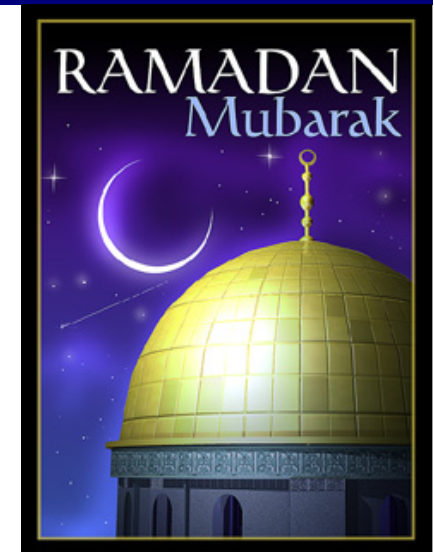


Muslim Business Network

MBN Presents: *Zakat Workshop*

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PRESENTATION OUTLINE

- Zakat laws (fiqh)
- How to calculate zakat
- Practical examples
- Presentation from an organisation collecting zakat



Obligatory payment – on those who own in excess of a certain minimum amount of wealth

Charity codified in the Quran in numerous verses

What is zakat?

Rules and % payment codified in ahadith

One of the five basic pillars of Islam

“And they have been commanded no more than this: to worship Allah offering Him sincere devotion being True (in faith); to establish regular prayer; and to practice regular charity; and that is the religion right and straight.” (98:5).



Definition

- **Linguistically:** blessing, purity, growth.
- **Legal Meaning:** A specific share of money that is to be given to deserving recipients (as per the Shari'ah).
- Link between the 'Linguistic' and 'Legal' meanings of Zakah.
- *It is also referred to as 'Sadaqah' in the Qur'an.*



Is it a Tax?

- Yes and no
- Similarity with tax – it has elements of wealth redistribution (CGT, death taxes, etc where they apply).
- But taxes are collected to fund government and govt programs – that is not the objective of zakat
- At times called institutionalised charity
- Zakat has two objectives
 - Economic benefit to the poor – direct link to poor
 - Mould you into a giving person (if you can part with your money.....)
 - It's the spirit of giving, purifying & blessing
 - Not being a miser (and the implications of the persona of generosity vs a miser)



Key principle: Ownership belongs to God

Allah commands us to spend in charity from what He has given us.

(Same principle for laws of inheritance).

Believe in Allah and His Apostle and spend (in charity) out of the (substance) whereof He has made you heirs. For those of you who believe and spend (in charity) for them is a great Reward. (57:7).



- The Messenger of Allah said:

أعلمهم أن الله افترض عليهم صدقة في أموالهم تؤخذ من أغنيائهم
وترد على فقرائهم

- Tell them that there is a charity due upon them to be taken from their rich and to be given back to their poor. (*Bukhari*)



Abundant reward for those who comply

The Almighty, in the Holy Quran, promises abundant reward to those who comply:

“Those who Rehearse the Book of Allah establish regular prayer and spend (in charity) out of what we have provided for them secretly can openly hope for a Commerce that will never fail.” (35:29).

“The Believers must (eventually) win through - Those who humble themselves in their prayers; Who avoid vain talk; Who are active in deeds of charity..... These will be the heirs, Who will inherit Paradise: they will dwell therein (for ever).” (23:1-10).



Punishment for those who do not

"And there are those who hoard gold and silver and do not spend it in the way of Allah, announce to them a most grievous penalty (when) on the Day of Judgment heat will be produced out of that wealth in the fire of hell, then with it they will be branded on their foreheads and their flanks and backs. (It will be said to them) This is the treasure which you hoarded for yourselves, taste then the treasure you have been hoarding." (9:33-34).



The Prophet (PBUH) 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 snake/serpent with two black spots over the eyes.

The snake will encircle his neck and bite his cheek and say, ‘I am your wealth, I am your treasure.’ ” Bukhari (volume II).

Punishment not only after death....

The Prophet (S.A.W.) is reported to have said:

- "There is no people, who do not pay *zakah*, left without being made to suffer by God through disasters, or famine or drought."
- "Any people who do not pay *zakah* on their wealth, verily they will be prevented rain from sky except for animals and livestock."
- "*Zakah* is never intermingled with any amount of wealth without destroying and rotting it."
- "Whenever any amount of wealth is destroyed in the land or in the sea it could be because its *zakah* was not paid."

Source:

FIQH AL ZAKAH (VOLUME I)

DR. YUSUF AL QARDAWI



The Prophet (SAW) said:
"Pay *zakah* on your wealth
with your hearts willing and pleased."



Who is zakat payable by?

- All sane adults (with minimum wealth)
- Each person liable to pay own zakat – spouses can pay for each other but that negates purpose
- Children:
 - Imam Hanifa of the view that not liable to pay.
 - Other Imams plus contemporary view: zakat a levy on wealth not an individual therefore ownership and status of owner irrelevant.



Intention (Niyyat)

- Need to make a clear intention that you are paying zakat
- If not it is voluntary charity
- Intent is between you and the Almighty – no need for recipient or anyone else to know funds are zakat



Persons who collect zakat for distribution

Poor and needy (no assets or only own basic assets)

Slaves/POWs

Who qualifies to receive zakat?

Persons struggling and striving in the cause of Allah

In debt and do not possess any other wealth or goods to repay

Recent converts to Islam who have lost support of their family or being persecuted

A traveller whilst wealthy at home is stranded and needs assistance

Which category do you give to?

- Two options:
 - Split between each of the above so that zakat is spread and made available to all who need
 - Identify who is neediest and distribute to them only
- Zakat is the core of the Islamic social security system and its distribution needs to be effective and reach all in need – otherwise it has failed
- Preferable to pay in your home country and then look to pay abroad



Only constitutes zakat if paid to qualifying persons

- Onus is on you to ensure that zakat is paid to qualifying persons only.
- If not, zakat duty not fulfilled
- If paying to an organisation – duty is upon you to ensure that the organisation is competent and capably of distributing correctly



Can zakat be paid to Non Muslims?

- Unanimous – non-Muslims cannot receive zakat.
- Some scholars of the opinion that non practising Muslims and persons inclined towards Islam can receive

Family

- You are encouraged to give zakat to your family. Hadith – you get double reward – helping kith and kin and for paying zakat
- Not zakat if given to those you are responsible for – e.g. parents, grandparents, etc



Can it be distributed to organisations for religious purposes?

- Contentious issue
- Majority view – possession of zakat must be taken by a qualifying person
- Therefore cannot be used in construction of Mosques, etc
- A number of contemporary scholars of the view that in non-Muslim countries zakat can be used for Dawah and public welfare programs



Assets exempt from zakat

- All items assigned for personal use are exempt
- Excluded:
 - Home + car + furniture
 - Personal clothing, appliances, etc
- Some scholars of the view - excessive personal assets not excluded

Principle: zakat levied on wealth/riches. Necessities do not comprise riches.

Conditions of zakat

- Ownership
 - You must have absolute power to dispose
 - Ownership is exclusive to owner
 - Right to use does not depend on authorisation from others
- Assets held for a year
- Above a minimum which includes necessities (or builds on the concept that necessities are exempt)

Assets need to be held for a year

- Assets must be held/possessed for a year to qualify for zakat
- In practice – you will not pay zakat each time an asset reaches a year
- Pay on all assets in your possession at any one time – make adjustments if you had major acquisitions and/or disposals
- For businesses may be appropriate to pay zakat at end of financial year
- The Prophet (PBUH) and classical scholars encourage you to pay zakat asap and not hold it back for Ramadan, etc – unless you have elected Ramadan as your zakat year



NISAAB

- The Prophet (S.A.W.) stipulated a minimum amount under which no zakat is due
- The Prophet (PBUH) specified different minimums for gold and silver, agricultural products and livestock.
- The majority of jurists concur that for non agricultural assets, nisaab is calculated on the gold and silver stipulation.

NISSAB		Grams	Tolas	Grains	Troy Oz.	A\$/Troy Oz.	Australian Dollar Equivalent
Gold	20 Mithqaals	87.48	7.5	1350	2.8125	1140	\$3,206
Silver	200 Dirhams	612.36	52.5	9450	19.6857	17.17	\$338

- Hanafi – must have nisaab at beginning and end of year
- Others – must have nisaab throughout the year
- Growing view – nisaab on top of necessities

Zakat Calculation: Basic Principles & Differences of Opinion

- The Almighty in the Holy Quran encourages/orders us to pay zakat
- The assets on which zakat is to be paid and the rates for zakat were stated by the Prophet (S.A.W.)
- For assets that existed at the time of the Prophet (S.A.W.) – no debate all Muslims agree
- For ‘new assets’ – shares, goodwill, intellectual property, differences of opinion arise as jurists/scholars attempt to apply the principles established in classical law to new wealth



Your call

- Zakat minimisation (use same approach as tax minimisation or even tax avoidance and/or evasion)
- Zakat maximisation
- Middle ground
- This will determine your approach to a number of options in the calculation of zakat
 - Some principles will resonate
 -and some will not



ZAKAT RATES

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 zakat at the rate of 5% is due on agricultural produce. Some scholars extend this to include the net profit from a business.
10%	Zakat 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.



Last point of clarification

Zakat is complicated as:

- It's a levy on capital/wealth (business assets, cash holdings, livestock, etc)
- It's a levy on income – output of agricultural land, dividends, rental)



CASH & CASH EQUIVALENTS

- All worldwide cash & bank accounts
- Money market instruments
- Share of joint account
- Payable irrespective of the fact that you maybe saving to buy something

SECTION 1: CASH (PERSONAL)	Zakatable Value
Cash on hand – actual cash you have on you	
Cash you have in banks (savings accounts, fixed deposits, money at call, etc):	
Name of Bank:	
Cash that you have in overseas accounts (you can pay the zakat locally in local currency or you can pay the zakat from your overseas account):	
Name of Bank:	
Money market, treasury bills etc	
TOTAL CASH	



SALARY

- Two schools of thought:
 - Not subject to zakat as cash balances attract zakat
 - Emergence of highly paid professionals – pay monthly net of tax and necessary personal expenses
- Irrespective – strong school emerging that unnecessary and extravagant expenditure should be added back to zakat calculation
- Your call

GOLD & SILVER

- Zakat payable on any gold and silver
- Hanafi school – all jewellery is subject to zakat
- Other schools and contemporary opinion – no zakat on jewellery being used – but is payable on jewellery not being used often and excess jewellery
- All agree that jewellery owned by a male subject to zakat (on the basis that men are prohibited from wearing gold, silver – except for a silver ring (Qardawi)
- Zakat value = Weight multiplied by current market price.
- Other types of jewellery exempt

SECTION 2: GOLD AND SILVER			Zakatable Value
Gold and silver is subject to zakat based on the current value of its weight. The original purchase price is irrelevant.			
Item:	Weight		
	Gold	Silver	
Gold and silver coins			
Total weight of jewellery that qualifies for zakat			
Other gold and silver			
Total weight of all your gold and silver			
Current Australian dollar price of gold and silver (from newspapers)			
Gold and silver included in zakat calculation (weight x Australian dollar price per ounce)			
Value of gold and silver certificates/deposits			
Value of gold/silver futures and options			
TOTAL GOLD AND SILVER			

Superannuation Funds

- Common view – pay zakat on any voluntary contributions
- No zakat payable on compulsory contributions.
 - Zakat payable when fund withdrawals occur.
 - SA scholar Mufti Desai – of the view it is then payable for all prior years as well
 - So better to pay each year
- Emerging debate on self managed funds – is zakat payable on asset streams no different from a business
- Key issue here is possession – Jurists of the opinion zakat only payable if assets possessed.



Business Assets

- All scholars agree – net current assets are included in the zakat calculation.

Your net current assets (working capital) comprise:

- Stock
- Debtors
- Cash

Less

- Creditors
- Other liabilities

- Zakat only due on stock intended for resale
- A number of jurists are of the opinion that stock should be included at its current purchase price (wholesale price)
- If you are in partnership/JV/large shareholding – either the business pays zakat for all shareholders or you include your share of the company's current assets.



SECTION 3: NET BUSINESS ASSETS	Zakatable Value
Investments – in subsidiary companies, etc. Include your share of the net business assets of the subsidiary company.	
Stock – include all stock on hand for resale or being manufactured for resale.	
Debtors – include all amounts due to you that you are certain will be collected.	
Cash on hand	
Cash at bank	
Cash investments	
Other current assets	
TOTAL ASSETS (add all amounts above)	
Less: Liabilities – only include liabilities that are due within one year	
NET ASSETS SUBJECT TO ZAKAT (subtract liabilities from total assets – the figure could be positive or negative. Negative implies that you owe more than you own in your business).	

Business Assets – Fixed Assets

- Difference of opinion – classical jurists – not subject to zakat. Muslim economists and accountants argue it is on the basis that it is not different from livestock.
- Also in some businesses there is no stock and cash maybe withdrawn by the owner.
- You need to choose

Trust Assets

- All jurists concur – zakat is payable on zakat assets.
- Issue is who pays?
- If fixed or unit trust – beneficiary or unit owner
- If discretionary – trust pays on behalf of beneficiaries to avoid creating taxation issues



Shares

- New category of wealth
- Shares purchased with the intent to resell – irrespective of when = stock and is subject to zakat at its full market value
- If purchased for long term dividends – two views:
 - Only net dividends subject to zakat at 10% immediately – that is do not wait for a year. Same as agricultural land. (Most Islamic scholars of this view)
 - Muslim economists and accountants of the view that:
 - Same as livestock and hence subject to zakat at market value at a rate of 2.5%
 - Or near cash and hence included as cash investment (minority view)



SECTION 5: SHARES			Zakatable Value
Shares Held to Resell at a Profit			
Shares being held to resell to realise a capital gain are subject to zakat at their latest market value. This is the consensus of all the jurists – the shares are no different from stock in trade. The fact that you may not be an active trader in shares is irrelevant. Any funds that you have in unit trusts need to be included here. This section also includes any open options you have.			
List the shares below:			
Share:	Number of shares	Price per share	Market value – number of shares x price
TOTAL MARKET VALUE OF SHARES HELD FOR RESALE			



Shares held for long term dividend returns

There is consensus amongst all the jurists that dividends earned from shares held for the long term needs to be included in the zakat calculation. The fact that you may earn capital gains whilst you hold the shares is irrelevant as your focus is dividends.

Typically in this section of the form you will include your shares in listed companies.

List the shares and the net dividends (dividends less any costs) you have earned below:

TOTAL DIVIDENDS RECEIVED	



PROPERTY

- Land held for resale = stock in trade and hence subject to zakat.
- Land held for development of homes – for resale = stock; for rental = zakatable until development continues
- Same principle applies to properties acquired for resale irrespective of when they are actually sold
- Two views on property held for long term rental returns:
 - Classical view – net rental subject to zakat at 10%. You need to decide on the treatment of mortgage interest (same as agricultural land)
 - Muslim economists and accountants: net equity in property + rental income subject to zakat (logic: equity building whilst your rental returns maybe low and may in fact be negative for a number of years). Zakat rate 2.5%.



SECTION 6: PROPERTY	Zakatable Value
<p>Property Held to Resell at a Profit Properties held to resell are subject to zakat at their latest market value. This is the consensus of all the jurists – the properties are no different from stock in trade. The fact that you may not be an active property trader is irrelevant. List the properties below:</p>	
Property:	Market value
TOTAL MARKET VALUE OF PROPERTIES HELD FOR RESALE	



Properties held for long term rental returns

There is consensus amongst all the jurists that rentals earned from properties held for the long term need to be included in the zakat calculation. The fact that you may earn capital gains whilst you hold the properties is irrelevant as your focus is rentals.

List the properties and the rental less your expenses you have earned below. With regards to the interest element of a mortgage bond - this is an issue that you need to decide whether it is acceptable or not.

	Property 1	Property 2	Property 3	Total
Rental income				
Less cash expenses:				
Mortgage				
Rates				
Maintenance				
Other				
TOTAL NET RENTAL RECEIVED (this could be a loss)				



Debt

- All debts due to you are subject to zakat
- Two options:
 - Pay zakat each year that it is due; or
 - Pay zakat in the year received and all preceding years it was due
- Scholars suggest Maliki view for personal debts – pay in year of receipt and one preceding year (on the basis that these debts can be outstanding for a number of years and you do not have control of the cash)



Liabilities

- Permitted to deduct any amounts you owe others
- For long term loans – only amount due in next 12 months is permitted as a deduction
- However, if you include the market value of shares and property according to the alternative view then the entire loan is permitted as a deductible



Zakat Calculation		Zakatable Value
Section	Zakat @ 2.5%	
1	Total Cash	
2	Total Gold and Silver	
3	Net Business Assets	
4	Partnerships/Trusts/Large Investments	
5	Market value of shares held for resale	
5	Market value of shares held for the long term	
6	Market value of property held for resale	
6	Market value of property held for the long term	
7	Total Debts owing to you	
8	Superannuation Funds	
9	Life Assurance	
10	Other	
	TOTAL ASSETS/INCOME SUBJECT TO ZAKAT (add all the above)	
11	Less Liabilities relating to above assets– Section Ten	
	Less Loss on Income from Investments	
	NET ASSETS/INCOME (subtract liabilities from total assets)	
A = ZAKAT DUE @ 2.5% (multiply net assets/income by 2.5%)		
Section	Zakat @ 10%	
5	Net Dividends from shares held for the long term	
6	Net rental from property held for the long term	
11	Less liabilities related to above assets	
TOTAL INCOME (Loss) FROM INVESTMENTS		
B = ZAKAT DUE @ 10% (multiply net assets/income by 10%)		
TOTAL ZAKAT DUE = A + B		

Concern about the various interpretations?

- In Australia we have thousands of lawyers, accountants and officials in ATO to interpret, challenge tax laws. Also have special tax courts.
- Key problem in Islam – no central law body with the result that numerous interpretations pick up a life of their own
- Expect different interpretations to arise as accountants and economists get into this area – to date much of the interpretation has been by persons who do not have financial knowledge
- What do you do?
 - God has endowed us with intellect – read and based on your zakat intention, make decisions



EXAMPLE 1

- Earn a monthly salary of \$3,000 net
- Own two cars – have two drivers in the home
- Family home on bond – capital repayment for next zakat year \$5,000 – interest repayment - \$12,000
- Own furniture + other household goods
- Employer contributes \$500 per month to super
- Own numerous shares. Cost of shares \$20,000. Market value \$28,000. Monitor market on a hobby basis and make decisions on shares based on market price. Have a margin loan on the share portfolio – capital owing \$500 and interest \$700 in next zakat year. Total loan \$10,000
- Cash on hand \$250. Cash at bank \$11,000.



Solution Cash at hand & bank (cash view of salary)	11,250
Family home + cars + furniture exempt	0
Super - pay when you receive from fund - employer contributions - exempt now	0
Share trader (value at current market value)	28,000
ASSETS SUBJECT TO ZAKAT	<u>39,250</u>

Less liabilities:

Family home mortgage:

Exempt asset can you deduct?

If so it will only be next 12 months payment?

Capital + Interest???

Schools of thought that bonding a personal home in a non Islamic environment permitted

Hanafi school can deduct personal debts

Therefore - deduct capital + interest 17,000

(Controversial depending on your point of view)



Solution

Margin loan on shares

Since full market value included - deduct
full loan value

10,000

(Loan value does not include interest portion.
Argued that dividend flows will offset interest
assuming you take the view that int is OK)

TOTAL LIABILITIES

27,000

NET ASSETS/INCOME

12,250

(Nisaab of gold is \$3206)

Zakat due at 2.5%

306



Cash at hand & bank (cash view of salary)	11,250
Family home + cars + furniture exempt	0
Super - pay when you receive from fund - employer contributions - exempt now	0
Share trader (value at current market value)	28,000
ASSETS SUBJECT TO ZAKAT	<u>39,250</u>
Less liabilities:	
Family home mortgage:	
Exempt asset can you deduct?	
If so it will only be next 12 months payment?	
Capital + Interest???	
Schools of thought that bonding a personal home in a non Islamic environment permitted	
Hanafi school can deduct personal debts	
Therefore - deduct capital + interest	17,000
(Controversial depending on your point of view)	
Margin loan on shares	
Since full market value included - deduct full loan value	10,000
(Loan value does not include interest portion. Argued that dividend flows will offset interest assuming you take the view that int is OK)	
TOTAL LIABILITIES	<u>27,000</u>
NET ASSETS/INCOME	<u>12,250</u>
(Nisaab of gold is \$3206)	
Zakat due at 2.5%	<u>306</u>



EXAMPLE 2

- Assuming our example above is a lady.
- In addition to the above – she also owns
 - Gold jewellery that she rarely wears – perhaps once in two years = 10oz
 - Diamond and precious stones = \$3,000
 - Owns shares which she is holding for dividends. Net dividend income = \$5,000 per annum. Market value of shares \$25,000.
 - 50% share in a property held for long term rentals. Net rental income before mortgage interest is \$1,000. Mortgage interest = \$7,000. Market value of property = \$100,000. Mortgage value = \$55,000.



NET ASSETS/INCOME per previous example 12,250

Gold jewellery - Imam Hanifa - include.

Majority scholars - exclude if used most of year.

In this case included as rarely used

100oz x \$1140 (A\$ price be Oz of gold) 11400

Diamonds and precious stones - exempt

NET ASSETS BEFORE SHARES + PROPERTY 23,650

Zakat due at 2.5% 591.25

SHARES

Zakat

Two views:

Classical - net dividends @ 10% 500

Contemporary - net equity + net dividends @ 2.5% 750

PROPERTY

Two views: 100% 50%

Classical - net rental @ 10% 100 50

Do you include mortgage interest?

What happens if you make a loss? Can you deduct from other zakat streams? NO

Contemporary - net equity + net rental

((\$100,000 - \$55,000) + \$1,000) @ 2.5% 1150 575





EXAMPLE 3

- You own a business selling widgets.

- Assets comprise:

Stock at historical cost	55,000
Debtors due	12,000
Cash on hand and bank	20,000
Creditors	45,000
Business property - historical cost	250,000
Investments in other businesses	45,000
Fixed assets	22,000

Stock:

- Most scholars are of the opinion that stock should be stated at its current 'wholesale' price. If you have a high stock turnover then this is not a problem.
- Stock should also be held for a year – but in most cases stock at a specific date is sufficient



Solution

- Contemporary view – fixed assets used in business excluded. At this stage that excludes property and other fixed assets
- Investments – if these are in other companies your share of business assets in those companies need to be included or follow the share perspective
- No debate about inclusion of net current assets:

Stock at historical cost	55,000
Debtors due	12,000
Cash on hand and bank	20,000
Gross current assets	<u>87,000</u>
Less creditors	<u>45,000</u>
Net current assets	<u>42,000</u>
Zakat @ 2.5%	<u>1,050</u>



What to do with the fixed assets:

- Classical view – ignore
- Contemporary view – how can you ignore a property worth \$250,000?

You need to decide