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# ZAKAH

## Meaning, Payers & Recipients



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## ZAKAT – MEANING & IMPORTANCE

- Zakah is the third pillar of Islam and appears no less than 82 times in the Qur'an and on 32 occasions in the same **(Shaami)**
- If someone is given wealth and does not pay its Zakah, the wealth will appear to him on the Day of Judgement in the form of a bald serpent with two horns, encircling him and squeezing him all day, then holding him by the lips and telling him "I am your wealth, the treasure which you hoarded"  
**(Bukhari & Muslim)**
- It also purifies one's inner qualities – The holy Qur'an says "Take out your wealth a sadaqah (obligatory alms) by which you may cleanse and purify them".  
**(Al – Taubah 9'103)**
- It purifies the rest of the wealth – The holy prophet (saw) has said "Allah had made it a source of purification for your wealth"  
**(Ibn Majah and Baihaqi)**



# ZAKAT PAYERS AND RECIPIENTS

## Conditions to be fulfilled for Zakat to be payable

- Sane
- Adult (reached puberty)
- Sahib Un-Nisab (owner of wealth above Nisab level)
- Muslim

## Recipients of Zakat

- Holy Qur'an (9:60) lists the categories of people entitled to receive Zakat
- Primary recipients of Zakat 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 Nisab threshold.
- A person's poor relatives should be given preference when distributing Zakat above other poor people
- It is not necessary to inform the recipient of the payment being Zakat



# ZAKAT PAYERS AND RECIPIENTS

## Those barred from receiving Zakat

- A descendant of Prophet Mohammad SAW (Hashmi)
- Payer's child or grandchild
- Payer's parent or Grandparent
- Payer's spouse

## Conditions for validity of Zakat

- Intention
- Eligibility of Recipient
- Recipient's ownership (cannot pay to masjid / hospital)
- Pre-paying Zakah

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# ZAKAH

Assets, Liabilities and Calculation

Visit [www.1stethical.com](http://www.1stethical.com)



# 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% ZAKAH if it equals NISAAB**
- 6. DEFINITION of NISAB**
- 7. WHEN to pay Zakah**
- 8. TAX efficient Zakah**
- 9. CASE STUDY**



# PERSONAL ASSETS

## IMPORTANT RULES

1. All assets owned for PERSONAL USE are exempt from Zakah except Cash, Gold & Silver which are always subject to Zakah
2. Zakah is always paid on the balance of the assets owned on the Zakatable anniversary and not any fluctuating figure during the year.
3. Zakah is NOT payable on Haraam income. This must all be donated to charity.
4. Zakah is also payable on livestock and agricultural crops – please consult a scholar separately if you own these.
5. If a Gold/Silver asset is owned for personal use and is made from a mixture of metals including Gold & Silver then Zakah is only payable if Gold/Silver form the majority of the asset.
6. Gold-plated personal jewellery is therefore not subject to Zakah due to above.



# BUSINESS ASSETS

## ZAKAH POSITION DEPENDS ON YOUR INTENTION

### i) Clear intention to resell

Zakah due on entire Asset value – always use Market Value

### ii) Clear intention to hold as an Investment

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

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

No Zakat Payable (this then becomes a PERSONAL ASSET)

### iv) No clear intention

No Zakat payable on asset value, but income received subject to Zakah



# BUSINESS ASSETS

## INTENTION NOT TO RESELL IMMEDIATELY

- i) Business Owners – Zakah payable on stock and cash only NOT on goodwill or on capital equipment / property
- ii) Shares – Zakah is NOT payable on value of shares – Zakah is payable ONLY on the cash balance and stock valuation – this needs calculating
- iii) Properties – Zakah is ONLY payable on net rental income
- iv) Pensions – Zakah is ONLY payable if you can choose how to invest the pension fund – the amount of Zakah depends on the asset being invested in. (property fund / shares / cash fund etc.)
- v) Child Trust Fund – Zakah is NOT payable. After child receives cash on 18<sup>th</sup> birthday, they are personally responsible for paying Zakah
- vi) Please refer to [www.alqalam.org.uk](http://www.alqalam.org.uk) for detailed fatwa



# LIABILITIES / DEBTS

## DEBTS OTHERS OWE YOU

1. Debts owed to you need to be added to your Zakatable total. (including Qard e Hasana)
2. Some debts (inheritance, dowry, unpaid salary) are only included once you actually receive them not before.
3. If you genuinely feel you will not receive the debt back, then it does not need to be added to Zakatable total.
4. You can choose to defer paying Zakah until you actually receive the debt then pay in one go.



# LIABILITIES / DEBTS

## DEBTS OWED TO OTHERS

1. Debts owed to others are **deductible** from your Zakatable 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**.

Please refer to [www.alqalam.org.uk](http://www.alqalam.org.uk) for detailed fatwa.



# ISLAMIC HOME PURCHASE PLANS

**Murabaha Schemes** – Twelve months of future instalments can be deducted from Zakatable assets

**Ijara & Diminishing Musharaka Schemes** – these are NOT considered as DEBT therefore no future payments at all can be deducted from Zakatable assets.

Please refer to [www.alqalam.org.uk](http://www.alqalam.org.uk) for detailed fatwa.



## RECAP

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

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

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

**ADD** DEBTS owed to you by others

**SUBTRACT** debts you owe to others

**PAY 2.5% ZAKAH** on total if it equals NISAAB



## DEFINITION OF NISAB

Nisab was set by Prophet Muhammed (SAW) as 20 Mithqal. This is 87.48 grams of Gold or 612.36 grams of Silver.

- If someone possesses only Gold, then the Nisab level for Gold must be used, if however a mixture of assets are possessed then the (lower) Silver Nisab level must be used.
- On current market rates the Nisab level is approximately £1781.96 and for Silver it is £177.58 (as of July 09)
- Assuming a person's wealth is equal to or exceeds the Nisab level, then Zakat is payable on it at 2.5%.



## WHEN TO PAY

- Zakat only paid when you have continuously been at or over the Nisab level for 12 lunar months.
- If a person cannot remember the date upon which he/she first become Sahib un-Nisab 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 Ramadan. It is however more virtuous to donate in Ramadan than at any other time.
- Zakat should be distributed as soon as possible, at the very latest within 1 lunar year of the calculation date.
- Missed Zakat should be calculated to best of one's ability and paid.



## Case Study

Ayesha on her Zakat Anniversary date, 10th of Ramadhan, 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 musharakah 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 Shariah 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



## C A S E S T U D Y

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



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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 Zakat	£75,000
Zakat @ 2.5%	<u>£1,875</u>





# TAX-EFFICIENT ZAKAH

## INDIVIDUALS

The [Gift Aid](#) Scheme allows the UK Registered Charity to reclaim the basic Rate Tax paid by the tax payer. Hence a **£80** net donation will allow the charity to claim **£20** back from the taxman. The £20 received by the charity cannot be offset against Zakah liability

Higher rate tax payers can claim an additional personal rebate of 20% via tax return.

## COMPANIES

Donations made by companies to UK Registered Charities are fully tax deductible against profits.

It is also possible for UK companies to set up their own Charitable trusts registered with the Charities Commission.



## SUMMARY

- Zakat is the 3<sup>rd</sup> Pillar of Islam and compulsory if you are Sahib un Nisab
- Zakat is a purification of one's wealth and a right of the poor over the rich
- Failure to pay Zakah at all or to under pay Zakah is a major sin
- Those whose total wealth, excluding basic necessities and debts is below Nisab level can receive Zakat.
- Zakat should be calculated promptly on the annual Zakat date and then paid as soon as possible, at the latest within one year.
- Three main assets are subject to Zakah: 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 Zakat Calculation
- Debts payable to others are subtracted in the calculation
- Zakah is payable at 2.5% on Net Assets
- Zakah can be given in a tax-efficient manner via Gift Aid