market. Hence when calculating the value of your gold, you must consult a jeweler for the correct value (depending on the content and weight). Similarly, any stones in the gold are not Zakat-able when for personal use.

To calculate the value of your gold, based on the karat, this formula can be used:

$$\text{Value of Gold (US\$)} = \frac{W \times P \times R}{24}$$

**W = Weight of Gold Item (grams)**

**P = Purity (karat)**

**R = World Gold Rate (US\$/grams)**

Note: In this regard, jurists have ruled that that whatever contains more than 50% gold will be treated all like gold and Zakat will be paid on its value. Therefore, anything more than 12 karats will be Zakat-able to its value.

## 12.2 **Cash**

The amount of cash held, whether in a bank or personally on hand, at the end of the relevant Zakat year will always be subject to Zakat. Moneys lent and advanced are, for Zakat purposes, treated as cash and Zakat must be paid on such loans each year.

The Nisab for cash is equivalent to the value of gold or silver (whichever is less). At present Nisab of silver is less, so cash may be calculated according to silver. All the values of Zakat-able assets for the sake of calculation are converted into cash, and based on the fact that nisab is calculated according to the nisab of silver, which, on June 30, 2009, was \$268.58. (See Section 12.1).

### 12.3 Stocks

Stocks which are permissible to buy and own may be purchased for either holding them and expecting their dividends or for participating in the management of the company, or for using them as tradable objects waiting for a good opportunity to realize a capital gain and sell. In the latter case one is called in Shariah merchant or trader, regardless of the English jargon of "investor," and one is to pay Zakat as in the case of mutual funds at the same rate and net asset value on the due date of Zakat.

Holding stocks for their dividend is usually done on a long term vision, during which capital gains may also be realized but the owner usually keeps holding them for long period.

There are three views on the Zakat in this case:

a) The view of the majority, which came in a resolution of the OIC Fiqh Academy, maintains that one has to calculate the Zakat-able part of the value of the stock, from the company's balance sheet and pay Zakat on it in the due date at the rate of 2.5%. The Zakat-able part is: cash + receivables + inventories of goods in process and ready for sale-short term debts.

b) The minority view, in the case where the owner is only investing in these stocks even for long term but without any interest in the management and little concern about dividends, states that this investment is similar to trading in stocks, in the Shariah meaning of the word. Accordingly, the owner has to pay Zakat at the rate of 2.5% on the market value on the due date.

c) The third view is a subset of the first one; it actually adds to the first one that if it is difficult to calculate Zakat from the balance sheet, one may pay 10% on the net income of the stock, in analogy with agriculture. But there is not enough logical support in Shariah for this opinion. (Reference: Dr. Monzer Kahf, [www.islamonline.net](http://www.islamonline.net))

#### **12.4 Mutual Funds**

Mutual funds are a special form of partnership established exclusively to deal in financial markets, mostly buying and selling stocks, future commodities and/or sharing a money market account. Buying units of a stock - trading mutual fund - assuming that all stocks it deals with are within the limits of Shariah, i.e., we exclude funds that deal with stocks that do not fulfill the criteria set by contemporary scholars of stocks that a Muslim may trade/own - is itself setting these savings (money) as principal in this partnership. By this very act one becomes a merchant or trader in stocks from the Shariah point of view. And a merchant is subject to Zakat if other conditions of Zakat (unconditional ownership, hawl, Nisab, excess above debts and basic consumption needs) are satisfied. Whether the source of this principal in the mutual fund partnership is savings, inheritance, gift, etc., is immaterial to the Zakat-ability. Zakat rate is 2.5% of the net asset value on the due date. (Reference: Dr. Monzer Kahf, [www.islamonline.net](http://www.islamonline.net)).

#### **12.5 Stock Options**

There are differences of opinion among contemporary scholars with regard to the calculation of Zakat on types of wealth that were unknown in the times of the classical jurists. These issues are new and have yet to receive the attention from jurists that they deserve. As the

demand for solutions increases, so will the attention these issues receive from scholars. Some modern scholars have characterized employee stock options as a form of reward for the completion of a specified task or services. Another group of contemporary scholars, however, insists that the rate on this type of wealth should equate to the rate on agricultural produce, where the land is exempted. Instead, their position is that Zakat must be paid on the profits earned from one's holdings at the rate of 10% on the net profits earned in a lunar year (or 10.3% per calendar year). Other scholars refine this position somewhat and draw a legal analogy from agricultural produce that has benefited from irrigation, and for which the rate of Zakat is lower, or 5%. It is preferable that one consults with local imams who have knowledge of the subject of Zakat, or with several people, and then decide what is best. (Reference: Sheikh Yusuf Talal DeLorenzo, [www.muslim-investor.com](http://www.muslim-investor.com))

## **12.6 Business Merchandise Inventory**

Business merchandise inventory is normally acquired for the purpose of resale. In such a case, the asset qualifies for Zakat purposes. Zakat must be paid on the fair market value calculated as at the end of the relevant Zakat year. In arriving at the fair market value of the merchandise inventory, the trader is not obliged to compute the retail selling price of each item. He may fix a price based on the original cost price plus an estimated overall average mark up for the business concerned. He may even fix a bulk price for his merchandise inventory as a composite whole being the price he would receive if his entire merchandise inventory were sold in the open market at once. The price so determined would, having regard to inflation, invariably exceed the original cost price. It must be noted that, in the case of the manufacturer of goods, the merchandise inventory would comprise both raw material (e.g. fabric) and the finished goods.

This requires a fourth of a tenth (2.5%) Zakat to be paid on them, when they remain a full year without decreasing to zero. The minimum amount of the value of business merchandise that requires Zakat to be paid is the same as gold and silver, and the merchant could use either standard to estimate how much Zakat he should pay.

### 12.7 Private Companies, Corporations and Partnerships

a) The shareholders in a company must pay Zakat on the Zakat-able assets less allowable liabilities in proportion to their shareholding. ABC Corporation has 5 shareholders, L, M, N, O, and P who own the issued shares in the company in equal proportions. Company A carries on business as a manufacturer of garments. Each shareholder will be liable to pay Zakat on one third of the Zakatable assets of the company less the liabilities incurred in respect of those assets at the end of the relevant Zakat year. The Zakatable position of Company A at the end of the relevant Zakat year is for example as follows:

<b>Zakatable Assets</b>		
<b>Business Merchandise Inventory</b>	<b>\$200,000</b>	
<b>Cash on hand</b>	<b>\$40,000</b>	
<b>Accounts Receivable</b>	<b>\$160,000</b>	
		<b>\$400,000</b>
<b>Less Liabilities</b>		
<b>Creditors</b>	<b>\$100,000</b>	
<b>Bank overdraft</b>	<b>\$50,000</b>	
<b>Loan Accounts</b>	<b>\$100,000</b>	

		<b>\$250,000</b>
Total Zakatable Amount		<b>\$150,000</b>

**Table 1: Private Companies, Corporations and Partnerships**

L will pay 2.5% of \$30 000 = \$750

M will pay 2.5% of \$30 000 = \$750

N will pay 2.5% of \$30 000 = \$750

O will pay 2.5% of \$30 000 = \$750

P will pay 2.5% of \$30 000 = \$750

b) Similarly, the Zakat liability of the members of a corporation will be calculated in proportion to the respective member's share in the corporation.

c) The Zakat liability of partners will also be calculated in accordance with their profit sharing ratio.

## 12.8 Retirement Plans (401K, IRA, etc.)

Fund withdrawals from such plans triggers early withdrawal penalty (in case the funds are withdrawn before one reaches the retirement age) and taxes. Hence, Zakat on 401K, IRA and other retirement plans will only be due when the funds are received. At that time the person must pay the Zakat of all the past years, and not just one year, i.e. ever since he became the owner of Nisab and ever since this money reached that limit. This will require a lot of effort in keeping

track of each year's Zakat-able amount until the funds have been withdrawn. Hence, it is advised by the scholars to pay Zakat on the 401K, IRA plans, etc. plans yearly, to avoid miscalculations after several years of accumulation.

## **12.9 Real Estate Investments in Property Owning Companies**

Real Estate investments (not house under personal use) are also required to be included in Nisab when calculating Zakat. In case your real estate is on rent, Zakat applies on rental income only. In case of real estate business (as merchandise), Zakat will be calculated on the actual property value. Suppose there are loan accounts held by the members of a company or corporation whose main asset is an immovable property which produces income in the form of rentals. Such loan accounts represent moneys owed to the members thereof. The original funds (whether in the form of share capital or loan account) contributed to the company, which in substance are represented by the fixed property concerned, should not be taken into account and should be deducted from the amount of the loan account standing to the credit of the member at the end of the Zakat year concerned. The difference, which is attributable to profits or subsequent cash injections, is subject to Zakat each year and is treated as cash for Zakat purposes.

Item	Value
Capital & Loan accounts at the end of Zakat year	\$50,000
Less:	
Original funds contributed	\$30,000
Balance subject to Zakat at the rate of 2.5%	\$20,000
2.5% of \$20,000	\$500

**Table 2: Example for Zakat on Small Business**

### 12.10 Accounts Receivable

Accounts receivable, are treated as cash for Zakat purposes and therefore subject to Zakat, but the trader is only obliged to pay the Zakat on the account receivable in the year in which the account receivable is actually paid. In such a case, the Zakat must be paid not only for the year in which the account receivable was paid but also for each preceding year in which the account receivable was owing. In order to avoid practical problems in calculating the Zakat particularly in the case of traders who carry large account receivables, it is desirable that Zakat be paid each year on the total value of the account receivables. If a bad debt has been recovered and Zakat has not been paid thereon, then Zakat must be paid for the preceding years as well.

### 12.11 Profits from Investments

Profits received from investments in the form of rentals and dividends form part of cash and is normally used during the year to pay expenses or for further investments. For Zakat purposes, the total amount of cash held at the end of the Zakat year must be taken into account only and the fluctuations in case balances during the course of the year must be ignored.

## 12.12 Trusts

In the case of trusts, whether family trusts or created under a will, Zakat is payable each year on the Zakat-able assets of the trust less allowable liabilities. Where a family trust is created solely for tax planning purposes, the Zakat is payable by the true donor - the person whose assets are transferred into the trust. In all other cases, the Zakat is payable by the beneficiaries of the trust in proportion to their respective shares.

## 12.13 Long-Term Insurance (Life Insurance)

The Muslim jurists are unanimous that most prevailing classes of insurance are not permissible under Islamic Law. In the case of such insurance, the insured is entitled only to the premiums paid by him over the period of insurance. Upon receipt of the indemnity or insured amount Zakat must be paid on the total amount of the premiums paid over the period of insurance (in other words, Zakat is paid for the preceding years as well). The surplus (difference between amount of indemnity and premiums paid) must be given to charity, without an intention to receive reward for the payment. During the currency of insurance policy, it is preferable to pay Zakat on the total cumulative amount of premiums which have been paid.

## 12.14 Lump Sum Payments in Terms of Compulsory Pension and Provident Funds

Zakat is payable on lump sum payments received by an employee upon retirement, or by his dependent, if the money is held by such recipient for a period of one year as from the date of receipt thereof/ No Zakat is payable for preceding years. Take the following example: An employee under a compulsory pension fund receives a lump sum payment of \$100,000 upon retirement on 1st January 2005. His Zakat year ends on 1st January 2006. If the lump sum has

not been spent at the end of Its Zakat year, he will pay Zakat thereon, namely 2.5% of \$100,000 = \$2,500. On the other hand, if he had used the money to buy a house before the end of his Zakat year on 1st January 2006, no Zakat will be payable thereon. The foregoing applies to compulsory pension and provident funds in the sense that the employee is obliged as a term of his employment to become a member of such fund and make prescribed contributions.

#### **12.15 Severance Package**

Quite often, employers offer a severance package while laying off employees from the job. This package includes some monetary and some non-monetary benefits. Monetary compensation is Zakat-able if that money has not been spent at end of a person's Zakat year - thus he will pay Zakat thereon 2.5% of the amount. On the other hand, if he has used the money to buy a house, before the end of his Zakat year, no Zakat will be payable on that.

#### **12.16 Income Tax**

The amount of income tax which is due at the end of the Zakat year but which has not been paid may be deducted from the total value of Zakat-able assets at that time, and vice versa.

#### **12.17 Liabilities which may be deducted**

Liabilities, for Zakat purposes, may be divided into two categories:

a) Liabilities incurred in acquiring assets which are exempt from Zakat; for example mortgage on immovable property; or installments due under credit sale agreements in respect of plant and machinery, and fittings and fixtures. The amounts of such liabilities are, in the light of modern

business conditions, not deductible. If such liabilities were to be deducted, then many businessmen would pay little or no Zakat.

b) Liabilities incurred in acquiring assets which are subject to Zakat; for example, trade creditors (suppliers of business merchandise inventory), and bank overdraft. Such liabilities should be deducted from the total value of the assets subject to Zakat in order to arrive at the net amount on which Zakat is payable. In this regard, the manner in which such a liability is secured (e.g. by registering a bond over immovable property) should be ignored.

#### 12.18 **Buried Precious Metals or Minerals (Rikaz)**

Narrated Abu Huraira: *Allah's Apostle said, "There is no compensation for one killed or wounded by an animal or by falling in a well, or because of working in mines; but Khumus (one-fifth) is compulsory on Rikaz."* (Bukhari, Vol. 2, Book 24, No. 575).

When the Muslim finds any treasures hidden in his land, he is required to give a fifth (20%) of that treasure in charity as Zakat. The same applies to mines, such as gold and silver mines, or precious metals (which fall under the ruling of Rikaz).

#### 12.19 **Livestock, Animals, Cows, Sheep, Camels**

Narrated Abu Dhar: *Once I went to him (the Prophet ) and he said, "By Allah in Whose Hands my life is (or probably said, 'By Allah, except Whom none has the right to be worshipped), whoever had camels or cows or sheep and did not pay their Zakat, those animals will be brought on the Day of Resurrection far bigger and fatter than before and they will tread him under their*

*hooves, and will butt him with their horns, and (those animals will come in circle): When the last does its turn, the first will start again, and this punishment will go on till Allah has finished the judgments amongst the people."* (Bukhari, Vol.2, Book 24, No. 539)

Grazing camels, grazing cows and grazing sheep and goats are eligible for Zakat payment. Each category of the above mentioned livestock animals has a set Nisab amount based upon the number of animals owned.

### **Zakat for Sheep and Goats**

The Nisab when Zakat becomes applicable is forty animals which are more than twelve months old. There is no Zakat if the number is less than forty.

	<b>Zakat</b>
	<b>1 year old</b>
<b>40 - 120</b>	<b>1 animal</b>
<b>121 - 200</b>	<b>2 animals</b>
<b>201 - 399</b>	<b>3 animals</b>
<b>400</b>	<b>4 animals</b>

**Table 3: Zakat for Sheep and Goats**

Thereafter for each additional hundred, one sheep that is one year old must be given as Zakat.

The Nisab when Zakat becomes applicable is thirty animals. There is no Zakat if the number is less than thirty.

	Zakat	
	1 year old	2 year old
30 - 39	1 animal	
40 - 59		1 animal
60 - 69	2 animals	

**Table 4: Zakat for Cattle and Water Buffaloes**

Thereafter, in every thirty animals, one 1-year-old animal should be given; and in every forty, a 2-year-old animal should be given as Zakat.

	Zakat	
	1 year old	2 year old
70	1 animal	1 animal
80		2 animal
90	3 animals	
100	2 animals	1 animal
110	1 animal	2 animals
120	4 animals or 3 animals	

**Table 5: Zakat for Cattle and Water Buffaloes (continued)**

#### 12.20 Agricultural Produce

*"It is He who produces gardens, with trellises and without, and dates, and tilth with produce of all kinds, and olives and pomegranates, similar (in kind) and different (in variety): eat of their*

*fruit in their season, but render the dues that are proper on the day that the harvest is gathered. But waste not by excess: for Allah loves not the wasters.*" [Al-Quran 6:141]

Further, Salim bin 'Abdullah narrated from his father that the Prophet said, "*On a land irrigated by rain water or by natural water channels or if the land is wet due to a near by water channel Ushr (i.e. one-tenth) is compulsory (as Zakat); and on the land irrigated by the well, half of an Ushr (i.e. one-twentieth) is compulsory (as Zakat on the yield of the land).*" (Bukhari, Vol.2, Book 24, No. 560)

The amount of fruits and grains that require Zakat is five Wasqs, each of which is 60 sa', and a Sa' is almost 3 kg. Hence, the minimum Nisab that requires Zakat on fruits and grains is 300 Sa' (or approximately 900 kg). If the crop is watered without much effort, such as by spring water or by rain, it requires one-tenth (10%) as Zakat payment. This means that half of Wasq (90kg) is due for every five Wasqs. If such produce is watered with effort, such as from wells or irrigation channels, it requires half of a tenth (5%) as Zakat payment. This means for every five Wasqs, there is a quarter of a Wasq (45kg) due for Zakat.

### **13. What kinds of things do not require paying Zakat on them?**

- The Money that does not reach the amount of Nisab
- Servants, Horses, Mules and Donkeys
- Any Property that is not used for Business Purposes
- Products not of productive nature

- Deposits and Pledges
- Other assets exempt from Zakat

### 13.1 **The Money that does not reach the amount of Nisab**

Narrated Abu Said: *Allah's Apostle (peace be upon him) said, "No Zakat is due on property amounting to less than five Uqiyas (of silver), and no Zakat is due on less than five camels, and there is no Zakat on less than five Wasqs\*."*

(Bukhari, Vol. 2, Book 24, No. 487)

\* A Wasqs equals 180Kg Approx. [60 Sa's and 1 Sa = 3 Kg Approx.]

### 13.2 **Servants, Horses, Mules and Donkeys**

Abu Huraira that Allah's Apostle said, *"There is no Zakat either on a horse or a slave belonging to a Muslim"*

(Al-Bukhari, Vol. 2, Book 24, No. 542)

### 13.3 **Any Property that is not used for Business Purposes**

These include rugs, homes, cars, furniture, precious stones, pearls, and diamonds that are not used for commercial purposes. These personal items do not require payment of Zakat.

#### **13.4 Products not of productive nature**

Any Products that are not of a productive nature, even if they are in excess of one's needs (cars, utensils, etc.), provided they are not intended for trade.

#### **13.5 Deposits and Pledges**

A Zakat-able asset (e.g. gold coins) which is pledged to a creditor as security for a loan is not subject to Zakat because the owner (pledgor) is deprived of possession and therefore cannot dispose of the asset for the duration of the pledge for his own benefit. Similarly, a deposit paid by a tenant under a lease to a landlord as security for the fulfillment of the tenant's obligations is not subject to Zakat. The same principles would apply to other forms of deposits, e.g. electricity.

#### **13.6 Other assets exempt from Zakat**

The following assets, unless acquired with the clear intention to resell, are exempt from Zakat: plant and machinery, goodwill, copyright, patent, trademarks and licenses, vacant land, land and buildings or improved property, residential dwelling, diamonds, rubies, and other precious metals (excluding gold and silver), furniture, fittings and household effects, paintings of value, carpets of value, motor vehicles and trucks of all classes, stamp and coin collection of value, fixtures and fittings of all kinds, equipment of all classes, books of value, time share unit.

#### 14. How should I Calculate Zakat?\*

The amount of wealth which makes one liable for Zakat is called Nisab. The payment of Zakat is compulsory on the excess wealth which is equal to or exceeds the value of Nisab, and which is possessed for a full Islamic year. If such wealth decreases during the course of the year, and it increases again to the value of Nisab before the end of the year, the Zakat then must be calculated on the full amount that is possessed at the end of the year.

#### Simple Zakat Calculator Table

Following is a simple table which may help in calculating Zakat:

Assets	Total (\$)	Assets subject to Zakat (\$)	Assets exempt from Zakat (\$)
Gold and silver (metal)		0	
Cash on hand and at bank		0	
Stocks and Mutual Funds (at market value)		0	
Stock Options		0	
Business Merchandise Inventory		0	
Private Companies, Corporations and Partnerships		0	
Retirement plans (yearly amount)		0	
Real Estate Investment (as business merchandise inventory, e.g. 2 houses)		0	
Immovable property acquired for investment (and not to			0

resell), whether company owned or privately owned			
Accounts Receivable		0	
Profits from Investment		0	
Trusts (yearly amount)		0	
Life Insurance		N/A	N/A
Lump Sum Payments (Compulsory Pension, etc.)		N/A	N/A
Severance Package		0	
Loan account in companies - amount of income credited to loan account (excluding capital introduced)		0	
House			0
Furniture and household effects			0
Motor vehicles			0
Gold coins		0	
Diamonds and precious stones (not for business)			0
Plant, machinery and fixtures and fittings			0
Trade debtors		0	
Stamp collection			0
Paintings			0
Loan debtors		0	
Deposits and pledges			0
<b>TOTAL ASSETS</b>			

**Table A: Asset calculation for Zakat**

Liabilities	Total(\$)	Deductible (\$)	Non-Deductible (\$)
Mortgage on house yearly			0
Bank overdraft (to fund stocks and trade debtors only)		0	
Trade creditors		0	
Installment sale and lease creditors to fund motor vehicles/plant and equipment			0
Any other liabilities incurred in respect of an asset on which Zakat is not payable			0
Shipping loans to finance business merchandise and/or trade debtors		0	
Income Tax		0	
<b>TOTAL LIABILITIES</b>			

**Table B: Liabilities calculation for Zakat**

Summary	USD (\$)
Total value of assets subject to Zakat	
Deduct liabilities relating only to assets subject to Zakat	
<b>NET AMOUNT</b> subject to Zakat	
Zakat = 2.5% x \$ NET AMOUNT	

**Table C: Final Computation Table calculation for Zakat**

**Alternate Summarized Zakat Calculator Table**

For a simpler calculation, kindly use this table. All these assets are Zakat-able, and the liabilities should include only those which are deductible (i.e. liabilities incurred due to assets that are Zakat-able, not on assets that are not Zakat-able). For example, the house you live in is non-Zakat-able so any mortgage payment on it is not deductible.

Item	Value
Total Gold value without jewels	\$
Total Silver value without jewels	\$
Cash on hand	\$
Checking Account	\$
Saving Account	\$
Business Bank Account(s)	\$
Stocks & Mutual Funds	\$
Business Merchandise Inventory	\$
Retirement Plans (401K/IRA/etc.)	\$
Real Estate (excluding personal residence)	\$
Accounts Receivable	\$
Other funds (profits, trust accounts, partnerships, etc.)	\$
Sub Total	\$
Less deductible liabilities only	\$
TOTAL	\$
TOTAL x 0.025 (Zakat you have to pay)	\$

**Table: Alternate Summarized Zakat Calculation Table**

**15. What is the method of giving Zakat?**

*"If you give alms openly, it is well, and if you hide it and give it to the poor, it is better for you; and this will do away with some of your evil deeds; and Allah is aware of what you do."* [Al-Quran 2:271]

It is obligatory to make an intention for the fulfillment of Zakat, just like it is obligatory to make an intention for Salah. Further, it is not necessary to reveal to the needy person (to whom Zakat is given) that the cash or kind which is being given to him is Zakat. If one gives a deserving person some money as a gift, but makes the niyyah of Zakat, it will be valid.

Zakat will only be valid if the recipient is made the owner of that amount. Zakat cannot be given or used for the construction of a masjid, madrassah, hospital, a well, a bridge or any other public amenity. Authority can be delegated to another person or an organization for the distribution of Zakat so that it can be utilized in accordance with the laws of Zakat. If an agent is given Zakat for distribution, and he does not distribute it, then the Zakat will not be regarded as fulfilled, and the sin of not discharging the obligatory duty of Zakat will remain a burden on whom it was obligatory.

For an example case study of Zakat calculation, please see section "How to Calculate Zakat"

#### **16. How is Zakat to be distributed?**

- A poor man cannot be paid for his work from Zakat, nor can Zakat be given in payment of anyone's services, except when an Islamic government pays salaries to persons appointed by the government to collect Zakat.
- Zakat will only be valid if the recipient is made the owner of that amount.

- Zakat cannot be given or used for the construction of a masjid, madrassah, hospital, a well, a bridge or any other public amenity.
- Poor students can be given a bursary from Zakat. If the student is of an understanding age, the Zakat must be given to him personally; and if he is not of an understanding age, then his Shari' wakeel (parents or legal guardian) must be given possession of the amount.
- Zakat can be paid in kind from the same merchandise on which it is due, or alternatively, it could be paid in cash. It is of vital importance to ensure at all times that the recipient is made the owner of the Zakat.
- Authority can be delegated to another person or an organization for the distribution of Zakat in order that it be utilized in accordance with the laws of Zakat.
- If a person requests someone to give a certain amount on his behalf as Zakat, and that sum is given out, then that Zakat will be valid. The sum given will be a debt upon the one who made this request.
- If an agent is given Zakat for distribution, and he does not distribute it, then the Zakat will not be regarded as fulfilled, and the sin of not discharging the obligatory duty of Zakat will remain a burden on whom it was obligatory. It is best (afdhal) to give one's Zakat when it is due, rather than wait for Ramadan.