

MIFTAAH SEMINAR



THE LAWS OF ZAKAT

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SESSION 1

How to Calculate Zakat

- If assets minus expenses are greater than Nisab, then zakat is calculated by current net wealth X 2.5%
- The first step in calculating zakat is to determine if one is liable for zakat or not.
 - Take assets and subtract any liabilities and haram earnings. This equals your net wealth.
 - If you earned haram money, this is a liability and you must give it away.
 - Example:
 - Assets = \$30,000
 - Haram earnings = \$1,500
 - Liabilities = \$12,000
 - Net Wealth = \$16,500 (Assets - haram earnings and liabilities)
- Next we must ask ourselves if net wealth is greater than nisab.
 - If yes, then multiply net wealth by 2.5% and this is the amount that you must pay in zakat.

- Example:
 - Net wealth = \$16,500
 - Zakat rate = 2.5 %
 - Zakat due = $\$16,500 \times 0.025 = \412.50
- Next, we must pay our zakat and absolve ourselves from any haram earnings.
- Zakat (\$412.50) + haram earnings (\$1,500) = \$1,912.50
- The Prophet SAW stated that a person who has haram earnings must give that money away and he will not be rewarded for giving that money away.

Assets Liable For Zakat

- Precious metals (gold and silver)
- Cash and cash equivalents (things like precious metals)
- Livestock and crops
 - This is for a person who grows crops and sells them, not someone who buys things wholesale and sells them.

Conditions for Liability

- You have unhindered, private ownership
 - “Unhindered” means that you are able to access it at any time, without any penalty, and in any way that you see fit.
 - It is not lost, stolen, or in an account which you do not have access to.
 - “Private ownership” means that you personally own it.
 - It is not owned by a government entity.

- If you are a shareholder, and hold a certain number of shares of a company, then you are responsible to pay zakat on the percentage of the company that you own.
 - Ex: A company has 1000 shares and you own 100 of them. You must pay zakat on 10% that company since you own 10% of it's shares.
 - It should not be encumbered by debt.
- One must pay their debts before they pay their zakat.
- If you have a debt that you must pay, you pay that debt first and then you pay zakat on the remaining wealth that you have.
 - Ex: If you have \$10,000 and owe someone \$2,000, you must pay the debt of \$2,000 to that person and then give 2.5% of the remaining \$8,000 in zakat.
 - It should be surplus beyond your principal needs.
- First you pay the expenses of your family (rent, groceries, etc.).
- Then you pay zakat on the remainder of the wealth after you have bought the necessities.
 - It should be liquid with potential economic value.
- If it is not physical cash, then it should be able to, be sold easily without a major loss of value, and it can be converted into cash.

- Ex: For stocks, you can easily turn them into cash without losing value so one must pay zakat on them.
- “Economic value” means that it can be spent, invested, given in charity, or gifted.
- Ex: If a person owns a property but the market is so bad that they can not lease it or sell it, they do not have to pay zakat on it.
- It should reach the nisab.
- Nisab is the minimum amount of money that a person must have in savings in order to pay zakat.
 - You should have had that wealth for a whole lunar year.

Expenses That Can Be Deducted

- These include:
 - Mortgage/rental payments
 - Insurance premiums
 - Utility bills
 - Property taxes
 - Back taxes
 - All personal expenses which are currently due
 - This means any expenses that if you do not pay them, you will have a legal consequence.

What is Nisab?

- To know if you have nisab for jewelry, you can go to a trustworthy jeweler and ask them for the pure weight of the gold or silver.
- Calculating Nisab
 - Nisab of silver = 595 grams X price per gram
 - Nisab of gold = 85 grams X price per gram
 - These amounts have been determined by several scholars who looked at the value of the coins that have been found from the time of the Prophet SAW. They averaged out the amounts and reached the numbers of 595 and 85.
 - Some scholars use slightly different numbers but they are all very close.
- Which nisab do we use?
 - If you only have gold, then use the gold.
 - If you only have silver, then use the silver.
 - If you have cash as well as gold and silver, then use the one that costs the least.

Taxable Accounts

- A taxable account is a brokerage account or something similar.
 - The money which has been put into this account is being invested into something else.
 - A bank account is not a taxable account because your income is in it and you have already paid taxes on that income.

- If you have invested into something and that investment is held for 366 days or longer, you are a long term passive investor.
 - In this case, you pay zakat on the (cash + receivables + inventory) divided by the outstanding shares and then multiplied by the number of shares you own.
 - On average, you will be paying 25-40% of the stock's market value.
- If you receive dividends you can pay zakat on the dividends as they come in or you can pay all of it with the rest of your zakat at the end of the year.
- When selling stocks which you hold, if you have been holding them for the long term, then you must pay 2.5% of the sales price.
- Do I pay zakat on my 401K, Ira, Roth, etc?
 - Generally, with these accounts, a person can put money in before or after they pay taxes, but the money that grows inside of the account grows tax free.
 - There are two opinions about paying zakat on these accounts:
 1. Take the entirety of your 401K, deduct the amount of taxes you would pay, deduct the penalty that you would pay, and pay zakat on that entire amount.

- This opinion exists because people say that you won the money and you have access to it, so you must pay zakat on it.
 - This may be fine if a person has \$20,000 in their 401K. But, if a person has \$1,000,000 in their 401K and they have to pay \$25,000 in zakat, they may not have access to that money which would cause them to go in debt or to have to break the contract and take money out of their 401K which would result in penalties and fees.
2. Do not deduct penalties or taxes and do not pay zakat on these accounts until you have access to the money without penalties.
- This opinion looks at these accounts in two ways:
 - Contributions that are put in
 - Gains that are earned inside of the account
 - The contributions that are put in can not be accessed and one must pay a penalty on them if accessed.
 - This is because when the money is accessed, the fund manager is being forced to sell the investments that he is managing for you, which will cause him to forgo the benefits for himself and for you in order to give you the cash.

- Here you are breaking an investment contract and you are liquidating before the agreed liquidation date.
- Therefore, this money is closer to being a debt which is owed than it is to being money in your bank account.
 - Some scholars state that when you take the money out, you pay zakat once for that year only.
 - Another opinion states that you would pay zakat for all of the years that have passed.
 - Another opinion states that you would wait one year after you take the money out and then pay zakat on it.
 - Overall:
 - If you **can** withdraw the money **without** penalty, then you must pay zakat on it.
 - If you **can not** withdraw without penalty, then you do not pay zakat until you have the cash in hand or you have reached retirement.
 - At retirement, if you take out a lump sum (entire amount) you must pay 2.5% on that amount.
 - If you leave some of it in there and take out minimum distribution amounts, then every time you pull out money, you will pay zakat on that amount.

- Yearly, you would treat this as a long term passive investment and you will pay zakat on the cash, inventory, and receivables held by the stocks in your account.
 - For a 401K or a Traditional IRA:
 - Withdrawing capital is penalized and earnings are not realized. Therefore, zakat is not due until the money is withdrawn.
 - For a Roth IRA:
 - Capital is accessible and earnings are not. Therefore, you must pay zakat on the capital and not on the earnings.
- For all of these cases, scholars have approximated what Allah SWT wants us to do in regards to zakat, so we must do our best.

Haram Income

- We should never want to have haram income. However, there are circumstances in which decisions are made in our economic system and we do not find out about them until later on.
 - Ex: A person might own stock in a company which has no debt or interest. Later on they find out that the company has earned 0.01% in interest income from a loan that they had given a long time ago.
 - In this case, one does not have to sell the stock, but they need to take 0.01% of those earnings and give them away in charity.

- Haram types of earnings include:
 - Interest income on your stock's income statement
 - Interest on savings account
 - Interest on late tax returns
 - Bonds
 - Annuities
 - Others
- This income should not be left with the bank or creditor.
- It can be given away to a charity. It can be given to:
 - One of the 8 categories that can receive zakat
 - Poor and indigent people
 - Any public or social programs that benefit the public.
 - Ex: Using money to build a water well, pave roads, etc.

Jewelry

- Scholars agree that jewelry that is **not** made from gold and silver is **not liable** for zakat.
- Scholars also agree that gold and silver jewelry that is **not** for personal use **is liable** for zakat.
 - Ex: Jewelry that is bought as an investment.
- Scholars have two opinions about gold and silver that is used for personal use.
 1. Do not pay zakat on it.
 - Scholars view it as a personal asset, like furniture is.
 2. Hanafi and Hanbali scholars state that any jewelry is liable for zakat as long as it reaches nisaab.

- One does not have to sell their jewelry if they do not have the cash to pay the zakat on it.
- Either the woman's husband can pay her zakat for her, or the zakat will remain a debt and she will have to pay in when she has the cash.

Claiming Tax Deductions

- The government has already taken your money. They take taxes out of your income before you even get the money.
- When you claim a deduction, you are telling the government "I have already benefited society, so give me my money back."
- The money you get back is not your zakat or sadaqah. It is the taxes that were withheld when you got your paycheck.
- It is **not wrong** to claim a tax deduction when you give zakat or sadaqah.

Who Can I Not Give Zakat To?

- The wealthy
- The able bodied worker
 - Two men approached the Prophet SAW and asked him to give them zakat money. He SAW replied, "If you ask me I will give you both, but you should know that charity is not for a wealthy person or an able bodied worker."
- Family of the Prophet SAW

- Your family members
 - One **can** give zakat to their siblings, uncles, and cousins.
 - One **cannot** give zakat to their parents, grandparents, children, or grandchildren.
 - This is because you should be spending money on these relatives before you even give zakat. You are already financially responsible for them.
 - If you are financially responsible for someone, you can not give them zakat.
 - A woman can give her husband and her parents zakat because she is not financially responsible for them and she is never obligated to give her husband or parents money.
 - If a woman gives her husband money with the intention that she wants to be paid back later, he must pay her that debt. If he passes away without giving her that money, she gets it from his inheritance before any other money is distributed to anyone.
 - Non-Muslims
 - One opinion states that zakat money cannot be given to any non-Muslims, even if it is to soften their heart.
 - Another opinion states that it can be given to non-Muslims to soften their heart.

- The third opinion states that zakat can be given to non-Muslims if the zakat has been distributed to Muslims and there is extra money.

Who Should Zakat Be Given To?

- There are eight categories:
 - The destitute (الْفُقَرَاءُ)
 - One who does not find food for one day.
 - This person should be taken care of first.
 - The poor (الْمَسَاكِينِ)
 - One who finds food for the day, but not the week.
 - Those collecting the zakat (الْعَامِلِينَ عَلَيْهَا)
 - To soften the hearts (الْمُتَلَفَةَ قُلُوبِهِمْ)
 - This includes new Muslims, those interested in Islam, those whose evil can be prevented by softening their hearts, those whose Iman can be in danger because of where they live, etc.
 - In manumission (فِي الرِّقَابِ)
 - Human trafficking, incarceration, etc.
 - You pay for them to be freed.
 - Those in debt (الْغَارِمِينَ)
 - Pay their debt for them
 - In God's path (فِي سَبِيلِ اللَّهِ)
 - In the proactive defense of Muslim lands
 - The wayfarer (ابْنِ السَّبِيلِ)
 - A refugee, a traveler who has no support, etc.

- They qualify for this even if they were wealthy in their land previously, because they can not access that wealth now.

Distributing Zakat

- There are no clear rules for how much should be given to one person.
- The money can be split between categories or given to one person.
- Some scholars say that those who are collecting zakat should be given a fair wage.
 - Other scholars say that no more than 1/8th of the zakat should be given to them.
- For those in categories 4 - 8 or receiving zakat:
 - The amount given should be dictated by actual need which is shown through receipts or other evidence.
 - It should be paid on their behalf, not directly given to them.
 - Social assistance for the poor should not be neglected.
 - People should not pay the debts of others while there are poor people that cannot eat.

Payment Issues

- Zakat cannot be intentionally paid late.
 - If there is a cash shortage, it can be calculated and then paid later.
- Zakat can be prepaid.

- The Prophet SAW allowed Abbas RA to prepay his zakat for up to two years because he had a steady stream of income.
- If the ummah is going through a difficult time, and more money is needed, and a person has a steady stream of income which will be generally similar the next year, they can double their zakat that year.
- Zakat can be paid to recipients in installments.
- If you fear that the person who gets a large sum of zakat will waste it, you can give them monthly payments over the year.
- The zakat amount should be calculated at one time and this amount should be separated from your other wealth.
- When paying zakat, we use the lunar calendar.
- If there is a need to use the solar calendar because of tax issues or other implications, then one can use it.
- The solar calendar is 11 days longer than the lunar calendar, so one must pay 2.578% in zakat.
- Where should zakat be distributed first?
- All scholars agree that it should first be distributed to those in your local town before being sent to the next town or your home country. If there is a need in your local town and you send your zakat somewhere else, that zakat is not valid.