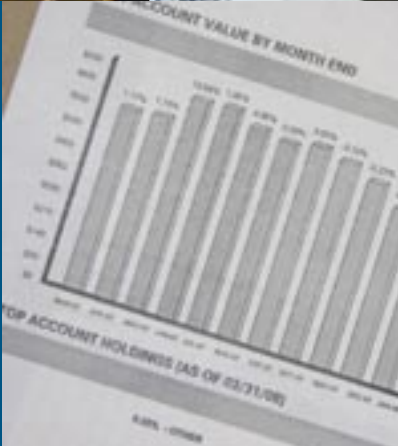


A Brief Guide to Zakat (Alms)



Hidaya Foundation

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A Brief Guide to Zakat

What is Zakat (Alms)?

Zakat is an obligatory act ordained by Allah, the Almighty Creator, to be performed by every adult Muslim. Zakat is:

1. An important pillar among the five pillars of Islam.
2. A form of Sadaqah (charity) which is obligatory on Muslims; it is an act of Ibadah (worship) and not a tax.
3. Levied on specific assets only, identified by Shariah (Islamic Law) as assets having the potential for growth.
4. The compulsory transfer of ownership of a portion of the property of the giver, calculated at the rate of 2.5%, to poor and needy Muslims who qualify to receive Zakat according to the Shariah.
5. Calculated according to the lunar calendar on the market value of the Zakat-able assets after deducting specified liabilities.

With regard to calculations (and specific information throughout this document), we have followed the opinion of the Hanafi school of thought. Information on other schools of thought may be found by researching Fiqh (Islamic jurisprudence) books, or consulting your local scholars.

What is the meaning of Zakat?

The literal meaning of Zakat is "to be clean, to grow, to increase." It comes from the root letters za, kaf, ya, which has several meanings: to be clean [Al-Quran Chapter 24: Verse 21, Chapter 23: Verse 4], to pay the obligatory charity [Al-Quran 2:43], to be pure, innocent [Al-Quran 19: 19, 18:74] to be better in purity [Al-Quran 18:81, 19:13], and to praise oneself, to justify [Al-Quran 53:32]. It has been used in Al-Quran to mean all of these things.

Why should I pay Zakat?

Allah (SWT) commands in Al-Quran, "Take alms out of their property, you would cleanse them and purify them thereby, and pray for them; surely your prayer is a relief to them; and Allah is Hearing, Knowing." [Al-Quran 9:103]

Narrated Ibn 'Umar: Allah's Apostle (PBUH) said: Islam is based on (the following) five (principles): To testify that none has the right to be worshipped but Allah and Muhammad is Allah's Apostle; to offer the (compulsory congregational) prayers dutifully and perfectly; **to pay Zakat (i.e. alms)**; to perform Hajj. (i.e. Pilgrimage to Makkah), and to observe fast during the month of Ramadan. (Sahih Al-Bukhari, Vol.1, Book 2, No.7).

What if I don't pay Zakat?

Allah (SWT) has strongly warned those who are negligent in paying their Zakat. Thus He said in Al-Quran, "Those who hoard up treasures of gold and silver and spend them not in the way of Allah; give them the news of a painful punishment, on the Day when that (wealth) will be heated in the Fire of Hell and with it will be branded their forehead, their sides, and their backs, (and it will be said to them:) 'This is the treasure which you hoarded for yourselves. Now taste of what you used to hoard.'" [Al-Quran 9: 34-35]

Further, on the authority of 'Ali, that the Prophet (PBUH) said: "Allah has enjoined upon rich Muslims a due to be taken from their properties corresponding to the needs of the poor among them. **The poor will never suffer from starvation or lack of clothes unless the rich neglect their due.** If they do, Allah will surely hold them accountable and punish them severely." (related by At-Tabarani in Al-'Aswat and as-Saghir).



Who Must Pay Zakat?

For people to pay Zakat they must meet the following criteria:

1. The person should be Muslim, adult, sane, free (not a slave).
2. They must possess a certain minimum amount of extra wealth (called nisab), fully owned by them, in excess of items of personal use (such as clothing, food, shelter, household furniture, utensils, cars, etc.)
3. They should have had this minimum amount in possession for a complete lunar year (hawl).
4. The wealth should be of a productive nature, from which they can derive profit or benefit such as merchandise for business, gold, silver, livestock, etc.
5. The minimum amount of extra wealth (or Nisab) should not be owed to someone, i.e., it should be free from debt.

What About Zakat that I have Not Paid in the Past?

Ibn 'Abbas reported: A woman came to the Messenger of Allah (PBUH) and said: My mother has died, and fasts of a month are due from her. Thereupon he (PBUH) said: Don't you see that if debt was due from her, would you not pay it? She said: Yes (I would pay on her behalf.) Thereupon he said: The debt of Allah deserves its payment more than (the payment of anyone else) (Sahih Muslim, Book 6, No. 2554).

Thus, scholars deduce from the above hadith that any missed Zakat must be paid immediately to the deserving.

When is Zakat Due?

A complete year in the Islamic calendar should pass, starting from the very day of the nisab's possession, without any decrease below nisab during the year. In case of its decrease (being less than nisab), the year cycle (hawl) starts from the day of the nisab completion. Zakat should be given as soon as possible after it becomes due. It is possible that death may occur and thus lead to failure in fulfilling one's obligations. If a person dies before paying Zakat, then it must be taken from his/her estate.

What are the Important Principles in Identifying Assets Subject to Zakat?

Gold, silver, cash, and other items are subject to Zakat. Any other asset will only become subject to Zakat if it was acquired or purchased with the clear intention to resell. For example:

A person buys a house which is normally exempt from Zakat, with the intention of reselling the house at a profit, then the market value of the property, calculated at the end of the relevant Zakat year, will be subject to Zakat.

On the other hand, if the immovable property was purchased as an investment (to hold as capital) and not to resell, then the value of the asset is exempt from Zakat. 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 decides or intends to sell it for profit will not alter the character of the asset for Zakat purposes and the asset remains exempt from Zakat.

What Things Require Paying Zakat on Them?

Gold and Silver: Asma bint Yazid reported: "My aunt and I, while wearing gold bracelets, went to the Prophet (PBUH). He asked: 'Did you pay their Zakat?' She related that they had not. The Prophet (PBUH) said: 'Do you not fear that Allah will make you wear a bracelet of fire? Pay its Zakat.'" [Narrated by Ahmad (6:461) with a good chain, as Haythami declared in Majma' al-zawa'id (3:67)]

Furthermore, Aisha narrated: "The Messenger of Allah (PBUH) came to me and saw me wearing silver rings, whereupon, he asked: 'What is this, Aisha?' I replied: 'I made them to adorn myself for you, O Messenger of Allah.' He said: 'Did you pay their Zakat?' I said: 'No, or what Allah wishes.' Then he said: 'Their punishment in Hell is enough for you.'" (Narrated by Abu Dawud in his Sunan with a strong chain, Daraqutni in his Sunan, and Baihaqi in his Sunan (4:140))

Gold and silver, whether in the form of

jewelry or otherwise, will always be subject to Zakat provided their respective weights exceed the nisab amount. According to scholars, nisab for gold is 20 mithqal (~87.49g), and the nisab for silver is 200 dirhams (~613.35g).

	Nisab	Grams	Ounce	Troy oz
Gold	20 mithqal	87.49	3.086	2.8125
Silver	200 dirhams	613.35	21.635	19.6875

The prices of gold and silver vary everyday in international markets. On June 30, 2008, the price of gold was approximately \$29.74/g and for silver was \$0.55942/g, hence the nisab for gold is approximately \$2,601.95 (\$29.74 x 87.49g) and the nisab for silver is approximately \$343.12 (\$0.55942 x 613.35g).

Zakat on gold will be according to the gold content in the jewelry (i.e. karats) and its value in the international market. Hence when calculating the value of your gold, you must consult a jeweler for the correct value (depending on the content and weight). Similarly, any stones in the gold are not Zakat-able.

Cash: The amount of cash held, whether in a bank or personally on hand, at the end of the relevant Zakat year will always be subject to Zakat. Moneys lent and advanced are, for Zakat purposes, treated as cash and Zakat must be paid on such loans each year.

The **Nisab** for cash is equivalent to the value of gold or silver (whichever is less). At present Nisab of silver is less, so cash may be calculated according to silver. All the values of Zakat-able assets for the sake of calculation are converted into cash, and based on the fact that nisab is calculated according to the nisab of silver, which, on June 30, 2008, was \$343.12.

Other items which **require** paying Zakat include:

Stocks, Mutual Funds, Stock Option, Employee Stock Purchase Plan, Business Merchandise Inventory, Private Companies, Corporations and Partnerships, Retirement Plans (401K, IRA, etc.), Real Estate Investments in Property Owning Companies, Accounts Receivable, Profits from Investments, Trusts, Long-Term Insurance (Life Insurance), Lump Sum Payments in Terms of Compulsory Pension and Provident Funds, Severance

Package, Income Tax, Liabilities which may be deducted, Buried Precious Metals or Minerals (Rikaz), Livestock (including Cows, Sheep, Camels), Agricultural Produce

To learn how to calculate Zakat for stocks, stock options and other modern day assets, visit www.hidaya.org/zakat.

What things do not require paying Zakat on them?

The money that does not reach the amount of Nisab, servants, horses, mules, donkeys, any property that is not used for business purposes, any products that are not of a productive nature, even if they are in excess of one's needs (cars, utensils, etc.), provided they are not intended for trade and deposits.

What is the Principle of Joinder of Acquisition in the Same Class?

The general principle is that one year must elapse over the Zakat-able property in order to render it liable to Zakat. This is subject to a qualification: where a person has Nisab of a particular class of Zakat-able property and during the course of the Zakat year acquires property of the same class from any source whatsoever, then the property so acquired is added to the existing Zakat-able property of the same class and Zakat is payable on the whole, or the remainder thereof, at the end of that Zakat year without calculating a separate Zakat year for each such separate acquisition. For example, a person has cash of \$5,000 and during the course of the Zakat year receives a further sum of \$10,000 by way of a gift. He must pay Zakat on the sum of \$15,000 at the end of that Zakat year. (See Figures 1, 2, and 3 as examples.)

Who should receive Zakat?

There are eight groups of people on whom Zakat should be spent, as mentioned in Al-Quran: "The alms are only for the Fuqaraa (the poor), and the Masakeen (the needy) and those employed to collect (the funds); and to attract the hearts of those who have been inclined (towards Islam); and to free the captives; and for those in debt; and for Allah's Cause, and for the wayfarer (a traveler who is cut off from everything); a duty imposed by Allah. And Allah is All-Knower, All-Wise." [Al-Quran 9:60]

1. **Fuqaraa:** Those who own property in excess of basic necessities but below the value of Nisab
2. **Masakeen:** Persons of extreme poverty who possess no wealth whatsoever
3. **Aamileen:** (Zakat collector) According to Scholars, those persons who are appointed by an Islamic Government to collect Zakat. It is not necessary that this be a needy person
4. **Muallafatul Quloob:** Those poor and needy persons who are given Zakat with the intentions of solidifying their hearts because they maybe recently converted to Islam or to bring them closer to Islam
5. **Ar-Riqaab:** slaves whose masters have agreed to set them free on a payment of a fixed amount, Zakat may be used to purchase their freedom
6. **Al-Ghaarimeen:** A person whose debts exceed his assets and his net assets (after deducting his liabilities) is below the Nisab limit
7. **Fi Sabeelillah:** Those who are away from home in the path of Allah
8. **Ibnus-Sabeel:** A traveler, who, whilst wealthy at his residence, is stranded and in need of financial assistance

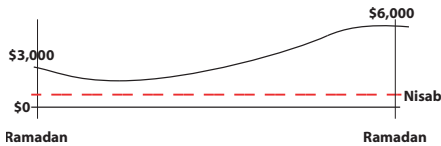


Figure 1

In this graph, \$3,000 is the amount of wealth owned in Ramadan. This amount exceeds nisab (calculated according to the nisab of silver.) During the year it decreases but does not go below nisab. In this case, Ramadan will be counted as the beginning of the relevant lunar year and Zakat will be due on the amount of wealth in possession during next Ramadan, which is \$6,000.

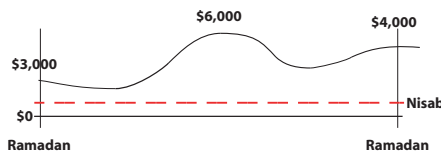


Figure 2

In this graph, \$3,000 is the amount of wealth owned in Ramadan. This amount exceeds nisab. During the year the amount decreases, then increases to \$6,000. Then, wealth decreases again before increasing to \$4,000. Despite these fluctuations, the amounts do not go below nisab. Hence, the relevant Zakat year will begin in Ramadan and Zakat will be due on the amount of wealth in next Ramadan, which is \$4,000.

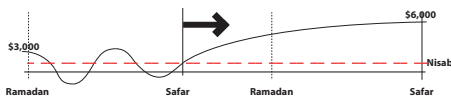


Figure 3

In this graph, \$3,000 is the amount of wealth owned in Ramadan, which exceeds nisab. During the year it fluctuates - sometimes going below or above nisab. The individual's relevant lunar year however only begins once the wealth goes above nisab in the month of Safar and remains above that for one complete year until next Safar. Hence, Zakat will be due in Safar on the complete amount, which is \$6,000.

References for this information and more in depth coverage about Zakat are available on our website: www.hidaya.org/zakat



Hidaya Foundation

Our Mission

To implement educational, social welfare and health care programs in economically depressed areas of South Asia, West Africa and North America, while focusing on projects which promote self-employment.

How to Calculate your Zakat?

The calculator below is based on 2.5% of the total net worth that is available at the end of one lunar year. For a detailed Zakat Calculator visit www.hidaya.org/zakat.

Total Gold Value (without jewels)	\$
Total Silver Value (without jewels)	\$
Cash on hand	\$
Checking Account	\$
Saving Account	\$
Business Bank Account(s)	\$
Stocks	\$
Mutual Funds	\$
Business Merchandise Inventory	\$
Retirement Plans (401K/IRA/etc.)	\$
Real Estate (excluding personal residence)	\$
Accounts Receivable	\$
Other funds (profits, trust accounts, partnerships, etc.)	\$
Sub Total	\$
Less deductible liabilities only	\$
Total	\$
Total x 0.025 (Zakat you have to pay)	\$

How Hidaya Distributes Zakat

Hidaya Foundation collects and distributes Zakat donations for various projects per Shariah (Islamic Law) guidelines and as instructed by donors.

Zakat funds are used to support orphans, widows, poor elderly, families in extreme poverty, poor girls for marriages, deserving students, medical patients and disaster affectees.

The projects where Zakat donations are utilized are No Orphan without Education, Water Hand Pump for homes, Marriage Support for Girls, One Million Meals, Sponsor a Student, Medical Assistance, Medical Camps, and Disaster Relief.

It is better for an individual to pay his/her Zakat directly to deserving people, if possible. If not, then they may assign the responsibility to a trustworthy individual or organization. It is the individual's responsibility to ask questions from whomever distributes their Zakat regarding what kind of people their Zakat is being distributed to, how and why they are selected, etc. Remember, Zakat is obligatory on every Muslim and if it is given to the wrong person, the obligation may not be fulfilled. Zakat can only be given to people who do not have Nisab and who do meet the criteria according to Chapter 9, Verse 60 in the Holy Quran.

Contact Us

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