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In the Name of Allah, the Most Gracious, the Most Merciful

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## **How to calculate your Zakah in Australia**

Written by:

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Rabbi Zidni Ilma

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## About the Author



Ebrahim Iqbal Lambat is a chartered accountant and holds a master's degree in business administration (MBA), majoring in project management and taxation.

Iqbal is not a theologian, but he has a major interest in Islam. He has, in the last decade, written a number of books about various aspects of Islam.

Iqbal and his family migrated to Australia from South Africa. He has held senior business roles in major corporations in South Africa (including company directorships) and Australia.

Iqbal's Australian publications include:

- What is Islam and what are Muslims all about?
- Is Islam and are Muslims the enemy? (Draft)
- Do Muslims subscribe to Australian values and are they integrating? (Draft)
- How to calculate Zakah
- Ramadan Pack
- Australian and Islamic laws of Inheritance

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# Introduction

## 1. Introduction

This book explains the various assets that are subject to zakah and contains examples to illustrate how zakah should be calculated. The book focuses of the mechanics of calculating zakah; it does not address the Islamic laws on zakah.

The Prophet (PBUH) clearly identified the assets that should be included in a zakah calculation and the zakah rates to be applied. At the time of the Prophet (PBUH) the common assets were gold and silver, livestock, business assets (largely merchants with stock for resale), agricultural land, and crops. These assets are today complimented by “new” investments such as: shares and associated stock market instruments; property; superannuation funds; trusts; etc. Jurists have applied the principles outlined by the Prophet (PBUH) to these new assets to arrive at a methodology on how to calculate zakah.

## 2. You must have the equivalent of nisaab to qualify to pay zakah

The Prophet (PBUH) stipulated a minimum amount under which no zakah is due. Zakah is only due on your net estate (after deducting liabilities) if it is equal to or in excess of the stipulated minimum. This minimum is referred to as nisaab.

The Prophet (PBUH) specified different minimums for gold and silver assets, agricultural products, and livestock. The majority of Muslim scholars concur that for non agricultural assets, nisaab is calculated on the gold and silver stipulation.

Nisaab exists so that a person who owns less than the minimum is not subject to zakah as he/she will require funds for emergencies and other precautionary spending<sup>1</sup>.

Nisaab represents the minimum funding required for emergencies and other required spending.

The Australian dollar equivalent of nisaab is calculated as follows:

NISAAB		Grams	Tolas	Grains	Troy Oz.	A\$/ Troy Oz.	Australian Dollar Equivalent
Gold	20 Mithqaals	87.48	7.5	1350	2.8125	1695	\$4,767
Silver	200 Dirhams	612.36	52.5	9450	19.6857	24	\$472

(Based on commodity prices as at 26 May 2017).

The nisaab calculation will change as the gold and silver prices change. Certain scholars are of the opinion that the lower silver based value should be used. In the Australian context, \$472 is very low. For the purposes of calculating whether you qualify to pay zakah in Australia, you should use the gold threshold. If you have net assets lower than \$4,767 you do not pay zakah.

If you are a recipient of Centrelink, Family Tax Benefits or other benefits from the Federal  
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and/or State government, you are required to pay zakah if you have nisaab.

Nisaab is calculated per person and not per family. Each person is responsible for paying zakah on their own assets. You pay your own zakah and your spouse (husband/wife), children, parents, etc pay their own zakah, provided they have nisaab. Most contemporary scholars are of the opinion that if a child has nisaab, then the child needs to pay zakah. Sheikh Muhammad ibn Al-Mukhtar Ash-Shanqiti, former president of the Islamic Association of Lubbock, Texas, US, states<sup>2</sup>: “In Islamic jurisprudence, zakah is an obligation on money and not on the person. This means that even if the person is a child or insane - and thus is not Islamically accountable - this does not mean that his money is not zakatable. However, the legal guardian, has to pay zakah on this person under your guardianship.”

If you receive social benefits, you are still required to pay zakah if you own nisaab.

If your net assets either equate to or are in excess of the nisaab, then zakah is due on the entire wealth - no deduction is permitted for the nisaab.

**Example:**

Ahmed has qualifying wealth of \$5,000. He would pay zakah on the full \$5,000.

If Ahmed had qualifying wealth of \$4,500; he would not pay any zakah.

[There is a growing view in Australia and other Western countries that a gold based nisaab is very low given the low price of gold today. Instead, some Muslims are calling for the use of government statistics that indicate the minimum required to live in Australia for a year. Estimates of cost of living per person, in Australia, range from \$25,000 to \$35,000 per person.]

Imam Hanifa was of the view that you need to have the equivalent of nisaab at the beginning and end of the year – if it decreases during the year it does not matter. The Shafi, Maliki and Hanbali schools are of the opinion that you must have nisaab for the whole year. Shafi scholar Imam Nawawi explains<sup>3</sup>: “In our view and the views of Imam Malik and Hanbal....the amount of property liable for payment of zakah is tied to the completion of nisaab through the turn of the whole year. If the nisaab decreases in any time of the year, [the counting of] the year discontinues. Later, if the nisaab is completed, the year count is resumed from the time of its completion.”

### **3. Personal assets/necessities are exempt from zakah**

The objective of zakah is to donate to the poor and needy from your wealth. All assets that are intended for your personal use (excluding cash) are exempt from the definition of wealth and from zakah<sup>4</sup>.

Generally, the following assets are excluded from zakah:

- Your home.
- Your personal clothing, household furniture (including appliances), personal laptops, mobile phones, and tablets.
- Your personal vehicles.

Some scholars are of the view that excessive personal assets are not exempt. For example, each person will only have one car exempt; if you own two cars, and the second car is not used for trade, the second car would not be exempt according to these scholars. This perspective is increasing in popularity.

When calculating your nisaab, you should exclude your exempt assets. If you include them, then your wealth will exceed nisaab and you will pay zakah. [It is your choice as to which approach you adopt.]

**Example:**

Abdullah and Maryam own the following assets:

- A home inherited (worth \$300,000)
- A car (\$20K)
- Personal clothing and furniture
- Cash in the bank of \$8,000 jointly owned

Nisaab calculation if you exclude exempt assets:

	Abdullah	Maryam
Home	Exempt	
Car	Exempt	
Personal effects	Exempt	
Cash	4,000	4,000
Total wealth	4,000	4,000
Nisaab	4,700	4,700

Both Abdullah and Maryam do not have nisaab and will not pay zakah. If all the cash was owned by either one of them, then the owner of the cash would have nisaab and would need to pay zakah.

If Abdullah and Maryam include their exempt assets in the calculation of nisaab, then they will qualify to pay zakah, as their wealth will exceed nisaab as illustrated below.

	Abdullah	Maryam
Home (\$300,000)	150,000	150,000
Car (\$20,000)	20,000	
Personal stuff	5,000	7,000
Cash	4,000	4,000
Total wealth	179,000	161,000
Nisaab	4,700	4,700
Qualify to pay zakat - have nisaab		
How much zakat payable?		
Total wealth	179,000	161,000
Less exempt assets	-175,000	-157,000
Net wealth	4,000	4,000
Zakat payable	100	100

Abdullah has assets worth \$179,000 and Maryam has assets worth \$161,000. Both of Rabbi Zidni Ilma.

these exceed nisaab.

The only reason Abdullah and Maryam have nisaab is due to the inclusion of exempt assets which are necessities. As such, it is perfectly acceptable to exclude exempt assets from the nisaab calculation.

#### **4. You must hold wealth/assets for a lunar year**

The Prophet (PBUH) stated that you only pay zakah on assets that you have held/possessed for a full lunar year. If you purchased any asset during the year then the asset is not subject to zakah.

In practice, for assets such as cash, stock for resale, shares, etc you either take an average of opening and closing balances or you use either your opening or closing balance, whichever is lower. For cash balances, you should view your monthly balance (easily obtainable through internet banking) and select your lowest balance on the basis that you would have at least held that amount for the lunar year.

##### **Example:**

Hawa owns \$25,000 in a bank account at the beginning of the zakah year. At the end of the year, she owns \$18,000.

In the absence of detailed monthly cash balances, Hawa would include in her zakah calculation her closing cash balance of \$18,000 as it can be assumed that she owned that amount for the entire year. Her closing balance is lower than her opening balance, so it can be assumed that she saved the lower balance for 12 months.

If, Hawa instead had \$30,000 at the end of her zakah year, she would include her opening balance of \$25,000 in her zakah calculation. It can be assumed that she at least held the lower balance for the entire year.

If Hawa has access to monthly cash balances which can easily be viewed on internet banking, she would include in her zakah calculation her lowest monthly balance as it can be assumed she held that for at least a year.

Larger assets can be accounted for on an individual basis.

With regards to holding stock in trade for one year, scholars agree that for businesses that turnover stock regularly, the replacement stock is viewed as a continuation of the original purchase.

Each zakah year is independent - it is irrelevant how long you held the asset in the last zakah year; what is important is how long you held the asset this zakah year.

#### **5. Zakah calculation date**

You should choose a date to calculate your zakah and use the same date each year. If you choose to use the lunar year then choose an Islamic date that you adhere to each year – for example 5 Ramadan.

For businesses, it may be more appropriate to calculate zakah at the end of the financial year, rather than the lunar year. In this case, scholars are in agreement that a higher rate of 2.577% should be paid.

## **6. Assets to be included in your zakah calculation**

The table below provides a summary of assets/income subject to zakah. Each asset/income category is discussed in more detail in this book.

Asset/income	What to include in your zakah calculation
<b>Cash</b>	All cash and bank accounts.
<b>Gold and silver</b>	At the time of the Prophet (PBUH) gold and silver represented cash wealth and investment. From a Hanafi law perspective all gold and silver irrespective of form (jewellery, certificates, etc) is subject to zakah. The other schools have the same opinion – with the exception of jewellery. The other schools are of the view that only excess jewellery (jewellery that is not used often) should be included in your zakah calculation.
<b>Assets in business</b>	Include net current assets (stock + debtors + cash – creditors). But this calculation does not cater for businesses that have a high turnover, but low net current assets.
<b>Businesses where you have shares either as a silent or active partner/joint ventures</b>	Include your percentage ownership of the net current assets and/or net profit for the year.
<b>Shares in companies listed on the Stock Exchange</b>	If you are holding the shares to resell once you get an opportunity to make a profit, then the current value of the shares are subject to zakah.  If you are holding the shares for the long term to earn dividends then the net dividends that you earn are subject to zakah.
<b>Property</b>	The current value of any property that you are holding to resell is subject to zakah. It is similar to stock in a business. If you have properties that you are renting, then the net rental is subject to zakah.
<b>Debts owing to you</b>	You should include any debts owing to you.
<b>Superannuation funds</b>	Any voluntary contributions that you make to a superannuation fund is subject to zakah.  Where your employer makes contributions on your behalf, these are not subject to zakah except in the years that you actually receive benefits from the superannuation fund.
<b>Life assurance</b>	The surrender value of any annuity/endowment policy is subject to zakah.
<b>Mining</b>	The value of ore extracted is subject to zakah.
<b>Crops</b>	Zakah at the rate of 10% is paid on the yield of the land if the land is irrigated by natural means (that is, rainfall, rivers, etc.). If the land is irrigated by “artificial” means then zakah at the rate of 5%

Asset/income	What to include in your zakah calculation
Livestock	<p>should be paid.</p> <p>Zakah is due on camels, cattle, water buffaloes, goats and sheep (any animal that can be slaughtered for Qurbani) when they:</p> <ul style="list-style-type: none"> <li>• graze on the open field for the greater part of the year and are not stall fed;</li> <li>• are kept for milk, breeding or fattening. Such animals are referred to as <i>Saaimah</i>.</li> </ul> <p>Zakah on Saaimah animals is calculated on the number and not the value. Stud, thoroughbred and crossbred animals are therefore treated alike for zakah purposes.</p> <p>Where the animals are kept for trade, zakah will be calculated as for business assets above.</p>
Liabilities	You are permitted deductions for any amounts you owe. The full value of short term debts can be deducted whilst only the current year portion of long term/mortgage debts are permitted.

## 7. Zakah rates

The Prophet (PBUH) applied different zakah rates to different assets/income streams. Broadly these rates are as follows:

Rate	Asset/income applied to
2.5%	Cash, gold and silver. Scholars have expanded this to include business assets.
5%	If the land is irrigated by “artificial” means then zakah at the rate of 5% is due on agricultural produce. Some scholars extend this to include the net profit from a business and gross rentals.
10%	Zakah at the rate of 10% is paid on the yield of the land if the land is irrigated by natural means (that is, rainfall, rivers, etc.). Some scholars extend this to include net dividends and net rentals.
20%	Ore extracted.

## 8. Who do you pay zakah to in Australia?

A number of zakah organisations exist in Australia. Some of these organisations have Deductible Gift Recipient status with the Australian Tax Office with the result that any zakah payment you make to these organisations is tax deductible.

<sup>1</sup> Sabiq: Fiqh-us-Sunnah – section 3.8

<sup>2</sup> Can I Pay the Zakah on My Daughter's Behalf? – Islamonline – 28 December 2003

<sup>3</sup> Sabiq: Fiqh-us-Sunnah – section 3.8

<sup>4</sup> Zakah on Jewelry: Scholars Debate – Islamonline – 20 July 2004

# Personal Assets

## 1. Cash

All your cash holdings (worldwide) are to be included in your zakah calculation, whether the cash is in the form of bank deposits, treasury bills, cash on hand, and money market investments. Only that portion of the cash held for one lunar year is included in the zakah calculation.

If you have any joint accounts with your spouse, then you need to include your portion of the joint account in your zakah calculation form.

All your cash holdings, irrespective of where held, are included in your zakah calculation.

Zakah is payable on all cash reserves, even if you are saving to purchase a particular asset. Until the asset is bought, you need to pay zakah on the cash.

If you are a working person, then you do not pay any zakah on your salary – you only pay zakah on the amount of money you have actually saved after spending on your personal and family requirements.

## 2. Gold and Silver

Zakah is payable on any gold and silver in your possession. Zakah on gold and silver is calculated on its weight multiplied by the ruling gold or silver market price. Australian dollar prices for gold and silver are available on the internet and in newspapers.

Zakah is payable at the rate of 2.5%.

### **Gold and Silver Jewellery:**

Imams Shafi, Hanbal and Malik were of the opinion that gold and silver jewellery being used is not subject to zakah. Zakah is only payable on excess jewellery.

Ali Muhi-Deen Al-Qurrah Daghi, head of department of Islamic Jurisprudence, Qatar University, states that this is the preferred treatment<sup>5</sup>: “Concerning Zakah on women’s jewellery that is worn, it is a controversial issue. The opinion deemed to be the most correct states that Zakah is not levied on jewellery worn by women throughout the year, or most of the year, for the sake of adornment, and if the jewellery worn is not more than usual. However, Zakah is due on the jewellery that is not worn most of the time (i.e. that is kept) and on that which is more than usual.”

As a minimum, zakah is payable on excess jewellery or jewellery that is not used often.

Imam Hanifa on the other hand was of the opinion that gold is gold and no matter what form it takes, is subject to zakah. Hence under Hanafi law, all jewellery containing gold and/or silver is subject to zakah.

The schools concur that zakah should be payable on jewellery owned by a male.

Zakah on jewellery is calculated on the weight of the gold and/or silver portion of the jewellery, at current market prices for gold and jewellery.

### **Other Jewellery**

There are differences of opinion with regards to non gold or silver jewellery. Classical scholars deemed non gold and silver jewellery as exempt. Contemporary scholars, mindful of the value of diamonds, sapphires, etc state that all excess jewellery, irrespective of whether it is gold or silver based, is subject to zakah.

## **3. Superannuation Funds**

Any voluntary contributions that you make to a superannuation fund are subject to zakah. Where your employer makes contributions on your behalf, these are not subject to zakah except in the years that you actually receive benefits from the superannuation fund – that is, when you receive either a pension or a lump sum payment from your super fund.

In Australia, employers are required to make superannuation contributions for most employees. For some salaried employees, employers disclose the required contribution as part of the salary package. These payments by an employer are not subject to zakah - as an impacted employee you have no control over these assets. You only pay zakah when you receive benefits from the superannuation fund.

However, where you voluntarily choose to increase your concessional contributions above the government mandated 9.5% through salary sacrifice or if you are a business person, through higher contributions, then you are required to include the higher contribution in your zakah calculation. You made a choice to make a higher contribution.

**Zakah is payable on  
your voluntary  
contributions, over  
the mandated 9.5%.**

Similarly, non concessional contributions are also to be included in your zakah calculation. Non concessional contributions are contributions that you make to super from your after tax earnings. Once again, you have made a choice to invest in super and that amount needs to be included in your zakah calculation.

Dr. Muzammil H. Siddiqi, President of the Fiqh Council of North America explains: “The basic rule of Zakah is that it is due on the wealth that one owns and has the freedom to use. A committee of scholars under the leadership of Maulana Mujahidul-Islam Qasmi discussed this issue in great detail. In the light of the discussion of the scholars the following points can be presented:

“The employee’s contribution to this fund is zakahable if it is done by his/her own choice. There is no zakah due on these funds if the employers due to the company or government’s policies collect them by force. Zakah will be due on these funds when they can be withdrawn.

“The zakah must be paid for the money that one receives and then voluntarily contributes to a retirement fund.”

Mufti Ebrahim Desai adds<sup>6</sup>: “Zakah is applicable on all voluntary contributions you have made towards the pension scheme. However, since the money is not in your possession, Zakah will not be levied at this moment but only once you get physical possession of it. Once you get possession, Zakah will have to be paid for all the previous years as well. For purposes of easier calculation, it is better to pay the Zakah annually on the complete sum of your [voluntary] pension [superannuation] contributions. Zakah is not levied on compulsory deductions nor on the amount contributed by your employer. Zakah on these will only come into effect when you get access to these funds.”

### **How much to include in your zakah calculation**

You will need to accumulate your total additional concessional contributions and all your non concessional contributions to date in each zakah year – zakah will be payable at 2.5% on all additional contributions to date.

#### **Example:**

Hamza made the following contributions to his super fund since he commenced employment:

		Compulsory	Voluntary
2013	Super contributions	9,500	2,000
2014	Super contributions	10,000	4,500
2015	Super contributions	11,000	15,000
2016	Super contributions	12,000	0
2017	Super contributions	14,000	5,000
		56,500	26,500

In his 2017 zakah calculation, Hamza needs to include \$26,500 in his zakah calculation.

If you do not have records of all your voluntary contributions, you can source that information from your super fund.

### **Receipts from the superannuation fund**

Any pensions, annuities, lump sums you receive from the super fund are to be included in your cash balances that are subject to zakah.

## **4. Life Insurance Premiums**

There are differing views with regards to the permissibility of life insurance – regardless, if you have made contributions to a growing asset base (for example an endowment policy)

then you need to pay zakah on the surrender value of your policy.

## 5. Example

Hassan and Amika have the following assets:

- Personal home worth \$600,000
- Personal cars worth \$50,000
- Personal clothing, furniture, tools, laptops, mobiles worth \$65,000
- Cash in various bank accounts that are held jointly of \$120,000. At the beginning of the year the cash balance was \$90,000.
- Amika has her own account which contains her dowry and gifts from her parents. Her current balance is \$40,000. At the beginning of the year her bank balance was \$50,000.
- Amika has a gold necklace that was given to her at her wedding. It is an expensive piece and she hardly wears it. She was also given a diamond studded bracelet that she does not wear. Both are valued at \$25,000.
- Amika also has a gold/sapphire necklace that she purchased to wear as often as she can. However, she rather likes the necklace and prefers not to wear it. Value is \$5,000.
- Hassan has a gold ring valued at \$2,000.
- Hassan and Amika are both professionals. Their employers contribute 9.5% of their salary to a superannuation fund of their choice. In addition, Hassan has made cumulative voluntary contributions of \$25,000.

### **How much zakah is payable by Hassan and Amika?**

Both Hassan and Amika have nisaab.

	Hassan	Amika
Personal home	Exempt	
Cars	Exempt	
Personal effects	Exempt	
Cash at bank - jointly owned.		
Opening balance lower - assumed held for 1 year (\$90K)	45,000	45,000
Amika bank account		
Closing balance lower - assumed only that portion held for 1 year	40,000	
Amika jewellery hardly ever worn	25,000	
Amika necklace being 'kept'	5,000	
Hassan gold ring - all gold for men subject to zakah	2,000	
Hassan cumulative voluntary contributions to super	25,000	
Zakah at 2.5%	<hr/> 72,000 <hr/> 1,800	<hr/> 115,000 <hr/> 2,875

<sup>5</sup> Zakah on Gold - Islamonline – 10 September 2003

<sup>6</sup> Abaligh – Mufti Desai – 17 April 2004

# Business Assets

## 1. Introduction

Jurists generally agree that you pay zakah at 2.5% on your net current (circulating) assets. The Saudi Arabian Ministry of Islamic Affairs, Endowments, Da‘wah and Guidance states: “When the time of Zakah is due, the commercial body, whether an individual or company, should make an inventory and estimate the actual value of goods in hand. The value of these goods together with cash assets, whether used in business or not, and the total of recoverable debts owed to him by others are considered the amount of trade activity on which Zakah is due, after subtracting the debts he owes to others from the total value.”

Zakah is payable on circulating assets.

## 2. Net Current Assets

Your net current assets/circulating assets (working capital) comprise:

- Stock
  - Debtors
  - Cash
- Less*
- Creditors (short term)

You need to prepare a balance sheet on the day you elect to calculate your zakah. Many Muslims prefer to calculate and pay their zakah in Ramadan and if this date differs with your normal financial/tax year end, then you will need to prepare a special balance sheet. With the accounting software currently available, this is a relatively simple exercise.

Should you elect to calculate your zakah at the end of your financial/tax year, you should pay your zakah immediately you can afford to do so and not wait for Ramadan to pay it.

### **Stock:**

Scholars concur that for stock to be included in the zakah calculation, it must have been acquired for re-sale. Stock may include any article or asset. For example, the stock of a clothing retailer is the clothing in his/her store, whilst the stock of a property developer/speculator is the property he/she has on hand (that is not yet sold). No zakah is due on stock not intended for trade.

Scholars also agree that zakah is only paid on stock after it has been held for a year. For businesses that turnover stock regularly, scholars view the replacement stock as a continuation of the original purchase. In practice, the stock on hand at the time the owner calculates his/her zakah should be included in the zakah calculation.

To ascertain the correct stock on hand, you need to conduct a stock count.

A number of scholars are of the view that stock should be valued at its current purchase value. The Saudi Arabian Ministry of Islamic Affairs, Endowments, Da‘wah and Guidance states: “Zakah is estimated according to the current market price. According to juristic authorities, estimating the amount of Zakah is based on the wholesale price of commodities. (This view is one of the recommendations of the First Contemporary Zakah Questions Symposium.)<sup>7</sup>.”

### **Debtors:**

Debtors for stock sales are included at book value less any write-off for bad debts. A bad debt is only recognised when the debtor no longer has an obligation to pay the debt (different from the commercial definition).

Debts arising from the sale of non-zakahable assets are not typically included in your zakah calculation. You include the cash when you receive it.

You may elect to include debtors in your zakah calculation in the year the debt is paid. Under Hanafi law, you would have to pay zakah for each year that the debt has been outstanding.

### **Cash:**

All cash in the bank accounts of the business need to be included in your zakah calculation, irrespective of how the cash was generated.

### **Creditors/Liabilities:**

You can deduct from your current assets any amounts that you owe your creditors for the purchase of stock and other items. The First Symposium of Zakah Contemporary Issues stated<sup>8</sup>: “As for the loans which finance the circulating working capital, they are to be deducted from the possessions upon which zakah is due.”

#### **Example:**

	2016	2015
Current Assets:		
Stock at cost	185,000	230,000
Debtors	32,000	24,000
Cash	22,000	15,000
	<hr/> 239,000	<hr/> 269,000
Current Liabilities		
Creditors	70,000	85,000
Net Current Assets	309,000	354,000
Average	331,500	
Zakah @2.5%	8,288	

Where cost price is used in the valuation of stock, scholars suggest that the average of opening and closing balances be included in your zakah calculation.

Some scholars are of the opinion that stock should be included at current market value, which results in the one year rule being rendered obsolete for a high volume

### 3. Fixed Assets

Fixed assets are buildings, plant and machinery, equipment, furniture and fittings, etc. - all items used by a business to generate a profit. The majority of scholars are of the opinion that no zakah is payable on fixed assets on the basis that they are used to generate income. In response to a question on this issue Dr Yusuf Al-Qaradawi, Dean of the University of Qatar and author of the book "Fiqh-az-Zakah" states<sup>9</sup>: "Zakah is imposed on trade goods as with liquid assets where there are items for sale that are transferred from one hand to another. For example, if the merchandise that is for sale is deposited in containers, then these containers are not subject to Zakah. This is because these containers are not for sale. The same rule applies to a building or an office with desks, scales, shelves, etc. All these are not accounted for when inventoried as capital that is subject to Zakah."

Fixed assets are exempt. Some scholars state that net profit should be included as it represents the return on capital.

Mufti Desai, a leading South African scholar concurs with the above view based on a fatwa on the topic issued by the leading Pakistani jurist, Mufti Usmani<sup>10</sup>.

Some scholars are of the opinion that net profit should be included in the zakah calculation.

### 4. Businesses with insignificant circulating capital

Some businesses have insignificant circulating capital. For example, ice cream shops, consultancies, medical practices, Google, etc. Their value is in their brand or their location – for example an ice cream shop at Garden City Shopping Centre will hold significant value due to location and length of lease.

Even though these businesses do not have large stock holdings, they will generate cash which will be subject to zakah.

Some businesses do not have much stock - but they have valuable goodwill/patents.

Some scholars prefer to include net profit in the zakah calculation. The net profit is a return on patents, trademarks, goodwill that may or may not be valued on the balance sheet of a company. The patents and goodwill themselves do not attract zakah; but they are viewed as investments, for which a return is made and that return should be subject to zakah.

The Saudi Arabian Ministry of Islamic Affairs, Endowments, Da'wah and Guidance advises:

- Capital goods stand for all properties that are not invested as trading objects. Treated as permanent assets, these goods are not counted for zakah. Rather, Zakah is to be paid on their revenues if they remain after the lapse of a full year.
- Revenues are added to the amount of zakah payable on the owner's cash money and commercial commodities after the lapse of a full year at the rate of 2.5%. This view is adopted by the majority of jurists and agreed upon by the Fatwa and Legal Supervision Authority, the Kuwaiti House of Zakah.

On this basis your net profit should be added to your net current assets. There may be some duplication to the extent that your cash reserves capture realised profits to date. This does get confusing and if you have a business with significant goodwill/trademarks, etc, best to speak to your accountant about how to calculate zakah.

### **Zakah rates:**

Scholars differ on what zakah rates to use. The options provided are:

- 2.5% if including both net profit and circulating capital.
- 5% of net profit if only including profit.
- 10% of net profit if only including profit.

This is an issue that you need to decide on based on the type of business you own.

## **4. Partnerships/Joint Ventures/Major Investments**

Where you are not the sole shareholder/owner of a business, you have two options:

- let the business calculate the zakah due and pay it on behalf of all shareholders; or
- you calculate your portion of the zakah based on the net current assets in your venture.

The first option may only be feasible if you have Muslim partners. If you elect this option you need to ensure that your partners have calculated and distributed the zakah correctly.

If you elect the second option, then you should calculate the zakah based on your shareholding of the net assets. For example, if you have a 15% shareholding in a company, then you should include 15% of the net current assets of the business in your zakah calculation (and net profit for the year, depending upon what approach you wish to adopt).

If you cannot get access to a balance sheet then calculate your zakah based on the net profit distributed by the company (dividends, profit share) and add any loans that you have made to the company.

## **5. Business/property owned through a trust**

If you own property or a business through a trust then you need to ensure that zakah is paid on the qualifying assets/income.

The wealth is subject to zakah and someone must calculate it and pay it.

If you have a fixed interest in the trust (either unit trusts or ordinary non discretionary trusts), there is no problem – your interest in the trust will be included in your zakah calculation in a similar manner to partnership assets. However, if you have a discretionary interest, then in theory, you are not entitled to anything until the trustees distribute something.

From an Islamic perspective, if you have placed a business, property, or income stream in a trust for taxation purposes but with no intention of the beneficiaries obtaining immediate ownership of the property, then the trust is not recognised under Islamic law and the asset is still yours and must be included in your zakah calculation.

Most business trusts are discretionary trusts established for tax efficiency purposes. Either you need to pay zakah on what is really yours, but legally is not, or you should ensure that the trust calculates and pays zakah on behalf of its beneficiaries. The wealth is subject to zakah – somebody needs to calculate it and pay it.

To retain your tax advantages, the preferred approach would be for the trust to calculate the zakah due and pay the zakah on behalf of all beneficiaries.

## **6. Example**

Hamid and Khatija have the following assets and business interests:

- They own their home in Holland Park which is valued at \$1.2M.
- They have two young children.
- They own four cars and a boat that is hardly used.
- They jointly hold a number of bank accounts with funds totaling \$1.4M (beginning of the year \$1.5M).
- Together with partners from overseas, Hamid via a discretionary trust owns two child care centres. The net current assets in the trust at the end of the year were \$30,000. The net profit of the trust was \$150,000; all of this profit had been distributed by the trustees to beneficiaries.
- Khatija owns in partnership with 2 other Muslims, a stationary store. The balance sheet reflects the following:

	2017	2016
Current Assets:		
Stock	125,000	130,000
Debtors	32,000	28,000
Cash	25,000	15,000
	<hr/> 182,000	<hr/> 173,000
Current Liabilities		
Creditors	<hr/> 52,000	<hr/> 69,000
Net Current Assets	234,000	242,000

- Hamid is one of 4 partners in a prestigious and well known business consultancy. The consultancy has no stock, but does have cash holdings of \$180,000. Hamid withdraws cash as he requires. The net profit of the consultancy is \$1,500,000.

### **Zakah calculation**

	Khatija	Hamid
Personal home		Exempt
Cars - four cars could be considered excessive. Exempt assets typically represent necessities. Excess cars subject to zakah?	40,000	40,000
Boat not used - owned jointly	15,000	15,000

	Khatija	Hamid
Bank accounts - closing balance lower than opening balance so assumed that amount held for a year	700,000	700,000
Trust: 1/3 net current assets plus 1/3 profit distribution. Trust does not have much value in net current assets as it does not have stock and cash balances have been distributed to beneficiaries. [You need to evaluate whether profits already distributed are included in your personal cash balance. You can easily do this by checking with your accountant].		(1/3 of \$180,000) 60,000
Average net current assets in stationery store $(234,000 + 242,000)/2$ = 238,000 Khatija has a 1/3 interest = 238,000 @ 1/3 [Some scholars maintain that you should only include closing stock and value it at market price].	79,333	
Consultancy - cash holdings - 1/4		45,000
Consultancy - net profit. Debateable - could argue Hamid's personal assets (especially his cash balances) include profits from his consultancy. At the same time, he has minimal current assets and is clearly making profits through the brand.		?
TOTAL ASSETS	834,333	860,000
Zakah payable at 2.5%	20,858	21,500

A number of scholars would argue that the net profit of the consultancy should be included in the zakah calculation on the basis that it is a business with low stock holdings. A contrary opinion is that the business will generate cash which will be included in net current assets for zakah purposes. You will need to select what approach you wish to adopt if you have a holding in a business with high value goodwill.

In this zakah calculation, zakah is calculated at 2.5% on all assets, as Hamid has included both net assets and the profit distribution in the trust. Had Hamid only included net profit from the trust, he would have the choice of using a 5% or a 10% rate.

The above example illustrates that zakah calculations can get complex and its best to analyse your position and based on the principles, apply an interpretation.

<sup>7</sup> The Fatwas delivered by the First Symposium of Zakah Contemporary Issues (Held in Cairo Rabi` Al-Awwal 14, 1409 A.H. / October 25, 1988 A.D.)

<sup>8</sup> The Fatwas delivered by the First Symposium of Zakah Contemporary Issues (Held in Cairo Rabi` Al-Awwal 14, 1409 A.H. / October 25, 1988 A.D.)

<sup>9</sup> Zakah on Warehouses & Showrooms – Islamonline – 1 September 2003

<sup>10</sup> Mufti Desai – website – Imam Online - <http://www.islam.tc/ask-imam/index.php>

# Investments

## 1. Shares listed on the stock exchange

If you have shares in Australian and/or globally listed companies or other investment instruments such as options, warrants, convertible debt, etc then you need to include these investments in your zakah calculation.

### **Shares held for resale and speculative transactions**

If you hold shares for resale, then you have to pay zakah on the market value of these shares, in the same way that a trader pays zakah on stock for resale. The UK based Islamic author and fiqh commentator Adil Salahi explains<sup>11</sup>: “If one is trading in shares, buying and selling according to the fluctuations of the market, then such shares are treated like other commercial commodities. Their market value is calculated on his/her zakah date and he/she pays zakah for that value every year. These shares are no different from the merchandise a businessman has in his/her shop, supermarket or other outlets. The rate of zakah payable is 2.5% of the market value every year.”

You do not have to be an active trader with a large volume of shares. If you bought shares to sell them when a certain trigger occurs, then you need to include the current market value of the shares in your zakah calculation. All jurists and scholars are in agreement on this. You have invested for resale rather than to hold the shares for long term dividends. Dr. Monzer Kahf, author of the book, “The calculation of Zakah” states<sup>12</sup>: “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 realise a capital gain and selling. In the latter case (where you are holding to sell) you are called in the Sharia a merchant or trader, regardless of the English jargon of ‘investor,’ and you need to pay *Zakah* on the market value of the shares or the net asset value on the due date of *Zakah*. ”

Shares held for  
resale are subject  
to zakah.

Daily share prices are available on the internet and in most newspapers. Certain types of stock exchange investments by nature are regarded as speculative and hence need to be included in your zakah calculation – for example, options, and warrants depending upon the reason for the purchase and the conditions attached.

### **Shares held for long term dividend returns**

Where you hold shares for the long term dividend return, the value of the shares are not included in your zakah calculation, but the dividend received is subject to zakah.

Adil Salahi explains<sup>13</sup>: “A person holding shares in a company for the income they generate does not pay zakah on the value of his shares, but on the profits or dividends he receives. His zakah becomes payable on the day of receipt of such returns, whether they are paid annually or every six months, or shorter or longer periods. He does not wait for a year

after receiving his payment. Rather, he pays his zakah straightaway at the rate of 10% of the amount of returns. This ruling is based on analogy with agricultural land irrigated by rain only. Its produce is liable to zakah on harvest day at the rate of 10%.” Most scholars are in agreement with the 10% rate but not all agree that zakah is immediately payable on receipt. Most scholars are of the opinion that zakah is paid one a year and includes all your dividends received in that year.

### **Alternative view**

Some scholars, a minority, are of the opinion that the value of the shares should be subject to zakah, as zakah is a claim on the wealthy. Adopting this view would entail you paying zakah at the market value of all the shares you own.

## **2. Mutual Funds**

A mutual fund is an investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by professional managers, who invest the fund’s capital and attempt to produce capital gains and income for the fund’s investors.

Investors seek out mutual funds as they give small investors access to professionally managed, diversified portfolios of equities, bonds and other securities. Each shareholder, therefore, participates proportionally in the gain or loss of the fund. Mutual funds invest in a wide amount of securities, and performance is usually tracked as the change in the total market cap of the fund, derived by aggregating performance of the underlying investments<sup>14</sup>.

Zakah treatment:

Mutual funds by nature buy and sell shares to maintain their returns to their investors. This poses a challenge for zakah as the objective of providing returns is mixed with a trading activity.

How you treat this for zakah purposes will vary depending upon the fund that you have invested in. Most funds are very active traders and in this case you are also deemed to be a trader and your entire investment is subject to zakah at 2.5% of current market value.

## **3. Property**

Like shares, property can be purchased to hold for the long term and realise rental income, or it can be bought for speculative purposes to resell as soon as an appropriate gain can be realised.

### **Property purchased for resale**

If you have acquired property for resale, the value of the property must be included in your zakah calculation. It attracts the same treatment as business stock in trade. It does not

matter whether it is one or more properties.

If you are a property seller, replenishing stock is considered to be part of the original purchase and passes the one year test. For example, if you have 5 houses at the beginning of the year and you sell them and replace them with 5 other houses - it is assumed that you held the houses for a full year.

Property purchased for resale is included in your zakah calculation, if held for a year.

**Example:**

Adam is a property dealer. At the beginning of the year he owns 5 properties at a value of \$2.5M. During the course of the year he sells these properties and replenishes his stock by purchasing other properties, some of which he sells and some he still has on hand at the end of the year. His end of year stock is 7 houses at a value of \$3.2M.

Adam is deemed to have held at least \$2.5M of property for a year, even though he has replaced the actual homes with others. He is in the business of selling properties and replenishing stock is considered a continuation of the original purchase.

Adams' end of year stock is higher than his opening stock - and that could be for a variety of reasons: different mix of houses and different market conditions.

The accepted position of many scholars would be that Adam include all his closing stock at market value in his zakah calculation. Zakah would be payable on \$3.2M at 2.5%.

You do not have to sell your property immediately. You can rent it and sell at a time when you believe the market will provide you with a good return.

**Example:**

Hamida purchased a home in Kuraby in May 2016 for \$500,000. Her intent is to monitor the market and sell when she believes she will make the largest profit. Whilst she waits, she rents the property with a two month notice clause. Her lease is still current and she has not yet put the property up for sale.

Clearly, Hamida's intention is to sell - the fact that she has not sold it yet does not change her intention. The property should be included in Hamda's zakah calculation. The value to be included is the current market value and the zakah rate is 2.5%.

**Property held for long term rental returns**

Property held to realise rental is considered an investment and only the rental income is included in your zakah calculation. South African scholar, Mufti Ebrahim Desai explains<sup>15</sup>: "Zakah is not payable on the actual property if it was not acquired for resale. Zakah is only levied on the income received."

Some scholars hold the view that you only include rental income one year after you have Rabbi Zidni Ilma.

received it. For example, if you receive rental in January 2017, you only pay zakah on that amount in one lunar year's time. Some scholars state that you should pay zakah immediately you receive the rental - that is, you pay zakah every month.

It is recommended that you calculate your zakah annually and use the rental income received in your zakah year in your calculation.

**Example:**

Muhammed owns two investment properties. One is located in Mount Gravatt:

- He has owned it for 5 years.
- He receives \$20,000 a year net of rates and taxes, agents commission, repairs, etc.
- His intent is to hold it as an investment.
- He pays \$30,000 per annum in mortgage interest.

His second property is located in Woodridge:

- He has owned it for 2 years.
- He is unhappy with the tenants he has had and monitors the market.
- He receives \$10,000 a year net of rates and taxes, agents commission, repairs, etc.
- He pays \$15,000 per annum in mortgage interest.

Muhammad needs to include in his zakah calculation:

Mount Gravatt property:	\$
Investment property	
Net rental	20,000
Woodridge property:	
Net rental	10,000
	30,000
Zakat at 10%	3,000

Muhammad's intention when he purchased the Woodridge property was to hold it for long term rental returns. The fact he has changed his intention and now seeks to sell the property does not make him a property trader.

Muhammad could deduct the mortgage interest from his net rental; but that is a decision he will need to make based on his interpretation of Islamic law pertaining to interest.

Sheikh Yusuf Al-Qaradawi, Dean of the University of Qatar and Head of the European Council for Fatwa, states that zakah is calculated from either the net rent (after payment of insurance, taxes, maintenance and other related expenses) at a rate of 10%, similar to agricultural products that are watered by rain, or on the gross rent (before deductions) at the rate of 5% (based on the rate payable if the land is irrigated by "artificial" means)<sup>16</sup>.

You will need to decide whether to deduct any bank/mortgage interest.

## **Vacant land block**

If you purchase land for subsequent resale, the land is considered stock in trade and is subject to zakah at market value.

If you purchase a vacant land block to build a property for subsequent sale, the land and improvements are to be included in your zakah calculation as the entire transaction is speculative and you can be enticed to sell at any time. You must hold the property for at least a year; the clock starts ticking from the date you purchase the block rather than the date you start improvements.

If you purchase a vacant land block to build either a personal home or a property for long term rental, the land is not included in your zakah calculation. You must have plans and a strong intent to develop and not to consider speculative offers. Some scholars have the view that until the property is built, you may be enticed into selling the block - hence, in their opinion, the land would be included in your zakah calculation until the development is complete.

Dr Yusuf Al-Qaradawi, in responding to a question on whether land is subject to zakah, commented<sup>17</sup>: “The purchased land can be categorised as one of two types. The first type is purchased for resale after a period for profit. This type of purchase is a trade transaction and the land in this case is considered a commercial commodity. The land should be appraised annually to determine its value and then zakah is paid at a rate of 2.5% of that value. This is the opinion of the majority of scholars. The zakah is 2.5% of the amount a person receives when the property is sold.

“The second type is a land that is purchased to build on and not for resale. In this case, it is not subject to zakah unless the owner has actually built on the land and rents out the property. Then, he should pay zakah on the revenue derived from the rent.”

The UK based Islamic scholar and author of a number of Islamic publications, Adil Salahi, adds<sup>18</sup>: “The plots of land bought for constructing houses are liable to zakah, because the whole project is an investment one. These plots are bought for investment, and while no construction work is going on, they are treated as a commercial venture. If the owner receives an offer which gives him a tidy profit, he will seriously consider it, and he may very well sell them to buy some other plots where he constructs buildings, or may buy other types of property. As such they are treated as commercial commodities, and they are liable to zakah. However, the value which should be considered in assessing the zakah liability here is the market value on the zakah date, not the purchase price.”

Land to be included in your zakah calculation is valued at the current market value and the zakah rate is 2.5%.

### **Example:**

Medinah owns two vacant blocks of land. One property is a 1000m<sup>2</sup> property in Eight Miles Plain. She has had the property for 15 months. She is evaluating whether to

build townhouses for rental purposes (not for resale) or sell it to a Chinese buyer who would develop it. The land value is \$1m.

Her second property is in Runcorn. The property is 750m<sup>2</sup>. Medinah is evaluating whether to build a home for personal use or build a rental property (not for resale).

She has town council approval for her development.

Medinah would include the following in her zakah calculation:

Eight Miles Plain:	\$
Mixed intention. Will consider selling.	
Land subject to zakat - owned for 12 months	1,000,000

Runcorn:

Residential or long term property investment.

Not subject to zakat as firm intention and plans

Zakat payable at 2.5%	<u>25,000</u>
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Some scholars are of the opinion that until the Runcorn property is actually developed, it remains speculative and should be included in the zakah calculation. The contrary view is that Medinah has a firm intention and is not actively seeking or even contemplating selling.

### **Example:**

Azam, Maryam, Dawood, and Wei purchase a 3000m<sup>2</sup> property on Millers Road, Underwood. Their intention is to build a number of townhouses and sell them in a hot property market. They purchased the property a year ago with project finance from Westpac. The townhouses are currently being built and will be ready for sale in the next six months.

The entire transaction is speculative and subject to zakah, provided the property is owned for a year. For the one year rule the clock starts ticking from the date of purchase of the land and not when the townhouse development commences.

Each Muslim partner will need to pay zakah on their share – it is irrelevant that there is a non-Muslim partner. Zakah will be payable on the market value of the remaining townhouses until the last townhouse is sold.

Zakah will increase as the value of the property increases during the building of the townhouses and will decrease as the townhouses get sold.

	Year	Total (\$)	Per Partner	Zakah Payable
Value of initial land	1	2,500,000	625,000	15,625
Land improvements less sales	2	3,200,000	800,000	20,000
Townhouse development	3	5,000,000	1,250,000	31,250
Townhouse sale period				
Few remaining	4	1,400,000	350,000	8,750
Remaining townhouses	5	All sold	0	0

## **Undeveloped Land**

Undeveloped land should be included in your zakah calculation at its current market value. The logic here is that the land is speculatively held and can be disposed of if an offer is received.

## **Alternate View on Property**

The alternate view is that both the property and rental are subject to zakah. Dr. Monzer Kahf, author of the book, “The Calculation of Zakah” states<sup>19</sup>: “Other people, including myself, argue that rental property, being an investment asset, is more similar to the capital of traders or merchants. Livestock are also similar to rental assets because the Arabs used to hold livestock as an investment capital. Therefore, Zakah must be calculated on the value of the asset itself plus any amount of the rent left at the end of the Lunar year (after payment of all expenses of the property itself and of family expenses) and the rate would be 2.5%. In other words, at the end of the year, you look at the market value of the property, add other Zakahable assets that you have such as money and stocks, etc., and then calculate Zakah at 2.5%.”

The principle here is that your equity in an investment property can be cashed up.

You need to choose your preferred treatment.

<sup>11</sup> <http://www.islamicvoice.com/december.2001/dialogue.htm#Top#Top>

<sup>12</sup> Zakah on Stocks and Mutual Funds – Islamonline – 26 July 2004

<sup>13</sup> <http://www.islamicvoice.com/december.2001/dialogue.htm#Top#Top>

<sup>14</sup> Mutual Fund <http://www.investopedia.com/terms/m/mutualfund.asp#ixzz4iKCIWYLD>

<sup>15</sup> Abaligh – Mufti Desai – 24 November 2002

<sup>16</sup> Zakah on a Land Purchased for Trade – Islamonline – 7 March 2003

<sup>17</sup> Zakah on a Land Purchased for Trade – Islamonline – 7 March 2003

<sup>18</sup> <http://www.islamicvoice.com/december.2001/dialogue.htm#Top#Top>

<sup>19</sup> Zakah on Rental Property – Islamonline – 10 September 2003

## Deductions

You are permitted to deduct any amounts that you owe others from your qualifying zakah wealth.

The liabilities must be in existence at the time you calculate zakah, you cannot claim a deduction for planned expenditure. For example, if you plan to purchase a car, you cannot deduct the cost of the car as a liability, unless you have actually bought the car and owe money on the car.

You are only permitted deductions for liabilities that you owe and need to pay in the next year. Student loans, credit card debt, personal loans are all deductible to the extent they are payable within one year.

For mortgages and other long term loans, only that element that is due in one year can be deducted. For example, if you owe \$120,000 on a mortgage and have paid \$14,000 in mortgage repayments in the last year, then only that amount is allowed as a deduction. You cannot claim the entire \$120,000. Mufti Desai comments<sup>20</sup>: “Only the amount that is due for one year will be regarded as a liability. (Shaami vol.3 pg.177; Lebanon).”

Adil Salahi, a fiqh commentator in the monthly Indian magazine *Islamic Voice* in response to a question on this issue responded (Rs = rupees)<sup>21</sup>: “A mortgage loan or a loan taken in the form of hire purchase of any item such as a car or machinery is not counted in the calculation of zakah liability, because of the nature of the repayment agreement. If a person is earning Rs.100,000 a year, and spending Rs.70,000 to meet his family’s living expenses, including the installments he pays on his mortgage and hire purchase agreements, he cannot claim exemption from zakah because he still owes a substantial sum on his house or other purchases. This is because the nature of such debts does not require immediate or short-term repayment. Such a person will be saving Rs.30,000 which is liable to zakah. Only if he decides at the end of the year to reduce his outstanding loans by an additional repayment, using all this saved sum for the purpose, he does not pay zakah for it. It is wrong for anyone to defer the payment of one’s zakah, saying that he has some heavy commitments. Zakah is a debt owed to God and it must be paid on time. If one has heavy commitments, his zakah liability will be proportionately reduced. But to say that zakah is unaffordable when its rate is so low is to make a false claim. When the reader increases his mortgage repayments now, he will be saving on the total amount he has to repay. This means a direct benefit. He cannot make such a personal benefit through the failure to pay zakah.”

Note: Certain Shafi scholars are of the view that no liabilities can be deducted.

<sup>20</sup> Abaligh – Mufti Desai – 24 November 2002

<sup>21</sup> <http://www.islamicvoice.com/december.2001/dialogue.htm#Top#Top>

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“Zakah is obligatory like Prayer. There are some Muslims who do not pay zakah and they are some who give whatever they feel like giving, without observing the rules of zakah. Muslims must learn the rules of zakah, just as they learn the rules of Prayer.” Dr Muzzamil Siddiqi, member of the Fiqh Council of North America.

This book explains the calculation of zakah with examples to illustrate how zakah should be calculated for the following assets:

**Personal assets**

- Cash
- Gold and silver (including jewellery)
- Superannuation

**Business assets**

- Net current assets
- Fixed assets
- Businesses with insignificant circulating capital
- Partnerships, joint ventures, and major investments
- Trusts

**Investments**

- Shares
- Mutual Funds
- Property

**Deductions**



Let us support the many Muslims who are disadvantaged globally.