

A Guide to Zakat



Center for Zakat Managment (CZM)

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Introduction

All praise is to Allah, Creator of the heavens and the earth, and Owner of the Day of Judgment. We bear witness that there is no-one worthy of worship other than Allah (SWT) and that the Prophet Mohammed (SAW) is His final Messenger.

Islam is the complete code & life for mankind ordained by almighty Allah. Islam encourages trade, entrepreneurial activity and the equitable distribution of wealth. In order for Commerce to benefit society, Islam imposes several obligations to those involved in wealth creation.

Islam also encourages Muslims to be kind and helpful. This attitude is often manifested through the act of giving in charity. Whilst certain types of charity (Sadaqah) are optional, Islam has made the payment of Zakat a compulsory obligation upon each Muslim. Although Zakat is a fundamental pillar of faith, many Muslims are confused by the subject and are either paying Zakat incorrectly or worse still, not paying it at all.

This guide offers practical advice to Muslims on Zakat.

Importance of Zakat

Zakat is the third pillar of Islam. It is so important such that the Quran refers to Zakat in 82 separate verses and has associated Zakat immediately after Salah on 32 occasions.

The Quran commands Muslims to :

Establish regular prayer and give Zakat (73:20)

In a hadith Prophet Muhammad (SAW) states :

'If someone is given wealth by Allah but does not pay its Zakat, that wealth will appear to him on the Day of Judgment 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)

Scholars infer the giving of Zakat has both an outer and an inner dimension. The outer dimension involves the purification of a Muslim's wealth. Zakat serves as a filter to keep out impurities from a believer's wealth and for that wealth to then increase in a manner pleasing to Allah. The inner dimension suppresses the ego, and quells ugly tendencies such as greed, jealousy and miserliness.

What is ZAKAT ?

Defenation of ZAKAT

Zakat is commonly referred to as either a tax or as charity. Neither of these is accurate as tax is a legal obligation whilst charity is voluntary. Zakat however, is a divine duty. Zakat is considered a right of the poor over the rich. Withholding it is tantamount to depriving the poor of their God-given right.

Allah (SWT) says in the Qur'an;

'In their wealth there is a known share for the beggars and the destitute' (70:24-25)

'Take alms from their property that you may purify and sanctify them and pray for them. Verily your prayers are a comfort for them' (9:103)

Definition of Nisab

The Nisab is the minimum amount of wealth upon which Zakat is payable. It represents the guaranteed minimum financial floor above which an individual is deemed to be 'Sahib-un-Nisab' (owner of wealth) and therefore liable to Zakat.

The Nisab limit was set by the Prophet (SAW) at 20 Mithqal of gold or 200 dirhams of silver. This measure is equivalent to 87.48 grams of Gold or 612.36 grams of Silver. If a person only has Gold as an asset, then the Nisab measure for Gold must be used. If however the person has a mixture of assets, then the Nisab level for Silver (612.36 grams) should be used.

To ascertain the current monetary equivalent of the Nisab limit, it is necessary to establish the market rate for a gram of Gold. The current market rate for 1 gram of Gold of 18 carat gold is BDT 2475. **Therefore, the Nisab threshold for Gold is approximately BDT 2,16,513.00.**

Please refer to the box below for the price of Gold for different Carats in BDT.

22 Carat = BDT 2905 per gram ,
21 Carat = BDT 2775 per gram,
18 Carat = BDT 2475 per gram,
Price set by Bangladesh Jewelers Samity on 6.3.10

A person will only pay Zakat if, after deducting outstanding living expenses, they still possess assets in excess of BDT 216,513.00 There is no uniform consensus as to what constitutes living expense.

Who Pays Zakat ?

Who Should Receive Zakat ?

Those required to pay Zakat must be

- Sane
- Adult (have reached puberty)
- Owner of Wealth
- Muslim
(Zakat is not paid by non-Muslims)
- Sahib-un-Nisab
(Owner of wealth above the level of Nisab)

The following persons are specifically excluded from receiving Zakat

- Al Hashimi
(Descendant of the Prophet SAW)
- The payer's son or grandson
- The payer's father or grandfather
- The payer's spouse

If assets are held in a Trust then Zakat is calculated on the basis of the circumstances of the person who placed the assets into the Trust (commonly referred to as the 'Settlor'). The responsibility for paying the Zakat lies with the Trustees. If however Zakat is not paid, the Settlor will become liable.

Those entitled to receive Zakat

Those who are entitled to receive zakat are mentioned in the Holy Qur'an.

"The alms are only for the poor, the needy, those who collect them, those whose hearts are to be reconciled, to free the captives and the debtors, for the cause of God, and for the travellers; a duty imposed by God. God is All-Knowing, All-Wise." (9:60)

1. The poor: Those who does not have anything to support themselves .

2. The needy: Those people who have some income or earnings but it is not enough to provide them with basic needs.

3. Zakat collectors: The salaries of these workers may be paid from this fund.

4. Converts: Those people who have embraced Islam. Attempts should be made to settle them in a normal life.

5. People who are not free: This category would include payment of ransom for freeing Muslim slaves from slavery from their owners.

6. Debtors: People who are unable to pay debts incurred due to pressing lawful needs.

7. Wayfarers and travellers: Those people who are rendered helpless out side their city.

8. In the Cause of Allah : In the wider sense, this channel of distribution covers all methods of promoting the Islamic faith, by propagating the enactment of the Islamic legislation or defending Islam through the intellectual confrontation against its opposing hostile trends.

Assets subjects to Zakat

General Rules on Assets

Personal Assets

All assets owned for personal use and used to meet basic living expenses are completely exempt from Zakat EXCEPT for cash and items made from Gold & Silver.

Trading Assets

All assets purchased for the explicit purpose of resale are liable for Zakat. Assets purchased with the express intention of generating a rental / investment return are not themselves liable to Zakat.

Zakat is always paid on the balance of assets owned on the Zakatable date, not on fluctuating amounts during the year or even an average amount.

Please note Zakat is not payable on HARAAM income. The entire value of Haraam income must be given in charity.

There are principally five categories of assets which are subject to Zakat

1. Gold & Silver
2. Cash & Liquid Investments
3. Business Assets
(includes Stocks, Shares, Property and Pensions)
4. Livestock
5. Agricultural Output

1. Gold & Silver

Gold and Silver, in whichever form (jewelery, coin, ingot etc.) are always subject to Zakat, regardless of whether they are owned for personal use or for trade.

2. Cash & Liquid Investments

Cash and Liquid investments are fully subject to Zakat and can be defined as follows:

1. Cash at Bank and in Hand
2. Conventional Investment Bonds
3. National Savings
4. Any form of investment which can be readily liquidated (excluding equity based investments eg Shares)

Assets subjects to Zakat

3. Business Assets (includes Stocks, Shares, Property and Pensions)

i. Property & other Fixed Assets

The Zakat treatment for these assets is principally based upon the intention behind the purchase. We can classify intentions as follows:

1.1 Clear Intention to resell:

If the asset is purchased with the express intent to resell at a profit, then that asset effectively represents stock in trade and, therefore, the entire value of the property/asset stock is subject to Zakat.

1.2 Clear intention to retain asset:

If the asset is purchased with the intention of retaining ownership, e.g. investment property, the asset is not subject to Zakat. Any profit from rental income received is fully subject to Zakat.

1.3 Clear intention to reside in property:

If no part of the property is being let out and it is used entirely as residence then it is exempted from Zakat as it falls under the category of 'personal use'.

1.4 No clear intention:

If there is no clear intention behind the purchase, then no Zakat is payable on the value of the asset. Any profit received from rent is still liable to Zakat.

ii. Finished Goods, Work in Progress and Raw Materials

These are subject to Zakat, as they are purchased with the express intention for resale..

iii. Shares / Unit Trusts / Equity Investments

If shares are purchased with the express intention for resale then the entire holding is subject to Zakat. If however shares are purchased as an investment to generate dividends, then as Zakat is only due on the Zakatable assets of the firm (e.g. raw material and finished goods), a realistic attempt must be made to calculate the percentage of the shareholding relating to Zakatable assets.

iv. Pensions

Zakat treatment of Pensions is covered further on.

4. Livestock

Zakat is obligatory on livestock, if they reach a certain number. Please refer to "Fiqh Al Zakah" by Yousuf Qardawi, or any other authentic book for details on this topic.

5. Agricultural Output

Zakat is obligatory on Agricultural Output, please refer to "Fiqh Al Zakah" by Yousuf Qardawi, or any other authentic book for details on this topic.

When to Pay Zakat?

Zakat is only payable on assets which have been held for one lunar year. The lunar year starts only when a person first becomes Sahib-un-Nisab, e.g. the owner of wealth in excess of Nisab. The following points need to be taken into consideration when deciding upon the date when calculating zakat will be due:

Date when person first became Sahib-un-Nisab

An individual's Zakat year starts on the date their wealth first exceeded Nisab. The Zakat liability should be calculated every year thereafter on that date. If a person cannot remember the date he first became Sahib-un-Nisab, then he should best estimate that date. If a reasonable estimate of the date cannot be made, then a date should be fixed at random.

The beginning of an individual's Zakat year may be fixed in Ramadan, but this is not necessary. However, it is true to say that giving charity in Ramadan yields greater rewards than in other months.

Fluctuating wealth during year

It is quite possible that a person's wealth may fluctuate above and below the level of Nisab during the year. If this is the case then Zakat is only due if wealth is in excess of the Nisab at the end of the Zakat year.

Distribution Date

Zakat should be disbursed as soon as possible. At the very latest Zakat should be distributed one year after the calculation date.

A Straight forward approach to paying Zakat as follows:

1. Identify the date on which you first became Sahib-un-Nisab.
2. If you can't remember that date, then make your best estimate.
3. If you cannot estimate, then fix any date during the lunar year and stick to it annually.
4. Determine value of Zakatable assets on this date. **The value of the assets used in the Zakat calculation should be the market value of the assets on your Zakatable date.**
5. Deduct outstanding basic living expenses.
6. Pay Zakat at a rate of 2.5% on the remaining Zakatable assets figure.

Conditions for validity of Zakat

The following conditions must be observed when paying Zakat as follows:

i) Intention

It is mandatory to make the intention of giving Zakat either at the time of assessment or at the date of payment.

ii) Eligibility of Recipient

The Qur'an has clearly defined the categories of recipients for Zakat. The recipients of Zakat must appear to be poor and/or destitute.

iii) Recipient's Ownership

The recipient must be made to own the assets given in Zakat. The donor cannot reserve any rights over the wealth given in Zakat.

iv) Pre-paying Zakat

It is perfectly permissible to pre-pay Zakat for future years. However at the time of payment the intention must clearly be for future years.

v) Ineligible Recipients

As explained earlier, there are certain recipients who are not allowed to receive Zakat eg a Hashimi or the payer's wife etc.

Missed Zakah

If one has not paid zakat in previous years, either due to negligence or ignorance or error, then a realistic attempt must be made to calculate the zakat due for each year of the years missed. This matter must then be paid as a matter of urgency.

Zakat on Debts Receivable & Payable

Debts can be divided into two distinct sections:

1. Debts owed to oneself e.g. Loans given to friends, debtors etc...
2. Debts payable to others e.g. Mortgages, money borrowed from friends etc...

1. Debts owed to oneself

All outstanding debts are subject to Zakat (except for debts which have been written off). There is however, differing treatment on the timing of when Zakat is calculated. In this regard, debts owed to oneself can be split as follows:

i) Inclusion in Zakat calculation even before they are received

The following types of debt should be included in full in one's Zakat calculation:

1. Personal loans made to friends, family or anyone else.
2. Trade debtors who purchase goods on account and owe you money on the Zakat anniversary date.

ii) Inclusion in Zakat calculation only after they are received

This section can be sub-categorized as follows:

1. Incidental Sales (personal belongings, furniture, etc)
2. Wages (salaries, dividends and any other form of remuneration)
3. Moharana owed to Wife
4. Pensions
5. Inheritance

Debts payable to others

All debts are normally deductible against assets prior to assessment against the Nisab threshold. However, questions arise when considering the Zakat treatment of certain deferred debt repayments e.g. mortgage payments. The following is a succinct summary of the main debts payable and their treatment:

i) Mortgages and other installment based debt - Jurists have classified this type of debt into 2 categories.

a. 'Mu'ajjal'-Refers to debt where repayment is due immediately e.g. a personal loan from a friend which is now due. This type of debt is wholly deductible.

b. 'Muajjal' (pronounced slightly differently to 'Mu'ajjal')-Refers to debts that are usually paid by installments. Mortgage payments usually fall into this category as they are payments which are all not due at one point in time. This type of debt cannot be deducted from assets in arriving at a figure to compare with Nisab. If however mortgage payments for the Zakat year in question are still outstanding then they can be deducted.

Also, if one intends on paying the entire mortgage balance off immediately then the whole amount is Zakat deductible.

ii) Outstanding basic living expenses - Expenses incurred which have not been paid for such as rent, bills, utility expenses.

iii) Goods purchased on credit - If you have taken receipt of goods but not yet paid for them and you are certain to pay for the goods as soon the debtor date expires then the value of the entire debt can be deducted against assets in arriving at a net assets figure for Zakat purposes.

iv) Outstanding salaries and remuneration - These can also be deducted for the Zakat period in question.

v) Unpaid Moharana to wife - Assuming one intends to pay this during the year then it too can be deducted.

vi) Personal loans - Usually from family or friends. These are repayable as soon as the borrower has the means and intention to do so and can be carefully deducted for zakat purposes.

vii) Commercial loans - The entire loan cannot be deducted against assets. Only that portion can be deducted which has been used to finance Zakatable assets.

Basic Living Expenses

There is no unanimously agreed definition for what constitutes basic living expenses. However, expenses such as rent, fixed loan repayments, utility bills, fixed leasing costs, food and fuel costs, service & maintenance costs are accepted as valid expenses. One should calculate all basic living expenses outstanding on the Zakat anniversary date. This total can then be fully deducted from the Zakatable assets figure.

Pension

The Pension Fund:

Pensions received by an individual after retirement are liable to zakat. Pension

contributions made by an individual prior to retirement may not be liable to zakat.

There are several principles which determine Zakat liability as follows:

1. If the payment made to the pension policy is deducted from salary at source then it is not subject to Zakat as long as it has not been invested. This refers to Final Salary Schemes such as government schemes offered to employees.
2. Zakat is due on all other forms of pension, including those where payment is taken at source and subsequently invested (eg Money Purchase, Personal Pension, Executive Pension).

Pensions in Payment

This relates to pension income usually received in retirement. Zakat is only payable on this when actually received.

Taxes

Zakat cannot be offset against taxes paid to the state. One is a legal obligation to the state whilst the other is a form of worship. There is no Islamic basis on which taxes paid can be offset against Zakat.

Disbursing Zakat:

1. Your Zakat liability should be paid as soon as possible.
2. The primary recipients of Zakat are the poor and destitute.
3. Your poor relatives take priority over other candidates for Zakat.
4. In case of a query, please contact a scholar of your own choosing, or mail us at info@czm-bd.org
5. Please visit our Website <https://www.czm-bd.org> for more detailed information.

Zakat Self-Assessment Form

Please Use the form below to calculate your Zakat

- ❖ Work your way chronologically through the form, referring to the preceding pages when required
- ❖ When performing your calculations, always use market values
- ❖ In case of query, please choose a scholar of your own choosing or mail us at info@czm-bd.org

Assests	Amount
Jewelery	
Cash at Bank	
Cash in hand	
Stocks & Bonds	
National Savings Account	
Other liquid investments	
Property (for resale only)	
Profit from rental income (if not already included in Cash above)	
Finished goods	
Work in progress	
Raw materials	
Shares (for resale)	
Shares held as investment	
Livestock	
Agricultural output	
Debts owed to you	
Trade debtors	
Pension fund value (see exemptions)	
Total Assests ➔	

Zakat Self-Assessment Form

Liabilities	Amount
Personal loans owed to others	
Outstanding mortgage payments (for current Zakah Yr)	
Rent, bills and other utilities outstanding	
Goods purchased on credit	
Salaries due to be paid to staff	
Moharana to wife	
Commercial loans (Refer to research paper, only Zakatable element can be deducted)	
Bad debts	
Any other valid deduction	
Outstanding basic living expenses	
Total Liabilities ➤	

Excess Wealth (Total Assets - Total Liabilities)	Total Zakat
<div></div>	<div></div>
<div>X 2.5%</div>	

Benefits of Zakat

Allah (swt) says in the Qur'an:

For those who give in charity, men and women, and loan to God a beautiful loan, it shall be increased manifold (to their credit) and they shall have besides a liberal reward." [al-Hadeed 57:18]

There are many wisdoms and benefits behind the obligation of Zakat, of which some are mentioned here:

1. The foremost and primary is to distribute the wealth of the community among the poor, as mentioned in the famous Hadith of Mu'adh (Allah be pleased with him):

"If they obey you to do so, then inform them that Allah has made it Fard upon them to pay Zakat from their wealth. It is to be taken from the wealthy and given to the poor amongst them". (Sahih al-Bukhari, No.1331)

2. Removing the love of wealth from one's heart, a spiritual disease that could be detrimental to one's Iman. Thus, it is a form of Tazkiya (self-purification).
3. Giving in the path of Allah acknowledging that whatever wealth one possesses is in reality the Almighty's, and giving a monetary sacrifice for one's lord.
4. Prevention of monopolies in society.

These are just some of the basic reasons behind the obligation of Zakat, but one must remember that Zakat is also a form of worship (ibadah) of Allah Almighty, and an obligation set by Him. As such, one must accept this obligation and the rulings connected to it, even if one is not able to understand the wisdom behind it, for the meaning of 'worship' is to submit to the will and command of Allah Most High.

At the same time, Allah Almighty through His infinite mercy did not make Zakat obligatory (fard) on everything; rather Zakat is to be paid only on certain items, which are: Gold and Silver, Cash (money), Merchandise (i.e. items for resale), Agricultural Products and Livestock.

Therefore, it is necessary that we accept the various acts of worship (ibadah) as they are and not insist on understanding the wisdom behind it, for Ibadah is something that is carried out in a submissive form without questioning its rationality.

Summary

The payment of Zakat enables Muslims to fulfill a central obligation of Islam. The principles underpinning the calculation of Zakat are timeless and apply universally to all assets and types of Wealth.

It should be noted that a short time after the death of the Prophet Mohammed (SAW) the chosen Caliph Abu-Bakr Siddique (RA) declared war on a group of tribes who refused to pay Zakat. The conflict was dubbed 'The War of the Apostates'. Such is the serious nature of Zakat.

We conclude with the following principle which embodies the spirit behind giving Zakat:

If one is unsure as to how much Zakat needs to be paid, it is always better to pay a figure which will result in the greatest amount of Zakat being given.

The above principle recognizes wealth is ultimately a trust (Amanah) given to us by our Creator about which we will be questioned. Therefore, we should give Zakat gladly, without a heavy heart, and with firm belief that giving Zakat will not diminish our wealth.

We pray to Allah (SWT) that he is pleased with this guide, and makes it means through which the obligation of Zakat can be fulfilled correctly. If there are any errors, they are solely from us, whilst any guidance can only be from Allah (SWT).

Sources

1. Zakat Calculation (Audio Tape)

By Mufti Mohammed Taqi Usmani.

Tape is available from Ebrahim Community College, London.

2. Calculating Zakat

By Mushfiqur Rahman

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3. The Rules of Zakat

By Mohammed Shoaib Omar

4. Zakat in Detail

By Moulana Abdur Rahman