ZAKĀT
Meaning, Importance, Payers & Recipients
ZAKĀT – MEANING & IMPORTANCE

• Zakāt
  • lexically: purification, increase, blessing, praise
  • Islamic law: proprietary transfer (tamleek) of a portion of wealth specified by the Lawgiver (2.5%) to a poor Muslim who is not a Hashimite in a manner that excludes all benefit to the payer for the pleasure of Allāh Taala.
• Zakāt is the 3rd Pillar of Islām and is mentioned throughout the Holy Qur‘ān.
• On 32 occasions it appears in conjunction with Ṣalāh. [Radd al-Muhtār]
• It purifies the rest of the wealth - The Holy Prophet (peace be upon him) has said:
  “Allāh has made it a source of purification for your wealth”
  [Ibn Mājah and Baihaqī]
ZAKĀT – MEANING & IMPORTANCE

• It also purifies one’s inner qualities - The Holy Qur’ān says:
  “Take out of their wealth a ṣadaqah (obligatory alms) by which you may cleanse and purify them.”
  [At-Taubah: 9:103]

• The Messenger of Allāh (peace be upon him) said:
  ‘Whomsoever Allāh has bestowed with wealth and he does not pay its Zakāt, that wealth will be made to appear before him on the Day of Judgement in the form of a bald serpent with two horns/spots. His neck will be encircled therewith on the Day of Resurrection. Then it [serpent] will hold him [from the hand] with its two jawbones and say: “I am your wealth, I am your hoarded treasure.” …’
  [Bukhārī & Muslim]
ZAKĀT PAYERS AND RECIPIENTS

Conditions to be fulfilled for Zakāt to be payable
• Sane
• Adult (reached puberty)
• Sāhib Un-Nisāb (owner of wealth equal to or above Nisāb level)
• Muslim

Recipients of Zakāt
• Holy Qur’an (9:60) lists eight categories of people entitled to receive Zakāt:
  • (1) poor, (2) needy, (3) state appointed Zakāt revenue collectors, (4) those whose hearts have to be reconciled, (5) emancipation of slaves, (6) debtors, (7) in the way of Allāh, (8) wayfarer
• Primary recipients of Zakāt are **poor** and **destitute**
• Poor are defined as those people whose net assets (excluding basic necessities such as house, food, clothing, furniture etc) are **below** the Nisāb threshold. [al-Durr al-Mukhtār]
• A person’s poor relatives should be given preference when distributing Zakāt above other poor people.
• It is not necessary to inform the recipient of the payment being Zakāt.
Those barred from receiving Zakāt

- Certain Hashimites – descendents of:
  - ʿAbbās
  - Hārith
  - Abū Ṭālib from ʿAlī, Jaʿfar and ʿAqeel

- Payer’s lineal descendants (child, grandchild, etc)
- Payer’s lineal ascendants (parent, grandparent, etc)
- Payer’s spouse

Conditions for validity of Zakāt

- Intention at disbursement or at separation of amount payable
- Eligibility of Recipient
- Recipient’s ownership (cannot pay to Masjid / hospital)
- Pre-paying Zakāt
ZĀKAH

Assets, Liabilities and Calculation
OVERVIEW

1. PERSONAL ASSETS

2. BUSINESS ASSETS

3. DEBTS owed to you by others

4. DEBTS you owe to others (need to subtract)

5. CALCULATE total and pay 2.5% ZAKĀT if it equals or exceeds NISĀB

6. DEFINITION of NISĀB

7. WHEN to pay Zakāt

8. TAX efficient Zakāt

9. CASE STUDY
PERSONAL ASSETS

IMPORTANT RULES

1. All assets owned for PERSONAL USE are exempt from Zakāt except Cash, Gold & Silver which are always subject to Zakāt.

2. Zakāt is always paid on the balance of the assets owned on the zakātable anniversary and not any fluctuating figure during the year.

3. Zakāt is NOT payable on Ḥarām income. This must all be donated to charity.

4. Zakāt is also payable on livestock and agricultural crops.

5. If a Gold/Silver asset is owned for personal use and is made from a mixture of metals including Gold or Silver then Zakāt is only payable if Gold/Silver form the majority of the asset.

6. Gold-plated personal jewellery is therefore not subject to Zakāt due to above.
BUSINESS ASSETS

ZAKĀT POSITION DEPENDS ON YOUR INTENTION

i) Clear intention to resell

Zakāt due on entire Asset value – always use Selling Price/Market Value

ii) Clear intention to hold as an Investment

Zakāt not payable on Market Value but payable on net income from Asset. For shares, Zakāt ONLY payable on stock and cash. Zakāt is NOT payable on goodwill or fixed equipment.

iii) Clear intention to reside (if Asset is property)

No Zakāt Payable (this then becomes a PERSONAL ASSET)

iv) No clear intention

No Zakāt payable on asset value, but income received subject to Zakāt
BUSINESS ASSETS

INTENTION NOT TO RESELL IMMEDIATELY

i) Business Owners – Zakāt payable on stock and cash only NOT on goodwill or on capital equipment / property

ii) Shares – Zakāt is NOT payable on value of shares – Zakāt is payable ONLY on the cash balance and stock valuation – this needs calculating

iii) Properties – Zakāt is ONLY payable on net rental income

iv) Pensions – Zakāt is ONLY payable if you can choose how to invest the pension fund – the amount of Zakāt depends on the asset being invested in. (property fund / shares / cash fund etc.)

v) Child Trust Fund – Zakāt is NOT payable. After child receives cash on 18th birthday, they are personally responsible for paying Zakāt.
There are three categories of debt:

1. **Strong debt** – loans (including Qarḍ e Ḥasan) and debts incurred in consideration of commercial goods. Creditor remains liable to pay Zakāt even before possession, but obligation to pay only matures upon receipt of the value of 40 dhirhams of the debt.

2. **Weak debt** – debt that accrues without consideration (inheritance or bequest) or in consideration of other than what is deemed ‘property’ (deferred dower, unpaid salary, consideration agreed in Khula’, compensation agreed to commute Qiṣāṣ). Such debt is not liable to Zakāt unless received, and only then for the future and not retrospectively.

3. **‘Medial debt’** – debt incurred in consideration of non-commercial goods (debt arising from the sale of personal property). Two opinions:
   1. Zakāt liability applies from time of sale but obligation to pay is realised upon receipt of the value of Niṣāb [200 dhirhams].
   2. Zakāt liability applies after receipt of the value of Niṣāb [200 dhirhams] and the passage of one lunar year.

Bad debts – lost all hope of recovery – Zakāt is not payable
LIABILITIES / DEBTS

DEBTS OWED TO OTHERS

1. Debts owed to others are deductible from your Zakātable total if they are to be repaid in full within the next twelve months.

2. Debts not repayable at all in the next twelve months are NOT deductible.

3. If debts are payable by instalment, then twelve months debt is deductible.
**ISLAMIC HOME PURCHASE PLANS**

**Murābaha Schemes** – Twelve months of future instalments can be deducted from zakātable assets.

**Ijāra & Diminishing Mushāraka Schemes** – these are NOT considered as DEBT therefore no future payments at all can be deducted from zakātable assets.
RECAP

**ADD** PERSONAL ASSETS (GOLD, SILVER & CASH ONLY)

**ADD** FULL VALUE OF BUSINESS ASSETS IF INTENTION IS TO RESELL IMMEDIATELY

**ADD** ZAKĀTABLE VALUE ONLY, NOT FULL VALUE OF BUSINESS ASSETS IF INTENTION IS NOT TO RESELL IMMEDIATELY (properties, shares, pensions, business stock and cash)

**ADD** [qualifying] DEBTS owed to you by others

**SUBTRACT** [qualifying] debts you owe to others

**PAY 2.5% ZAKĀT** on total if it equals NIṢĀB
DEFINITION OF NISAB

• Nişāb was set by Prophet Muḥammad (SAW) at 20 Mithqāl of gold or 200 dirhams of silver. This is the equivalent of 87.48 grams of Gold and 612.36 grams of Silver respectively.
• If someone possesses only Gold, then the Nişāb level for Gold must be used, if however a mixture of assets are possessed then the (lower) Silver Nişāb level must be used.

• On current [09/12/10] market rates the Nişāb level is £2,476.37 for Gold and £358.41 for Silver.

• Assuming a person’s wealth is equal to or exceeds the Nişāb level, then Zakāt is payable on it at 2.5%.
WHEN TO PAY

- Zakāt only paid when you are at or above the Nişāb level on your Zakāt anniversary.

- If a person cannot remember the date upon which he/she first become Sahib un-Nişāb then one should make the best estimate. If an estimate cannot even be made then a date should be selected which is then stuck to each lunar year.

- The selected date does not have to be in Ramaḍān. It is however more virtuous to donate in Ramaḍān than at any other time.

- Zakāt should be distributed as soon as possible, at the very latest within 1 lunar year of the calculation date.

- Missed Zakāt should be calculated to best of one’s ability and paid.
Case Study

Ayesha on her Zakāt Anniversary date, 10th of Ramaḍān, takes account of her finances as follows:

- Personal car / clothing / furniture: £15,000
- Personal Gold jewellery £2,000
- Owns 50% of home, worth £275k, diminishing mushāraka finance £100k
- Owns half of another property – rented out. Value of property £180k.
- Ayesha has an opticians business which has stock of glasses and contact lenses worth £20k.
- Cash in her business account totals £15k, in her personal account £10k
- Owns some shares in BP for resale only = £2k
- She has lent £3k to her friend
- She has a Personal Pension, chosen to invest in Sharī‘ah compliant cash account, MV = £30k
- She owes £5k to suppliers of glasses
- 3 years worth of Instalments are outstanding on furniture purchased, total debt outstanding = £6k
<table>
<thead>
<tr>
<th>CASE STUDY</th>
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<tbody>
<tr>
<td>Personal Car / Clothing / Furniture</td>
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<tr>
<td>Gold</td>
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<tr>
<td>Main Residence</td>
<td>Non zakātable</td>
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<tr>
<td>Investment Property</td>
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<td>Stock in business</td>
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<tr>
<td>Cash</td>
<td>zakātable</td>
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<tr>
<td>Money owed to Ayesha</td>
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<tr>
<td>Pension</td>
<td>zakātable</td>
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<tr>
<td>Money owed to supplier</td>
<td>Deductible for Zakāt</td>
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<tr>
<td>Debt on furniture</td>
<td>12 Months Deductible for Zakāt</td>
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<tr>
<td>Item</td>
<td>Value</td>
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<td>------------------------------</td>
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<tr>
<td>Gold</td>
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<td>Money owed for furniture</td>
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<td>Net amount for Zakāt</td>
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<td>Zakāt @ 2.5%</td>
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SUMMARY

• Zakāt is the 3rd Pillar of Islam and compulsory if you are Sāḥib un Nişāb
• Zakāt is a purification of one’s wealth and a right of the poor over the rich
• Failure to pay Zakāt at all or to under pay Zakāt is a major sin
• Those whose total wealth, excluding basic necessities and debts is below Nişāb level can receive Zakāt.
• Zakāt should be calculated promptly on the annual Zakāt date and then paid as soon as possible, at the latest within one year.
• Three main assets are subject to Zakāt: 1. gold & silver 2. cash and 3. business assets
  • Business assets include shares, pensions, CTF, home purchase plans, properties
• Debts receivable from others are added to Total Assets in the Zakāt Calculation
• Debts payable to others are subtracted in the calculation
• Zakāt is payable at 2.5% on Net Assets