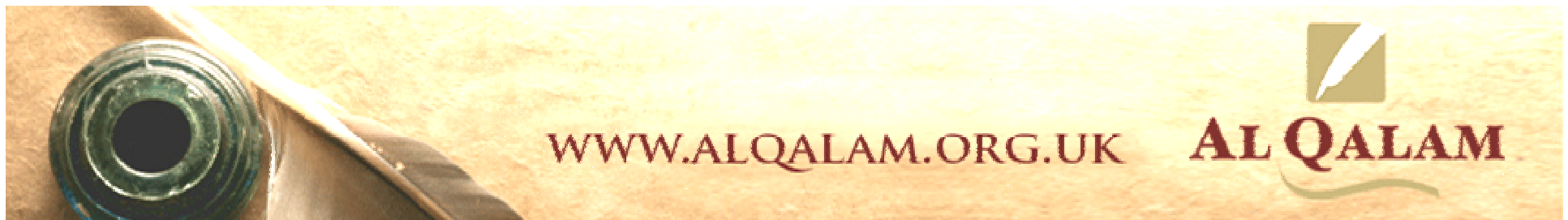


In collaboration with



ZAKĀT

Meaning, Importance, Payers
& Recipients

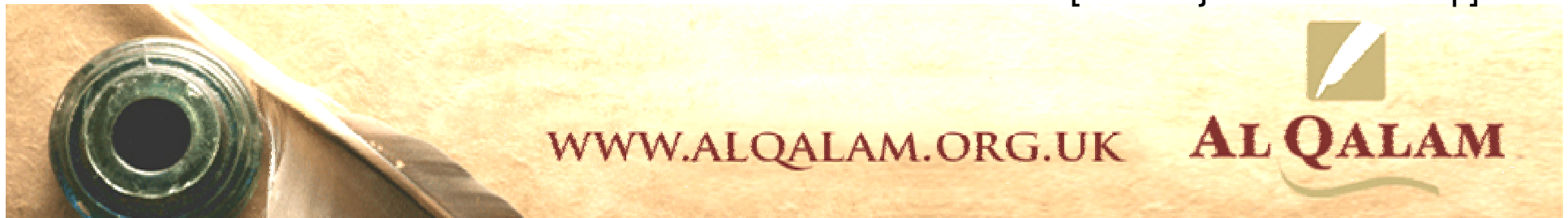


ZAKĀT – MEANING & IMPORTANCE

- 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]



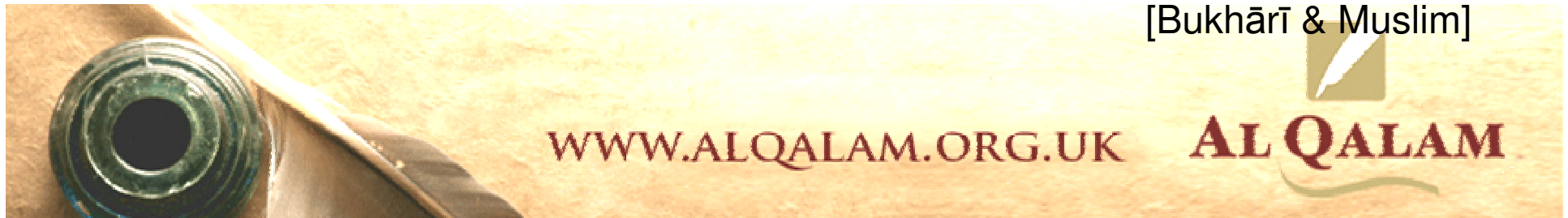
ZAKĀT – MEANING & IMPORTANCE

- 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]



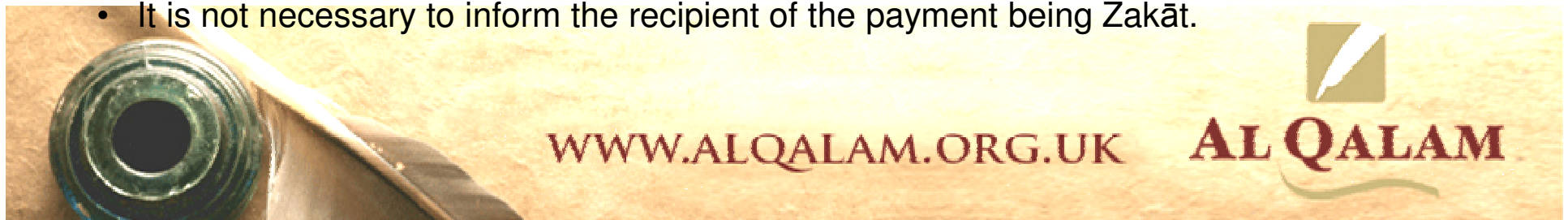
ZAKĀT PAYERS AND RECIPIENTS

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.



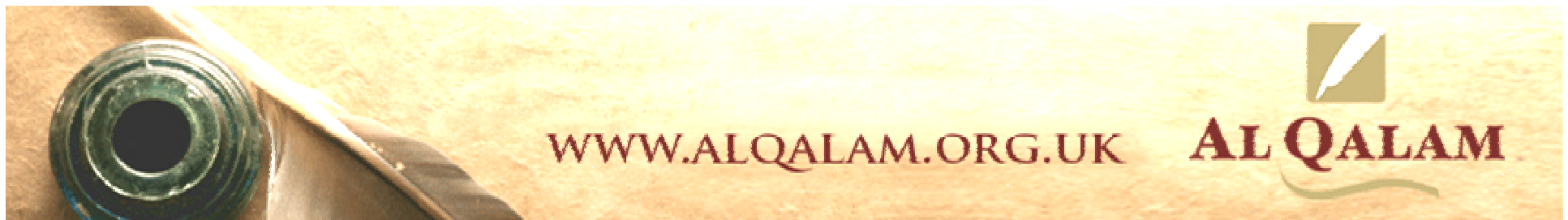
ZAKĀT PAYERS AND RECIPIENTS

Those barred from receiving Zakāt

- Certain Hashimites – descendants of:
 - ‘Abbās
 - Hārith
 - Abū Ṭālib from ‘Alī, Ja‘far and ‘Aqeel
- Payer’s lineal descendants (child, grandchild, etc)
- Payer’s lineal ascendants (parent, grandparent, etc)
- Payer’s spouse

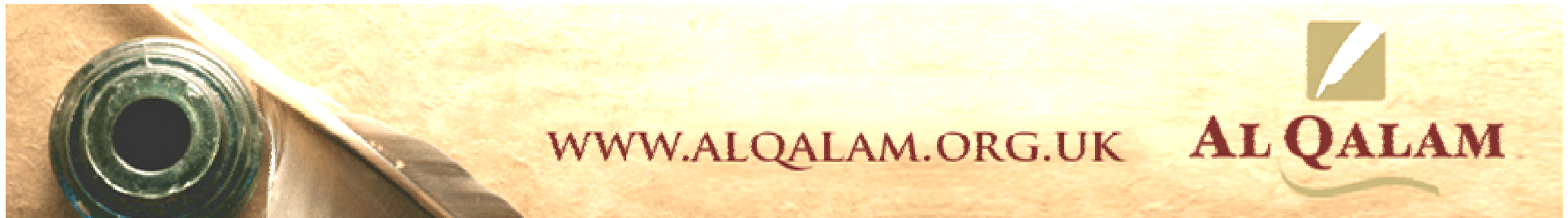
Conditions for validity of Zakāt

- 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)

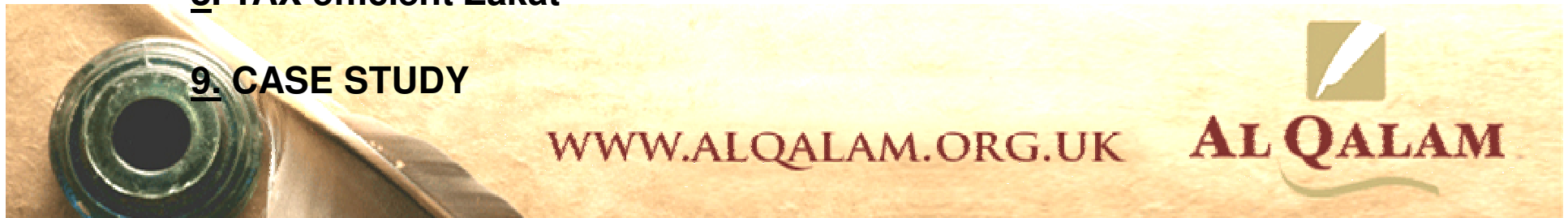
5. CALCULATE total and pay 2.5% ZAKĀT if it equals or exceeds NISĀB

6. DEFINITION of NISĀB

7. WHEN to pay Zakāt

8. TAX efficient Zakāt

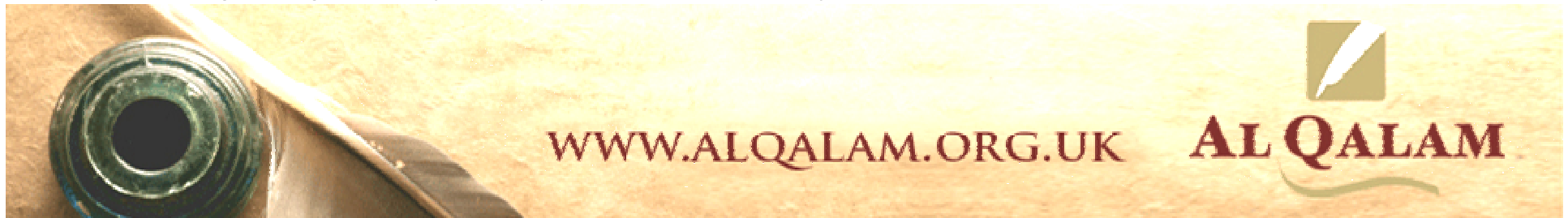
9. CASE STUDY



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

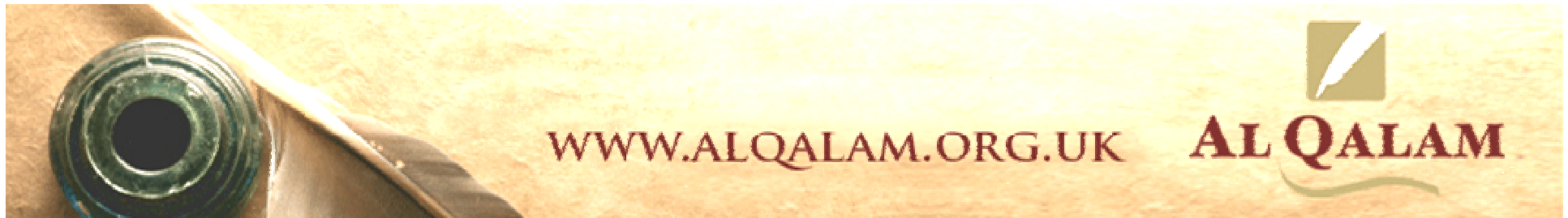
Zakāt not payable on Market Value but payable on net income from Asset. For shares, Zakāt ONLY payable on stock and cash. Zakāt is NOT payable on goodwill or fixed equipment.

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

No Zakāt Payable (this then becomes a PERSONAL ASSET)

iv) No clear intention

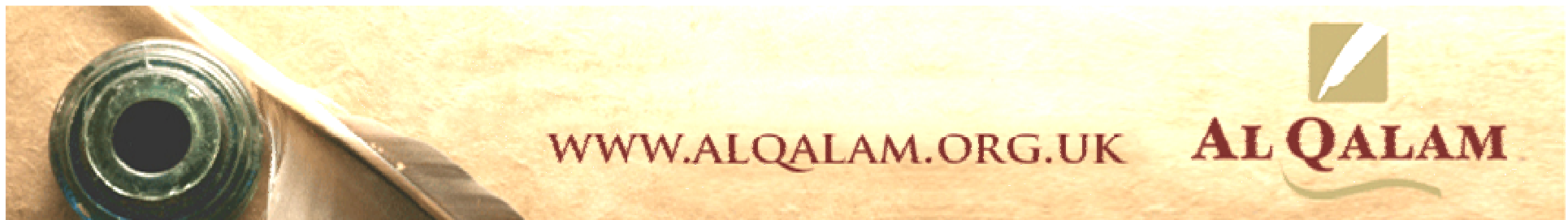
No Zakāt payable on asset value, but income received subject to Zakāt



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 .



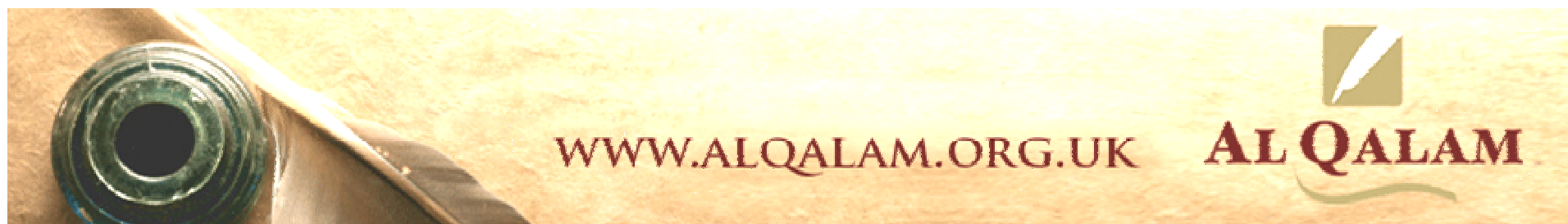
LIABILITIES / DEBTS

DEBTS OTHERS OWE YOU

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 .

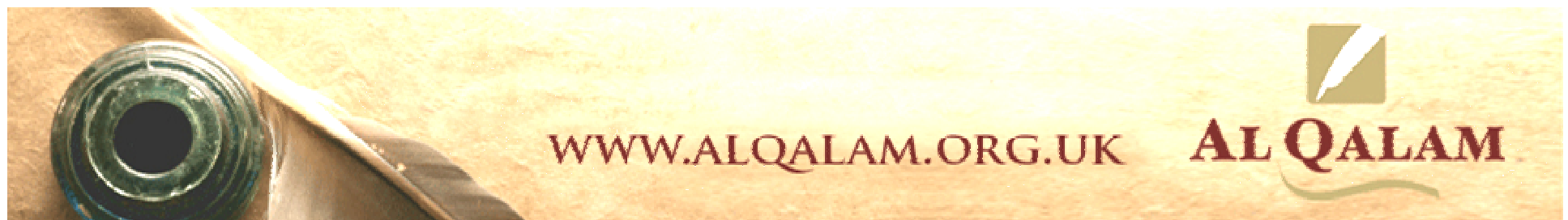
Bad debts – lost all hope of recovery – Zakāt is not payable



LIABILITIES / DEBTS

DEBTS OWED TO OTHERS

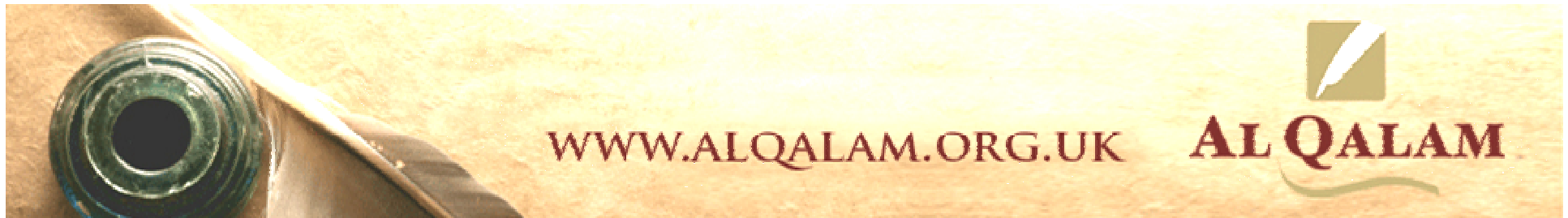
1. Debts owed to others are **deductible** from your Zakātable total if they are to be **repaid in full within the next twelve months**.
2. Debts **not repayable at all** in the **next twelve months** are **NOT** deductible.
3. If debts are **payable by instalment**, then **twelve months debt** is deductible.



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)

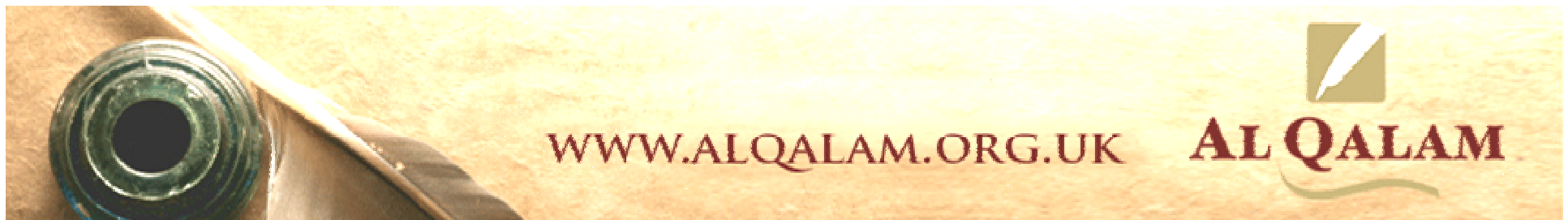
ADD FULL VALUE OF BUSINESS ASSETS IF INTENTION IS TO RESELL IMMEDIATELY

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

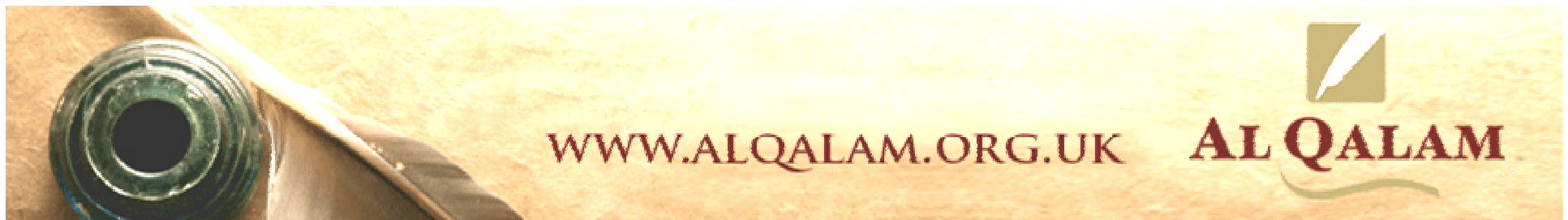
SUBTRACT [qualifying] debts you owe to others

PAY 2.5% ZAKĀT on total if it equals NIŞĀB



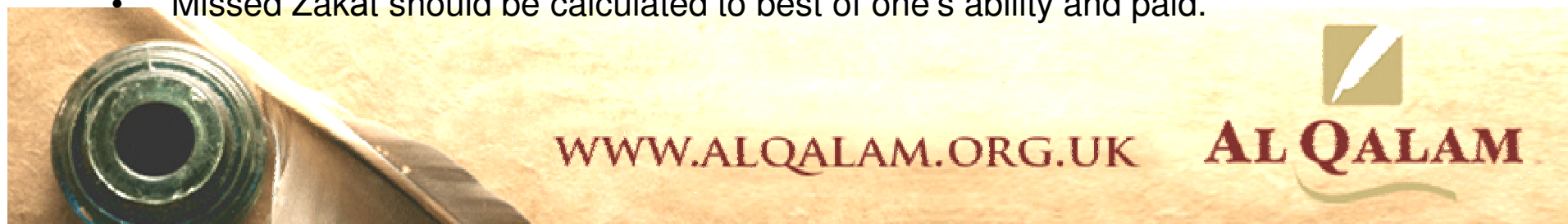
DEFINITION OF NISAB

- 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

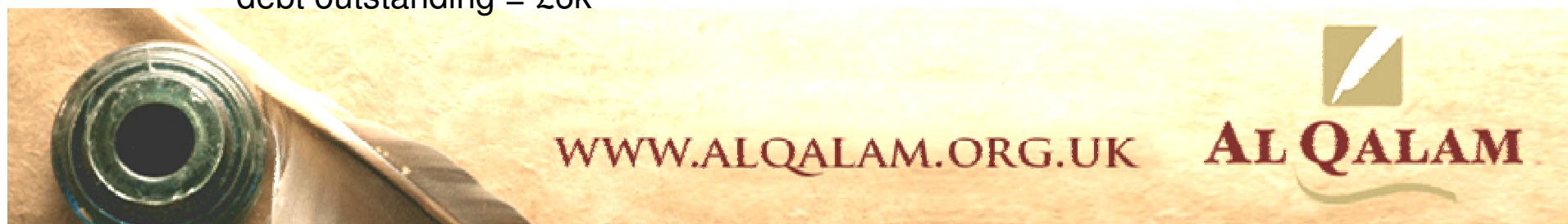
- Zakāt only paid when you are at or above the Niṣāb level on your Zakāt anniversary.
- If a person cannot remember the date upon which he/she first become Sahib un-Niṣāb then one should make the best estimate. If an estimate cannot even be made then a date should be selected which is then stuck to each 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

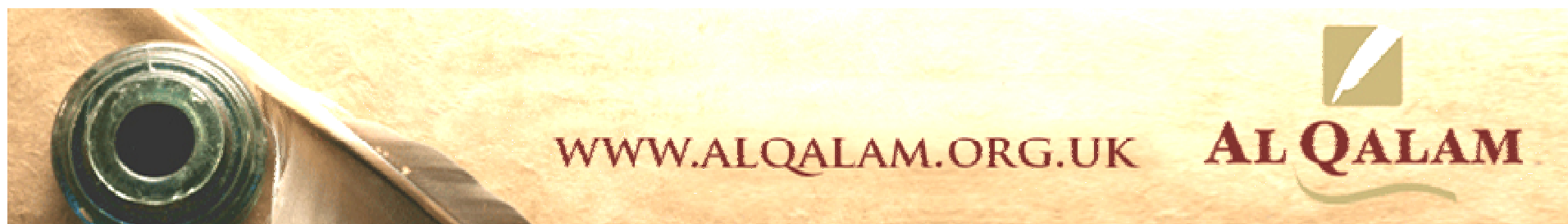


CASE STUDY

Personal Car / Clothing / Furniture	Non zakātable
Gold	zakātable
Main Residence	Non zakātable
Investment Property	Not zakātable
Stock in business	zakātable
Cash	zakātable
Shares	Fully zakātable
Money owed to Ayesha	zakātable
Pension	zakātable
Money owed to supplier	Deductible for Zakāt
Debt on furniture	12 Months Deductible for Zakāt

CASE STUDY

Item	Value
Gold	£2,000
Stock in business	£20,000
Cash	£25,000
Shares in BP	£2,000
Money owed by friend	£3,000
Pension	£30,000
Money owed to supplier	-£5,000
Money owed for furniture	-£2,000
Net amount for Zakāt	£75,000
Zakāt @ 2.5%	£ <u>1,875</u>



SUMMARY

- Zakāt is the 3rd Pillar of Islam and compulsory if you are Sāhib 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

