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All About Zakah

A Guide for Muslims in the USA

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The main reference of this presentation is:

**The Zakat Handbook: A Practical Guide for Muslims in
the West**

by Br. Khalil Demir, Director of
The Zakat Foundation of America

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Meaning of Zakah

Literally:

- * Purification of the soul: (قد أفلح من زكاها)
- * Purification of the wealth and the giver:
(خذ من أموالهم صدقة تطهرهم وتزكيهم بها)
- * Blessing
- * Increase

In Islamic jurisprudence:

- * A prescribed charity, in specific assets, should be paid for specific recipients.
- * (حق معلوم في مال معلوم لمصارف معلومة)

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Zakat's Special Virtue

- * The third pillar of Islam.
- * Associated with establishing prayers in the Qur'an (وأقيموا الصلاة واتوا الزكاة) many times.
- * Freedom from fear on the Day of Judgment (الذين ينفقون... ولا خوف عليهم)
- * Attaining success in the Hereafter
- * (الم...ومما رزقناهم ينفقون...هم المفلحون)



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Consequences for Failing to Pay Zakah

* (وويل للمشركين، الذين لا يؤتون الزكاة)

“Woe for the polytheists, those who do not pay Zakah.”

(سيطوّقون ما بخلوا به يوم القيامة)

“What they stingily withhold shall be hung around their necks on the Day of resurrection.”

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Why Allah SWT prescribed Zakah

- * To have a sense of obedience to Allah.
- * To clean the human heart of all manner of greed and miserliness.
- * To create a just society in which wealthy people act responsibly to support the less fortunate.
- * To improve ties of mutual love.
- * To filter out impurity from our wealth.

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Minutes at a glance 1

- * Substituting Zakah by Taxes
- * Differences between Zakah and Taxes
- * Zakatable Wealth
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- * Zakatability (for the payer)
- * Zakatability (for the wealth)
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Minutes at a glance 2

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- * Consistency of Possessing the Threshold
- * Salaries & Professional Fees
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Minutes at a glance 3

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Substituting Zakah by Taxes

- * No substitute for the Zakah because :
- * Zakah is a permanent and continuous pillar of Islam. Taxes are a governmental obligation.
- * Recipients of Zakah are divinely designated categories. Taxes are generally paid to enable functions of the state.

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Differences between Zakah and Taxes 1

- * Zakah is paid on one's remaining wealth, not on total income and holdings like Taxes.
- * Governments may waive unpaid taxes, but Zakah cannot be waived, no matter how far back it has accumulated.

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Differences between Zakah and Taxes 2

- * Zakah ranges from 2.5% up to 20% (“treasure troves”) based on the kinds of assets subject to Zakah. Taxes could be up to 50% based on income.
- * No worldly return for paying Zakah. Tax payers receive direct or indirect services.



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Zakatable Wealth 1

* Personal Zakatable Wealth:

money on hand, bank account, stocks, and money held in retirement and pension account

* Business Zakatable Wealth:

trading goods, merchandise, exploited assets; such as rental properties, factories, taxi cab, laboratory,... etc.

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Zakatable Wealth 2

* Agricultural Products:

crops from irrigated land, wherein the irrigation system entails cost and labor;

crops from non-irrigated land watered by rain or natural springs

* Livestock:

animals raised for commercial purposes, primarily sheep, goats, cows, and buffaloes



Zakatable Wealth 3

- * “Treasure Troves” (Rikaz):

valuables that people have buried and left, natural resources such as oil, precious metals and gemstones.

This can be classified more specifically as:

- * Hidden windfalls and discovered fortunes
- * Oil and mining



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Other Zakatable Wealth

- * Honey from bees (10% according to a Hadith)
- * Dairy from livestock
- * Eggs from poultry
- * Silk from silk-worms

Zakah is potentially due on all products whose sources are not Zakatable

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Non-Zakatable Wealth 1

1- Property for personal, family, and non-commercial use:

-Food: as stored for consumption

-Clothing

-Residence: The domicile owned and occupied by the owner, including furnishings, utensils, etc.

-Transportation.



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Non-Zakatable Wealth 2

Domestic Animals and Poultry: If used for household, food and needs as follows:

- Cows (1-29) per person
- Sheep, goats (1-39) per person
- Poultry (chicken and other fowl): Unlimited, as long as they are for household use only.
- Personal Use (pets, horses, etc.): Unlimited.

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Non-Zakatable Wealth 3

- * **Tools:** devices, instruments, and equipment used in one's personal business
- * **Agricultural Land:** the land itself, animals, and equipment used for cultivation.



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Non-Zakatable Wealth 4

2- Property in Public Trust (for the general public):

- Masajid, hospitals, schools, orphanages, governmental nursing homes, etc.
- Designated properties for endowment, along with the fund generated from these properties.



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Non-Zakatable Wealth 5

- * **3-Unlawful wealth:**
- * - Interest income, stolen property, etc.
- * - That from forgery, extortion, bribery, monopoly, fraud, or cheating
- * Such wealth must be returned in full to its lawful owners. If that is impossible, it is to be given away to the poor in its entirety.

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Zakatability (for the payer)

- * Zakat's conditions:

- 1- One is a Muslim

- 2- Reaching the minimum threshold (نصاب)

- 3- The passage of one lunar year (not for all Zakatable wealth)

- * Adulthood, puberty, orphanage, and insanity have nothing to do with Zakatability, because Zakah is a financial worship



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Zakatability (for the wealth)

- * Exclusive ownership
- * Ability of growth (actually or potentially)
- * Passage of one lunar year
- * Accessibility to the wealth (actually or potentially)—examples include a loan, IRA, 401(k), debt, stocks, annuity

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Wealth & Nisab & Zakah in Brief 1

- * Personal wealth 3 U.S. oz pure gold 2.5%
- * Business wealth 3 U.S. oz pure gold 2.5%
- * Tradable goods, 3 U.S. oz pure gold, 2.5%
based upon the current wholesale value
- * Exploited assets U.S. oz pure gold 2.5% of
net income
- * Agricultural products - irrigated 1,439 lbs 5%
of harvest

Wealth & Nisab & Zakah in Brief 2

- * Agricultural products- non-irrigated 1,439 lbs 10% of harvest
- * Livestock-Ovine: 40 see special Zakah rate table
- * Livestock-Bovine: 30 see special Zakah rate table
- * “Treasure Troves” (hidden windfall & natural resources) 3 U.S. oz pure gold 20 % (the only case has 20%)



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Threshold vs. Poverty Line

- * Nisab is not to be confused with the minimum standard of living (poverty line)
- * Nisab is the specific minimum amount in each Zakatable category of wealth used for the purpose of calculating Zakah
- * Connecting Zakah with the poverty line is a mixing between Zakah and government taxes

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Combining Assets to Reach Nisab

- * No need to combine 2 different categories of wealth (money and cattle for example) to constitute a threshold if none of them reached the threshold by itself
- * However, if they belong to the same category (money and stocks), they should be combined



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Consistency of Possessing the Threshold

- * If he/she has the Nisab in the beginning and the end of their lunar fiscal year, then Zakah is due
- * No need to maintain the Nisab during the whole year
- * Zakatable money is what you have at the ZDD, regardless of the fluctuated possession during the year

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Salaries & Professional Fees

- * Whatever is spent on personal and family expenses prior to the ZDD (Zakah due date) is not subject to Zakah
- * Whatever remained until the ZDD is Zakatable, even if a lunar year did not pass on these assets yet
- * Zakah is not due on the flow of income itself during the year



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Jewelry and Ornaments

- * Anything made of gold, silver, diamonds, minerals, precious stones, etc. is considered jewelry
- * No Zakah is due on jewelry as long as the jewelry is for personal use, and its value is within the average.
- * Attaining the quantity of extravagance or if used as a store of wealth makes the surplus Zakatable.

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Retirement Funds

- * A 401(k), IRA, Roth IRA, CD, annuity, etc. are not fully-accessible money, yet they are growing
- * Zakah is calculated based on the following formula:

Withdrawable amount – prescribed
Penalty – Prescribed Tax
=Zakatable amount

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Stocks, Shares and Bonds

- * Stocks and shares represent ownership of a certain part of the capital of a corporation.
- * Trading in stocks is allowed, as long as the corporation conducts a permissible business.
- * Bonds are certificates of an interest-bearing loan borrowed by the government. It is prohibited to trade in bonds.

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Stocks, Share's Zakah 1

- * If the intention is to keep these instruments for a long-term investment, they will take the same rule of “exploited assets.” Therefore, the Zakah will be 2.5% on the actual revenue/profit.
- * Otherwise, if they are treated as “trading assets,” they will take the same rule of “trading goods.” Therefore, the entire market value of the stocks is subject to Zakah at the rate of 2.5% .



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Stocks, Share's Zakah 2

- * If the company pays Zakah on all shares, the shareholders should not pay it again, because there is no double payment of Zakah.

Bonds' Zakah

- * Bonds are analogous to debt: they are interest-bearing loans
- * There is no Zakah due on the generated interest: rather the whole amount of interest is to be given to the needy or to any beneficial project for Muslims.
- * Zakah is imposed on the bond once it is paid back.

Loan's Zakah

- * For the lender: the money is not Zakatable because of lacking access to the money. Once the debt is paid back to him, Zakah will be due after one lunar year.
- * For the borrower: the money is Zakatable if all stipulations are satisfied, unless the whole debt is due in full.
- * This point is one of disagreement among scholars.



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Mortgage & Car Loan

- * The only deductible debts are the due ones.
- * The whole amount of mortgage or the car loan is not to be deducted, because it is not due yet.
- * The permissibility of the debt does not affect the deductibility of the loan.



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Determining the Value of Assets

- * Zakah is calculated based on the *whole sale-market value* of the asset at the ZDD.
- * If Zakah was not computed and the market value increased or decreased after the ZDD; the due Zakah is still to be paid based on the market value determined on the ZDD.



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Agricultural Products

- * Everything that the land produces that can be eaten and stored is Zakatable (grains, beans, fruit, dates, vegetables, etc.)
- * Threshold is 647 kilograms (5 Wasaq)
- * Output from irrigated land: 5% of net value after deducting the costs (irrigation, fertilizer, operation expense, labor, etc.)
- * Output from non-irrigated land: 10% of gross value
- * No Zakah is due on the agricultural land itself

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Livestock: Ovine (Sheep, Lamb & Goat)

- * 1-39 none
- * 40-120 1
- * 121-200 2
- * 201-300 3
- * 301-400 4
- * Every 100 more Plus 1 per 100

Livestock: Bovine (Cows, Buffalo)

- * 1-29 none
- * 30-39 1 (Yearling)
- * 40-59 1 (2 years-old)
- * 60-69 2 (yearling)
- * 70 plus see special references



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Livestock: Camels

- * 5-24 (1 sheep for each 5 camels)
- * 25-35 (1 one year female camel بنت مخاض)
- * 36-45 (1 two years female camel بنت لبون)
- * 46-60 (1 three years female camel حقة)
- * 61-75 (1 four years female camel جذعة)
- * 76-90 (2 one year female camels بنتا لبون)
- * 91-120 (2 three years female camels حقتان)
- * 121- up (بنت لبون for each 40, and حقة for each 50)

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Zakah Recipients 1

- * **The poor (الفقراء):** Those who have insufficient resources (even if he has a high income!).
- * **The needy (المساكين):** Those lacking any resources.
- * **Zakah workers (العاملين عليها):** If Zakah administration is performed by non-governmental agencies, they must specify to Zakah-payers the percentage deducted for administrative fees.



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Zakah Recipients 2

- * Those whose hearts are to be reconciled (المؤلفة قلوبهم). This category includes:
 - New converts who suffer alienation after embracing Islam
 - Leaders who have an influence on their non-Muslim followers
 - Muslims who became estranged after standing upright in their faith
- * Being a Muslim is a condition for the eligibility for receiving Zakah under this category.

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Zakah Recipients 3

- * **Those in bondage (في الرقاب)** (slaves and captives): This is one of the ways Islam has stood against slavery.
- * **The debt-ridden (الغارمين)**: Under the following conditions:
 - The debtor must be in need for the financial aid. He does not have to be poor, but he must be unable to pay the debt off.
 - The debt was incurred because of lawful expenses
 - The debt is due immediately.



Zakah Recipients 4

- * In the cause of Allah (في سبيل الله)
- * Mainly for legitimate Jihad activities according to the vast majority of scholars
- * According to the Fiqh council of the Muslim World League in 1405 A.H.: Da'wa activities could be included in this category as deemed appropriate, especially in the west
- * Linguistically speaking, Jihad means exerting effort. So any lawful effort to propagate Islam is considered Jihad



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Zakah Recipients 5

- * **Wayfarer (ابن السبيل):**
- * Anyone stranded by circumstances, without access to money for basic needs
- * Refugees and political asylees and travelers are included

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Non-Zakah Recipients

- * The rich.
- * The work and earning capable
- * Devotees who refuse to work
- * Renouncers of Islam
- * Non-Muslims
- * Close dependant relatives: parents, grandparents, children, grandchildren, and the wife of the Zakah payer

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No Restriction in Distributing Zakah

- * No maximum amount to give to one recipient.
- * No obligation to distribute Zakah to all of the 8 categories
- * No obligation to give via cash money
- * No obligation even to give all poor people in the area
- * No annual distribution is required; paying on monthly basis is acceptable
- * Fairness and justice are always required

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Zakah Payment 1

- * Zakah year (الحوّل) starts once you reach the minimum threshold (نصاب)
- * Adjusting the ZDD is acceptable as long as you do not delay your Zakah intentionally
- * Delay in paying Zakah is prohibited unless there is a legitimate reason



Zakah Payment 2

- * Loosing the due Zakah out of delay in paying it for no legitimate reason does not waive the Zakah payer
- * If the Zakah due is lost because of some reasons beyond one's control, then it is waived

Zakah Payment 3

- * Pre-payment of Zakah is permissible
- * Unpaid Zakah for the past year is to be paid ASAP, and no one has the authority to waive it
- * Death does not relieve one from paying his Zakah. It has to be deducted from his estate before the legal heirs take their share

Zakah Payment 4

- * Zakah has to be paid in the same value, but does NOT have to be in the same kind of wealth

For instance, if one is paying Zakah on crops, the sum may be converted to money and paid

Essentials Making Zakah Payment Valid

- * Proper intention prior to the payment
- * Proper assessment (paying a minimum of the due Zakah)
- * Proper receipt: assuring that Zakah is transferred to the eligible recipients, either directly, or through a trustworthy agency



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Authority to Accept Zakah

- * Muslim government.
- * Trustworthy organizations
- * Muslim community (masjid, school, etc.)
- * Individuals

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Stipulation of the Zakah Collector

- * Muslim
- * Sane
- * Adult
- * Trustworthy
- * Efficient and capable
- * Does not accept gifts or bribes
- * Report and declare whatever he collects

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Rules for Distribution

- * Zakah payers have the right to restrict the use of their payments (making it only for orphans, widows, etc.)
- * If the trustee/agent can not comply with the restriction, he should get another approval from the payer to give it to another recipient, otherwise, it has to be returned back

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Transporting Zakah

- * The governmental agency has the right to spend the Zakah locally or nationally based on need
- * Other organizations should adhere to the Zakah payer's request
- * Individuals should distribute their Zakah locally, unless there are no recipients, or in case of pressing need overseas

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Zakah Calculation

| Line # | Line Item | Amt/Val (A) | Zakat, Rate (R) | Zakat Due (Z) |
|--------|--|------------------|-----------------|---------------|
| | PERSONALWEALTH | | | |
| 1. | Personal cash on hand and in bank accounts | \$.... | 2.5% | \$... |
| 2. | Total value of gold, silver and precious items | \$.... | 2.5% | \$... |
| 3. | Total value of stocks, shares and bonds | \$.... | 2.5% | \$... |
| 4. | Total value of retirement accounts and pension plans; IRA, Keogh, deferred income, 401(k), cash value of life insurance, etc. | \$... 2.5% \$... | 2.5% | \$... |
| 5. | Loans made to others and expect to be paid back | \$... | 2.5% | \$... |
| 6. | Other expected receivables such as estimated tax refunds, refundable deposits and salary or professional payments you are entitled to as of Zakat due date | \$.... 2.5% | 2.5% | \$... |



Zakah Calculation

| Line # | Line Item | Amt/Val (A) | Zakat Rate (R) | Zakat Due (Z) |
|------------------------|---|-------------|----------------|---------------|
| Business Wealth | | | | |
| 7. | Business cash on hand and in bank accounts | \$... | 2.5% | \$... |
| 8. | Net value of business inventory or any trade goods \$... 2.5% \$... | \$... | 2.5% | \$... |
| 9. | Total business receivables as of Zakat due date | \$... | 2.5% | \$... |
| 10. | Net income from business or exploited assets \$... 2.5% \$... during the year | \$... | 2.5% | \$... |
| 11. | Current value of real estate properties held for investment or sale \$... 2.5% \$... | \$... | 2.5% | \$... |
| 12. | Zakat Total: Enter A12 as the sum of 1 through 11 (A column). If A12 is less than Nisab, enter 0 in Z12. Otherwise, enter Z12 as sum of 1 through 11 (Z column) | \$... | 2.5% | \$... |



Zakah Calculation

| Line # | Line Item | Amt/Val (A) | Zakat Rate (R) | Zakat Due (Z) |
|--------|--|--------------|----------------|---------------|
| | Deductions | | | |
| 13. | Outstanding necessary debts | \$... A13 | 2.5% | \$... Z13 |
| 14. | Zakat paid in advance during the year | | | \$... Z14 |
| 15. | Total Deductions [Z13 plus Z14] | | | \$... Z15 |
| 16. | Remaining Zakat Due [Z12 minus Z15] | | | \$... Z16 |
| | | | | |
| | | | | |



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