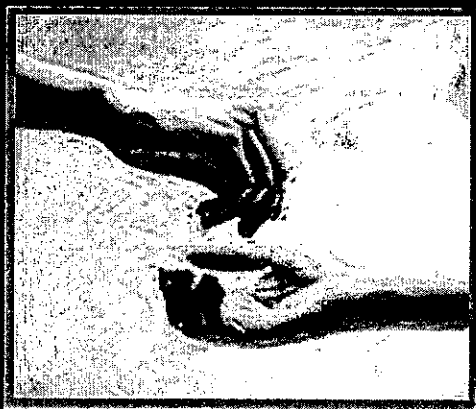
How To Calculate Your Zakaat



by
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HOW TO CALCULATE YOUR ZAKAAT

The purpose of this article is to deal briefly with the important question of how to calculate Zakaah. The reader must, if he requires clarification, consult his local Ulema.

1. MEANING OF ZAKAAT

Zakaat is:

a) levied on specific assets only, deemed by the Sharia as having the potential for growth;

b) levied at the rate of 2.5% each year (calculated according to the lunar calendar) on the market value of those assets after deducting therefrom specified liabilities; and

c) the compulsory transfer of a portion of the property of the giver, calculated at the rate of 2.5% as aforesaid, to a poor and needy Muslim who qualifies to receive Zakaah according to Sharia.

2. IMPORTANT PRINCIPLE IN IDENTIFYING ASSETS SUBJECT TO ZAKAAT

Gold, silver and cash (and the assets specified in paragraph 3 below) are subject to Zakaah. Any other asset will only become subject to Zakaah if such asset was acquired or purchased for purposes of resale - in other words, the asset concerned, if acquired for trading purpose, becomes stock in trade in the hands of the purchaser and is accordingly subject to Zakaah. In this regard, the clear intention to resell the asset on part of the buyer must exist at the time of purchase in order to give the asset the character of stock in trade. Take the following example: a person buys a house at a profit. The market value of the house will be subject to Zakaah at the end of the relevant Zakaah year; similarly, if a person buys industrial property, consisting of land and buildings, with the intention of selling the property at a profit, then the market value of the property, calculated as at the end of the relevant Zakaah year, will be subject to Zakaat.

On the other hand, if the immovable property was purchased as an investment and not to resell, then the value of the asset is exempt from Zakaah. A subsequent change of intention in the case where the owner, who had originally purchased the immovable property for investment, to hold as capital now decided or intends to sell it for profit will not alter the character of the asset for Zakaah purposes and the asset remains exempt from Zakaah.

3. ASSETS SUBJECT TO ZAKAAH

3.1 GOLD AND SILVER

Gold and silver, whether in the form of jewellery or otherwise, will always be subject to Zakaah provided their respective weights exceed:

a) in the case of silver 613,35 grams

b) in the case of gold 87,49 grams

Where one owns gold and silver, together with the cash or stock in trade, Zakaah will be payable if the aggregate value of all these assets exceeds the value of 613,34 grams of silver.

3.2 CASH

The amount of cash held, whether in a bank or building society account or personally on hand, at the end of the relevant Zakaah year will always be subject to Zakaah.

3.3 DEBTORS

Book debts, or accounts receivable, are treated as cash for Zakaah purposes and Zakaah must be paid on the total value thereof at the end of the Zakaah year concerned. The trader may however elect to pay the Zakaah on the debt in the year in which the debt is actually paid or received. In such a case, the Zakaah must be paid not only for the year in which the debt was paid but also for each preceeding year in which the debt was owing. In order to avoid accounting problems for Zakaat purposes, particularly in the case of traders who carry large book debts, it is desirable that Zakaah be paid each year on the total value of the book debts which are regarded as sound. If the debtor is not in financial difficulty and does not deliberately delay payment, then the relevant book debt would be regarded as sound.

3.4 LOAN ACCOUNTS IN COMPANIES

The shareholders of private and public companies (and close corporations in SA) commonly hold loan accounts in those companies - which represent monies owed by the companies to the shareholders. The original capital contributed by the company, which has been credited to loan account, in order to enable it to acquire assets to carry on business should not be taken into account and should be deducted from the amount of the loan account standing to the credit of the shareholder at the end of the Zakaah year concerned. The difference, which invariably represents profits due to the shareholder and a portion of which is sometimes paid out in the form of *"interest on loan account"* for tax purposes, is subject to Zakaah each year and is treated as cash for Zakaah purposes.

EXAMPLE:	Loan account	=	R20,000.00
Less:	Original capital	=	R10,000.00
	Balance subject to Zakaah at the rate of 2.5%	=	R10,000.00
	2.5% of R10,000	=	R250.00

3.5 SHARES IN PUBLIC COMPANIES

It is relatively easy to deal with shares in public companies, whether listed or unlisted. For this reason, according to the preferable view, such shares are really stock in trade in the hands of the owner thereof - who may trade in shares on the stock exchange (in the case of listed shares) as he pleases. Zakaah is therefore payable on the market value of such shares determined at the end of the relevant Zakaat year and not on the original cost of acquiring the shares. However if it is possible to ascertain that proportion of the paid up capital of a company which represents fixed assets which are not subject to Zakaah, such as machinery, building etc., then it is permissible to deduct that proportion from the market value of a share. For example, if 10% of the paid up capital represents fixed assets and the market value of a share is R100.00, then Zakaah is payable on R80.00 only. But, if that proportion is unknown, one should pay Zakaah on the total market value of the shares.

3.6 STOCK IN TRADE

As stated in paragraph 2 above, any asset other than the assets referred to above (3.1 to 3.5), will only be subject to Zakaah if the asset was acquired for the purpose of resale. In such a case, the asset qualifies as stock in trade for the purpose of Zakaah. Zakaah must be paid on the market value of the stock in trade at the end of the relevant Zakaat year. This means that the stock should be valued for the purpose of Zakaah in a manner that reflects the price which can be realised if the whole stock is sold in bulk in a single transaction at the end of the relevant Zakaah year. It must be noted that, in the case of the manufacturer of goods, the stocks would comprise both raw material (eg fabric) and the finished goods.

4. LIABILITIES WHICH MAY BE DEDUCTED

Liabilities, for Zakaah purposes, may be divided into two categories, namely:

i) liabilities incurred in acquiring assets which are exempt from Zakaah; for example mortage bonds on immovable property; or instalments due under suspensive sale agreements in respect of plant and machinery, and fittings and fixtures. The amounts of such liabilities are, in the light of modern business conditions, not deductible.[1]

ii) Liabilities incurred in acquiring assets which are subject to Zakaah; for example, trade creditors (suppliers of stock in trade), bank overdraft and shippers loans to fund the purchase of stocks. Such liabilities should be deducted from the total value of the assets subject to Zakaah in order to arrive at the net amount on which Zakaah is payable.

5. MISCELLANEOUS

5.1 INSURANCE

The Muslim jurists are unanimous that most prevailing classes of insurance are impermissible under Islamic Law. The insured is entitled to the premiums paid by him over the period of insurance. Zakaah must be paid, upon receipt of the indemnity or the insured amount, on the total amount of the premiums paid over the period of insurance (in other words, Zakaah is paid for the preceeding years as well). The surplus (difference between amount of indemnity and premiums paid) must be given to poor and needy persons who qualify to receive Zakaah. It is not allowed in Shariah to use that surplus for personal benefit.

1. According to the Maliki view

EXAMPLE:	Amount of indemnity received	=	R20,000.00
Less:	Total amount of premiums paid	=	R5,000.00
	Surplus distributed as sadaqah	=	R15,000.00
	Zakaah 2.5% of R5,000.00	=	R125.00

5.2 PROFITS FROM INVESTMENTS

Profits received from investments in the form of rentals and dividends form part of cash held and is normally used during the year to pay expenses or further investments. For Zakaah purposes, the total amount of cash held at the end of the Zakaah year must only be taken into account and the fluctuations in cash balances during the course of the year must be ignored.

5.3 INCOME TAX

The amount of income tax which is due and payable at the end of the Zakàah year but which has not been deducted, may be deducted from the total value of Zakaatable assets at the time. This is the writer s personal view.

5.4 TRUSTS

Family trusts (trust intervivos) are commonly created for purposes of avoiding or minimising tax. The income of such a trust is invariably awarded and credited to the account of a beneficiary in the books of the trust and not actually paid out to him or her. In such a case, the beneficiary must pay Zakaah on the total amount of income standing to his credit only at the time he actually receives such amount. In other words, he must pay Zakaah on the accumulated income for the preceeding years upon receipt thereof.

The same principle applies to income credited to the account of a beneficiary from the time to time in the books of a testamentary or will trust.

EXAMPLE INCOME AWARDED

Year 1	R1,000.00
Year 2	R2,000.00
Year 3	R2,000.00
TOTAL CREDIT TO BENEFICIARY	R5,000.00
Zakaah Payable thereon at 2.5% of R5,000.00 =	R125.00

It is however more convenient for the trustees of such trust to pay the Zakaah each year on behalf of the beneficiaries and to debit their accounts accordingly.

5.5 PENSION AND PROVIDENT FUNDS

If the employee's contribution each month is deducted at the source under a compulsory pension or provident fund, the Zakaah is only payable upon receipt of the relevant lump sum in the year of receipt, and no Zakaah is payable for the preceeding years. In the case however of a voluntary pension or provident fund, Zakaah is payable on the lump sum not only for the year of receipt but also for preceeding years. In this case, it may be simpler to pay the Zakaah each year on the cumulative value of contributions.

5.6 ASSETS EXEMPT FROM ZAKAAH

The following assets, unless acquired with the clear intention to resell (see para 2 and para 3.6 above), are exempt from Zakaah:

a) plant and machinery
b) goodwill, copyright, patent, trademarks and licenses
c) vacant land
d) land and buildings or improved property

e) residential dwelling
f) diamonds, rubies and other precious metals (excluding gold and silver)
g) furniture, fittings and household effects
h) paintings of value
i) carpets of value
j) motor vehicles and trucks for all classes
k) stamp and coin collection of value
l) equipment of all classes
m) books of value

5.7 THE PRINCIPLE OF JOINDER OF ACQUISITIONS IN THE SAME CLASS

The general principle is that one year must elapse over the Zakaatable property in order to render it liable for Zakaah. This is subject to a qualification; where a person has nisaab of a particular class of Zakaatable property and during the course of the Zakaah year acquires property of the same class from any source whatsoever, then the property so acquired is added to the existing Zakaatable property of the same class and Zakaah is payable on the whole, or the remainder thereof, at the end of the Zakaah year without calculating a separate Zakaah year for each such separate acquisition. For example, a person has cash of R10,000.00 and during the course of the Zakaah year receives a further sum of R5,000.00 by way of a gift. He must pay Zakaah on the sum of R15,000.00 at the end of the Zakaah year and a new year would not be calculated in respect of the subsequent acquisition of the R5,000.00.

We set below an example of how to calculate Zakaah.

ZAKAAH CALCULATION

	ASSETS	TOTAL R	ASSETS SUBJECT TO ZAKAAH R	ASSETS EXEMPT FROM ZAKAAH R
1.	House	120,000		120,000
2.	Furniture and household effects and personal clothing	5,000		5,000
3.	Motor Vehicles	15,000		15,000
4.	Gold coins (Kruger Rands)	5,000	5,000	
5.	Diamonds and gem stones (not for re-sale)	10,000		10,000
6.	Cash on hand and at the bank	25,000	25,000	
7.	Stock in trade - at market value (bulk price)	100,000	100,000	
8.	Plant, machinery and fixtures and fittings and tools of trade	100,000		100,000
9.	Trade debtor (book debts)	25,000	25,000	
10.	Shares in public companies:-			
	- Listed shares - at market value	5,000	5,000	
	- Unlisted shares - at market value	3,000	3,000	
	- Unit trusts - at market value	2,000	2,000	
11.	Immovable property acquired for letting whether company owned or privately owned	200,000		200,000
12.	Loan account in companies - amount of income credited to loan account (excluding capital introduced)	20,000	20,000	
13.	Gold and silver (metal)	40,000	40,000	
14.	Deposits (rental, electricity, etc.)	6,000		6,000
15.	Stamp collection (not for re-sale)	6,000		6,000
16.	Pledge of moveables (e.g. gold coins)	6,000		6,000
17.	Paintings (not for re-sale)	6,000		6,000
18.	Goods purchased but not delivered exempt	6,000		6,000
19.	Loan debtors	20,000	20,000	
	TOTAL ASSETS	725,000	245,000	480,000

	LIABILITIES	TOTAL R	DEDUCTABLE R	NON DEDUCTABLE R
1.	Mortage Bond on house	50,000		50,000
2.	Bank overdraft (to fund stocks and trade debtors only)	5,000	5,000	
3.	Trade creditors	40,000	40,000	
4.	Instalment sale and lease creditors to fund motor vehicles/plant and equipment	60,000		60,000
5.	Any other liabilities incurred in respect of an asset on which Zakkah is not payable	10,000		10,000
6.	Shipping loans to finance stock in trade and/or trade debtors	30,000	30,000	
	TOTAL LIABILITIES	195,000	75,000	120,000

SUMMARY	R
Total value of assets subject to Zakaah	245,000
Deduct: Liabilities relating only to assets subject to Zakaah	(75,000)
NET AMOUNT SUBJECT TO ZAKAAH =	170,000
ZAKAAH 2.5% x R170,000 =	4,250

Postscript

For the sake of simplicity, the original arabic references from authentic juristic works have been omitted.

Other Publications by the Author

1. The Islamic Law of Succession
2. The Basic Concepts of the Islamic Law of Divorce
3. The Rules of Hajj and Umrah
4. The Rules of Itikaaf (Translation: Mufti Taqi Usmani)
5. What is Christianity? (Translation: Mufti Taqi Usmani)
6. The Rules of Zakaat
7. Selected Essays in Islamic Law
8. Contemporary Fataawa
   (Compiled & edited: Mufti Taqi Usmani)
9. Contemporary Issues in Islamic Banking & Finance