

About ZAKAT (Charity)

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 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 precious 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.

9 [What is the Principle of Joinder of Acquisition in the Same Class during the Lunar year?](#)

10 [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.

11 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'i 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.

12 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.

13 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).

14 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.

15 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

16 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).

	Nisab	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 August 15, 2012 the price of gold was approximately \$51.54/gram and for silver was \$0.89/gram, hence the nisab for gold is approximately \$4509.31 (\$51.54 x 87.49 grams) and the nisab for silver was approximately \$548.80 (\$0.89 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).

Karat	% Gold	Description
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.

17 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 August 15, 2012, was \$548.80 (See Section 12.1).

18 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.

19 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.

20-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.

20-[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)