

Your guide to
understanding and
calculating

ZAKAT



National Zakat
Foundation

National Zakat Foundation

Our aim

We have two principle aims:



1: Every pound of Zakat that should be paid by Muslims in the UK is paid accurately and appropriately.



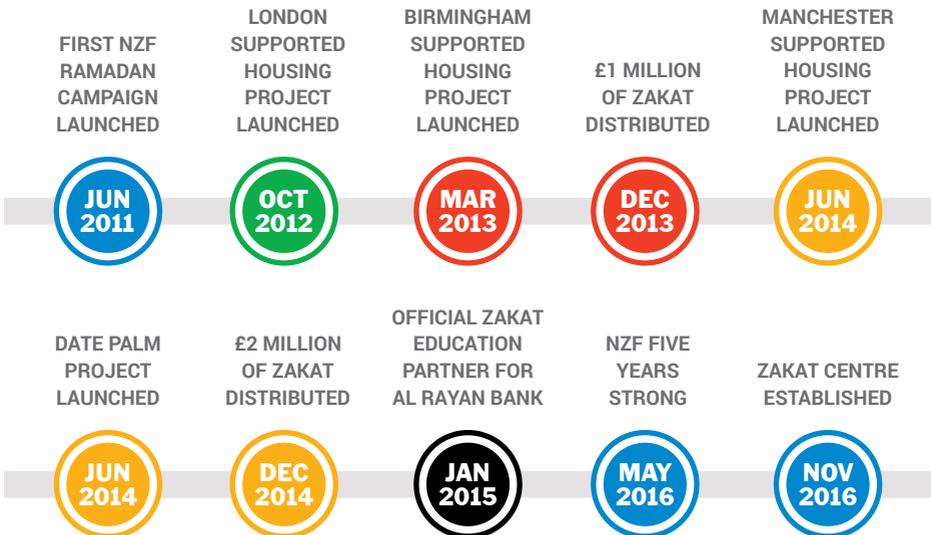
2: Those living in our midst who are eligible to receive Zakat are not forgotten and are supported in the most impactful way possible.

Some of the significant achievements of NZF

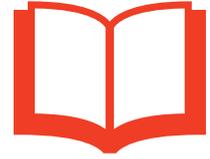


- 1 As of May 2017, **distributed over £5.6m** of Zakat funds within the UK.
- 2 Processed over 5,600 applications for hardship grants from individuals and families in the UK suffering from various forms of destitution.
- 3 Appointed **Imams and Scholars specialising in Zakat** to work full time with NZF to develop its services for Zakat payers.
- 4 Established four supported **housing projects for homeless women** (London, Birmingham and Manchester) **and prison leavers** (London).
- 5 Appointed the Zakat Education **Partner of Al Rayan Bank** for 2014 and 2015, and in 2016 appointed as its Zakat Services Partner, extending its services to Al Rayan customers to include Zakat calculation and collection in addition to education.
- 6 Delivered the World Islamic Economic Forum's first formal session on the subject of Zakat in 2014.
- 7 Helped launch the NZF model successfully in Australia and Canada.

Timeline of achievements



Zakat education



What is Zakat?

Linguistically, Zakat is associated with purification and growth.

In Islamic law, Zakat is a compulsory act of worship that requires Muslims who own wealth at or above a certain threshold (called the Nisab) to donate a portion of that wealth, typically 2.5%, to those who are eligible. It is a right the poor have over the rich.

Zakat in the Qur'an and the Sunnah

The word Zakat is mentioned thirty-two times in the Qur'an.

In thirty from these thirty-two, Zakat is in its technical meaning of paying Zakat. From these thirty, Zakat has been interlinked with Salat, the obligatory prayer, twenty-eight times. This interlinking in the Qur'an highlights the connection between the first, second and third pillar of Islam. It is on this common theme and thread that the great scholar Imam Al-Iraqi stated that whoever performs these three pillars with diligence, he will be able to perform fasting during Ramadan and Hajj easily. The renowned hadith scholar Al-Kirmani commented that Salat and Zakat have been paired together multiple times due to their universal nature and significance.

Paying Zakat has been associated to several physical and metaphysical benefits in the Qur'an. For example:

"My Mercy extends to all things. That (Mercy) I shall ordain for those who have God-consciousness and give their Zakat and those who believe in Our Signs."

(Qur'an, 7:156).

Just like the Qur'an makes multiple references to Zakat, there are multiple Hadith (prophetic narrations) which discuss Zakat. For example:

Abdullah Ibn Abbas (may Allah be pleased with him) narrates:

*“The Prophet sent Mu`adh to Yemen and said, “Invite the people to testify that none has the right to be worshipped but Allah and I am Allah’s Messenger, and if they obey you to do so, then teach them that Allah has enjoined on them five prayers in every day and night (in twenty-four hours), and if they obey you to do so, then teach them that **Allah has made it obligatory for them to pay the Zakat from their property and it is to be taken from the wealthy among them and given to the poor.**” (Al-Bukhari)*

A virtue on Zakat

*“The example of **those who spend their wealth in the way of Allah** is like a seed [of grain] which grows seven spikes; in each spike is a hundred grains. And **Allah multiplies [His reward]** for whom He wills. And Allah is all-Encompassing and Knowing.” (Qur’an, 2:261)*

An admonition on Zakat

“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 male snake with two black spots over the eyes. The snake will encircle his neck and bite his cheeks and say, ‘I am your wealth, I am your treasure.’ “Then the Prophet recited the verses: -- ‘Let not those who withhold . . .’ (to the end of the verse). (Qur’an, 3.180). (Al-Bukhari)

The power of Zakat



Zakat is more than just a tool of poverty alleviation and purification of wealth; it is one of the foundational pillars of Islam and a macro-micro element for success.

Until these pillars are not uplifted again, we cannot expect success at any level. The prophetic narrations highlight poverty as a common cause of disbelief. Zakat is a spring which elevates the faith of the economically disadvantaged. Along with the other pillars of Islam, Zakat has the power to uplift and support the sustainable development of an entire nation. Zakat strengthens faith and empowers society to prosper spiritually, economically and socially.

Islam encourages Muslims to seek halal employment and take part in entrepreneurial activity, but for commerce to benefit society, Islam places several obligations on those involved in wealth creation. Amongst these is the obligation of Zakat.

Scholars state that the giving of Zakat has both an outer and an inner dimension.

- The inner dimension suppresses the ego, helping Muslims to overcome tendencies such as selfishness and miserliness.
- The outer dimension involves the purification of a Muslim's wealth and helping those in need.

Zakat calculation

Who pays Zakat?



Those required to pay Zakat must be:

- **Adult** (have reached puberty)
- **Muslim** (Zakat is not paid by non-Muslims)
- **Sane**

Please note that the three schools of jurisprudence other than the Hanafi school state that Zakat should be paid on qualifying wealth owned by those who do not have mental capacity and children.

What are the conditions relating to wealth?

An asset must fulfil the following criteria to qualify as a Zakatable asset:

- 1) **Complete ownership of the asset**
- 2) **The asset is productive (intrinsically or extrinsically)**
- 3) **The wealth is equivalent to Nisab or more**
- 4) **A whole lunar year passes after possessing Nisab**

Complete ownership of wealth

Complete ownership refers to having ownership and the ability to benefit from a Zakatable asset. It is not necessary to have direct possession; one may have indirect possession such as having cash deposited in the bank or money kept with a relative. This is agreed upon by the mainstream schools of jurisprudence.

Asset is productive

Zakat is binding on wealth which is productive according to all four schools of jurisprudence.

Productivity in terms of Zakat refers to the potential of an asset to grow and increase. Productivity of an asset can be intrinsic as is the case with gold, silver and cash. Productivity can be activated by an intention to trade when purchasing stock or investing into Zakatable assets. And finally, productivity can be established through the breeding of flock.

Besides these three causes, the Sharia has not recognised any other cause of productivity. Personal assets and belongings which may appreciate will not be Zakatable despite growing in value as they are not productive wealth in Zakat terms.

The wealth is equivalent to Nisab or more

For the payment of Zakat to be obligatory, it must equal or exceed the Nisab threshold on the Zakat anniversary.

A whole lunar year passes after possessing Nisab

After owning Nisab for the first time, Zakat is obligatory after the passing of one lunar year. Thereafter, Zakat will be due every year on the same date if the qualifying conditions are found. It is not necessary for a year to pass on every single Zakatable asset, rather, the same Zakat anniversary will be used for other Zakatable assets such as gold, silver, cash and business stock acquired during the year.

What is Nisab?

Nisab is the minimum threshold of wealth a person must own at which Zakat becomes payable.

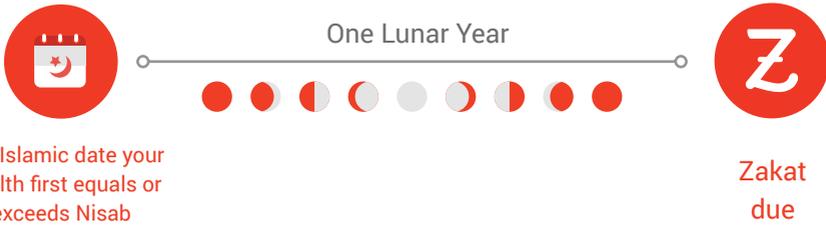


The Nisab was set by the Prophet Muhammad (peace be upon him) at a rate equivalent to: 87.48 grams of gold 612.36 grams of silver. These equate to approximately £2,780 and £285 respectively (February 2017).

When is Zakat paid?

Zakat is an annual obligation due once every lunar year. Your Zakat year starts on the date your wealth first equalled or exceeded the Nisab. Zakat should then be calculated and paid after one lunar year has passed and every year thereafter on that date.

If you cannot remember the date you first became owner of the Nisab, then the date should be estimated. If this is not possible, then a specific Islamic date should be selected arbitrarily and adhered to annually.



According to the Hanafi school, it is not necessary to own Zakatable assets above the Nisab for the entire lunar year. Zakat will be payable as long as one owns wealth equalling the Nisab on the Zakat anniversary. Fluctuations of wealth during the year will be overlooked, unless any fluctuations reduce a person to zero in terms of net wealth or below zero and in debt.

However, the Shafi'i and Hanbali school condition that Zakat is only payable if one owns wealth equal to the Nisab or more for the entire year. Therefore, if one's net wealth dips below the Nisab in the year, Zakat will not be due anymore for that year.

How do I calculate my Zakat?

Our calculator below will allow you to easily work out your Zakat payment. You can also visit www.nzf.org.uk/calculator to make your calculation online.

Part **A** Deals with your Zakatable assets

Part **B** Deals with your liabilities that can be deducted

Part **C** Deals with the final calculation

Part **A** — Zakatable assets



1: Gold and silver

Gold and silver, in whichever form (jewellery, coin, ingots etc.) are subject to Zakat.

The Hanafi school treats all gold and silver jewellery as Zakatable, regardless of whether it is worn or stored. However, the other schools of Fiqh believe that gold and silver for personal use are exempt from Zakat.

If a person has jewellery made from a mixture of metals, then the gold/silver content is Zakatable regardless of the ratio of gold/silver.

For your Zakat calculation, gold and silver can be valued at its current scrap value. Your local gold jeweller can determine this for your gold and silver assets. Alternatively, you may use today's live gold and silver price in grams online – this is known as the universal measurement. However, these prices are generally for new gold and may be more than the actual worth of your scrap gold.

The value of all the gold in my possession is: £ .

The value of all the silver in my possession is: £ .



2: Cash and receivables

Any cash in ownership on one's Zakat anniversary is Zakatable.

Cash includes all income earned whether salaries, benefits or rental. Cash kept in a bank account, wallet or under the mattress all qualify for Zakat. Cash and receivables are Zakatable at their respective nominal value. Irrespective of the cash earned and spent throughout the year, only the remainder on the Zakat anniversary is Zakatable.

Receivables, or money owed to you, can be divided into two common categories: strong and weak.

Strong receivables include:

- Money which you have given to others to borrow
- Outstanding balance from the sale of commercial goods

Zakat must be paid for every year a strong receivable is outstanding. One may pay Zakat before receipt of the strong receivable. However, if one did not pay, upon receipt, they must pay Zakat for all previous years.

Weak receivables include:

- Outstanding invoices for the sale of personal items
- Outstanding wages, fees, remuneration of services
- Outstanding Mahr (Dower) owed to the wife
- Outstanding inheritance shares

Zakat is not binding on weak receivables for the years they are outstanding.

My total cash amount is:

£ .

The value of my liquid assets minus interest is:

£ .

Impure wealth

Zakat is not paid on impure and unlawful income. In other words, 2.5% is not given as Zakat on unlawful income, instead, the entire amount (100%) of the unlawful income must be dispensed in charity without any expectation of reward.



3: Business assets

Stock and inventory are Zakatable.

All stock should be valued at retail price on one's Zakat anniversary and not at cost price.

For manufacturing companies, work in process and raw materials should be priced and valued in their current state. A price should be estimated as much as possible for such products, however, if an estimation is not possible, the work in process and raw materials can be valued at the cost price as a last resort.

Dead stock is also Zakatable. This should be valued at what it is currently worth.

Undelivered stock is also Zakatable. This should be valued according to the price in its current location.

My total cash amount is:	£	.
The total value of finished goods for sale is:	£	.
The total value of work in progress and raw materials is:	£	.
The total value of money owed to the business that I am confident will be repaid is:	£	.

See our Zakat on Business Guide for more information



4: Investments

Shares, unit trusts & equity investments

If shares are purchased with the intention to resell, then the entire shareholding is Zakatable at the current market value.

However, if shares are purchased as a long-term investment to generate dividends, then Zakat is only due on the net Zakatable assets of the company. This can be calculated from the company's annual balance sheet. Any dividends received should be added to one's cash balance for Zakat purposes.

The total value of the Zakatable portion my shares, unit trusts and equity investments is: £ .



5: Pensions

Defined contribution pension schemes during contribution phase

Defined contribution schemes are Zakatable whilst working and contributing into the pension investment whereas defined benefit schemes are not.

For defined contribution schemes, Zakat is only due on the Zakatable assets in the pension fund.

Zakat is calculated by determining the value of Zakatable assets in proportion to your total pension fund value.

If the portfolio consists only of equities, NZF advises to take 40% of the current market value of the portfolio as a proxy and then pay 2.5% of this figure.

Rental property in a pension fund is not Zakatable regardless of the percentage.

The total value of the Zakatable portion of my pension is: £ .

See our Zakat on Pensions Guide for more information

My total Zakatable assets = £ .

Part **B** — Liabilities

Sharia has permitted certain debts to be subtracted from one's gross value of Zakatable assets in a Zakat calculation.



Deductible debts:

1: Debts payable in full within 12 months

Incurred expenses to be settled in full within 12 lunar year can be deducted from one's Zakat calculation.

2: One year's instalments of long term liabilities

If the debt is scheduled to be repaid over a number of years, on the Zakat anniversary, one may deduct one year's worth of instalment repayments.

3: Arrears

All arrears and overdue payments can be deducted from one's Zakat calculation.

4: Personal loans from relatives and friends

The entire outstanding amount can be deducted.

5: 12 months of bank loans

The capital repayment due for the forthcoming lunar year from a long-term bank loan can be deducted. Any interest element is prohibited and cannot be deducted.

Non-deductible debts:



1: Future expenses and bills

Expenses not incurred yet but will incur in the future cannot be deducted at present. For example, next month's rent or next month's utility bills cannot be deducted right now.

2: Not payable at all in the next 12 months

A long-term debt which is not due to be repaid now or in the next 12 months cannot be deducted right now. For example, despite the scholarly debate on the impermissibility of conventional student loans, a student who did take out a student loan cannot deduct the debt during his studies as that is not currently payable.

3: Unlawful income

Despite the explicit prohibition in the Qur'an and Sunnah of dealing with interest, if a person still engaged in interest dealings and had to pay interest, the interest amount cannot be deducted. The interest money must be dispensed in charity or to public welfare projects as a relinquishment of unlawful wealth and not as a rewarding act.

Personal liabilities



My outstanding or overdue basic living expenses that have not yet been paid for add up to:	£	.
The forthcoming year's non-interest portion of my long-term debt is:	£	.
My personal debts add up to:	£	.
Money that I owe to third parties for completed purchases adds up to:	£	.
Outstanding dowry owed and intended to pay is:	£	.

Business liabilities



The total value of rent, bills and salaries outstanding or overdue is:	£	.
The total value of outstanding short-term commercial loans is :	£	.
The next year's non-interest portion of long-term business debt is:	£	.
The total value of goods purchased on credit is:	£	.

My total liabilities =

£ .

Part © — Final calculation

My net Zakatable assets are

$$\text{£ } A - \text{£ } B = \text{£ } C$$

Take the total value of your Zakatable assets and subtract the total value of deductible liabilities. If the resulting figure equals or exceeds the Nisab (minimum threshold on that day), you must pay Zakat, which is 2.5% of this figure.

Sharia compliance of your Investments



The Qur'an and Sunnah command that one's investments are Sharia compliant. Many pension funds are invested in non-Sharia compliant assets and equities.

Profits from non-Sharia compliant investments are unlawful and must be dispensed in charity without any intention of reward. Therefore, if you have a non-Sharia compliant pension fund, we strongly encourage you to move your funds to a Sharia compliant portfolio and consider possible purification of your investments.

Conventional mortgages



Riba has been explicitly prohibited in the Qur'an and Sunnah. A Muslim should seek Sharia compliant banking and financing. If a Muslim engaged in an interest-based mortgage transaction, along with genuine repentance and trying one's best to transfer to a Sharia compliant mortgage, the Zakat treatment in the interim is as follows:

Capital repayment mortgage and amortisation loans

Only the capital repayments in the forthcoming lunar year can be deducted. The interest element cannot be deducted.

Offset mortgage

Savings kept in an offset mortgage account are Zakatable. Furthermore, only the capital repayments in the forthcoming lunar year can be deducted. The interest element cannot be deducted.

Interest-only mortgage

None of the repayments are deductible whilst interest is solely being paid.

Case study

ZAKATABLE ASSETS	Value (£)	Zakat Treatment
Gold	1000	Zakatable at the current value of the gold
Cash	500	Zakatable at nominal value
Receivables	500	Zakatable at nominal value
Shares as investment	1000	Non-Zakatable
Pension (defined contribution scheme in equities only)	5000 (only £2000 Zakatable)	Zakatable at 40% of value (£2000)
GROSS ZAKATABLE ASSETS	4,000	

LIABILITIES	Value (£)	Zakat Treatment
Outstanding rent	1000	Deductible
Council tax	1200	Deductible
Private loan	50	Deductible
Broadband	50	Deductible
Interest	100	Non-deductible
TOTAL DEDUCTIBLE LIABILITIES	3,200	

NET ZAKATABLE ASSETS	800
ZAKAT DUE AT 2.5%	20

FAQs on paying Zakat



When should Zakat be paid?

The four mainstream schools of Islamic jurisprudence, namely, the Hanafi, Shafi'i, Maliki and Hanbali schools are all in agreement that the payment of Zakat is due immediately upon become obligatory.

Zakat is an immediate obligation as Allah has instructed us to pay immediately in the following verse: ***"And give its due on the day of its harvest."*** (Qur'an, 6:141)

Can I give items instead of cash as Zakat?

Zakat can be paid in kind according to the Hanafi school, whilst other schools either reject this entirely or allow it in some circumstances and not others or allow it with a degree of reprehensibility.

If a person pays Zakat in kind, he must ensure he values the assets correctly to cover his Zakat liability. Thus, a businessman may pay Zakat by giving stock, however, he must accurately determine the value of the item to ensure the Zakat liability is covered.

Can Zakat be prepaid and in advance?

Zakat can be paid in advance before one's Zakat anniversary. The wisdom behind this is to encourage people to increase in worship and capitalise on blessed times like Ramadan or the first ten days of Dhul Hijjah.

If a person does pay Zakat in advance, it is still necessary to make a Zakat calculation on one's Zakat anniversary to ensure the advance payments offset the actual Zakat liability.

Where should Zakat be distributed?

It is preferred to give Zakat locally if deserving recipients exist. This is based in part on the instruction that the Messenger of Allah (peace be upon him) gave to his companion, Mu'adh, who was sent to spread the message of Islam in Yemen, ***"O Mu'adh! Inform them that Allah makes Zakat obligatory for them, (it is) to be taken from their rich and given to their poor."*** (Al-Bukhari)

At the same time, scholars allow for the distribution of Zakat to places where there is significant need. As Muslims living in the UK, it is important that we balance our giving between local and international causes, bearing in mind that our collective accountability for the poor and destitute within the UK is paramount and must not be forgotten. The number of those eligible to receive Zakat in the UK is increasing and such individuals have a right to the support of UK Zakat payers.

It is highly rewarding and preferred to assist one's eligible siblings or eligible relative with Zakat.

Who receives Zakat?

The Qur'an (9:60) specifies eight categories for the distribution of Zakat:



1. The poor



2. The needy



3. Those employed to administer Zakat



4. Those whose hearts are to be reconciled



5. Those in slavery



6. Those in debt



7. In the way of Allah



8. The destitute traveller

The common recipients today are the poor, needy and those in debt.

The poor & needy

The poor and needy are defined as those whose Zakatable assets are valued below the Nisab level and whose surplus non-Zakatable assets are also valued below the Nisab level. Surplus assets are defined as any non-Zakatable assets that are never used.

Those in debt

Zakat may be given to those in debt. A debtor is a person whose deductible liabilities exceed their Zakatable and surplus assets.

Services and products of NZF

1: Call

03333 123 123

Monday - Friday: 9.30am - 5.30pm

Consult our qualified Zakat scholars for any of your Zakat related queries.



2: Email

Email: zakatquery@nzf.org.uk

Receive a quick response from our qualified Zakat scholars to your query.



3: Workshops

Book a Zakat training workshop for at your workplace, local masjid or business to understand this communal phenomenon of Zakat collectively.



4: Zakat review for your business and finances

Join our clientele list to have confidential and bespoke Zakat calculation services on your Zakat anniversary by our qualified Zakat scholars.



Free products available at NZF:

- 1) Missed Zakat Guide
- 2) Business Zakat Guide
- 3) Zakat on Pensions

Did you find this guide useful? Visit: zakatguide.co.uk/feedback



**National Zakat
Foundation**

The complete service for Zakat payers

www.nzf.org.uk

03333 123 123 | info@nzf.org.uk



Learn



Calculate



Pay