

ZAKAT MADE EASY

Learn, Calculate & Pay your Zakat



MUFTI FARAZ ADAM



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ZAKAT MADE EASY

Everything you need to know about
Calculating Zakat

Mufti Faraz Adam



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Table of Contents

PREFACE	1
CHAPTER ONE: WHAT IS ZAKAT?.....	1
INTRODUCTION TO ZAKAT	1
MEANING OF ZAKAT.....	7
ZAKAT VS RIBA	10
ZAKAT AS AN ECONOMY.....	24
POTENTIAL GLOBAL ZAKAT POOL.....	25
INCOME INEQUALITY AND ANTI-SOCIAL BEHAVIOUR.....	28
THE POVERTY LINE.....	31
ZAKAT IN THE QUR'AN.....	32
COMMAND TO PAY ZAKAT.....	42
THE RULING OF ZAKAT	43
CHAPTER TWO: CONDITIONS OF ZAKAT OBLIGATION.....	44
INTRODUCTION.....	44
CONDITIONS RELATING TO THE ZAKAT PAYER.....	45
1. Islam	45
2. Adolescence	45
3. Mental capacity	46
4. Knowledge.....	47
CONDITIONS RELATING TO WEALTH	47
1. Ownership.....	47

2. Possession.....	48
3. Productive Wealth	50
4. Nisab.....	51
5. Passing of a lunar year.....	55
ZAKAT CALCULATION FORMULA.....	56
CHAPTER 3: PERSONAL ZAKAT CALCULATION	57
1. MONEY.....	57
2. RECEIVABLES	60
3. GOLD AND SILVER.....	62
4. NON-ZAKATABLE ASSETS	65
CHAPTER 4: INVESTMENT ZAKAT CALCULATION.....	67
INTENTIONS AND INVESTMENTS.....	67
ZAKAT TREATMENT OF VARIOUS ASSET CLASSES.....	73
1. Shares and Stocks	74
2. Private Equity and Start-Ups.....	82
3. Bonds.....	84
4. Sukuk.....	86
5. Pensions.....	90
6. Investment Land.....	97
7. Investment Property	98
8. Mutual Funds.....	99
9. Exchange-Traded Funds.....	100
10. Exchange-Traded Commodities.....	101
11. REIT Funds.....	102
12. Unit Trusts	103
13. Crypto-assets	104
14. Non-Fungible Tokens.....	109

15. Collectibles	110
16. Commodities Investing	111
17. Precious Metals.....	112
18. Options	113
19. Forwards.....	114
20. Futures.....	115
21. Swaps	116
22. Forex	117
23. Contracts for Difference.....	118
CHAPTER 5: BUSINESS ZAKAT CALCULATION.....	120
INTRODUCTION.....	120
Financial statements/Accounts.....	121
1. Profit and Loss Account (income statement).....	121
2. Cash Flow Statement.....	122
3. Statement of Retained Earnings.....	122
4. Balance Sheet.....	123
CONSIDERATIONS WHEN USING A BALANCE SHEET	123
1. <i>Hawl</i> and the Fiscal/Financial Year	123
2. Calculation Accuracy	125
3. Adjustments in financial statements	126
4. Use of Gregorian Year.....	127
5. Measurement of Assets	127
ZAKAT TREATMENT OF ITEMS ON A BALANCE SHEET	128
ZAKAT TRADE ASSETS.....	140
A BREAKDOWN ON DIFFERENT INTENTIONS AND THEIR ZAKAT TREATMENT	142
CHAPTER 6: ISLAMIC FINANCING PRODUCTS' ZAKAT CALCULATION	146

INTRODUCTION TO ISLAMIC FINANCE	146
Murabaha financing.....	147
Musharaka financing.....	148
Ijara Muntahiya Bit-Tamlík financing	149
Commodity Murabaha financing.....	150
Istisna' financing.....	151
Salam financing.....	151
Mudaraba financing.....	153
CHAPTER 7: LIABILITIES AND DEBTS	154
Introduction to debt deduction.....	154
Why should debts be deductible now?	154
Contemporary guidance on debts.....	155
Liabilities Deductions.....	157
A REVIEW OF TAXES AND THEIR IMPACT ON ZAKAT.....	158
CHAPTER 8: ZAKAT CHARTS	164

PREFACE

IT IS A BLESSING of Allah that I have been actively involved in the Zakat sector for almost a decade, advising governments, financial institutions, corporations and individuals on various aspects of Zakat. I have been privileged to meet global Zakat institutions, state Zakat collectors from over thirty different countries and have presented on Zakat at various global forums. The highlight was in 2021, when I had the responsibility to design a sovereign Zakat fund for a Muslim country. I was tasked with designing the entire end-to-end Zakat value chain; not just the Fiqh-related elements, but also parts related to governance, finance, operations, and policy making.

This journey has allowed me to spend a considerable amount of time reading on Zakat and economic matters, and dealing with real Zakat queries and contemporary issues. The subject of Zakat is something I love, and I wanted to leave behind a *Sadaqah Jariyah* in the form of knowledge related to the topic. I am fond of the idea of super-specialisation as a student of knowledge, scholar and Mufti. It is the way forward in this era. Hence, Zakat and Finance, or Islamic economics as a whole is the area I wish to devote my life to, with a view of assisting Muslims in their daily personal finance issues, businesses and more importantly, being a means of developing a Halal ecosystem. In fact, spending one's life in the fight against Riba is a life spent in the cause of Allah.

It would be an honour, fortune, and privilege to be a means of developing an economy which redistributes wealth fairly, eliminates injustice, brings people closer together and most importantly, makes an environment more conducive to the recognition of Allah. Zakat is just that; it removes the financial and economic barriers

blocking people from the recognition of Allah. Hence, this book is that investment I hope to benefit from one day in the next life.

This book is a culmination of research, discussions, and contemplations on everything to do with Zakat calculation. I have focused on four areas:

1. Personal Zakat
2. Business Zakat
3. Investment Zakat
4. Islamic Financing Zakat

My gratitude goes out to everyone that has assisted me or engaged with me. I would like to thank and pray for everyone I met through National Zakat Foundation who assisted me in this journey. Similarly, I would like to express my gratitude to my family, my parents, teachers, and friends, for their support, patience and prayers for me. And most importantly, I remember my beloved teacher and Shaykh, Mufti Ebrahim Desai (Rahimahullah), who I dedicate this book to and pray that Allah accepts this as a Sadaqah Jariyah for him. He would have been so happy in seeing this publication and would have immediately written a foreword for the book. May Allah allow us to serve the Deen like he did, accept it from us and unite us with the Prophet ﷺ and our teacher in Paradise.

Faraz Adam

Leicester, United Kingdom

22nd February 2022

CHAPTER ONE:

WHAT IS ZAKAT?

Introduction to Zakat

THE BEAUTY OF ZAKAT is that it can be described from several angles; Zakat can be explained in terms of its status in Islam, or its calculation or even the benefit received by a Zakat beneficiary. Each description considers one angle of this beautiful prism. One of the simplest but most profound descriptions of Zakat is that Zakat is a pillar of Islam. ‘Abdullah ‘ibn ‘Umar ibn Al-Khattab (may Allah be pleased with them) states that he heard the Messenger of Allah ﷺ say:

“Islam has been built on five: testifying that there is no god but Allah and that Muhammad is the Messenger of Allah, performing the prayers, paying Zakat, making pilgrimage to the House, and fasting in Ramadan.” [Sahih al-Bukhari & Sahih Muslim]

In the commentary of this Hadith, scholars discuss whether Islam and the five pillars are identical or different notions. The reason for this question is that in another narration in Sahih Muslim, the Prophet ﷺ described Islam as the five pillars themselves. Therefore, Hadith commentators questioned whether Islam is synonymous with these five pillars. Ibn Abd al-Salam (*Rahimahullah*) states that Islam and the five pillars are two different entities; Islam here refers to the linguistic meaning which means absolute subservience to Allah, whilst the five pillars are

manifestations of this subservience. Therefore, Ibn Abd al-Salam states that absolute subservience is a result of practicing on these foundations¹.

In *Dhakhirat al-Uqba*, a commentary on Sunan al-Nasa'i, the author (*Rahimahullah*) states that this narration presents a structure made up of parts, with the idea of something being built on top of a foundation. Here, Islam is built on top of these foundational pillars. Thus, this *Hadith* draws an analogy to a structure supported by five foundational pillars: four pillars in each corner and one central pillar. The testimony of faith, in other words *Iman*, is the central pillar, which then has four pillars surrounding it. Being a pillar implies that they are enablers. A pillar is not there for itself per se, but to strengthen something else. These pillars are enablers and a support for everyone connected to the construct of Islam. This is true for Islam at an individual level as well as Islam at a societal level. If even one pillar is absent, it can destabilise and weaken the foundation of Islam at a micro and macro-level².

Furthermore, these five pillars are the most primary and obvious forms of Islamic rituals and practices. They are very distinct forms and practices conveying a meaning of *Tawhid* (oneness of Allah) and subservience to Allah. Everything else in Islam, such as trading, marriage, consumption and family matters are not strikingly and substantially different in form; even non-Muslims can perform such practices similar to Muslims. There are, of course, certain key differences in the details, but these worldly practices are not otherworldly nor deemed rituals when practiced by Muslims. The Islamic guidelines for all these other areas guide Muslims to the most optimal practice within the confines and systems of this world. Thus, when these pillars are

¹ Al-Suyuti, Hashiya 'ala Sunan al-Nasa'i. Halab: Maktab al-Matbu'at al-islamia

² Al-Ethiopi, *Dhakhirat al-Uqbā*, Riyadh: Dar al-Mi'raj

described as Islam or the foundations of Islam, it is very clear that these practices are very distinct markers of Islam.

In addition to the above, these five pillars have a powerful and meaningful way of bringing the community towards piety, virtue and goodness. These pillars have a pulse within them which pumps life to the hearts. The energy that flows from these pillars sustain and empower the entire community. These pillars bring value and meaning into other practices and dimensions of the community and civil society.

The five pillars of Islam are the foundation of Islam. These pillars are connected in strengthening an individual and the community. These pillars work together to form the basis of a successful and strong community. From the five pillars, the Qur'an mentions the three pillars of *Iman*, *Salat* and *Zakat* together repeatedly. In particular, the Qur'an interlinks *Salat* and *Zakat* 28 times. There *must* be a reason for this. Almighty Allah promises those who perform these great actions Paradise underneath which rivers flow.

Imam al-Iraqi (*Rahimahullah*) states that whoever performs the pillars of *Iman*, *Salat* and *Zakat* correctly, will be able to fast and perform Hajj easily. Imam al-Kirmani (*Rahimahullah*) mentions *Salat* and *Zakat* have more importance and emphasis due to their universal nature³. They are universal since *Salat* is practiced five times a day and in almost every circumstance, whilst *Zakat* has a connection with every day of the year since a person's daily income and expenses, debts and dealings all have *Zakat* implications.

If we look at *Zakat* and the other pillars in terms of their ultimate role, we see that the essence of everything in Islam is to guide us into the mercy of Allah in the

³ Ibn Hajar, *Fatḥh al-Bārī*, Beirut: Dār al-Ma'rīfah

next life by doing actions of mercy in this life. Every practice in Islam is there to ultimately connect us with Allah and recognise Him. Each Islamic practice plays a different role in facilitating our recognition of Allah. Zakat brings order to the chaos in the economy, markets, and society, allowing the economy and all its participants to recognise Allah. Zakat facilitates recognition of Allah for the payer, beneficiary, society as well as the markets. It is a multi-dimensional act with compounding impact. Zakat removes economic barriers between us and the recognition of Allah.

The interlinking of these pillars and the importance of their implementation can be fathomed by what happened in Yemen in the era of the Prophet ﷺ. The Prophet ﷺ instructed Sayyiduna Mu'adh (*Radiallahu anhu*) to educate the people of Yemen and teach them these three pillars. The experience of Mu'adh (*Radiallahu anhu*) in Yemen is a practical example of how these pillars of *Iman, Salat* and *Zakat* strengthen an individual and a community. As noted by al-Iraqi and al-Kirmani, these pillars have a universal nature, are communal in practice and have great importance for the community, and it is for this potential reason that these pillars were specifically highlighted to *Sayyiduna* Mu'adh when being dispatched to Yemen, as he was being sent to a community and nation and not just an individual. His focus was the Islam of the community and not just an individual.

Whilst on the subject of *Sayyiduna* Mu'adh and Yemen, it is comforting to cite a narration in *Kanz al-Ummal* depicting the growth and development of Yemen. It is narrated that during the caliphate of *Sayyiduna* Umar, Mu'adh returned back to Madinah, however, *Sayyiduna* Umar (*Radiallahu anhu*) sent him back to Yemen. The following year, Mu'adh sent a third of Zakat funds of Yemen to Madinah. *Sayyiduna* Umar exclaimed that he did not send Mu'adh to Yemen as a tax collector or *Jizyah* collector for Madinah but rather sent him to administer Zakat in Yemen, to take

Zakat from the wealthy and redistribute the Zakat among the needy there. Mu'adh (*Radiallahu anhu*) responded,

“I cannot find a recipient for one third, thus I have sent it to you.”

The following year, Mu'adh sent half of the Zakat collected in Yemen to Madinah. Again, *Sayyiduna* Umar questioned *Sayyiduna* Mu'adh. Mu'adh responded,

“I cannot find any recipient for the remaining half.”

The third year, Mu'adh sent the entire Zakat collected in Yemen to Madinah. *Sayyiduna* Umar enquired again about this decision. *Sayyiduna* Mu'adh replied,

“I cannot find a single person in Yemen who is eligible to receive Zakat!”⁴

If everyone in a society is performing *Salat* and nobody is below the poverty threshold, one can only imagine how well off and successful spiritually, economically and socially the community would be. Arguably, each pillar develops a particular dimension of existence; the first pillar – *Shahadah* – zooms in on the developing of the soul and the spiritual dimension of life. The second pillar – *Salat* – focuses on syncing the soul with outward conduct. The third pillar – *Zakat* – focuses on developing the economic dimension for a sustainable transition into the Hereafter. The fourth pillar – *Fasting* – concentrates on the safeguards and restraints needed to grow in a responsible and virtuous manner. The fifth pillar – *Hajj* – spotlights the ultimate goal and vision annually as a reminder and as an ‘awayday’ to reorganise and re-strategise on the ultimate goal.

⁴ Abu Ubayd. *Al-Amwal*. Beirut: Dar al-Fikr

The secret behind this is that these pillars are the absolute core basics and building blocks of success. Whoever has these pillars in their life, the rest of Islam will follow and manifest in their life. Wherever these pillars are absent, Islam is absent. Thus, *Sayyiduna* Abu Bakr (*Radiallahu anhu*) took a very strong stance when people began to object to pillar one (Shahadah) and pillar three (Zakat) in his caliphate. He was aware of the threat and knew that the future of Islam depended on the strength of these foundational pillars.

The pillars of *Iman*, *Salat* and *Zakat* were not ordained just for this nation but for previous nations also. The relationship between man and Allah across time has been manifested through *Iman*, *Salat* and *Zakat*. Adherence to these pillars has a direct correlation to our success.

As mentioned earlier, *Zakat* can be described from different angles and perspectives. From a payer's perspective, *Zakat* is one's commitment and financial expression of membership to Islam. It is a contribution to the global Islamic 'cooperative'. From a societal perspective, *Zakat* resources the growth of faith and the faithful. From a beneficiary's perspective, *Zakat* is a human capital fund which seeks to empower individuals. *Zakat* guarantees every struggling person a baseline provision and support to give them more opportunities to break out of the cycle of poverty. From an economic perspective, *Zakat* is an injection of liquidity into the market and functions as an economic stimulus by unlocking consumer spending. For communities, *Zakat* is a solidarity bond to look after one another and to grow together.

We will explore throughout these pages how *Zakat* functions and operates in a very systematic way, that it is so much more wholesome than a tax system and a truly transformative welfare system. Although there are parallels between *Zakat*

computation and tax computation, unlike tax, Zakat is a worship; it is rewarding and is used in specific ways as outlined in the divine guidance.

Meaning of Zakat

Every letter and word in the Qur'an has been divinely selected. Every word, letter and sequence has a reason behind its selection. The Most Wise is full of wisdom, His every action has an underlying wisdom. The language and words in the Qur'an are so central to understanding Islam, that language in the Qur'an and Sunnah has epistemological weighting in Islam. *Ijtihad* (deducing laws) cannot be done without having a deep understanding of Arabic grammar, lexicology, syntax, etymology, rhetoric and other areas of linguistic study.

Allah coined the word 'Zakat' for a reason. The root letters of the word Zakat indicate strongly to what Zakat is, what it does and what it achieves. Linguistically, Zakat relates to the following meanings:

- *Numa'* – growth
- *Taharah* - purification
- *Barakah* – blessing
- *Salah* – righteousness and integrity
- *Madh* – praise

Zakat has something to do with each aspect of the above. Each linguistic meaning surfaces in the functioning of Zakat. Zakat functions in multiple ways for different stakeholders in the Zakat value chain. The above meanings all manifest in the Zakat

value chain, whether it is with the payer, beneficiary, or society. Some of the functions of Zakat for the payer are as follows:

- Zakat establishes subservience to Allah in one's life.
- Zakat is an expression of gratitude for the blessing of wealth.
- Zakat is a purification for the soul.
- Zakat is a means to multiply one's reward for the Hereafter.
- Zakat is to sympathise and show compassion for the less fortunate.
- Zakat is a purification of wealth.

Some of the functions of Zakat for the beneficiary are as follows:

- Zakat is to alleviate poverty and the need of the needy.
- Zakat removes any ill-feeling and spiritual diseases in the needy such as jealousy, rancour, or malice against those who have wealth.
- Zakat is there to allow the recipient to survive and get free access to basic necessities.

Some of the functions of Zakat for society are as follows:

- It is a means of developing and strengthening the Islamic economy.
- It is a means of Da'wah and propagation of Islam.
- It bridges the gap between the rich and the poor.
- It develops brotherhood and sisterhood between different classes of society.

Differences between Zakat and *Sadaqah*

Zakat and *Sadaqah* are forms of worship done by Muslims. The two are different in their own respects. The word *Sadaqah* is derived from the Arabic word *Sidq* (truth). All actions of righteousness in Islam are a form of *Sadaqah*, as they reflect the sincerity

and truth in the heart of the doer. Zakat on the other hand, is one of five fundamental foundations of Islam. This makes it a compulsory act, and therefore, all Muslims must give Zakat, provided they meet certain conditions. On the other hand, *Sadaqah* is an act of uprightness, and people can excel therein according to their appetite. Some of the key differences between *Zakat* and *Sadaqah* are as follows:

1. Zakat is obligatory once a year whilst voluntary Sadaqah is never obligatory.
2. Zakat is paid on specific assets such as: gold, silver, cash, business assets, agricultural produce, livestock, and treasure troves. Whereas Sadaqah has no such specification in terms of assets.
3. Certain liabilities can be deducted from a Zakat calculation whereas Sadaqah has no calculation in which liabilities are deducted.
4. In the early generations, Zakat was collected and distributed by the Islamic government whereas Sadaqah has always been a personal and private act of kindness.
5. According to some schools of law, Zakat can be forcefully taken. The state can take punitive measures on the non-payers of Zakat. Whereas Sadaqah is never enforced upon people.
6. Abandoning Zakat payments is tantamount to a type of treason whereas not giving Sadaqah is not sinful.
7. Zakat has thresholds and bands (Nisab) whereas Sadaqah has no thresholds.
8. There is encouragement and guidance on where to spend Zakat whereas Sadaqah has no geographic guidance.
9. Zakat has specific areas and categories for spend whereas Sadaqah does not have defined recipients.
10. Zakat is quantified monetarily whereas Sadaqah can be non-monetary too.

The operations of Zakat in respect to calculation, collection, distribution show another dimension of how Zakat functions. The above points paint an operational reality to Zakat; it is not simply a ‘charity’ in the sense of a voluntary, personal choice and gesture of goodwill. The clear guidelines and framework of Zakat as mentioned in the books of Fiqh show that Zakat is an institution within a system.

Sadaqah is spontaneous, random and purely voluntary in nature. *Sadaqah* is the everyday charity that we are accustomed to. You can give *Sadaqah* to whom you want, how much you want, where you want, how you want and as little or as much as you want. Whereas Zakat cannot be given to everyone. It is a specific amount and there are geographic considerations in its distribution. Thus, Zakat is very different to charity. Zakat is not charity and should not be relegated to charity in our minds. By not understanding the distinct nature of Zakat and Sadaqah, there are two consequences:

1. Deficiency in the amount of Sadaqah paid, as everyone suffices on Zakat as their form of ‘charity’.
2. Zakat being treated as charity and exposed to abuse, carelessness and lack of regard.

Zakat vs Riba

Allah contrasts Zakat and Riba in the following verse of *Surah al-Rum*:

“Whatever Riba you give, so that it may increase in the wealth of the people, it does not increase with Allah; and whatever Zakat you give, seeking Allah’s pleasure

with it, (it is multiplied by Allah, and) it is such people who multiply (their wealth in real terms.)” [Qur’an 31:39]

Literally, Riba is an unjustified increase or addition. Technically and operationally, Riba refers to an unwarranted surplus in the exchange of specific, homogenous commodities, or a yield from a risk-free and loss-covered investment, or the monetisation of a loan, or any unfair term in an exchange contract. Systemically, Riba operates as exploitation and injustice, fuelling inequality. Although Riba and “interest” are used interchangeably,

the Islamic notion extends beyond interest. Riba is more than just simple interest and compounding interest; Riba is any unjustified excess or gain in a bilateral contract which is stipulated for one of the two transacting parties. To elaborate, there are three types of Riba:

1. *Riba al-Nasi’ah is the unfair advantage and excess gained without consideration by deferring delivery of any homogenous counter exchanges.*
2. *Riba al-Fadhl is the unfair contractually agreed excess in units without any consideration in an exchange of homogeneous goods.*
3. *Riba al-Ma’nawi is the unjustified gain through imposing unfair terms in the contract⁵.*

Riba is absolutely prohibited in Islam. Paying Riba, receiving Riba and facilitating Riba are all non-compliant activities. Riba is an injustice to the needy and creates disparity between the rich and the poor. Riba is unjust because the borrower must pay the ‘profit’ even if they were in complete loss. It is only fair and proper to pay the same amount back to the lender. On the other hand, Riba is unfair on the

⁵ Al-Ayni, al-*Binayah*, Multan: al-Maktabah al-Haqqaniyyah

lender too because if money is lent to a successful business, the lender does not get a commensurate share in the success. Riba is destabilising because lending with Riba encourages further borrowing and investment during a growth period and places high burdens (causing bankruptcies) when profits are low.

When Riba-based credit floods the markets, many new customers – who otherwise would not be in the position to buy – are introduced and become part of the competition. This can artificially increase demand due to the increased number of potential customers and increased competition, even though many of them do not have the net financial ability to cover the expense. This can lead to skewing the supply and demand dynamic of the market, which then inflates prices.

With higher prices, the cost-of-living increases, and the normal means of income such as labour do not equal the same output in the markets. This pushes those already struggling into a further debt spiral. As such, not only do prices face punishment as a result of Riba, even wages are impacted. When wages are not sufficient to meet basic necessities and there is desperation, crime thrives. Thus, Riba causes the degradation of society and social morality.

It is Riba which weaponises money, as lending – for those who do not seek reward from Allah - becomes attractive and incentivised when it is profitable with Riba. Thus, lenders earn interest as debt piles on borrowers. Debt only becomes attractive if it is interest-based. It is Riba which spurs debt. Riba is effectively debt which piles the pressure on borrowers. The famous saying states:

““There are two ways to conquer and enslave a nation. One is by the sword. The other is by debt.”

Sayyiduna Umar ibn al-Khattab (*Radiallahu anhu*) said:

“Beware of debt, for its least impact is worry and its ultimate impact can be full-blown war.”⁶

“Debt is a product of power relations which inherently exhibits capturing and dominating mechanisms of subordination, appropriation and exploitation in various societal, political and economic fields. Debt is a degrading institutional tool which not merely controls and masters labor in advance, it also self- and socially estranging, and entangling the indebted person solely into the ropes of economic valuation. Contemporary societies are burdened by the Neoliberal Pauperism which is a state of dragging-down indebtedness disguised as a fictitious “trickled-down” wealth.”⁷

Riba has a predatory nature to it, where the borrower is prey to the lender and is forced to pay regardless of their financial situation. Riba spurs a debt-based economy, and it separates people into two camps: creditors and debtors. Participatory finance becomes unattractive and expensive as a result. Riba is exploitative, as it subjugates its subjects to the lender. Riba increases the pressure on borrowers, and this pressure creates barriers between man and Allah. Anything which creates barriers between man and his Creator is evil.

Riba impacts behaviour and rewires the mind of lenders. Riba induces greed and a desire of winning at the expense of others. Riba reduces empathy and creates a predatory mentality.

Riba-based loans exploit the poor and tend to increase poverty. Some loans are truly predatory, where the annualised rate can be over 100%. Many borrowers end up refinancing these loans over and over in a never-ending cycle of debt. The only

⁶ Imam Malik. Muwatta Malik. Abu Dhabi: Mu'assasah Zayed

⁷ Komlik, O. (2017). The Burden of Nations: Debt and Compound Interest. Available online: <https://economicsociology.org/2017/03/21/the-burden-of-nations-debt-and-compound-interest/>

concern of Riba-based lender's is that they are repaid every penny, without a care in the world of where the money to repay comes from or the economic hardship endured by the borrower. A Riba-based lender does not care whether the underlying activity is beneficial or productive.

Investors on the other hand perform a fundamental analysis and technical analysis of a business, they invest themselves, their time and their expertise in the success of the venture. They wish for and seek the success of the underlying business to generate profits by creating economic value. When it comes to lending with Riba, the lenders do not care how productive, fruitful or beneficial the underlying business is, they only care how creditworthy the borrower is. This leads to selecting borrowers who meet creditworthy metrics and who are more likely to repay. Thus, money flows mainly into the hands of borrowers who are likely to repay, rather than towards the best and most productive economic activities.

The ability to borrow and charge Riba can lead to excessive leverage in business which can lead to business failures. After the 2008 financial crisis, many businesses failed because they had high levels of debt (leverage) and they could no longer sustain the payments of Riba.

The Global Financial Crisis in 2008 indicates the carnage Riba can cause at a global level. Within a few weeks in September 2008, Lehman Brothers, one of the world's biggest financial institutions, went bankrupt; £90bn was wiped off the value of Britain's biggest companies in a single day; and there was even talk of cash machines running empty.

There was borrowing with Riba on a huge scale to finance what appeared to be a one-way bet on rising property prices. But the boom was ultimately unsustainable because, from around 2005, the gap between incomes and debt began to widen. This

was caused by rising energy prices on global markets, leading to an increase in the rate of global inflation. This development squeezed borrowers, many of whom struggled to repay mortgages. These mortgages were Riba-based. Property prices now started to fall, leading to a collapse in the values of the assets held by many financial institutions. The banking sectors of the USA and the UK came very close to collapse and had to be rescued by state intervention⁸.

Deregulation permitted banks to engage in hedge fund trading with derivatives - another manifestation of Riba. Banks then demanded more mortgages to support the profitable sale of these derivatives. They created interest-only loans that became affordable to subprime borrowers. These mortgages were packaged into complex products and sold as Mortgage-backed Securities (MBS). MBS were filled with extremely risky subprime adjustable-rate loans.

In 2004, the Federal Reserve raised the fed funds rate just as the interest rates on these new mortgages reset. The interest rate is another manifestation of Riba in the fiasco. Housing prices started falling in 2007 as supply outpaced demand. That trapped homeowners who couldn't afford the payments, but couldn't sell their house. When the values of the derivatives crumbled, banks stopped lending to each other.

One of the financial instruments which played a central role in all of this was the Riba-based instrument called CDOs (Collateralised Debt Obligations). CDOs were diversified, very risky subprime mortgage bonds. It was rubbish repackaged in other rubbish. A CDO is a type of financial instrument that pays investors from a pool of revenue-generating sources. One way to imagine a CDO is a box into which monthly

⁸ Daunton, M. (n.d.). The 2008 Financial Crisis Explained. Available online

payments are made from multiple mortgages. It is usually divided into three tranches, each representing different risk levels.

For the years prior to the 2007-2008 crisis, CDOs proliferated throughout what is sometimes called the shadow banking community. Shadow banks facilitate the creation of credit across the global financial system, but members are not subject to regulatory oversight. The strength of a CDO is also its weakness. By combining the risk from debt instruments, CDOs make it possible to recycle risky debt into AAA-rated bonds that are considered safe for retirement investing and for meeting reserve capital requirements. This helped to encourage the issuance of subprime, and sometimes subpar, mortgages to borrowers who were unlikely to make good on their payments. What followed was a domino-like collapse of the intricate network of promises that made up the collateralized debt markets.

As millions of homeowners defaulted, CDOs failed to reach their middle and upper tranches, CDO-squared and CDO-cubed investors lost money on so-called "riskless" investments⁹. Thus, the crisis was fuelled as a result of Riba-based interest rates, Riba-based lending, Riba-based financial instruments, Riba-based mindsets and Riba-nurtured greed.

Riba conflicts with the spirit of brotherhood and sympathy, and is based on greed, selfishness and hard heartedness. Rather than sharing in the risks of a business or investment, Riba sets up a lender-borrower relationship. The lender has a financial incentive to squeeze the borrower as much as possible to get the loan back with interest, regardless of the borrower's situation. An example of this can be seen when

⁹ Investopedia (2021). Were Collateralised Debt Obligations Responsible for the Financial Crisis. Available online: <https://www.investopedia.com/ask/answers/032315/were-collateralized-debt-obligations-cdo-responsible-2008-financial-crisis.asp>

mortgage-holders default on their home loan. Banks often repossess a family's home and put them out on the street, even if the family has already paid the full price of the house.

Riba impacts the blood and current of the economy – money. Riba makes money a commodity instead of a medium of exchange. Islam does not recognise money as a subject-matter of trade, except in some special cases. Money has no intrinsic utility; it is only a medium of exchange. Each unit of money is exactly equal to another unit of the same denomination, therefore, there is no room for making profit through the exchange of these units inter se.

Profit is generated when something that has intrinsic utility is sold for money or when different currencies are exchanged, one for another. The profit earned through dealing in money (of the same currency) or the papers representing them is interest, hence prohibited.

Imam Ibn Taymiyyah (d. 728 H) states that the physical body of money is never the objective of acquiring money, rather, it is the counter-exchange which is the objective and benefit of money¹⁰. The owner of the money must spend or contribute labour to derive benefit from money. Alternatively, he can enter a partnership contract in a profit and loss sharing model. If the money is lent in the form of a loan, interest cannot be charged on it.

Money is simply a unit of measurement. Thus, money is not a commodity in Islam. Its reward is not guaranteed, instead, it is contingent on the result of production from productive activity which generates surplus value¹¹.

¹⁰ Ibn Taymiyyah. *Majmu' al-Fatawa*. Riyadh: Majma' al-Malik Fahad

¹¹ Bank of England. (2014). 2014 Q1. Quarterly Bulletin, 54(1). Sanusi, M. (2002). Gold Dinar, Paper Currency and Monetary Stability: An Islamic View. Viability of The Islamic Dinar, 73-90.

Imam Ibn Taymiyyah states in another place:

“When currencies and money are inter-traded with the intention of investment and profit, it opposes the very purpose of money and moneyness.”¹²

Imam Ibn al-Qayyim (d.751 H) states:

“Money is never sought for itself; rather, it is used as a means to gain commodities. When money begins to be treated as a commodity and becomes the objective of transactions, the entire (economic) system will become corrupted and in crisis.”¹³

Imam al-Ghazali (d.505 H) states:

“Almighty Allah created dinar and dirham for circulation and to be an equitable and just standard between different assets. They are the means to all other assets; they are precious in themselves but not desired for themselves.”¹⁴

Riba creates an artificial demand for money, as a charge is placed on the money lent in the form of money. This destabilises money supply and creates inflation.

Another adverse impact of Riba on the economy may be in the shape of an increase in debt and debt servicing in the country concerned. Foreign investments and foreign loans are typically used for the economic development of the recipient country. However, many such loans are taken by poorer countries at a higher rate of interest. This ultimately increases the total amount repayable. The debt service ratio steadily increases in terms of export earnings, percentage of GDP ratio and percentage of current total expenditure of the country. A country is therefore always playing catch

¹² Ibn Taymiyyah. *Majmu' al-Fatawa*. Riyadh: Majma' al-Malik Fahad

¹³ Ibn al-Qayyim. *I'lam al-Muwaqqi'in*. Beirut: Dar al-Kutub al-Ilmiyyah

¹⁴ Ghazali. *Ihya Ulum al-Din*. Beirut: Dar al-Ma'rifah

up. This trickles down to the people and impacts the life of the common citizen by the country having to set aside a significant portion of the GDP to pay for the debt installments. It affected people in two ways: firstly, as the Riba-based debt servicing obligations increase, a larger amount of personal income is taken by the government through tax levies to repay both the outstanding debt and the amount of interest. Secondly, due to the inability of the government to meet the rising debt servicing obligations in the face of insufficient foreign exchange earnings, the government typically requests the lending countries for concessions, which can inevitably influence the socio-political and economic policies of the borrowing country.

The former President of Nigeria Olusegun Obasanjo famously proclaimed¹⁵:

“All that we had borrowed up to 1985 or 1986 was around \$5 billion and we have paid about \$16 billion yet we are still being told that we owe about \$28 billion. That \$28 billion came about because of the injustice in the foreign creditors’ interest rates. If you ask me what is the worst thing in the world, I will say it is compound interest.”

Zakat is the antithesis of Riba, and Zakat opposes Riba in all of its operations. Just as Riba is a vicious and lethal cycle, Zakat is a virtuous and circular benefit. Zakat money is directly pumped into the economy which allows the beneficiaries to purchase goods and services. Money given as Zakat to recipients is traded, invested and used to fulfil needs. These activities, in turn, give capital to businesses generally earning profits and thus, they invest further and expand. Expansion leads to job creation and employment opportunities. Consequently, the new employees increase overall demand for goods and services. Subsequently, the additional demand further

¹⁵ Komlik, O. (2017). The Burden of Nations: Debt and Compound Interest. Available online: <https://economicsociology.org/2017/03/21/the-burden-of-nations-debt-and-compound-interest/>

develops growth and economic activity of a country which strengthens the currency. Thus, the Zakat payers end up benefiting from the circular benefits of their Zakat.

Constant Zakat payments fuel circulation of wealth helping the community and economy. What starts as a Zakat payment to a needy recipient ends up embracing the entire community and economy. The vulnerable are primarily strengthened but the fruits are plucked by all. Zakat has a trickling effect in the economy.

Some contemporary Muslim economists suggest that Zakat could be used as a counter-cyclical policy through discretionary and non-discretionary fiscal policy. Discretionary fiscal policy is carried out by varying the disbursement of Zakat to the recipients. During the expansion phase of the business cycle, the government reduces Zakat expenditure to close the inflationary gap. This action helps increase the Zakat surplus. Zakat expenditure could then be increased during economic contractions by using the Zakat surplus accumulated during the boom periods, thereby lifting the economy when it is in the downswing to spur aggregate spending and economic activities. Therefore, Zakat could complement taxation and government spending as tools of stabilisation.

The only distinction between Zakat expenditure and the usual type of fiscal measures is that Zakat expenditure cannot be cut back unlike taxes. However, the volume of Zakat to be collected and spent will automatically be affected by the decrease in income levels¹⁶.

The establishment and maintenance of social solidarity is maximised when the gap between social classes is kept at a minimum. In other words, relations between the rich and the poor must not deteriorate if anarchy is to be avoided. Undoubtedly,

¹⁶ Abdul Malik, U. & Choudhury, M.A. (2016). *The Foundations of Islamic Political Economy*. Palgrave Macmillan UK

one of the most important apparatuses that upholds these crucial relations between the rich and the poor is Zakat.

In societies where Zakat ceases to exist, the precipice between the rich and the poor widens to the point where the love and appreciation shown by the poor is replaced by abhorrence and hatred, and the compassion and charity displayed by the rich is replaced by disdain and scorn.

Zakat helps in reducing the economic gap between the spectrum of classes not only by the capital Zakat payment, but more so with the opportunities a Zakat payment gives to the recipient.

Zakat is a bridge used for passing over economic strife and when the whole community makes use of this bridge, class conflicts have the potential to become part of history. This bridge also constructs a stable middle class through which increasingly more recipients of Zakat can become payers and a possible clash between the rich and the poor is prevented.

Hoarding wealth has been prohibited in Shariah. The Qur'an states:

"...those who hoard up gold and silver and do not spend it in the way of God, give them the glad tidings of a painful punishment" (Quran 9:34)

Wealth concentration in the hands of a few stagnates the economy and raises prices. Such a practice harms the entire society. Thus, Zakat is the counter measure as has been mentioned in the Quran.

Zakat increases production volume. Zakat recipients purchase consumer items which increases demand for such items, resulting in an increase of production volume. The increased production volume gives rise to numerous economic activities. The

unemployment level also tends to decrease resulting in the overall growth of a country¹⁷.

"Money works like blood – it needs to circulate around the local economy if it is going to keep it alive"¹⁸.

From an economic lens, Zakat discourages hoarding and encourages investment in the real economy, it is like a negative interest rate of 2.5%. Negative interest rates require capital holders to pay for having their funds in accounts. The distinction between Zakat and Riba is at several levels. Riba pays the capital owner for just owning and holding capital even if it is idle or non-productive. On the other hand, Zakat incentivises owners to invest and not hoard. Zakat encourages people to keep excess wealth at a minimum and have the surplus flow in the veins of the economy¹⁹.

When a capital owner's wealth increases, they have two choices: to either continue to save or to invest. If they continue to save, they must pay 2.5%. This 2.5% will be beneficial and assist individuals and flow through the economy. If they decide to invest, this will also assist the economy and individuals. As such, Zakat ensures redistribution of wealth and the use of wealth for the greater good of all, whilst ensuring the capital owner is not unreasonably disadvantaged or deprived from benefiting from their own wealth. Whereas Riba curtails and dissuades the redistribution of wealth.

¹⁷ Senturk, O.F (2007). Charity in Islam. Tughra Books Press. January 2007

¹⁸ Mathew Khan, 'Money is like blood – it needs to circulate for local economies to survive' The Guardian, February 2013 <https://www.theguardian.com/lifeandstyle/the-northerner/2013/feb/20/yorkshire-business-self-sufficiency>

¹⁹ Arif, A.D. (2019). Why Zakat is the Antithesis of Interest. Available online at: <https://rationalreligion.co.uk/why-zakat-is-the-antithesis-of-interest-explaining-islamic-economics/>

The more a pound is circulated in the economy, the greater the impact, and the greater number of goods and services being produced as a result. Zakat brings greater velocity of money. The velocity of money is important for measuring the rate at which money in circulation is being used for purchasing goods and services. It is used to help economists and investors gauge the health and vitality of an economy. High money velocity is usually associated with a healthy, expanding economy. Low money velocity is usually associated with recessions and contractions. Furthermore, the marginal utility of 2.5% in the hands of a poor person is much higher and greater than being in the hands of a billionaire. A billionaire gets very little benefit from 2.5% of his wealth, whilst this 2.5% for a needy person can transform their life. Riba does just that, in general terms, it adds very little marginal utility compared to Zakat. The 2.5% does not make any significant and material change in the life of a Riba earner, it is simply loose change for them.

Further, as Zakat ensures greater liquidity in the market due to the flowing of capital across the economy through Zakat, there would be a reduced need for printing money. Money would be circulating in the economy annually, in fact constantly through Zakat payments. As such, this could arguably help in reducing inflation.

Imam al-Sarakhsi (rahimahullah) states that transactions are of two types: Halal and Haram; the Halal transactions are *Bay'* and the Haram transactions are Riba. These two forces are opposites. We can add to these forces Zakat and harmful and unmanageable debt. Zakat supports *Bay'*, as the Zakat recipients use the Zakat to buy, sell, invest, pay debt and exchange. This reduces Riba and has a direct impact on the level of debt. Whereas Riba incentivises debt, and they work together. The more debt and Riba, the less there are Zakat and *Bay'*. The more Zakat and *Bay'*, hopefully, the less the harmful debt and Riba.

Of course, manageable and halal debt is permissible, and credit sales are permissible. It is when debt is intertwined with Riba that it becomes a recipe for disaster. Therefore, *Zakat* and *Bay'* need to be increased to combat Riba and harmful debt.

Zakat as an Economy

At a macro level, the system of *Zakat* functions as a powerful economic stimulus and a means of resource allocation. *Zakat* injects liquidity into the economy and gives it a jolt. It is a kick-starter which provides opportunities to hundreds and thousands annually.

To appreciate the potential that *Zakat* provides to the global economy, we have to look at it through numbers. A study by the World Bank and the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB) estimated global *Zakat* funds reached US\$550 billion to \$600 billion per year. Meanwhile, the official *Zakat* institutions only managed US\$10 billion to \$15 billion per year. There have been some suggestions stating that the potential size of the annual *Zakat* pool is close to US\$1 trillion.

All things being equal, the size of the *Zakat* economy is equivalent to the nominal GDP of Turkey or Saudi Arabia. Turkey and Saudi Arabia have a nominal GDP of circa US\$800 bn. GDP is perhaps the most closely watched and important economic indicator for both economists and investors alike because it is a representation of the total dollar value of all goods and services produced by an economy over a specific time period. As a measurement, it is often described as being a calculation of the total

size of an economy. Thus, in simple terms, if all Zakat was paid, you could annually equate the Zakat economy at present to one year's worth of all goods and services produced in Turkey. Turkey is the 36th largest country in the world, size equal to over 300,000 square miles, with a population in the region of 84 million people.

If we were to move away from the numbers and describe what this means, quite simply, Zakat is roughly equivalent to the 17th largest economy in the world. Zakat has tremendous economic impact and power. It is an engine for change. Zakat has the power to transform the lives of millions of people struggling and make them self-sufficient. It can change large populations from consumers to producers.

And that is just the present state of Zakat. Zakat is fluid and the total Zakat expense can increase based on more wealth and more Muslims. As the Muslim population grows globally, we can only expect the annual Zakat throughput to increase. There is only expansion in the horizon of Zakat.

Potential Global Zakat Pool

Professor Habib Ahmed writes:

“Figures cited for the potential global zakat pool from different sources vary widely from US\$ 200 billion to US\$ 1 trillion. Given the wide range of potential estimates, a question arises how these figures are arrived at. The problem to estimate the global pool of zakat accurately partly arises because while zakat is levied predominantly on wealth, accurate estimations of wealth for Muslim countries are not available. Due to lack of wealth estimates, zakat is estimated by using different assumptions on the percentages of the gross domestic product (GDP).

The GDP-based estimations have origins in studies done by Dr. Monzer Kahf in the 1980s in which he estimated the zakat proceeds that could be collected in various countries based on three different opinions on what should be included as Zakatable assets. The first opinion takes the traditional view and includes only agricultural output, livestock, trade inventory, and cash holdings as Zakatable items. The second opinion includes returns on fixed assets and salary and wages. The third opinion is the broadest and also includes the capital value of fixed assets as a Zakatable item. Using these assumptions, the average zakat rates from different countries were estimated to be 1.8%, 3.9% and 4.3% of GDP for the three opinions respectively.

Given the total GDP of Organization of Islamic Cooperation (OIC) member countries of US\$ 7.341 trillion in 2019 (constituting only 8.4% of the global GDP valued at US\$ 87.39 trillion) reported by SESRIC, the corresponding zakat collections according to three opinions would be US\$132.1 billion, US\$286.3 billion and US\$315.7 billion respectively.

While the percentage of GDP gives approximate estimates based on different assumptions, there may be issues on their accuracy since zakat is levied mainly on wealth. However, different problems arise when trying to estimate zakat based on wealth. The first issue relates to how wealth is defined during contemporary times. The published figures provide different perspectives on the way wealth is defined. For example, Boston Consulting Group (BCG) defines total net wealth as financial assets plus real assets minus liabilities. BCG reports the size of the global wealth to be US\$ 431 trillion in 2020, with financial assets constituting US\$ 250 trillion (52%) and real assets being US\$ 235 trillion (48%). World Bank provides a much broader definition

of wealth to include produced capital, natural capital, human capital, and net foreign assets and published data on these for selected countries for 2014.

Second problem is that the wealth figures for specific OIC member countries are not reported in most global wealth reports. This would require estimating the wealth of OIC member countries by using the available data from different sources and extrapolating this to estimate the wealth figures. Using the information on the produced wealth and data on financial assets (total deposits, stock market capitalization and domestic securities) from different World Bank data sources, the wealth of OIC members countries can be estimated to be US\$ 26.973 trillion (US\$ 7.230 trillion financial assets and US\$ 19.742 trillion produced capital). As in the case of global economy, the total estimated wealth for OIC member countries is significantly higher than the GDP (US\$ 7.341 trillion).

Third issue in estimating the potential zakat collections based on total wealth relates to the difference of opinions on the how zakat is levied on assets. While one view states that payable zakat is 2.5% on the total value of capital, a second opinion is that zakat is 10% on the income of income-generating assets. Using the former view on the total wealth of US\$ 19.742 trillion for OIC member countries would produce zakat valued at US\$ 674.3 billion and the latter view would lead to zakat collection of US\$ 134.8 billion (assuming an average of 5% return on the assets). However, a more reasonable approach would be to apply the rule of capital on financial assets (zakat of US\$ 180.7 billion) and the rule of income for produced capital (zakat of US\$ 79.9 billion) giving a total of 260.7 billion.

A more realistic calculation of zakat pool would be to mix the wealth and GDP approaches by adding zakat on wealth and agricultural production. The total value of

agricultural production in OIC member countries in 2019 was US\$ 808.4 billion which would produce zakat of US\$ 40.4 billion (at 5% zakat rate). Thus, the total global zakat collection potential from financial assets, produced capital and agricultural output gives a figure of US\$ 301.1 billion. Interesting this estimated figure appears to be the average of estimations of opinions 2 and 3 of the GDP based approaches.

Note that the above wealth and GDP based figure of zakat pool is a conservative estimate and the global zakat pool could be potentially higher due to several reasons. First, traditional assets such as gold and silver are excluded from the estimations. Second, some important natural capital such as oil, gas, minerals, forests are not included. Third, the rate of return on produced capital is assumed to be 5% and this could be higher. Finally, the figures for produced capital are from 2014. This number is likely to higher in 2019-2020. Thus, we can conclude that the minimum global zakat pool that can be potentially collected annually is US\$ 300 billion, but the amount could be much higher.”²⁰

Income Inequality and Anti-Social Behaviour

Marcus Aurelius (121-180AD), the Emperor of the Roman Empire, famously said:

²⁰ Ahmed, H. (2021). Potential Global Zakat Pool: Demystifying the Numbers. NZF Worldwide [Available online]

“Poverty is the mother of crime.” This does not mean in any way, shape or form that all poor people are criminals. But poverty can lead people to desperate situations. Hence, the Prophet said:

“Poverty can almost lead to disbelief.”²¹

The Prophet would often supplicate:

‘O Allah I seek refuge in You from disbelief and poverty.’ Someone enquired: ‘Are these two equal?’ The Prophet replied: ‘Yes.’²²

Various studies have shown the correlation between income inequality and social disorder. Research by City Hall London in 2019 showed that three-quarters of the boroughs in London with the highest levels of violent offending are also in the top 10 most deprived, while the same boroughs also have higher proportions of children under 20 living in poverty than the London average²³.

The Edinburgh Study of Youth Transitions and Crime was a ground-breaking study which followed the lives of 4,300 children as they made the transition from childhood to adulthood. It found that “poverty is a strong driver of violent offending amongst young people”. Using four measures for poverty including low socio-economic status of the head of the household and neighbourhood deprivation, the professors found that “poverty had a significant and direct effect on young people’s likelihood to engage in violence at 15, even after controlling for a range of other

²¹ Musnad Ahmad ibn Mani', Al-Mu'jamul Awsat, Hadith: 4056, Shu'abul Iman of Bayhaqi, Hadith: 6188 and others. See Ithaful khiyarah, Hadith: 7247 and Al-Maqasidul Hasanah, Hadith: 789

²² Sahih Ibn Hibban, Hadith: 1026. Al-Ihsan

²³ <https://www.london.gov.uk/press-releases/mayoral/full-links-between-poverty-and-violent-crime>

factors”, positive and negative, including poor family functioning, drug use, impulsiveness, strong relationships with parents²⁴.

A study on violent crimes in China found that it is the poverty level in rural areas and the average income level in urban areas, rather than income inequality, that contribute to the local rate of incidence of violent crimes in China²⁵. However, analyses show that crime is not driven by poverty alone, but rather by inequality. Countries with high overall levels of poverty do not necessarily have higher levels of crime. It is places with high levels of income inequality that typically have the highest levels of crime²⁶.

The Brookings Institute, a Washington, D.C.-based research group, has published a study that demonstrates, through empirical data, what many have long suspected: That extreme poverty leads to increased crime rates. The same study, “Work and Opportunity Before and After Incarceration,” published on March 14, 2018, also confirms that a criminal record “imposes impediments to employment” despite tax incentives for businesses that hire former prisoners. According to the study, boys who grew up in families within the bottom 10 percent of income distribution were 20 times more likely to be incarcerated by their early 30s than those who lived in families with the highest income level. The Brookings’ data showed that, “In almost all states, between 40 and 50 percent of the prison population grew up in families in the bottom quintile [20 percent] of the income distribution.” Additionally, it found that “Neighbourhoods and social inclusion matter to incarceration and labour

²⁴ <https://www.transformjustice.org.uk/an-uncomfortable-truth-the-strong-link-between-poverty-and-crime/>

²⁵ Dong, B., Egger, P. H., & Guo, Y. (2020). Is poverty the mother of crime? Evidence from homicide rates in China. *PLoS one*, 15(5), e0233034. <https://doi.org/10.1371/journal.pone.0233034>

²⁶ USAID (n.d.). Literature Review on the Wildlife Crime Prevention Approaches. Available online: https://pdf.usaid.gov/pdf_docs/PA00XGJN.pdf

market outcomes. Prisoners are also disproportionately likely to have grown up in socially isolated and segregated neighbourhoods with high rates of child poverty and in predominantly African-American or American Indian neighbourhoods.”²⁷

Considering the above, the impact of Zakat becomes crystal clear. Zakat has the ability to maintain social order and prevent anti-social behaviour, crime and even murder. Zakat bridges income inequality and propels wealth redistribution in a more equitable and fair manner. In fact, the entire Islamic system supports a fairer wealth distribution and equitable finance. Zakat can address and solve some of the most challenging problems people are facing globally, from war, death, starvation, crime, insecurity and even financial instability.

The Poverty Line

All the schools of Islamic law agree that Zakat centres around fulfilling needs. The Islamic welfare system is designed to not allow a single person to fall through and below the poverty line. Every single person in society is entitled to maintenance, support and welfare if they dip below the poverty line. There are two views among the Islamic jurists on how this poverty line is defined. The Hanafi school considers the *Nisab* of Zakat as the poverty line. *Nisab* is a fixed amount of gold or silver which creates a clear threshold as the poverty line. Whereas the other schools consider *Kifayah* (sufficient wealth) as a threshold for the poverty line. Some Hanafi jurists described Zakat as a resource for immediate relief to meet urgent needs of the

²⁷ Gilna, D. (2018). Brookings Institute Study Finds Direct Connection between Poverty and Crime Rates. Available at: <https://www.prisonlegalnews.org/news/2018/dec/7/brookings-institute-study-finds-direct-connection-between-poverty-and-crime-rates/>

different types of people as defined in *Surah Tawbah*, whilst long-term solutions should be resourced from other revenue streams. From this legal philosophy, Zakat is not designed as a long-term strategy for the development of the entire economy, rather it is specific to serving the immediate needs of people in difficulty²⁸. Zakat is there for the neediest in the community and a safety-net. It guarantees that anybody dropping below the *Nisab* threshold will be assisted, dignified and raised again in the social mobility ladder. As such, according to the Hanafi school, it is a 'safety-net' targeting a very specific market of people who need urgent help and need preventing them from falling through. Thus, Zakat is focused on ensuring nobody hits rock-bottom on the socio-economic scale. Zakat is for preservation and for urgent, immediate relief. This is understood by the notion of the poverty line as *Nisab*, the restrictions of giving to the *Fuqara'* only of each category (besides Zakat collectors), and the clear statements of jurist describing Zakat as such.

Zakat in the Qur'an

The word Zakat is mentioned thirty-two times in the Qur'an; thirty from the thirty-two are in the technical meaning of Zakat whilst two are in the linguistic meaning of Zakat. The two places are:

- 1) *Surah al-Kahf* (The Chapter of The Cave), verse 81
- 2) *Surah Maryam* (The Chapter of Mary), verse 13

Salat and Zakat are interlinked twenty-eight in the Qur'an.

²⁸ Al-Kasani (1986), *Badai al-Sana'*, Beirut: Dar al-Kutub al-ilmiyyah

The thirty-two places where Zakat is mentioned is as follows:

Surah	Chapter & Verse No.	The Verse
1. Surah al-Baqarah (The Chapter of the Cow)	Chapter 2, Verse 43	And establish prayer and give Zakat and bow with those who bow [in worship and obedience].
2. Surah al-Baqarah (The Chapter of the Cow)	Chapter 2, Verse 83	And [recall] when We took the covenant from the Children of Israel, [enjoining upon them], "Do not worship except Allah ; and to parents do good and to relatives, orphans, and the needy. And speak to people good [words] and establish prayer and give Zakat." Then you turned away, except a few of you, and you were refusing.
3. Surah al-Baqarah (The Chapter of the Cow) (2:110)	Chapter 2, Verse 110	And establish prayer and give Zakat, and whatever good you put forward for yourselves - you will find it with Allah. Indeed, Allah of what you do, is Seeing.
4. Surah al-Baqarah (The Chapter of the Cow)	Chapter 2, Verse 177	Righteousness is not that you turn your faces toward the east or the west, but [true] righteousness is [in] one who believes in Allah , the Last Day, the angels, the Book, and the prophets and gives wealth, in spite of love for it, to relatives, orphans, the needy, the traveler, those who ask [for help], and

		for freeing slaves; [and who] establishes prayer and gives Zakat; [those who] fulfill their promise when they promise; and [those who] are patient in poverty and hardship and during battle. Those are the ones who have been true, and it is those who are the righteous.
5. Surah al-Baqarah (The Chapter of the Cow)	Chapter 2, Verse 277	Indeed, those who believe and do righteous deeds and establish prayer and give Zakat will have their reward with their Lord, and there will be no fear concerning them, nor will they grieve.
6. Surah al-Nisa (The Chapter of Women)	Chapter 4, Verse 77	Have you not seen those who were told, "Restrain your hands [from fighting] and establish prayer and give Zakat"? But then when fighting was ordained for them, at once a party of them feared men as they fear Allah or with [even] greater fear. They said, "Our Lord, why have You decreed upon us fighting? If only You had postponed [it for] us for a short time." Say, The enjoyment of this world is little, and the Hereafter is better for he who fears Allah . And injustice will not be done to you, [even] as much as a thread [inside a date seed]."

<p>7. Surah al-Nisa (The Chapter of Women)</p>	<p>Chapter 4, Verse 162</p>	<p>But those firm in knowledge among them and the believers believe in what has been revealed to you, [O Muhammad], and what was revealed before you. And the establishers of prayer [especially] and the givers of Zakat and the believers in Allah and the Last Day - those We will give a great reward.</p>
<p>8. Surah al-Ma'idah (The Chapter of Table spread)</p>	<p>Chapter 5, Verse 12</p>	<p>And Allah had already taken a covenant from the Children of Israel, and We delegated from among them twelve leaders. And Allah said, "I am with you. If you establish prayer and give Zakat and believe in My messengers and support them and loan Allah a goodly loan, I will surely remove from you your misdeeds and admit you to gardens beneath which rivers flow. But whoever of you disbelieves after that has certainly strayed from the soundness of the way."</p>
<p>9. Surah al-Ma'idah (The Chapter of Table spread)</p>	<p>Chapter 5, Verse 55</p>	<p>Your ally is none but Allah and [therefore] His Messenger and those who have believed - those who establish prayer and give Zakat, and they bow [in worship].</p>

<p>10. Surah al-A'raf (The Chapter of The Heights)</p>	<p>Chapter 7, Verse 156</p>	<p>And decree for us in this world [that which is] good and [also] in the Hereafter; indeed, we have turned back to You." [Allah] said, "My punishment - I afflict with it whom I will, but My mercy encompasses all things." So I will decree it [especially] for those who fear Me and give Zakat and those who believe in Our verses -</p>
<p>11. Surah al-Tawbah (The Chapter of The Repentance)</p>	<p>Chapter 9, Verse 5</p>	<p>And when the sacred months have passed, then kill the polytheists wherever you find them and capture them and besiege them and sit in wait for them at every place of ambush. But if they should repent, establish prayer, and give Zakat, let them [go] on their way. Indeed, Allah is Forgiving and Merciful.</p>
<p>12. Surah al-Tawbah (The Chapter of The Repentance)</p>	<p>Chapter 9, Verse 11</p>	<p>But if they repent, establish prayer, and give Zakat, then they are your brothers in religion; and We detail the verses for a people who know.</p>
<p>13. Surah al-Tawbah (The Chapter of The Repentance)</p>	<p>Chapter 9, Verse 18</p>	<p>The mosques of Allah are only to be maintained by those who believe in Allah and the Last Day and establish prayer and give Zakat and do not fear except Allah , for it is expected that those will be of the [rightly] guided.</p>

<p>14. Surah al-Tawbah (The Chapter of The Repentance)</p>	<p>Chapter 9, Verse 71</p>	<p>The believing men and believing women are allies of one another. They enjoin what is right and forbid what is wrong and establish prayer and give Zakat and obey Allah and His Messenger. Those - Allah will have mercy upon them. Indeed, Allah is Exalted in Might and Wise.</p>
<p>15. Surah al-Kahf (The Chapter of The Cave)</p>	<p>Chapter 18, Verse 81</p>	<p>"So we desired that their Lord would give them in exchange (a son) better in purity (of conduct) and closer in affection."</p>
<p>16. Surah Maryam (The Chapter of Mary)</p>	<p>Chapter 19, Verse 13</p>	<p>(To his son came the command): "O Yahya! take hold of the Book with might": and We gave him Wisdom even as a youth, And piety (for all creatures) as from Us, and purity: He was devout,</p>
<p>17. Surah Maryam (The Chapter of Mary)</p>	<p>Chapter 19, Verse 31</p>	<p>And He has made me blessed wherever I am and has enjoined upon me prayer and Zakat as long as I remain alive</p>
<p>18. Surah Maryam (The Chapter of Mary)</p>	<p>Chapter 19, Verse 55</p>	<p>And he (Ismail) used to enjoin on his people prayer and Zakat and was to his Lord pleasing.</p>
<p>19. Surah al-Ambiya (The</p>	<p>Chapter 21, Verse 73</p>	<p>And We made them leaders guiding by Our command. And We inspired to them the doing of good deeds,</p>

Chapter of The Prophets)		establishment of prayer, and giving of Zakat; and they were worshippers of Us.
20. Surah al-Hajj (The Chapter of The Pilgrimage)	Chapter 22, Verse 41	[And they are] those who, if We give them authority in the land, establish prayer and give Zakat and enjoin what is right and forbid what is wrong. And to Allah belongs the outcome of [all] matters.
21. Surah al-Hajj (The Chapter of The Pilgrimage)	Chapter 22, Verse 78	And strive for Allah with the striving due to Him. He has chosen you and has not placed upon you in the religion any difficulty. [It is] the religion of your father, Abraham. Allah named you "Muslims" before [in former scriptures] and in this [revelation] that the Messenger may be a witness over you and you may be witnesses over the people. So establish prayer and give Zakat and hold fast to Allah . He is your protector; and excellent is the protector, and excellent is the helper.
22. Surah al-Mu'minun (The Chapter of the Believers)	Chapter 23, Verse 4	Successful indeed are the believers, Who are humble in their prayers, And who shun vain conversation, And who are payers of Zakat;

<p>23. Surah al-Nur (The Chapter of The Light)</p>	<p>Chapter 24, Verse 37</p>	<p>[Are] men whom neither commerce nor sale distracts from the remembrance of Allah and performance of prayer and giving of Zakat. They fear a Day in which the hearts and eyes will [fearfully] turn about -</p>
<p>24. Surah al-Nur (The Chapter of The Light)</p>	<p>Chapter 24, Verse 56</p>	<p>And establish prayer and give Zakat and obey the Messenger - that you may receive mercy.</p>
<p>25. Surah al-Naml (The Chapter of The Ant)</p>	<p>Chapter 27, Verse 3</p>	<p>Who establish prayer and give Zakat, and of the Hereafter they are certain [in faith].</p>
<p>26. Surah al-Rum (The Chapter of The Romans)</p>	<p>Chapter 30, Verse 39</p>	<p>And whatever you give for interest to increase within the wealth of people will not increase with Allah . But what you give in Zakat, desiring the countenance of Allah - those are the multipliers.</p>
<p>27. Surah Luqman (The Chapter of Luqman)</p>	<p>Chapter 31, Verse 4</p>	<p>Alif. Lam. Mim. These are Verses of the Wise Book, A Guide and a Mercy to the Doers of Good,-Those who establish worship and pay Zakat and have sure faith in the Hereafter.</p>

<p>28. Surah al-Ahzab (The Chapter of The Combined Forces)</p>	<p>Chapter 33, Verse 33</p>	<p>And abide in your houses and do not display yourselves as [was] the display of the former times of ignorance. And establish prayer and give Zakat and obey Allah and His Messenger. Allah intends only to remove from you the impurity [of sin], O people of the [Prophet's] household, and to purify you with [extensive] purification.</p>
<p>29. Surah Fussilat (The Chapter Explained in Detail)</p>	<p>Chapter 41, Verse 7</p>	<p>Say (unto them O Muhammad): I am only a mortal like you. It is inspired in me that your Allah is One Allah, therefor take the straight path unto Him and seek forgiveness of Him. And woe unto the idolaters, Those who do not give Zakat, and in the Hereafter they are disbelievers.</p>
<p>30. Surah al-Mujadilah (The Chapter of The Pleading Woman)</p>	<p>Chapter 58, Verse 13</p>	<p>Have you feared to present before your consultation charities? Then when you do not and Allah has forgiven you, then [at least] establish prayer and give Zakat and obey Allah and His Messenger. And Allah is Acquainted with what you do.</p>

<p>31. <i>Surah al-Muzzammil</i> (The Enshrouded One)</p>	<p>Chapter 73, Verse 20</p>	<p>Indeed, your Lord knows, [O Muhammad], that you stand [in prayer] almost two thirds of the night or half of it or a third of it, and [so do] a group of those with you. And Allah determines [the extent of] the night and the day. He has known that you [Muslims] will not be able to do it and has turned to you in forgiveness, so recite what is easy [for you] of the Quran. He has known that there will be among you those who are ill and others traveling throughout the land seeking [something] of the bounty of Allah and others fighting for the cause of Allah . So recite what is easy from it and establish prayer and give Zakat and loan Allah a goodly loan. And whatever good you put forward for yourselves - you will find it with Allah . It is better and greater in reward. And seek forgiveness of Allah . Indeed, Allah is Forgiving and Merciful.</p>
<p>32. <i>Surah al-Bayyinah</i> (The Chapter of The Clear Proof)</p>	<p>Chapter 98, Verse 5</p>	<p>And they were not commanded except to worship Allah , [being] sincere to Him in religion, inclining to truth, and to establish prayer and to give Zakat. And that is the correct religion.</p>

Command to Pay Zakat

The Muslims lived in Makkah for thirteen years, after which the command from Allah to migrate to Madinah was revealed. The guidance during the Meccan period revolved around belief in the Oneness of Allah, Prophethood and the eternal life of the Hereafter. Some scholars are of the view that the command to pay Zakat was revealed in Makkah, but the details and specifications of Zakat were revealed in the 2nd year after the *Hijrah* (migration) to Madinah. Thus, Zakat was institutionalised in Madinah, whilst the order was revealed in Makkah.

In Makkah, the verses on Zakat generally pertained to individual payments, and it was left to the individual's faith and own conscience to decide how much to give and whom to give it to. Great scholars such as Ibn Khuzaymah and Ibn Kathir were of the view that Zakat became obligatory in Makkah whilst other scholars are of the view that Zakat became obligatory after the *Hijrah* in al-Madinah²⁹. We know Zakat was revealed whilst the Prophet was in Makkah as Meccan verses refer to Zakat payments. For example, in the Meccan chapter titled, 'The Ascending Stairways' (Surah al-Ma'arij), Almighty Allah makes reference to Zakat with the following words:

"And in whose wealth there is a right acknowledged. For the beggar and the destitute."
(Quran, 70:24-25)

Around eighteen months after the arrival of the Prophet (Allah's blessings and salutations upon him) in Madinah, Zakat became institutionalised. Madinah verses

²⁹ Ibn Kathir, *Tafsir Ibn Kathir*, Riyadh: Dar Taibah
Ibn Hajar, *Fath al-Bari*, Beirut: Dar al-Ma'rifah

gave clear directives ordering the payment of Zakat. In the Medinan period, the Prophet would send out Zakat collectors and distributors.

The Ruling of Zakat

Zakat is an obligatory act of worship and a fundamental pillar of Islam³⁰.

The obligatory nature of Zakat has been established in the most definitive and authentic sources of Islam, namely, the Quran and Sunnah. In addition, there is a scholarly consensus (*Ijma'*) on the obligatory nature of Zakat. A person who denies the obligatory nature of Zakat rejects a fundamental of faith.

³⁰ Ibn Qudamah, *al-Mugni*, Cairo: Dar al-Manar

CHAPTER TWO:

CONDITIONS OF ZAKAT

OBLIGATION

Introduction

THIS CHAPTER DISCUSSES THE conditions that make Zakat obligatory. Just like Salat, fasting and Hajj have conditions before they become obligatory, Zakat also has conditions before it becomes compulsory. Zakat is only obligatory when certain conditions are met.

The classical scholars such as Imam al-Kasani (d.587AH) typically divided the conditions of Zakat into the following two:

1. Conditions relating to the Zakat payer
2. Conditions relating to wealth³¹

The conditions of the Zakat payer which we shall discuss are as follows:

1. Islam
2. Adolescence
3. Mental capacity
4. Knowledge

³¹ Al-Kasani (1986), *Badai al-Sana'i*; Beirut: Dar al-Kutub al-ilmiiyah

The conditions relating to wealth which we shall discuss are as follows:

1. Ownership
2. Possession
3. Productive wealth
4. Nisab
5. The passing of a lunar year

We shall now look into each condition in more detail.

Conditions relating to the Zakat payer

Conditions relating to the Zakat payer are as follows:

1. Islam

According to all the schools of Islamic law, only a Muslim is obliged to pay Zakat. This is understandable and intelligible since Zakat is worship, and it is Muslims who have faith and worship Almighty Allah.

2. Adolescence

According to the Hanafi school, Zakat is only obligatory upon an adolescent. Pre-pubescent minors are not required to pay Zakat. According to the other schools of Islamic law, Zakat is due upon minors too³². The Hanafi school is clear that Zakat is a worship and pre-pubescent minors are not tasked with performing worship at such a young age, just like they are not required to perform *Salat*, fasting or Hajj³³.

³² al-Zuhayli, W. (1985), *Al-Fiqh al-Islami wa Adillatuhu*, Damascus: Dar al-Fikr
Al-Mawsū'ah al-Fiqhiyyah al-Kuwaitiyyah, Kuwait: Dar al-Salasil

³³ *Ibid*

The other schools argue and state that the pre-pubescent are liable for monetary payments owed to people, such as compensation, indemnities, maintenance, and Zakat is also a monetary payment payable to the people, and therefore should be akin to compensation, indemnities etc. They further state that even if Zakat is a worship, it is a monetary worship wherein agency is valid, and as a result, a guardian can easily discharge the Zakat on behalf of the minor. This is in contrast to the other pillars of Islam which are not pure monetary forms of worship, they are physical forms of worship within which agency is not acceptable.

3. Mental capacity

Sanity and mental capacity are attributes by which a person is capable to make logical deductions, intuitively perceive the outcomes of actions and be able to distinguish between that which is so obviously beneficial and harmful.

According to the Hanafi school, sanity and mental capacity are a pre-requisite for Zakat obligation. Whosoever does not possess mental capacity is not required to pay Zakat. This goes back to the same principle that Zakat - being a worship - is only ordained on those who have the mental capacity to worship. It is only with mental capacity can a person consciously choose to worship, and thereby practice choice and attempt the test of life to obey or disobey. Therefore, only those who are adolescent and of sound intellect are liable to pay Zakat. However, a person who has intermittent capacity is still required to pay Zakat.

According to the other schools of Islamic jurisprudence, mental capacity is not a pre-requisite for Zakat. Whether a person has intermittent capacity or has no mental capacity, Zakat is still be payable upon their wealth. The arguments between the different schools are similar to that of in the case of adolescence.

4. Knowledge³⁴

According to the Maliki, Shafi'i and Hanbali schools, knowing that Zakat is an obligation is not a pre-requisite. Therefore, if a person was unaware of the obligation of Zakat, they are still obliged to pay Zakat for the previous years they were unaware.

According to the Hanafi school, having the potential to know about Zakat is sufficient to make Zakat an obligation even if one did not go further and acquire the actual knowledge. It can be argued that a person is deemed to have the potential to gain the pre-requisite knowledge of Zakat in the following instances:

- living in a Muslim majority country.
- having access to the internet in any part of the world.
- Being aware of a Muslim scholar or an Islamic centre, from which you can go to learn and gain knowledge on Zakat.

Conditions relating to Wealth

Conditions relating to wealth are as follows:

1. Ownership

The Zakatable assets must be in the ownership of the Zakat payer. Assets beyond one's ownership will not be included in the Zakat calculation³⁵. Ownership is a relationship with an asset which is manifested through a set of rights enjoyed by the owner, granting them authority, access, and disposal rights. Considering ownership,

³⁴ Ibid

³⁵ Ibid

the following people have sufficient set of ownership rights from a Shariah perspective to be liable to pay Zakat on the net Zakatable assets:

- Individuals in their personal capacity
- Sole traders
- Partners in a traditional partnership or a limited liability partnership
- Shareholders in a public or privately held limited company
- Bare trusts

Zakat is not due on funds held in the following vehicles and structures due to deficiency or lack of ownership from a Shariah perspective³⁶:

- Charities
- Waqf
- Charitable trusts
- Interests in possession and discretionary trusts as long as the beneficiary is not a trustee.

It is possible for one person to have multiple capacities. For example, a person can have individual Zakat to pay yet be a partner in a business and have Zakat due on his/her share of the business.

2. Possession

Another condition related to wealth for Zakat purposes is possession, which is typically referred to as *Milk al-Yadd* by the classical jurists. Possession can be actual or constructive. Actual possession is very simple to understand and refers to any asset that one has hold of physically either themselves or their agent. When it comes to

³⁶ AAOIFI (2017), Shariah Standards, Bahrain: Manama

constructive possession, it includes all that which is not physically in one's possession, but one still has control or access to the underlying asset. Constructive possession can be attained through registration and documentation that gives right to a specific asset and its associated benefits and risks.

Any Zakatable asset that one has in their possession, and it meets the other conditions, will be included in one's Zakatable assets. Similarly, Zakatable assets which one invests in will also be included in one's Zakat calculation, whether locked-in or inaccessible during the investment period. An investment being locked or inaccessible does not prevent Zakat liability. A person still has possession of the underlying assets and is benefitting from the potential growth and gains of the investment in terms of their net wealth. Lack of access refers to scenarios where one cannot use an asset, trade or invest in it. The Hanafi jurists given an example of a collateral securing a loan held by a creditor as an asset on which there is no Zakat due to a lack of possession or *Milk al-Yadd*. A person is cut-off from being able to benefit from this asset whilst in the possession of the creditor.

In regard to loans, the Hanafi jurists have classified loans as Zakatable whilst lent. A loan is considered Zakatable on the basis that one can call on the loan or transact the loan amount with the debtor. It is therefore deemed liquid, 'cash-in-hand' and tradable.

3. Productive Wealth³⁷

Zakat is only due on assets which are designated as *Mal Nami*³⁸. *Mal Nami* is generally and loosely translated as productive wealth, but the word productive does not help in getting a clear understanding of *Mal Nami*. The reality is that Zakat is a worship and that the conditions for Zakatable assets have been set by the Shariah in detail. *Mal Nami* has nothing to do how much the value of an asset inflates or its attractiveness in the markets or the supply and demand elasticity of an asset. However, there is some intelligible meaning in marking these specific assets as *Mal Nami*. What is apparent is that *Mal Nami* is specific to assets which are acquired with the primary purpose to re-exchange and 'spend' seeking a return, or on assets which naturally grow in units and size that are kept for growth purposes. In the context of Zakat, this is referred to as *Mal Nami*. A potential reason and wisdom in this type of asset being Zakatable is that these assets are typically liquid. They can be easily transferred to others. This makes it easy to fulfil the Zakat obligation on the payer. If these were illiquid and unattractive, nobody would want to take possession of such assets and fulfilling the Zakat obligation would be challenging. Likewise, for a Zakat beneficiary, to receive such assets is also highly beneficial. They can easily liquidate such assets and acquire their needs. *Mal Nami* is the most efficient way in giving the Zakat beneficiary assets that are liquid and widely accepted, giving the beneficiary more choice and opportunities in acquiring what they need.

Mal Nami has been divided into three core themes by the Islamic jurists as follows:

³⁷ Al-Zayla'i (1897), *Tabyin al-Haqa'iq*, Egypt: Bolaq
Al-Shilbi, (1897), *Hashiya 'ala Tabyin al-Haqa'iq*, Egypt: al-Bolaq
Al-Kasani (1986), *Badai al-Sana'i*, Beirut: Dar al-Kutub al-ilmiiyyah

³⁸ Ibid

1. Money
2. Trade stock
3. Freely grazing livestock with the intent of breeding and milk

Following from above, the following assets are deemed as *Mal Nami* based on the idea that they are assets acquired for exchange purposes:

1. Cash and receivables
2. Gold and silver
3. Trade assets

Similarly, the following assets are also *Mal Nami* based on the idea that they physically produce and grow³⁹:

1. Freely grazing animal livestock with intent of breeding and milk
2. Crops

4. Nisab

Nisab is the threshold upon which Zakat becomes obligatory. The rationale of *Nisab* is that it sets a benchmark on those who should contribute to the communal Zakat fund as well as distinguishing between the wealthy and the needy for Zakat purposes. This threshold was set by the Prophet Muhammad (peace be upon him), he said: "If you have 200 dirhams (silver), and it has been saved for a year, (you are) obliged to pay 5 dirhams of Zakat from it. And there is no obligation of Zakat in gold, until you have 20 dinars. If you own 20 dinars and it has been saved for a year, half a dinar must be paid." [Sunan Abu Dawud]

³⁹ Ibn 'Abidin, *Hashiyah ibn Abidin*, Karachi: H M Saeed

The *Nisab* was based on gold and silver as the Prophet's time was an era of the bimetallic standard as a monetary system. Although scholars differ in the exact conversion rates between dinar, dirham and contemporary metrics, some of the famous opinions are as follows:

- Gold = 87.48 grams or 85 grams
- Silver = 612.36 grams or 595 grams

People wonder whether there are two different and independent thresholds. The reality is, in the Prophetic era, the difference in value between the two Nisabs was 10:1; Silver was 200 dirhams and gold was 20 dinar. However, the purchasing power was identical between the two, so the actual *Nisab* was identical. 10 dirhams would be able to buy exactly what 1 dinar could buy in the markets. Since both currencies were commonly used, there were two standards. That means that in terms of value, the *Nisab* was one. However, with the shift from the bimetallic standard, the discrepancy between the two has only increased. A paper of Mansour Zarra-Nezhad was published in the Review of Islamic Economics wherein he discusses money in Islam as well as the difference between the value of the Dirham and Dinar. He states⁴⁰:

“As a general rule the exchange rate of dinar to dirham is determined by the demand for and supply of gold and silver. In the earliest period of Islam, the ratio of dinar to dirham was 10 to 1 (Ibn ‘Asakir, 1975:1/182). But after the conquest of Persia, Syria and Egypt during the caliphate of ‘Umar ibn al-Khattab, the increase in the supply of silver led to an increase in its cost. So the relative cost of gold increased in such a way that the value of each dinar was equal to 13 dirhams (Imam al-Shushtari, 1964: 90). This ratio did not change until the time of the caliphate of

⁴⁰ Zarra-Nezhad, M. (2004), ‘A Brief History of Money in Islam and Estimating the Value of Dirham and Dinar’, Ahvaz: Shahid Chamran University

Hisham ibn Abd al-Malik in the Ummayyad caliphate (al-Husayni, 1976: 97). The rate rose to 15 dirhams to each dinar at the beginning of the Abassid government (al-Husayni, 1976: 103). This ratio did not change until the year of 227(AH) (Qudama Ibn Ja'far, 1974: 249-51; al-Dhahabi, 1934: 2/847).

After that, this ratio rose and reached 22 at the beginning of 244 (AH) (al-Husayni al-Shirazi, 1976: 281), but it began to decline again in such a way that the value of one dinar was equal to 10 dirhams in 299(AH) (Ibn al-Jawzi, 1932: 120). Then in the middle of the Fatimid rule, the value of dinar again rose and reached 18 dirhams (Imam al-Shushtari, 1964: 90)."

To work out the dinar/dirham ratio (R) today, we have to calculate the ratio of the purchasing power of a dinar (P_{dinar}) and dirham (P_{dirham}) using the below calculation.

$$R = \frac{P_{dinar}}{P_{dirham}}$$

The purchasing power is calculated as the weight (w) of a dinar or dirham in grams multiplied by the gold or silver price (p) in grams respectively, i.e.

$$P_{dinar} = w_{dinar} \times p_{gold}$$

$$P_{dirham} = w_{dirham} \times p_{silver}$$

The weight of one dinar is 4.374 grams of gold and the gold price is £43.49 per gram on 20th January 2022.

The weight of one dirham is 3.0618 grams of silver and the silver price is £0.54 per gram on 20th January 2022.

Thus the dinar/dirham ratio thus becomes:

$$R = \frac{P_{dinar}}{P_{dirham}} = \frac{w_{dinar} \times p_{gold}}{w_{dirham} \times p_{silver}} = \frac{4.374 \times 43.49}{3.0618 \times 0.54} = 115.05$$

Considering all of the above, in those days, if you gave 2.5% in gold which is ½ Dinar or 2.5% of silver which is 5 Dirhams, the recipient would be given the identical purchasing power. However, if you give 2.5% today in terms of silver which is 5 Dirhams (15.309 grams), a recipient can only buy £8.26 in the market. If a recipient was given 2.5% in terms of gold which is ½ Dinar (2.187 grams), a recipient can buy £95.11. Assuming the stability of gold price, a person with 5 Dirhams could have bought £95.11 if it was 10 to 1. However, a person now can purchase £95.11 with ½ Dinar, which is 10 times more than what could have been bought at the time of the Prophet ﷺ. Thus, when the ratio was already 10 to 1, now you can buy 10 more times, the ratio becomes over 100 to 1.

Contemporary scholars differ in which *Nisab* should be used today. Some senior scholars such as Shaykh Abu Zuhra (Rahimahullah), Mufti Radha al-Haqq, Mufti Khalid Saifullah Rahmani, Shaykh Wahbah al-Zuhayli (Rahimahullah) and others have argued for gold *Nisab* as the threshold.

Mufti Radha al-Haqq writes:

“The jurists have generally preferred the Silver *Nisab* for Zakat. However, a huge disparity between the gold and silver *Nisab* exists today. Silver no longer enjoys the position it held in the past. The objective of Shariah was to make Zakat binding on those who were wealthy. If a person is considered wealthy based on the Silver *Nisab*, then every person owns a few Zakatable assets would make Zakat obligatory on him despite not being able to fulfil his own needs. Therefore, the Gold *Nisab* should be the standard for Zakat obligation⁴¹.”

⁴¹ Fatawa Dar ul-Uloom Zakariyya 3/107

Other scholars are of the view that the silver *Nisab* should be the threshold to determine who qualifies to pay Zakat. They argue that if the silver *Nisab* is the threshold, more people are likely to pay Zakat and the needy will benefit more due to the volume of Zakat payments. Nevertheless, people should follow the guidance of their local scholars in such matters.

When it comes to operationalising the *Nisab*, then one's net Zakatable assets must be equal to or above the *Nisab* for the initiation of one's Zakat year⁴². The obligation to pay will be determined at the Zakat year-end if one meets the *Nisab* threshold. Zakat obligation operates in the following manner:

- If you own Zakatable assets equalling the Nisab, your Zakat year begins.
- If you own Zakatable assets equalling Nisab after one lunar year on your Zakat year-end, Zakat payment becomes obligatory.
- If during the year your Zakatable assets drop below the Nisab, it does not matter, you will only consider the value at year-end.
- The Zakat year is invalidated if your net Zakatable assets are depleted and the valuation becomes zero in the year.

5. Passing of a lunar year

Another condition for the payment of Zakat is that one year should pass after owning Nisab. The lunar year should be used in calculating Zakat. However, contemporary scholars have permitted the use of the Gregorian calendar on condition that the Zakat rate is adjusted to 2.577%. This alternative view has been accepted by the AAOIFI Shariah Standards⁴³.

⁴² *Al-Mawsū'ah al-Fiqhiyyah al-Kuwaitiyyah*, Kuwait: Dar al-Salasil

⁴³ 3/2/4 Al-Hawl (Zakah year)

According to the Hanafi and Maliki schools, a person must have net Zakatable assets at the beginning of the year and at the end of a year. Fluctuations above and below the Nisab during the year will not nullify the Zakat year. If at year end, net Zakatable assets do not equal the Nisab, Zakat will not be payable. Further, one will wait until the next time their net Zakatable assets equal the Nisab and commence a new Zakat year from this date.

According to the Shafi'i and Hanbali schools, a person must maintain the value of net Zakatable assets above the Nisab for the entire lunar year. If at any moment the net value drops below the Nisab threshold, the Zakat year will be cancelled. Thereafter, the next time one's net wealth equals the Nisab, that is when a new Zakat year will commence.

Zakat Calculation Formula

Zakatable assets - deductible liabilities = Net Zakatable Assets

(Gold + silver + cash + receivables + investments in Zakatable assets + business stock) - (liabilities due now) = Net Zakatable assets

Net Zakatable assets \geq Nisab = Zakat payable

Net Zakatable assets $<$ Nisab = No Zakat due

The Zakah year for cash and commercial assets as well as livestock is a lunar year (354 days). In case of adopting the solar year for cash and commercial assets, the Zakah rate becomes 2.577%. As regards agricultural products no consideration is to be given to the Hawl (Zakah year) because what matters is harvesting. Similarly what should be considered for minerals and Rikaz (treasures) is their extraction. (AAOIFI Shariah Standard No.35 Zakah)

CHAPTER 3:

PERSONAL ZAKAT

CALCULATION

IN THIS SECTION, WE look at assets typically owned by the average person. We will address the following:

1. Money
2. Receivables
3. Gold and Silver
4. Non-Zakatable assets

1. Money

Rationale

The famous saying ‘cash is king’ resonates with the Zakat principles. The importance of cash flow is a key measure of the overall fiscal health of a business. Likewise, money is one of the most liquid assets and readily accepted by all. It is the easiest to spend, easiest with which you can find a counterparty wanting it, and therefore spending it is very simple. There will always be a ‘buyer’ of money. In fact, it can be argued that money as a Zakatable asset makes complete sense as it is the

easiest asset to dispose of for a Zakat payer and it is the most beneficial for a Zakat beneficiary, who can use money to fulfil multiple objectives with that money.

But from a Fiqh lens, money is Zakatable because it is *Mal Nami*. Zakat is only due on assets that are owned for exchange purposes like money which by design is for exchange. Money is acquired to exchange for other goods. Money, in and of itself, cannot benefit a person until they spend it. As such, the natural utility of money is exchange. Once exchanged, it gives you access to other beneficial items.

From a more philosophical and economic lens, we see that Zakat is not applied on income-generating assets. Rather, Zakat is levied on assets which are not adding value in their present state. Money remains as money unless invested or exchanged; trade stock remains as trade stock unless sold for profit. These assets therefore do not add value to the economy in their current states. If these assets are hoarded, they cause more harm than good. As such, Zakat ensures that these assets circulate and therefore incentivises investment and spend.

Evidence

The following verse directly mentions hoarded gold and silver which should have been given in the way of Allah. The exegetes of the Qur'an mention that this verse refers to Zakat.

"...those who hoard up gold and silver and do not spend it in the way of Allah, give them the glad tidings of a painful punishment" (Qur'an 9:34)

In a prophetic narration, a woman from among the people of Yemen came to the Messenger of Allah with her daughter. The daughter was wearing two big bangles of gold. The Prophet remarked: "Do you pay Zakat on these? She said: "No." He

said: "Would it please you if Allah were to put two bangles of fire on you on the Day of Resurrection?" So, she took them off and gave them to the Messenger of Allah and said: "They are for Allah and His Messenger." (Sunan an-Nasa'i)

The classical jurists have described moneyness as one of the factors for being *Mal Nami*, and as such, they declare all forms of currency as Zakatable.

Principles

1. All cash is Zakatable. Cash includes all income earned whether salaries, benefits or rental.

2. Zakat is binding on the amount of one's savings on one's Zakat anniversary. Regardless of the cash received in the year, only the remainder on the Zakat anniversary will be considered and be subject to Zakat. Money spent throughout the year will not be subject to Zakat as per the Hanafi Fiqh principles.

3. Zakat is not binding on unlawful income. Instead, the entire unlawful income must be dispensed in charity.

4. Funds held in current accounts at a person's Zakat year-end are Zakatable at their total value. Interest-based accounts are not Shariah compliant and must be avoided. If for any compelling reason a person has an interest-based account, then the accrued interest must be disposed in charity.

5. Investment account holders should pay Zakat on their investment balances as well as the profits in their ownership at their Zakat year-end, whether such accounts represent short or long-term deposits, and even if drawing from the account is restricted by the investment Institution or the owner.

2. Receivables

Rationale

In credit sales, there is an issue that arises. Before the sale, the assets are trade assets and clearly Zakatable according to all the scholars. The cash that is received as payment at the end is also a Zakatable asset according to all. However, there is a temporary and transitory period between the sale and cash payment in credit sales, which is the credit period. The question is, what ruling should be given to such a receivable? If the outcome is used as a standard to give a ruling, then the outcome is cash and the interim phase should be Zakatable. However, it is never guaranteed if the funds will be received, and secondly, many a time, a payment is payable for non-commercial reasons.

If you look at the current state, the receivable is considered *Mal Hukmi*, which means that in the eyes of the law, it is wealth and property, although really, it is not; a receivable cannot be stored or retrieved at will, it is merely an obligation and commitment in the liability of a person. However, if you consider what the cash is a result of, then it is a result of the trade asset which is Zakatable. And when it is a result of the trade asset and presently a substitute of it, then the receivable should be given the same ruling as far as Zakat is concerned. That makes sense too because receivables can be transacted with the debtor only, and a person can enter into *Hawalah* (assignment) agreements with the receivables. Hence, receivables are credit and have monetary value which is derived from the trade asset. There is spending power in a receivable, and it is an asset in terms of asset recognition and a substitute and derivative of the trade asset. Therefore, any receivable which originates from a Zakatable asset should also be Zakatable.

Principles

The Zakat treatment of receivables depends on how the receivable was created. As such, the Zakat treatment of receivables can be categorised into two as follows:

a. Zakatable annually whilst outstanding:

- Loans: Zakat is payable on the loan each year. The lender has the option to pay annually, or alternatively pay for all previous years upon repayment.
- Credit sales: Zakat is payable each year on the outstanding payments from trade stock and assets.

b. Non-Zakatable annually whilst outstanding:

- Outstanding fees, wages and salary
- Pay-outs and awards
- Claims and damages
- Settlements
- Inheritance shares

3. Gold and Silver

Rationale

The jurists deem gold and silver to be natural forms of money. As described earlier, moneyness is one of the key factors in making an asset Zakatable. Gold and silver, and specifically gold being deemed a natural form of money is intelligible and understandable. It is the characteristics of gold and silver which make them naturally appealing to humans to use as money. In earlier times, humans only had the elements in their natural environment. The most obvious thing to do was to use one such element which can represent the transfer of value. Something from their environment had to be used as technology to represent value and facilitate exchange. Gold proved to have all the innate characteristics of a medium of exchange as:

- Gold has no time limit or shelf life; it is durable.
- Gold is portable.
- Gold is divisible and malleable.
- Gold is rare.
- Gold is finite and has scarcity.

There are 118 elements in the Periodic Table of Elements. Humans eliminated all of the elements that represent gas for obvious reasons such as the inability for it to be ascertained. Another 38 other elements could not be used in everyday exchanges as they posed a threat to human life and endangered the very people currency should serve. These elements were either too reactive, corrode over time and/or ignite when exposed to air⁴⁴.

⁴⁴ Davidov, I. (2018), Why was gold the dominant form of money?. Medium.

The medium of exchange had to be rare but not too rare to ensure it maintains value and is not impacted by hyperinflation. That left only 5 possible precious metals: rhodium, palladium, silver, platinum, and gold. Platinum and palladium were proven to be too rare to create enough coins to circulate; people needed a metal that was somewhat rare so that not everyone produced their own coins, but available enough so a reasonable number of coins could be created to allow commerce. Silver wasn't a good choice because it tarnishes over time and rhodium was also too rare to be used. This left gold as the strongest choice when making or choosing an element as a currency. Thus, the characteristics and features of gold make it a natural form of money. A monetary system needs particular characteristics which create a conducive environment for monetary stability. Anything which harnesses these characteristics has the potential to serve as a currency and a medium of exchange long-term. It can serve as a monetary language by which people can interact, exchange value, price items and have economic stability, permitting the acquisition of everyday needs and a mechanism for remuneration.

Evidence

The following verse directly mentions hoarded gold and silver which should have been given in the way of God. The exegetes of the Quran mention that this verse refers to Zakat.

"...those who hoard up gold and silver and do not spend it in the way of God, give them the glad tidings of a painful punishment" (Quran 9:34)

In a prophetic narration, a woman from among the people of Yemen came to the Messenger of Allah with her daughter. The daughter was wearing two big bangles

of gold. The Prophet remarked: "Do you pay Zakat on these? She said: "No." He said: "Would it please you if Allah were to put two bangles of fire on you on the Day of Resurrection?" So, she took them off and gave them to the Messenger of Allah and said: "They are for Allah and His Messenger." (Sunan an-Nasa'i)

Principles

The schools of Islamic law differ in the Zakat treatment of gold and silver.

The Hanafi jurists treat all gold and silver as Zakatable, regardless of whether it is worn, stored, a form of investment or part of one's business stock.

According to the Maliki, Shafi'i and Hanbali jurists only gold and silver as trade stock, or a form of investment or an asset class in one's investment portfolio are Zakatable. However, the everyday gold and silver jewellery owned and worn by a woman for personal use is not Zakatable.

According to the Hanafi principles, Zakat on gold and silver is always due even if it is 9 carats. Only the gold & silver elements are Zakatable in such jewellery. To calculate the Zakat in such items, a person should simply multiply the price of gold carat per gram by the number of grams.

Gold and silver should be priced at what a person will receive if they were to sell these assets. This is known as scrap value. The scrap value of gold and silver can be searched online.

4. Non-Zakatable Assets

Zakat is not due on everything; it is from the mercy of Almighty Allah that only certain assets are Zakatable. If Zakat was levied on all our assets, it would be a means of difficulty and burden. Allah has not placed any burden in our practice and way of life. Almighty Allah states:

“Strive hard for Allah as is His due: He has chosen you and placed no hardship in your religion, the faith of your forefather Ibrahim. Allah has called you Muslims—both in the past and in this [message]—so that the Messenger can bear witness about you and so that you can bear witness about other people. So keep up the prayer, give the prescribed alms, and seek refuge in God: He is your protector—an excellent protector and an excellent helper.” [Qur’an 22:78]

Thus, those assets which are easiest to give and easiest to benefit from have been made Zakatable. The Fiqh calls these assets *Mal Nami*. Everything beyond *Mal Nami* is not Zakatable, regardless of the value of those assets. Hence, what we use for our personal needs and basic necessities on a day-to-day basis is not Zakatable. The following belongings are not Zakatable, regardless of their value:

- Residential home
- Vehicles
- Electric assets
- Home appliances
- Personal clothing

There is a categorisation of assets in the Fiqh referred to as *Mal al-Dimar*. Linguistically, the root letters refer to being hidden, unknown and absent.

Technically, in the Zakat terminology, *Mal al-Dimar* refers to wealth a person owns but cannot benefit from whatsoever due to being barred, restricted or unable to use, transact or benefit from it.

Examples given by the jurists are as follows:

- Seized Zakatable assets where a person has no recourse.
- Lost wealth.
- Sunken wealth.
- Buried wealth in a vast open plain.
- Appropriated assets.
- Debt which a creditor has no evidence at all to claim, with the debtor in denial and the creditor having no hope of repayment.

CHAPTER 4:

INVESTMENT ZAKAT CALCULATION

Intentions and Investments

BEFORE DISCUSSING THE VARIOUS asset classes that can be invested in, it is imperative to understand that intentions have a great impact on the Zakat treatment of investments. As a principle, investments will only be Zakatable if the investment is in Zakatable assets. Typically, assets are purchased for one of three reasons:

1. **Personal use** – This refers to assets purchased for everyday use and personal use. Such assets will be deemed personal belongings and are not Zakatable (except cash, gold, silver etc.) Assets that are not used every day but are excesses and bought as luxuries will also fall into this category.

2. **Investments** – Investments can be typically for two reasons:

a. **Store of value** – This refers to an asset that is purchased to preserve and maintain one's wealth in a form other than money. This asset may appreciate in value but is not from those assets deemed *Mal Nami*. *Mal Nami*, as discussed before, are currency, gold, silver, and trade assets. An investment as a store of value could be purchased to hedge against inflation risk that is prevalent in fiat currency. An asset purchased solely as a store of value with

no intention to trade or do business (*Tijarah*) will not be Zakatable trade assets (*Amwal al-Tijara*). Rather, this is a type of investment (*Istithmar*) where the objective is long-term wealth preservation without any intention to do business or sell the underlying. For example, a person purchases property, or purchases land or a collectible, not to trade or for business purposes, but to simply store and preserve the value of his wealth. Even though this appreciates in value, it does not mean it is Zakatable. This is similar to residential property which appreciates in value, or rental property which is a store of value, or even a second or third property not on lease that appreciate in value, but a person has not bought this with any firm intention to on-sell or trade them.

b. Income generation – This refers to the purchase of an income generating asset that is purchased for dividends or rental income. The intention underpinning such an acquisition is to not sell the asset, but to earn ongoing income from such an asset. For example, the purchase of a buy-to-let property.

3. Trading – This refers to an asset purchased with the intention of resale and to make profit in the ordinary course of business regardless of what the asset is. These types of assets will qualify as Zakatable trade assets (*Amwal al-Tijara*). When it comes to individuals who trade the markets, they are ‘trading’, which is different to ‘investing’.

From a Fiqh perspective, trading has certainty (*yaqeen* or *ghalaba al-dhann*) of intention to resell and it is the primary intention which is clear and firm. Whereas investments generally have a strategy or long-term target. The entire investment phase is underpinned by doubt (*Shakk*), uncertainty and modelling based on variables

and probabilities, with no real definitive idea of if, when and why a sale or liquidation will occur.

Also, *Mal Nami* is an exception and not the norm. Assets are generally not *Nami* unless they qualify under *Nami*, by being currency, or for trade or animal rearing for growth. To activate an exception, there has to be clarity, certainty and definitiveness.

From a financial perspective, there is a clear difference between a ‘trader’/‘businessman’ and an ‘investor’. Investing and trading are not the same thing. Trading is all about taking a position and aiming to take profit. Investing is all about having ownership of an asset as a store of value with a very general goal of increasing that value over time. Investors are more likely to sell their position because they don’t like the direction of the asset’s price than they are to sell their position due to its current dollar value. An investor isn’t necessarily going to set a stop loss. Instead, they will build a position in the asset and stick with their investment for as long as the reason they made the investment in the first place is true.

An investor is a true ‘hodler’, they really don’t need to look at prices and charts unless they are looking to add to their position at a good price. Investing is not trading, but ultimately buys and sells are made as financial assets are primarily benefited from financially. Hence, from a Zakat perspective, it is trading - where the aim is to take a position and realise a profit from it – that makes an asset Zakatable at its full value. On the other hand, investments are Zakatable proportionately to the Zakatable assets within an investment portfolio.

Following on from the above, a person will typically adopt the following courses of action:

1. Buy-and-hold: This is where a person does not do ‘business’ or trade an asset. They have purchased assets with no intention to sell. They *may* sell in future, but there is

no certainty; they rather hold onto an asset and keep it as part of their portfolio for its value and future potential. An example of this is if a person buys a shariah compliant financial instrument with the intention that they will only sell if the market value hits \$100, or otherwise will not sell. This is a typical investment strategy where investors are looking to hit a particular price for them to even consider selling. In such scenarios, Zakat is not due on the financial instrument at the full value, Zakat is only due on the underlying Zakatable assets, if any.

2. Savings, investments & store of wealth: This is where a person acquires assets or securities with no intention to sell at present. Which means that when they purchase the assets, there is no firm or concrete intention to resell. They may sell if required or if there are favourable market conditions. Thus, the investor is simply seeking long-term preservation of wealth, and a means of saving wealth in a form different to cash.

Zakat is not due on the full market value of such an investment. Zakat is only due on the underlying Zakatable assets, if any.

3. Trading: This is where the trader is 'trading' and doing business in assets and securities. This is their business or side business, and they seek an income or additional income through this buy-and-sell activity. This also includes a one-off purchase with the firm intention to resell in the future to capture short-term positive price fluctuations. The idea and intention of a trader from the outset is sale, regardless of when that sale takes place, but they are after the price difference without too much concern for the actual worth of the current asset. A trader opens a position with the very intention to close it – in other words sell or liquidate their holdings - as soon as they get their target profit or feel the current price is worth selling at. There is no uncertainty in the intention to on-sell the asset. That is the firm intention. They have purchased the asset to move it on in the present time as soon as a buyer is ready or

available. There is only uncertainty in the price and the trader is seeking to sell at the best price possible.

The trader is always certain of trading, it is just the timeframe or actual moment of selling is that is unknown. That is similar to a businessman or a grocery store owner who has goods on their shelves for months; the intention is to sell all of these assets immediately if a buyer is found.

On the other hand, an investor is not seeking to replace the assets at present. They want to hold onto the asset seeking the future value of the asset, and not its current replacement value in the market. As such, an investor is not seeking a counterparty nor is concerned of one. In investing, a buyer is not sought nor is a buyer required, as the investor is not trading, and therefore the assets that they hold are not trade assets for Zakat purposes.

In a trading strategy, Zakat is due on the full value of the trading positions at market value. Of course, if a trader changes his mind and decides that he wants to hold onto the asset for the long-term value appreciation within the asset and no longer intends to sell the asset, then the trade will be turned into an investment, and the Zakat on investments will apply.

Any asset in which a person does not intend to trade (*Tijara*) with, in other words, the person does not intend to buy and sell the asset, but buys the asset, or a share in a pool of assets to preserve wealth and grow one's capital, then Zakat will not be due on the full value. Zakat will only be due on the underlying Zakatable assets, if any. These assets will not be deemed as *Amwal al-Tijara* or trade assets, and nor is this 'business' or 'trading'. It will be an investment, and investments are Zakatable according to the underlying net Zakatable assets if any.

However, an investment for an investor, wherein the operations are effectively buy-and-sell transactions, will be considered business and are Zakatable at the current value. For example, In *Mudaraba*, whatever is purchased with the capital to resell will be Zakatable at the current market value of the investment. Similarly, if a person invests into a company whose business activity is to develop and sell land or property, the investment will be a form of trading and the person will pay Zakat on the entire amount as this in reality is the business; the only intention is to sell. Another example of this is a share acquired in a Special Purpose Vehicle (SPV) whose only underlying business activity is to buy-and-sell for profit, whether development land, property or something else, the entire share value will be Zakatable at the current market value.

Clear Intentions

To solve any confusion whether a person is a trader or investor, and whether an asset is a type of *Amwal al-Tijara*, a person should just make an intention explicit and clear (of course, this will not work where the underlying operations are of business nature and *Tijara*, as the actions are more explicit than the intention). For example:

1. When investing in shares for diversification and growth, a person should simply make an express intention that they are not purchasing to sell. They may one day sell if they wish, but that is unknown and they are not sure if they will sell. Zakat will only be due on the underlying net Zakatable assets and not the full value.

2. When investing in private equity and start-ups, a person should simply make an express intention that they are not selling now, and may sell in the future if a buyer comes and if the price is right.

3. Whenever the intention is contingent or conditional, then the asset will not be a trade asset. Examples of contingent or conditional intentions are as follows: 'if the price is right', 'if there is profit', 'if there is ever a buyer', 'if there is ever a need'. In

such instances, it means that the asset is not bought firmly just to sell. There is doubt in the intention itself (*Taraddud fi Asl al-niyya*).

It can be inferred from some of the Fiqh texts that the type of activity occurring after the acquisition of an asset and the intention which is immediate and current in any transaction is what is definitive, and not the future potential activity or distant goal. Further, when a person makes an intention to sell something in the future, that necessarily and logically entails that they are not selling at present. As such, the inferred meaning would mean that they are not selling the item at present, which means the intention to sell is absent, and that the item is not being traded or open for *Tijara*. Further, whenever there is an 'if, maybe or don't know' in one's intention regarding the resale of an asset, that asset will no longer be *Amwal al-Tijara*.

Zakat Treatment of Various Asset Classes

Keeping the above in mind, we will analyse the Zakat treatment of various investment asset classes as follows:

1. Shares and stocks
2. Private equity and start-ups
3. Bonds
4. Sukuk
5. Pensions
6. Investment Land
7. Investment Property
8. Mutual Fund
9. Exchange-Traded Fund
10. Exchange-Traded Commodities

11. REIT Funds
12. Crypto-assets
13. Art and Collectibles
14. Commodities
15. Precious Metals
16. Options
17. Forwards
18. Futures
19. Swaps
20. Forex

1. Shares and Stocks

Definition

The AAOIFI Shariah Standards define shares as follows:

“A share represents an undivided share in the capital of a corporation, just as it represents an undivided share in its assets and the rights associated with it upon conversion of the capital into tangible things, benefits, debts and so on. The subject-matter of the contract at the time of trading of shares is this undivided share.”

Shares are not simply slices of ownership in assets of a company. From the lens of the law, shareholders are not considered owners of the assets in the company. The Court of Appeal declared in 1948 that “shareholders are not, in the eyes of the law, part owners of the company”. In 2003, the House of Lords reaffirmed that ruling, in unequivocal terms. “Ownership” of shares is not the same as owning your own freehold property. Shares do not give legal ownership of the underlying assets of a firm. Instead, shares are a bundle of rights, and the shareholders have a claim on the assets of the company after other senior claims are fulfilled.

Although a Shariah ruling is not entirely premised on legal and accounting classifications, there is certainly an overlap and several parallels in the way these realities are understood. However, each subject works within a framework and operates with set rules. Hence, whilst we take support from legal and accounting principles, Shariah has its own framework, its own principles, its own processes and tools to ultimately analyse and conclude on a matter.

Shares are a recent phenomenon and an exact parallel or precedent is not found in the classical works of Islamic law. Although some scholars have compared companies limited by shares or limited by guarantee to *Waqf*, *Baytul Mal* (public treasury) and classical ownership in servants, there are still differences between them.

Ownership (*Milkiyyah*) in the legal sense and in the Shariah is not a simple concept; it is a relationship between a person and a thing. Like friendship, ownership has many properties, rights and manifestations. If a relationship has enough of these properties, we can describe it as ownership. Arguably, shares grant sufficient rights to distinguish shares from debts, derivatives and to make it fall generally within equity albeit different to the equity one owns in their freehold property.

Shares are clearly different from debt obligations as there are no obliged repayments, nor is the capital guaranteed and nor are shareholders ranked *pari-passu* with creditors. Further, shares are treated as equity from an accounting perspective. Thus, shares are clearly different to debt obligations.

Shares are different to derivatives as shareholders have more rights than derivative holders and there are actual underlying, recognised assets represented by the shares. Further, shareholders' rights arise in the Companies Act 2006 whilst derivatives enjoy no such position. Shareholders generally have the rights to attend general meetings and vote. Shares also grant the shareholder rights to dividends, however there is no

obligation on the directors to pay dividends. Of course, derivatives do not hold such rights.

Although shares give their holders no right of possession and no right of use of the underlying assets, it is understandable that these rights are not key nor sought by shareholders. Shares are financial assets and are benefited from financially. If a company was set up to grant rights to possess, or rights of use to hundreds of shareholders, the firm could simply never function as any shareholder at any time would want to benefit from the assets! While shares do not give similar rights to equity in freehold nor the same level of *Milkiyyah*, they still harness relationships and features sufficient to classify the shares as a type of *Milkiyyah* granting *Huquq* (rights) in an entity.

In fact, a company is just a legal framework for a group of investors (i.e. the shareholders) to organise their investment. Ultimately, people own things, not companies. All the assets of a company are effectively owed to someone, whether it be employees, suppliers, banks or shareholders. Someone has a claim over each and every one of the assets. Hence, the accounting equation is as follows:

$$\text{Assets} = \text{Claims}$$

As such, shares are essentially a bundle of rights and give shareholders an “interest” in the firm. These rights are sufficient for the shareholder to be considered *Malik* (owner) of shares in an entity. Although shares do not have a direct parallel to classical structures and investments and are not symmetrical to traditional understandings of ownership, they are still a valid form of investment and they do grant a novel type of *Milkiyyah* and interest to shareholders.

Shariah Compliance

In terms of Shariah compliance, listed equities can be divided into three types:

1. Shariah compliant business & Shariah compliant financials

This refers to companies which have a Shariah compliant business activity such as the trading of halal food and beverages, textiles, halal pharmaceuticals. They further have no borrowings with interest, and they do not receive any unlawful earnings from interest-bearing deposits, unlawful investments or trade of unlawful products.

Such listed companies are very difficult to find as they require an entire Islamic economic system with all Islamic financial institutions in terms of capital markets, Shariah compliant money markets, Takaful institutions, Islamic banks and more.

2. Non-Shariah compliant business

This refers to those companies which have a non-Shariah compliant business activity such as the production of pork, production of alcohol and conventional financial institutions trading in non-Shariah compliant products and instruments. Investing in such equities is never Shariah compliant and should be avoided altogether.

3. Shariah compliant business & mixed financials

Many companies fall into this area where their business is Shariah compliant, but they may have a small proportion of borrowings with interest or may have deposits in a business account in a conventional bank and thus receive interest.

1. Business screening

A company shall not be involved in any of the following businesses:

- Companies in the financial services industry that are involved in interest-based lending and/or distribution of interest-based products. This includes financial intermediaries such as conventional banks, conventional insurance, interest-based lending (excluding windows operating in compliance with Shariah principles).
- Manufacturing or distribution of alcohol and tobacco.
- Companies operating in betting and gambling operations like casinos or manufactures and providers of slot/gambling machines.
- The production, packaging, processing, or any other activity related to pork and non-halal food and beverages.
- Bio-technological companies involved in human genetic manipulation, alteration, mutation and cloning; excluding those that are involved in medical research.
- Shariah non-compliant entertainment, that deals with the operation of cinema theatres, composing, production and distribution or sale of music or pornography, the operation of Shariah non-compliant TV or radio stations.
- Any other activities not permissible under Shariah, as determined by the Shariah Advisor.

2. Financial Ratios Screening

Once a company passes the initial screening, a detailed analysis of its financials will be conducted using the last available audited financial statements. A company must pass the following:

- a. The total interest-based borrowings divided by the value of the total assets or market cap of the company must be less than 30%;
- b. The total interest-bearing securities divided by the value of the total assets or market cap of the company must be less than 30%; and

- c. Non-permissible revenue must be less than 5% of total revenue.

Zakat Treatment

Zakat on shares depends on the intention and objective of the investor. This can be divided into three scenarios:

1. Buy-and-hold strategy : Zakat is not due on the full market value of the shares. Rather, Zakat is only due on the proportion of net Zakatable assets in the company. To determine this, a person should review the balance sheet to determine the underlying Zakatable assets and deductible debts. Since this is challenging for many people, a person can take 25% of the value of their shares and pay 2.5% of that value as Zakat.

This proxy was researched and developed by Mufti Faraz Adam and a team of scholars at the National Zakat Foundation UK in 2018, where the balance sheets of the FTSE 100 companies were reviewed. 66 out of 100 had net Zakatable assets below 25%. The other 34 were non-compliant companies. Hence, the majority of the companies had net Zakatable assets below 25%.

2. Savings and store of wealth: Zakat is not due on the full market value of the shares. Again, Zakat is only due on the proportion of net Zakatable assets in the company. Like a buy-and-hold strategy, a person can get an accurate value by calculating the net Zakatable assets ratio in the company. Alternatively, a person may use the proxy of 25%.

3. Trading: Zakat is due on the full value of the investment at market value. Trading here means the sole intention to sell and capture short-term positive price fluctuations with a fixed intention to sell at the very outset.

Using a balance sheet to determine the Zakatable percentage

For buy-and-hold or savings investments, the best and most accurate method to calculate the Zakat liability on listed equities is to perform a calculation using the balance sheet. This can be done through the following:

STEP 1: Get hold of the balance sheet

If shares are bought as an investment to attain dividends, the shareholder needs to view the balance sheet of the company. This can be acquired by searching online by typing in the company name followed by balance sheet e.g. "XYZ Balance Sheet".

STEP 2: Identify Zakatable assets on the balance sheet and add up their values

The following are typical Zakatable assets on a balance sheet:

- Trade and other receivables
- Inventories
- Derivative financial instruments
- Investments
- Cash and cash equivalents

The following are typical non-Zakatable assets:

- Intangible assets
- Property, plant and equipment

Add up the value of all Zakatable assets on the balance sheet.

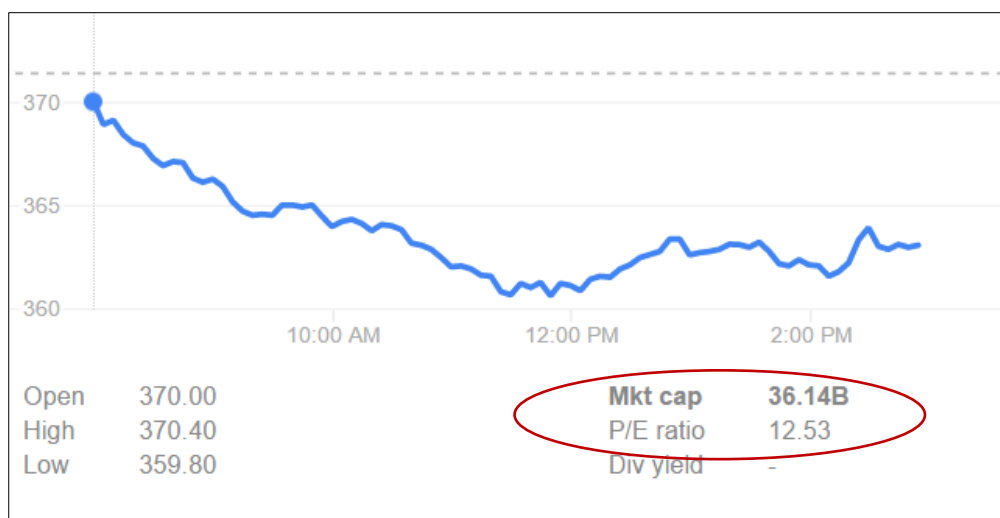
STEP 3: Subtract deductible liabilities from the balance sheet

The following are typical deductible liabilities on the balance sheet:

- Current loans and other borrowings
- Trade and other payables
- Current tax liabilities

STEP 4: Divide the net Zakatable assets figure by either the total assets or the market cap

If market cap is used, then find the market cap of the company you have shares in by simply making a search online of 'Market Cap XYZ'. This should show up on the search:



STEP 5: Calculate the percentage of Zakatable assets in the company

This is done by multiplying the result from step 4 by 100, to get the percentage.

STEP 6: Apply the percentage to the value of your shares

Apply the percentage calculated from step 5 to your shares. You will get a monetary value. So if step 5 gave you 15%, and you had shares worth £100, 15% would be £15.

STEP 7: Pay Zakat on shares by paying 2.5% of the value from step 6

Pay 2.5% Zakat of the Zakatable assets amount in pounds. Following from the same example, 2.5% of £15 is £0.36.

2. Private Equity and Start-Ups

Definition

In a broad sense, private equity (PE) is the investment of capital into private companies (or companies that become private), rather than those that are publicly listed or traded on a stock exchange. When people talk about PE, what they're commonly referring to is investments made into more mature, established companies by private equity firms. A start-up is a venture that is initiated by its founders around an idea or a problem with a potential for significant business opportunity and impact. So it is very similar to private equity in terms of being an unlisted, private company but is just very early in the business cycle.

Shariah Compliance

For Shariah compliance, PE and start-ups are treated and reviewed in the same manner as that of listed equities. Any investment in a private company must pass the business screening and financials screening criteria. However, the information may not be as easily accessible as listed companies since the regulatory requirements are different.

Zakat treatment

The Zakat treatment on start-up and private equity investments is that the investor should pay on the net Zakatable assets of the company annually. An investor should determine the ratio and percentage of net Zakatable assets in the company. Thereafter, the same percentage should be applied to one's investment. Finally, 2.5% of this amount should be paid as Zakat. For example:

- a. A company's current book value is £5m.
- b. By looking at the current balance sheet or discussing with the founders, I determined that the company has circa £1m Net Zakatable Assets. (To determine this, we did the following: Zakatable assets – current liabilities = Net Zakatable Assets)
- c. I had invested £10,000 in this start-up.
- d. £1m of £5m is 20%. (20% of the company is the net Zakatable assets figure)
- e. That means, 20% of my investment is composed of the net Zakatable assets.
- f. I will pay Zakat on 20% of my £10,000 investment, which is £2,000.
- g. 2.5% of £2,000 is £50.
- h. The total Zakat is due £50

Equity in a start-up, or private company, is relatively illiquid, as it is more difficult to sell. Start-up investors make a profit from their investments if they ever sell part or all of their portion of ownership in the company during a liquidity event, such as an IPO or acquisition. Thus, investors invest with a long-term view of making a profit in the future. At present, the start-up serves as a store of value and wealth. Further, the start-up is a business venture whereby the goal is to scale and increase value for the long-term. The company is not selling itself at present but is more concerned with scaling and growing, making it lucrative for buy-outs in the future. Therefore, the founders and start-up shareholders are all involved in a long-term business venture with a view to sell the business and exit from this company one day in the future. At present, it only operates like any other business.

The Islamic jurists state that when an investment or transaction is made and there is no intention at present to sell, the underlying investment will not be considered as trade asset. A start-up investor is investing and providing liquidity in the start-up business to scale the business with a view to sell their shares one day in the future if a buy-out occurs. When the business is not for sale at present, and nor is the investor seeking to sell their share at present, then the only Zakatable element in such an investment is the Zakatable assets in the business.

3. Bonds

Definition

Bonds are issued by governments and corporations when they want to raise money. By buying a bond, an investor is giving the issuer a loan, and the issuer agrees to pay back the face value of the loan on a specific date, and to pay a coupon or a

periodic interest payment along the way, usually twice a year. There are several types of bonds and money market securities, which in essence, irrespective of their name, are loans with interest payments. Bonds are part of fixed income securities. There are several types of fixed income securities such U.S., state, municipal, governmental agency, sovereign, corporate and emerging market bonds, commercial paper and brokered certificates of deposit. UK government issued fixed income securities are known as gilts.

Shariah Compliance

In Islam, a loan (*Qard*) is considered a gratuitous contract and charitable act; loans cannot be monetised and are not for profit generation. They are a form of financial support where the lender genuinely assists another for the sake of Allah with no stipulated tangible or intangible gain in this world. The Qur'an and Sunnah promise rewards to a lender who provides a loan to a person in need. The Qur'an and the Sunnah have prohibited the lender from receiving any stipulated or customary benefit from the borrower, whether that is tangible or intangible.

Zakat Treatment

Despite being not Shariah compliant, if a person invested in bonds or treasury bills unknowingly, they should liquidate such holdings immediately. However, Zakat is payable on the principal amount of the bond (cost of the bond), whereas the entire amount of interest should be disposed to charitable avenues.

4. Sukuk

Definition

While Sukuk are commonly translated as 'Islamic bonds', this is not an accurate representation of what they are. Sukuk (a plural of *Sakk*) are instruments representing a proportionate ownership in underlying assets or usufructs, entitling the holders of such instruments to a proportionate share in the proceeds of such assets or usufructs. The AAOIFI Standards defines investment sukuk as: "... certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity."

Shariah Compliance

When structuring Sukuk, some Shariah compliant considerations are as follows:

1. The obligor must be raising funds for a Shariah compliant activity.
2. Depending on the Sukuk structure, the requirements and conditions of that structure must be met.
3. Trading of debt based Sukuk certificates is not permitted.
4. Purchase and sale undertakings must be structured in a compliant manner depending on which structure is being used.

Zakat Treatment

There are several types of Sukuk structure. The AAOIFI Shariah Standards lists 14 different types of structures. As such, the Zakat treatment of any Sukuk issue will depend on the structure being employed. We will address the common and popular Sukuk structures and their Zakat treatment.

Sukuk al-Ijara

These are issued based on sale and lease contracts, and their issuance is used to finance the purchase of a leasable asset (to own its title and usufruct) for the purpose of leasing it to generate revenue, or as a liability by description (Ijarah Mawsufa bil-dhimma), whether to its original seller or to someone else, for an agreed period, which is the duration of the Sukuk, against an agreed rent. The *Sakk* represents a common share in the ownership of the asset, its title and usufruct, and it represents after leasing it a common share in the rent, which represents the return of these Sukuk.

The Zakat on Sukuk al-Ijarah will only be on the rental income that has been paid and is with the Sukuk holder on their Zakat year-end.

Sukuk al-Musharaka

These are issued based on a Musharaka contract, and their issuance is used to pay the sukuk holders' share in the capital of Musharaka, whose other partner is the sukuk originator. The Musharaka Sukuk represents a common share in the ownership of the Musharaka assets, which may include tangible assets, usufructs, cash money, debts, and other financial rights. After sale of the Musharaka assets, the *sakk* represents a common share in the selling price. The sukuk holders are entitled to a common share in the investment return of the Musharaka assets and are liable for the investment risks in proportion to the number of sukuk they hold.

Zakat on Sukuk Musharaka certificates is proportionate to the ownership share in underlying net Zakatable assets.

Sukuk al-Mudaraba

These are issued on the basis of a Mudaraba contract, and their issuance is used to pay the Mudaraba capital to the Mudarib in order to invest it, in lieu of a predetermined share in the profit. The Mudaraba Sukuk represents a common share in the ownership of the Mudaraba assets, which may include tangible assets, usufructs, cash money, debts and other financial rights. After sale of the Mudaraba assets, the *sakk* represents a common share in the selling price. The sukuk holders are entitled to a common share in the investment return of the Mudaraba assets; on the other hand, they share the investment risks in proportion to the number of Sukuk they hold.

Zakat is due on the market value of the Sukuk certificates if the underlying assets are trade assets and business stock. The income will also be Zakatable.

Sukuk al-Murabaha

These are issued based on a Murabaha contract, and their issuance is used to finance the purchase of the Murabaha assets for the purpose of selling the same to the party promising to buy them. The Murabaha *sakk* represents a common share in the ownership of these assets, this would be after the purchase of Murabaha assets and prior to their sale and delivery to the Murabaha buyer. After their sale to the party promising to buy them, the *sakk* represents a common share in the selling price of the Murabaha asset or receivables. The return of these sukuk originates from the difference between the Murabaha assets' purchase and selling prices.

Zakat is due on the outstanding balance including the capital and profit and as such a Sukuk represents debt.

Sukuk al-Istisna

These are issued based on an Istisna' contract, and their issuance is used to finance the manufacturing of the asset sold on Istisna' basis for the purpose of delivering the same to the buyer in another Istisna' contract. The Istisna' *sakk* represents a common share in the ownership of the manufactured asset, and it represents, after delivering the asset to its buyer, a common share in the selling price. The return of these sukuk generates from the difference between the cost of manufacturing the asset and its selling price.

Zakat is not payable by the buyer in Istisna' on the Istisna' goods, as the ownership is incomplete and during the Istisna' term, the buyer merely has a claim on the seller for an item of certain specifications.

Sukuk al-Wakala

These are issued on the basis of a Wakala investment, and their issuance is used to form the capital which is paid to the investment agent to invest it against a predetermined fee. Every *sakk* represents a common share in the Wakala assets which may contain tangible assets, cash, debts and other financial rights; and it represents a common share in the Wakala assets' price after they have been sold. The holders of the investment Wakala Sukuk are entitled to the investment return and liable for the investment risks, each in proportion to the number of the Sukuk he holds. The investment agent, in return, is entitled to a guaranteed fixed fee payable by the Sukuk holders, in addition to all or a percentage of the profit exceeding a certain threshold, as incentive if applicable.

The Zakat treatment of this depends on what the investment agent is investing in. If deployed in rental property or real estate, the rental income will be Zakatable only. If invested in a business, the net underlying Zakatable assets will be Zakatable.

5. Pensions

Definition

Put simply, a pension is savings for you to use upon retirement. What happens between now and retirement with your savings is the key part. A pension fund is the vehicle used in the interim. A pension fund is an investment product which invests your salary, tax relief and any employer contributions into a portfolio of assets.

There are different types of categorisations for pensions. We will consider the most popular categorisation of pensions in terms of what determines the total value of your pension. There are two types of pensions in this regard: defined contribution and defined benefit.

A defined contribution pension is the most common type of pension. On retirement, the amount your defined contribution pension is worth depends on how much money you've contributed and the performance of your investments. Most modern workplace and personal pensions are defined contribution schemes. Other types of pensions such as AVCs (Additional Voluntary Contributions), SIPP (Self-Invested Personal Pension) and SSAS (Small Self-Administered Scheme) are all types of defined contribution schemes.

The second type of pension is a defined benefit scheme. A defined benefit pension – also known as final salary scheme – promises to pay a retirement income

based on a percentage of your salary. What you receive depends on how long you spent working for your employer, and how much you were earning at the time you gave up work. Outside of the public sector, this type of pension is rare nowadays.

Our view is that Zakat is only due on defined contribution schemes if invested in Zakatable assets. The reason being is that the pension member has a beneficial interest in the underlying assets of the pension fund and he/she assumes the investment risk. The fact that one cannot drawdown on their pension savings immediately until the age of 55 is immaterial; the entire concept of this investment is to save for retirement. From a Fiqh perspective, contributing a percentage of one's salary instead of receiving one's salary immediately, whereby you assume the investment risk and have the ability to make investment decisions, qualifies this type of scheme as Zakatable.

On the other hand, defined benefit schemes are forms of deferred income and are classed as 'weak' receivables from a Hanafi Fiqh perspective. Zakat is not payable on weak receivables, and as such, Zakat will not be due on a defined benefit scheme throughout one's employment term.

Zakat Treatment

Ideally, Muslims who invest in defined contribution pension schemes should review their fund's factsheet. The factsheet gives information on the holdings within a portfolio. You can determine the percentage of Zakatable assets within a fund by reviewing the Zakatable assets in the fund.

Before understanding how to calculate Zakat, one must ensure that the pension investment is Shariah compliant. One should resort to their local Muftis and scholars for assistance in determining the Shariah compliancy of their pension investment.

In terms of Zakat, the following steps will help calculate the Zakat due on a pension:

Step 1: Identify asset class information of your pension fund.

This can be done by one of the following ways:

- Looking at the asset classes on the Pension Factsheet.
- Searching the name of your pension fund on www.trustnet.com

Pensions are invested in a range of assets and companies. It is very unlikely and very difficult to access all the balance sheets of all the different companies a pension is invested in. However, it is possible and easy to acquire the different assets classes in which a pension fund is invested in. The common asset classes are:

- Equities
- Property
- Money market
- Cash

It is not always possible to determine liabilities, if any, in one's Zakatable assets, therefore, liabilities will not be considered if they cannot be proven or determined.

Step 2: Determine the total percentage of Zakatable assets in the pension fund.

Add up the percentage of all Zakatable assets in the pension fund. For example, a fund had the following asset allocation:

- Property = 91.30%
- Cash = 8.70%

In the above asset allocation, only cash is Zakatable which is 8.70%.

Step 3: Apply the percentage on your total value of your pension pot.

The percentage of Zakatable assets will be applied to one's pension savings. Considering the above example, 8.7% was Zakatable. If a person has a pension worth £10,000, he will only consider 8.7% for Zakat, which is £870.

Step 4: Add the Zakatable assets value to the rest of your Zakatable assets.

The Zakatable amount from one's pension fund will be added to the rest of one's assets. 2.5% will be paid on the net sum thereafter.

Case Studies

The following two case studies are more examples of how Zakat is calculated on a pension portfolio:

Case Study 1

In this case study, the pension fund is currently valued at £10,000. After considering the assets in the fund, 43% of the assets were Zakatable assets. Remember, the proxy of 25% can be applied on equities. 32.5% of £10000 is the Zakatable ratio. Thus, the value of Zakatable assets in sterling is £3,250. £3,250 is Zakatable. 2.5% of £3,250 is £81.25 This person is responsible to pay £81.25 as Zakat on their pension.

Assets	Percentage of Assets in the Fund	Zakatable Assets' Percentage
Equities	70%	17.5% (25% of 70%)
Cash	5%	5%
Property	15%	0%
Other	10%	10%
Total Zakatable Assets' Percentage		32.5%
Current Pension Fund Value	£10,000	
Zakatable Assets Value	£3,250 (32.5% of £10,000)	
Zakat Payment at 2.5%	£81.25 (2.5% of £3,250)	

Case Study 2

In this case study, the pension fund is valued at £20,000 on the Zakat anniversary. After considering the assets in the fund, 51% of the assets were Zakatable assets. Remember, the proxy of 25% is applied on equities. 51% of £20000 is the Zakatable amount. Thus, the value of Zakatable assets in sterling is £10200. £10200 in the fund is Zakatable. 2.5% of £10200 is £255. This person is responsible to pay £255 as Zakat on their pension.

Assets	Percentage of Assets in the Fund	Zakatable Assets' Percentage
Equities	40%	10% (25% of 40%)
Cash	5%	5%
Property	30%	0%
Other	10%	10%
Precious Metals (Gold)	10%	10%
Alternatives	10%	10%
Total Zakatable Assets' Percentage		45%
Current Pension Fund Value	£20,000	
Zakatable Assets Value	£9,000 (45% of £20,000)	
Zakat Payment at 2.5%	£225 (2.5% of £9,00)	

Alternatively, if the above proves difficult, one may consider using the following proxies depending on the type of pension they have:

Type of Fund	Zakatable Assets Proxy	Zakat Rate
Shariah Fund	26%	2.5% of 26% (0.65% of your pension)
Direct Property Fund	15%	2.5% of 15% (0.375% of your pension)
Equity Fund	27%	2.5% of 27% (0.675% of your pension)
Mixed Asset Fund	50%	2.5% of 50% (1.25% of your pension)
Bonds/Fixed Interest or Fixed Income Fund	100%	2.5% of 100% (2.5% of your pension)

To establish the above proxies, the top 20 most common pension funds were analysed by Mufti Faraz Adam at NZF Worldwide for each category. The data was accessed via the UK's most comprehensive sources of online investment data, news and research such as Trustnet, Financial Times and Morningstar. Thereafter, a breakdown of all the assets of each pension fund in a spreadsheet was formulated. A weighted average was used to determine the average assets per pension fund category, as this would provide a more accurate representation of size and value of the different assets in the data set.

The above percentages serve as reasonable proxies for Zakat liability on the different pension funds. From a Fiqh perspective, adopting such proxies is supported by the juristic maxim: "The preponderant assumption is in the ruling of certainty".

6. Investment Land

Definition

Investors can acquire investment land assets in a number of direct or indirect ways, such as:

- Direct land purchase - Direct land investment purchase is where land is acquired in the traditional sense of ownership.
- Company or consortium - Indirect land acquisition is where the investor purchases a share within a formally structured company or consortium owning one or more land interests.
- Special Purpose Vehicle - Indirect land acquisition is where the investor purchases a share within a Special Purpose Vehicle (SPV) investing in one or more land interests.

Further, in urban planning terminology, land investments can be either greenfield sites or brownfield sites. A greenfield site has not been built upon previously. It is usually agricultural land, but it can be undeveloped land in a city or a rural area. A brownfield site is an area that has been used before and tends to be disused or derelict land. Such sites are usually abandoned areas in towns and cities which have been used previously for industrial and commercial purposes.

Shariah Compliance

The Shariah non-compliance risk with land investments is fairly low. As long as some form of ownership is transferred to the investor, and there are no other Shariah infringements anywhere in the transaction flow, then there is potential for Shariah compliance. Similarly, if a company is formed or an SPV is used, there should be no

preferences, no leveraging or gearing. Similarly, the funds should be held in a non-interest-bearing account.

Zakat Treatment

If the land is purchased for personal use, store of value and investment, then Zakat will not be payable on the land. As a store of value and investment, it is like an insurance or security to liquidate in case if the owner ever needed funds. However, if the land is purchased with the intention to resell and trade, then Zakat will be payable on the value of the land.

7. Investment Property

Definition

An investment property is real estate property purchased with the intention of earning a return on the investment either through rental income, the future resale of the property, or both. The property may be held by an individual investor, a group of investors, or a corporation. An investment property can be a long-term endeavour or a short-term investment. With the latter, investors will often engage in flipping, where real estate is bought, refurbished or renovated, and sold at a profit within a short time frame.

Shariah Compliance

Subject to Shariah compliant terms and conditions, and with the caveat that the investor bears the underlying asset risk, investment property has all the potential to be Shariah compliant.

Zakat Treatment

1 . Zakat is payable on any real estate property bought with the intention to on-sell and flip on the market value.

2. Investment property purchased as a long-term store of value and not with the intention to sell at present is not Zakatable.

3. For an investment property which is leased, Zakat is not due on the value of the asset. Instead, Zakat is due on any rental income in one's ownership on the Zakat year-end.

4. Redevelopment and properties undergoing refurbishment which are acquired to resell are Zakatable at the current market value on the Zakat year-end.

8. Mutual Funds

Definition

Mutual funds are a type of pooled investment vehicle. Shareholders of a mutual fund invest their money by purchasing shares of the fund. The money that they pay for the shares is pooled together and invested in a portfolio of securities, such as stocks, bonds, or money market instruments. Mutual funds are professionally managed and operated by money managers, who maintain the portfolio in accordance with the fund's investments objectives as stated in the prospectus.

Shariah Compliance

The Shariah compliance of a mutual fund depends on several factors, such as the compliance of the portfolio itself, the investment strategy, the prospectus, the investor agreements and the oversight and governance of a Shariah board.

Zakat Treatment

The Zakat treatment of any fund is dependent on the makeup of the fund portfolio. If the fund consists of equities, the Zakat of equities will be applied. Typically, a fund invests with a buy-to-hold strategy, therefore Zakat would not be due on the total value of the equities, instead Zakat would be due on the proportion of net Zakatable assets of all the equities combined. The 25% proxy can be applied in such a scenario to cover the net Zakatable assets ratio if the mutual fund consists solely of equities. If the fund consists of commodities, Sukuk, real estate or other asset classes, then the Zakat treatment will be according to the asset class.

9. Exchange-Traded Funds

Definition

Like a mutual fund, an exchange-traded fund (“ETF”) is a pooled investment fund that is professionally managed and invests pursuant to a specified investment strategy. ETFs can hold securities, as well as commodities and currencies. An ETF typically aims to produce a return that tracks or replicates a specific index such as a stock index or commodity index.

Shariah Compliance

One of the key requirements in an ETF is the type of tracking the ETF conducts. A synthetic ETF which invests in derivatives to track an index would not be Shariah

compliant. Hence, the ETF must physically invest in a basket of assets to track an index. Furthermore, the Shariah compliance of a mutual fund depends on other factors too, such as the compliance of the portfolio itself, the investment strategy, the prospectus, the investor agreements and the oversight and governance of a Shariah board.

Zakat Treatment

The *Zakat* treatment of an ETF depends on the intention of the investor as well as what the ETF holds. Since an ETF is exchange-traded, a person can trade in ETFs. Trading will result in *Zakat* being necessary on the current value of the ETF investment on one's *Zakat* year-end. If an ETF is invested in with a buy-to-hold strategy, *Zakat* will not be due on the entire equities' value, instead *Zakat* will be on the proportion of net *Zakatable* assets of all the equities combined. The 25% proxy can be applied in such a scenario to cover the net *Zakatable* assets ratio if the mutual fund consists solely of equities. If the fund consists of commodities, Sukuk, real estate or other asset classes, then the *Zakat* treatment will be according to the asset class.

10. Exchange-Traded Commodities

Definition

Exchange Traded Commodities (ETCs) enable investors to track an individual, or collection of, commodities or currencies. ETCs follow the price of metals, oil, agricultural products, or exchange rates either directly, or by tracking an index of derivatives. ETCs are designed to track the performance of a commodity or an index of commodities. The majority take a 'synthetic' approach, gaining exposure through the use of derivatives. However, some are backed 'physically', via direct investment in

the commodity. The word 'physical' will often appear in the name of ETCs that do invest directly.

Shariah Compliance

If ETCs are synthetic where exposure is gained through the use of derivatives, then such ETCs are not Shariah compliant. If ETCs are physically backed and the investors gain an ownership interest in the basket of commodities, then the Shariah compliance depends on the structure, risks borne, and the terms and conditions.

Zakat Treatment

The Zakat treatment of an ETC depends on the intention of the investor as well as what the ETC holds. Since an ETC is exchange-traded, a person can trade in ETCs. Trading will result in Zakat being necessary on the current value of the ETC investment on one's Zakat year-end. If an ETC is invested in with a buy-to-hold strategy, Zakat will not be due on the ETC unless it is a Zakatable asset like gold or silver.

11. REIT Funds

Definition

When you invest in a real estate investment trust (REIT), your money is pooled together with other investors in a collective investment scheme that invests in a portfolio of income generating real estate assets such as shopping malls, offices, hotels or serviced apartments. These assets are professionally managed, and revenues generated from assets (primarily rental income) are normally distributed at regular intervals to REIT holders, after accounting for fees, such as REIT management fees

and property management fees. The REIT's investment goal is typically to generate income distribution and long-term appreciation potential.

Shariah Compliance

Like other types of funds, a REIT fund should have a Shariah board to oversee its governance. Furthermore, the types of shares held in a REIT fund must be compliant. A REIT fund should not be leveraging or gearing, and the lease contracts for the underlying real estate should also be Shariah compliant. A REIT fund should not hold any non-compliant securities or interest-bearing assets.

Zakat Treatment

The Zakat treatment of a REIT fund is typically reflective of how Zakat is paid on rental property. Zakat is not paid on the rental property within the fund. Any rental income that has been received and is in one's possession on their Zakat year-end will be Zakatable just as any other earned cash is Zakatable.

12. Unit Trusts

Definition

If you invest in a unit trust or fund, your money is pooled with money from other investors and invested in a portfolio of assets according to the fund's stated investment objective and investment approach. A unit trust is a fund which adopts a trust structure; not all funds use a trust structure. You invest in a fund by buying units in the fund. There is a capital gain when the price of the units rises above the price you paid for the fund. Some funds pay dividends.

The price of each unit is based on the fund's net asset value (NAV) divided by the number of units outstanding. The NAV of a fund is the market value of the fund's net assets (investments, cash and other assets minus expenses, payables and other liabilities.) The NAV is usually computed daily to reflect changes in the prices of the investments held by the fund.

Shariah Compliance

The Shariah compliance of a unit trust depends on several factors, such as the compliance of the portfolio itself, the investment strategy, the prospectus, the investor agreements and the oversight and governance of a Shariah board.

Zakat Treatment

The Zakat treatment of any unit trust is dependent on the makeup of the trust portfolio. If the trust consists of equities, the Zakat of equities will be applied. Typically, a trust invests with a buy-to-hold strategy, therefore Zakat would not be due on the total value of the equities, instead Zakat would be due on the proportion of net Zakatable assets of all the equities combined. The 25% proxy can be applied in such a scenario to cover the net Zakatable assets ratio if the trust consists solely of equities. If the trust consists of commodities, Sukuk, real estate or other asset classes, then the Zakat treatment will be according to the asset class.

13. Crypto-assets

Definition

Crypto-asset is an umbrella term for all cryptos. There are different types of crypto-assets. Crypto-assets can be defined as "digital representations of value that

use cryptographic encryption techniques⁴⁵. Crypto-assets are wholly digital in nature and only exist online. These assets utilise cryptography, peer-to-peer networking, and a public ledger to regulate the creation of new units, verify transactions, and secure the transactions without the intervention of any middleman⁴⁶. Thus, they are digital in nature and use cryptography to verify the validity of transactions. Crypto-operations occur on a decentralised peer-to-peer network and the data is recorded on a decentralised public ledger also known as blockchain.

A token can represent an asset, a utility, service, a right or anything. According to Ernst & Young, a token tends to be designed to support a more narrowly defined, specific use case of distributed ledger technology⁴⁷. A token is not limited to one particular role; it can fulfil a lot of roles in its native ecosystem. Tokens typically exist on top of an existing smart contract platform, like Ethereum.

Shariah Compliance

Scholars have differing views at present on crypto-assets. There is a view that crypto-assets are not Shariah compliant. This view is supported by different reasonings, such as extreme volatility, risk, speculation, lack of governance and the absence of a real asset. Another view is that crypto-assets have the potential to be Shariah compliant subject to screening as follows:

⁴⁵ Habib & Adam (2019), Shariah Analysis of Crypto-Assets, GIFR 2019

⁴⁶ Haeems, A. (2018), What is a Crypto-asset?, Available from: <https://medium.com/babb/what-is-a-crypto-asset-1f0fcc517887>

⁴⁷ E&Y (2018), Accounting for Crypto-Assets, Ernst & Young, Available from: [https://www.ey.com/Publication/vwLUAssets/EY-IFRS-Accounting-for-crypto-assets/\\$File/EY-IFRS-Accounting-for-crypto-assets.pdf](https://www.ey.com/Publication/vwLUAssets/EY-IFRS-Accounting-for-crypto-assets/$File/EY-IFRS-Accounting-for-crypto-assets.pdf)

1. Legitimacy screening – ensuring that the crypto-asset is a genuine project and not a scam.
2. Project screening – ensuring that the project is Shariah compliant.
3. Financials screening – ensuring that it meets the financial criteria for Shariah compliance if it is an equity-based token.
4. Token screening – understanding the Shariah compliance of the token.
5. Staking screening – understanding the Shariah compliance of the staking mechanism.

Utility tokens grant access to utility and services. Any token which gives a non-Shariah compliant utility, service or access to Shariah non-compliant activities is impermissible to own and trade. It is not permissible to trade the rights to an impermissible service or utility. The Shariah rulings of *Bay'* (trading) will apply to utility tokens.

Governance tokens

Governance tokens grant their holders governing rights on a protocol. For the Shariah compliance of a governance token, the platform or protocol must be Shariah compliant, and the decisions that are being made and the issues being voted for must be Shariah compliant.

Some industry experts have coined the term platform tokens for tokens used as fuel or gas on a network. For example, Ether (ETH) is used to fuel transactions on the Ethereum network. From a Shariah perspective, these are digital assets used as 'fuel' on a platform. The utility is fuel and to power transactions and processes.

Asset-backed tokens

According to PwC, an asset-backed token is “a digital token based on blockchain technology that signifies and derives its value from something that does not exist on the blockchain but instead is a representation of ownership of a physical asset (for example, natural resources such as gold or oil)”⁴⁸.

For such a token to be Shariah compliant, the following needs to be ensured:

- a. The token represents *Mal*, meaning it is beneficial, has utility, can be stored and it is something humans have an interest in.
- b. The token is *Mutaqawwim*, meaning it is lawful in and of itself.
3. The token represents ownership of the underlying asset and not simply a correlation in price to an underlying commodity.

Security tokens

PwC define security tokens as “digital tokens based on blockchain technology that are similar in nature to traditional securities. They can provide an economic stake in a legal entity: sometimes a right to receive cash or another financial asset, which might be discretionary or mandatory; sometimes the ability to vote in company decisions and/or a residual interest in the entity”⁴⁹.

From a Shariah compliance perspective, a security token must undergo Shariah screening in terms of business activity and the financials of the project.

⁴⁸ PwC (2018), In depth – A look at current financial reporting issues, Available from: <https://www.pwc.com/gx/en/audit-services/ifrs/publications/ifrs-16/cryptographic-assets-related-transactions-accounting-considerations-ifrs-pwc-in-depth.pdf>

⁴⁹ PwC (2018), In depth – A look at current financial reporting issues, Available from: <https://www.pwc.com/gx/en/audit-services/ifrs/publications/ifrs-16/cryptographic-assets-related-transactions-accounting-considerations-ifrs-pwc-in-depth.pdf>

Zakat Treatment

The Zakat treatment of crypto-assets depends on two things:

1. The investment strategy in crypto-asset
2. The type of crypto-asset

In terms of the strategy, the following is considered:

1. Trading

Zakat is due on the full value of the crypto-assets if one is trading. Trading here means an investment with the sole intention to sell and capture positive price fluctuations.

2. Buy-and-hold investment strategy

Any crypto-asset purchased with another intention; Zakat will depend on the type of crypto-asset.

In terms of the different types of crypto-assets and their Zakat treatment, the following is considered:

1. Coins/exchange tokens/payment tokens

Zakat is always due on these types of crypto-assets at 100% of your current holding value regardless of the intention.

2. Security tokens

If purchased to resell, it is Zakatable at 100% of your current holding value. If purchased for dividend income & long-term investment, Zakat will depend on the underlying assets of the company.

3. Utility and platform tokens

If purchased to resell, it is Zakatable at 100% of your current holding value. If purchased to use, Zakat will not be due on these tokens.

4. Asset-backed tokens

If purchased to resell, it is Zakatable at 100% of your current holding value. If purchased as an investment, Zakat will depend on the underlying asset. If it is a Zakatable asset, it will be Zakatable.

5. Governance tokens

If purchased to resell, it is Zakatable at 100% of your current holding value. If purchased to use, Zakat will not be due on these tokens.

14. Non-Fungible Tokens

Definition

NFT is short for Non-Fungible Tokens. An NFT is a secure, blockchain-based certificate that represents an entitlement its owner has to a (usually) digital or physical asset (e.g. artwork) or licence and permit for something. NFTs are indivisible and can store significant amounts of data, including unique information, which is what makes

a particular token non-fungible, and is stored in a smart contract, a computer code that automatically executes upon the occurrence of a set of preconditions.

Shariah Compliance

The Shariah compliance of an NFT depends on the terms and conditions, as well as the underlying digital asset that the NFT is linked to.

Zakat Treatment

In terms of the Zakat treatment, we can consider the following:

1. If the NFT is being traded, then regardless of whether one owns the underlying asset or owns certain rights only, the NFT will be Zakatable since the NFT itself is now a trade asset.

2. If the NFT is not being traded, but purchased to hold, then Zakat will not be due unless the underlying asset is a Zakatable asset and the owner of the NFT has proprietary rights.

15. Collectibles

Definition

Collectibles are an alternative investment, which means they're not stocks, bonds, real estate, or cash. Collectible investments are physical objects — tangible assets that have the potential to appreciate in value and diversify your investment portfolio. Collectibles can be anything that anyone collects, but a few categories offer reliable returns, such as stamps, coins, toys, fine art, and sneakers.

Shariah Compliance

The Shariah compliance of any collectible will depend on what it is. Coins and stamps pose less of a Shariah compliance risk, however, art revealing private area of humans must be abstained from, likewise anything obscene, indecent, or offensive.

Zakat Treatment

Typically, collectibles are bought as a store of value and long-term investment, which one may in future liquidate. Hence, Zakat is not payable on such an asset unless it is bought with an intention to resell as part of a business or for trading purposes.

16. Commodities Investing

Definition

Commodities investing gives the ability to gain exposure to individual commodities such as crude oil, base metals, corn and other natural minerals and natural assets. Investors can invest directly in the physical commodity, or indirectly by purchasing shares in commodity companies, mutual funds, or ETFs. Many platforms online typically facilitate commodities' trading via futures contract or contract for differences.

Shariah Compliance

One of the key concerns of commodities trading is the use of synthetic products such as futures, CFDs and the like. The use of such products in trading commodities is not Shariah compliant. Investing in commodities should grant ownership of the underlying commodity and the trade terms and conditions must be Shariah compliant.

Zakat Treatment

If the contract is invalid (*Batil*) due to there being no subject matter of sale, then the transaction would be invalid. As such, Zakat would be payable on the premium paid by the trader if they can receive it back. If they cannot receive it back, then Zakat will not be payable, and the premium will be considered as something unlawfully seized.

17. Precious Metals

Definition

Precious metals are rare metals that have high economic value. They're valuable because they're scarce, useful for industrial processes, or have investment properties that make them a good store of value. Notable precious metals include gold, silver, platinum, and palladium.

There are several ways to invest in precious metals. They fall into two basic groupings:

- Physical precious metals: You can buy physical bars, coins, and jewellery made from precious metals to hold as an investment. These physical precious metal investments should gain value as the price of the underlying precious metal increases.
- Precious metals investment products: You can buy precious metals-based investment products. These include shares of precious metals mining, streaming, or royalty companies; exchange-traded funds (ETFs) or mutual funds focused on precious metals; or futures contracts. These investments should grow in value as the price of the underlying precious metal increases.

Shariah Compliance

As long as the terms and conditions of the transaction are Shariah compliant, then investing in physical precious metals is potentially Shariah compliant. However, if precious metals are invested in via investment products, then there should be additional checks and reviews to ensure the investment vehicle is Shariah compliant. Gaining exposure through futures contracts is not Shariah compliant.

Zakat Treatment

If physical precious metals are invested in for trading purposes, the precious metals' value will be Zakatable. If the precious metal is gold or silver, they will always be Zakatable regardless of one's intention. If precious metals besides gold and silver are purchased as long-term stores of value, then Zakat will not be due on such metals.

18. Options

Definition

Options are financial derivatives that give the buyer the right to buy or sell the underlying asset at a stated price within a specified period. Options are traded on active exchanges that provide liquidity, matching up buyers and sellers.

Shariah Compliance

Options are prohibited because they constitute a form of uncertain transaction (*Bay' al-Gharar*). The option is *Gharar*. The exercising of the option is unknown and uncertain. The uncertainty in the subject matter makes it *Gharar*. It is a right which enforces another contract, however, the enforcement (of that right) is uncertain and suspended on an uncertain event. Hence, it is different to other rights because this right is a right with immense uncertainty (*Gharar*).

Another reason for the prohibition of options is the non-compliance of the subject matter of sale with Shariah. An option represents the power, the right to choose. When you own an option, you can choose whether to buy an asset or not, or (with different types of options) whether to sell an asset or not. When you own an option, you have the right to buy or sell, but not the obligation. You only do what is favourable for you at that moment. Options are essentially a choice which you are purchasing. The 'ability to choose' is the subject matter.

In respect to options, the OIC Islamic Fiqh Academy states that:

“Option contracts as currently applied in the world of financial markets are a new type of contracts which do not come under any one of the Shariah nominated contracts. Since the object of the contract is neither a sum of money nor a utility or a financial right which may be waived, then the contract is not permissible in Shariah.”

Zakat Treatment

Since the trading of an option is not recognised, and the option itself is not a recognised asset in Shariah, the transaction would be invalid. As such, Zakat would be payable on the premium paid by the trader if they can receive it back. If they cannot receive it back, then Zakat will not be payable, and the premium will be considered as something unlawfully seized.

19. Forwards

Definition

A forward contract is a private agreement between two parties giving the buyer an obligation to purchase an asset (and the seller an obligation to sell an asset) at a set

price at a future point in time. The assets often traded in forward contracts include commodities like grain, precious metals, electricity, oil, beef, orange juice, and natural gas, but foreign currencies and financial instruments are also part of today's forward markets.

Shariah Compliance

Forward contracts are not Shariah compliant as they involve the trading of debt for debt, resemblance with gambling positions and trading before possession.

Zakat Treatment

In a forward contract, no money is exchanged until maturity, when the position is closed. The difference is settled at the end. As such, during a forward contract, Zakat is not payable on the value of the forward contract for the buyer.

20. Futures

Definition

A futures contract is a bilateral contract in which two counterparties agree to buy/sell an underlying asset at a predetermined price at a specified date in the future. Futures are traded on organised markets (exchanges), so they are standardised contracts.

Shariah Compliance

In a futures transaction, the counter-value is not present at the time of contract, it is a mere exchange of promises. Futures trading, where both counter-values are deferred, are held as exchange of one debt for another, i.e., *bay' al-kali bil kali* (a sale of two deferred counter-exchanges).

Zakat Treatment

In a futures contract, no money is exchanged until maturity, when the position is closed and the spot price is used to determine the difference. As such, during a futures contract, Zakat is not payable on the value of the futures contract for the buyer. Similarly, although the use of the collateral is not Shariah compliant as it is securing a non-compliant transaction, Zakat will not be payable on the collateral value.

21. Swaps

Definition

Swaps are contractual agreements between two parties to exchange future cash flows on predetermined dates over a specified period (i.e. until the swap matures). Technically, a swap can be defined as a bilateral contractual agreement in which both parties agree to simultaneously make periodic payments in exchange for two different streams of cash flow. This payment is referred to as the legs or sides of the swap and is determined based on hypothetical values of underlying assets called 'notional'. The swap agreement can be executed by exchanging an asset or liability in the same or different currencies or a floating interest rate stream with another of fixed rate. In the most basic (usually called 'plain vanilla') of swap contracts, the interest-rate swap, one party to the contract pays a fixed rate of interest, and the other pays a floating rate of interest.

Shariah Compliance

There are multiple issues with swaps which breach Shariah principles and make them non-compliant financial instruments, such as Riba, debt trading and *Gharar*.

Zakat Treatment

It is a voidable (*Fasid*) contract. Any amount already received is in one's possession and ownership will be subject to Zakat. What is not received will not be Zakatable. However, such a contract should be cancelled, and all funds returned as soon as possible.

22. Forex

Definition

Forex is the shortening of foreign exchange, sometimes referred to as FX or currency trading. Most online forex trading is speculative, non-deliverable trading. In a non-deliverable trading agreement, delivery of the currencies never takes place. A spot forex is an agreement to exchange a set amount of one currency for another at a predetermined exchange rate in two business days (T+2). In speculative trading nobody actually wants to do the currency exchange, so at the end of each day, to avoid the exchange they offset their open position, and then re-open it to start the new trading day. There is no "liquidating" of positions because there is nothing to actually liquidate.

When you do a trade it's "as if" you are borrowing the short currency at its overnight rate, exchanging it for the long one, and depositing that at its overnight rate. So if you go long USD/JPY it's as if you are borrowing Yen at the JPY overnight lending rate, converting them to dollars, then depositing the dollars at the USD overnight deposit rate. The carry is the difference between what you pay on the loan and what you receive on the deposit. When you close out your trade you reverse the process. Some brokers handle carry separately, while some incorporate it into the

position rollover. (Note the “as if”, that in reality the transactions don’t actually take place)

Now, if you’re wondering why you see the carry on the T to T+1 rollover if the exchange doesn’t take place until T+2, it’s because your P&L is credited immediately for the overnight carry you will pay/receive going from T+2 to T+3. That’s also why you don’t see carry on the day you close a position.

Shariah Compliance

Retail Forex is not Shariah compliant, as there is no real exchange of currencies. Furthermore, the instruments typically used to trade FX are Riba-based instruments.

Zakat Treatment

Since there is no actual trading, there is no valid sale item in such a transaction, and therefore the sale is invalid. As such, Zakat would be payable on the amount paid by the trader to the broker to open a position if they can receive it back. That is because the sale is invalid (*Batil*), and in such contracts, ownership does not transfer to the counterparty. Furthermore, there is permission for the counterparty to possess the amount paid. If the trader cannot receive it back, then Zakat will not be payable and the payment will be considered as something unlawfully seized.

23. Contracts for Difference

Definition

A contract for difference (CFD) allows you to speculate on the future market movements of the underlying asset, without actually owning or taking physical delivery of the underlying asset. CFDs are leveraged instruments. They tend to be

traded over-the-counter with a securities firm, known as a CFD provider. A CFD is a Specified Investment Product (SIP). CFDs are available for a range of underlying assets, e.g. shares, commodities and foreign exchange. In this guide, examples showing how they work will refer to shares as the underlying asset class.

Shariah Compliance

CFDs are not Shariah compliant due to the following reasons:

- a. Contractual uncertainty (*Gharar*)
- b. Invalid commodity in Shariah
- c. Gambling (*Qimar*)

Gharar is involved because the end result and outcome of the transaction is unknown. One can lose or make a gain in this transaction. The transaction does not involve any valid Shariah compliant commodity. One is taking a position on the movement of a currency pair. In reality, this is a *Qimar* (gambling) transaction as one is staking his wealth against his broker. The one who speculated correctly makes a profit at the expense of the other.

Zakat Treatment

Since there is no actual trading, there is no valid sale item in such a transaction, and therefore the sale is invalid. As such, Zakat would be payable on the amount paid by the trader to the broker to open a position if they can receive it back. That is because the sale is invalid (*Batil*), and in such contracts, ownership does not transfer to the counterparty. Furthermore, there is permission for the counterparty to possess the amount paid. If the trader cannot receive it back, then Zakat will not be payable and the payment will be considered as something unlawfully seized.

CHAPTER 5:

**BUSINESS ZAKAT
CALCULATION**

Introduction

BUSINESS IS ONE OF the key drivers for growth in the economy. Business plays a huge role. It is the engine of an economy. It provides jobs that allow people to make money and goods. Businesses are the centre of productivity in the economy. It is no surprise that businesses therefore typically have many forms of Zakatable assets. Businesses are the centre of growth (*Numuw*) and house the most forms of *Mal Nami* typically. The Qur'an has commanded us to pay Zakat on our earnings and revenues as follows:

“O you who have believed, spend from the good things which you have earned and from that which We have produced for you from the earth. And do not aim toward the defective therefrom, spending [from that] while you would not take it [yourself] except with closed eyes. And know that Allah is Free of need and Praiseworthy.” (Quran 2:267)

The 'good things which you have earned' refers to the income and trade assets acquired through business. Another evidence for Zakat on trade assets is the following prophetic narration:

Samurah bin Jundub (May Allah be pleased with him) said: "The Messenger of Allah commanded us to give Zakat on what we intended for trade." (Sunan Abu Dawud)

Financial statements/Accounts

It is typical for many businesses to use the financial statements to calculate their Zakat. In the UK, limited companies are legally required to produce financial statements (both a balance sheet and profit and loss account) when they file their company accounts at the end of the financial year. The four important financial statements are as follows:

1. Profit and Loss Account (Income Statement)
2. Cash Flow Statement
3. Statement of Retained Earnings
4. Balance Sheet (statement of financial position)

1. Profit and Loss Account (income statement)

The profit and loss account shows the revenue and losses of a business over a given period of time. More specifically, it shows the net profit or loss a business has made within an accounting period after deducting all expenditure from the income. A net profit is earned if the total expenditure is less than the sales amount, and a net loss is if the expenditure is greater than the sales amount and profits a business is generating. For Zakat purposes, the Profit and Loss Account is not meaningful, as

Zakat is not based on profits. Zakat is paid on what is owned at a given time in the year. As such, the AAOIFI Shariah Standard No.35 states:

“Income statement (profit and loss account) does not form a basis for Zakah calculation, yet it is referred to for knowing the income or profit of the income-earning fixed assets. In order to pay Zakah the Institution should not necessarily be making profits. Incurring losses by the Institution does not prevent Zakah from becoming due. The Institution is still committed to pay Zakah, except when its liabilities (debtors) absorb all its assets.”

2. Cash Flow Statement

A cash flow statement is a financial statement that summarises the inflows and outflows of cash transactions during a given period. This means that it covers three key aspects of business activities: operating, investing and financial activities. For Zakat calculation purposes, the Cash Flow Statement is not meaningful either, as cash flow alone does not give a complete picture of what is owned and what was spent on one's Zakat anniversary.

3. Statement of Retained Earnings

This shows the changes in equity within a business for a specific reporting period. The statement is typically made up of many parts. These include dividend payments, the sale or repurchase of stock, profit or loss changes. Again, this financial statement does not give the complete picture of what the assets are owned by the company, and therefore is not meaningful in calculating Zakat.

4. Balance Sheet

The balance sheet provides information on a company's resources (assets) and its sources of capital (equity and liabilities/debt). The balance sheet gives a snapshot of the financials at a particular moment. It shows what the business owns (assets), what it owes (liabilities), and what money is left over for the owners (owner's equity). Because it summarises the finances, the balance sheet is also sometimes called the statement of financial position. Companies usually prepare one at the end of a reporting period, such as a month, quarter, or year. The balance sheet is the most useful financial statement for Zakat calculation purposes. As such, the AAOIFI Shariah Standard No.35 states:

“Due to the fact that Zakah relates to ownership of zakatable assets, what matters to the Institutions in Zakah calculation is the financial data included in the balance sheet of the institution (the budget), which comprises assets, liabilities, and their related allocations.”

Considerations when using a Balance Sheet

Before discussing the typical Zakatable assets in a business, there are some issues that need to be addressed for businesses:

1. *Haʿwl* and the Fiscal/Financial Year

Best practice, and what most *Fatawa* typically advise is that a person has one *Haʿwl* for all their Zakatable assets which require a *Haʿwl*. This can work seamlessly and easily for micro businesses that have a very low volume and low turnover operation. However, when a business scales and is now a small-to-medium enterprise or a large enterprise with various shareholders, it becomes difficult to always get an accurate picture of the net Zakatable assets within a company at every given moment.

Given this challenge, there is scope to consider the business as a separate entity with its own financial year.

The Council of the International Islamic Fiqh Academy of the Organisation of the Islamic Conference in its 4th session held between 6-11 February 1988, resolved the following in Resolution 28⁵⁰:

“Second: The company directors must pay *Zakat* on its shares in the same manner as a person pays *Zakat* on their individual wealth. In other words, it shall pay *Zakat* on the assumption that the wealth of all shareholders is the property of a single person, and calculate *Zakat* accordingly, taking into *Zakatable* and non-*Zakatable* assets, *Nisab* and the thresholds for *Zakat*, the percentage of *Zakat* levied on net *Zakatable* assets and all other considerations that are given when calculating the *Zakat* of an individual. This is based on the principle of *Khultab* and mixed assets accepted by some of the *Fuqaha* (jurists).”

The General Authority of *Zakat* and Tax (GAZT) in Saudi Arabia also treat businesses with their own *Hawl*, and that is the accepted practice among the scholars and people.

Hence, there seems to be concession and a possibility of treating a business as an independent entity, especially if this will assist in paying *Zakat* accurately and completely. The entire reason why a business would do this is to sync their *Zakat* calculation with their fiscal year, thereby giving them more information on their business and greater accuracy of what is owned and the net *Zakatable* assets amount.

⁵⁰ Islamic Fiqh Academy. Resolution 28. Jeddah. Available from: <https://iifa-aifi.org/en/32294.html>

Secondly, many people like to pay Zakat from their company due to the tax relief that is afforded on donations from companies.

If we do not consider a business to have its independent Zakat year, then some propose to treat any Zakat paid by the company as an advance or late payment on behalf of shareholders' personal Zakat as the dates will rarely ever coincide. Technically, this will mean that other shareholders are paying a share on your behalf in advance if your Zakat due date has not arrived. This can then be considered a form of advance Zakat. However, the problem with this method is that on one's personal Zakat due date, they will still have to reconcile with the current net Zakatable assets in the business. Similar is the case with a late payment, the actual amount on one's Zakat year-end may have been different. Thus, this approach is not practical as the information asymmetry is still there.

If the fiscal year is selected, then that will mean that the financial statements will play a key role in calculating Zakat.

2. Calculation Accuracy

Another issue when discussing Zakat on business is the level of accuracy of Zakat. Zakat on businesses requires an accurate count of all stock and their corresponding market values. There are various ways a company can keep track of stock.

1. Stocktaking (or stock counting) is potentially the oldest method and now the most strenuous and challenging given the scale of businesses. This involves a manual count, check and record of all the inventory that the business currently has on hand.

2. Small businesses often use a stock book, or logbook, to keep track of inventory.

3. In a medium enterprise, it is common to use a bar code or Universal Product Code (UPC) system. This is where every item carries a label that gives information about the item, such as what it is, where it is located and what price it sells for. The code can be scanned with a hand-held bar code reader. Items are scanned at the cash register, as they are sold, and also in the warehouse. Computer programs then analyse the scans and informs the owners exactly how many items have been sold, how many remain in the warehouse. This allows the directors and managers to keep track of sales as well as the number of items at hand.

4. An inventory tracking system is any inventory management software, program, or dashboard that lets you track real-time inventory levels.

As the size of the business grows, so does the stock counting method. This is necessary, as calculating Zakat properly is an obligation, otherwise there is a risk of miscalculating and underpaying Zakat.

The above methods may help in keeping track of stock, but they will not assist in keeping track of all receivables, investments, cash and other Zakatable assets in a business. Hence, there is an even greater need to consider using the financial statements to work out Zakat liability.

3. Adjustments in financial statements

If financial statements are used, and in particular the balance sheet as that is the key for Zakat calculation, then there is still a need for adjustments. Typically, the data used to prepare a balance sheet will reflect the financial situation up to a certain date. By the time the accounts are prepared and available, a few days or even weeks can

pass. If there has been any significant or material change in the business in terms of Zakatable assets, then this should be accounted for and adjusted in one's total Zakat payment. Otherwise, it is good practice to add an extra amount of Zakat as a buffer and slack to cover for any shortfall, inaccuracies or discrepancies.

4. Use of Gregorian Year

If a balance sheet is used in calculating Zakat, then the financial year is based on the Gregorian calendar. As such, there must be an adjustment as described earlier in chapter two. The Zakat percentage will be 2.577% and not 2.5%. This is acceptable as per the AAOIFI Shariah Standards.

5. Measurement of Assets

If a balance sheet is used, then one has to understand the accounting conventions and implications on the Zakat calculation. In the UK, there are two main sets of accounting regulations: the IFRS Standards and the UK GAAP. Both the IFRS and the UK GAAP have specific guidelines for the treatment of assets, and both have different interpretations of historical cost. According to the UK GAAP, most assets should be reported at historical cost and should not be remeasured to fair value. The only exception is investment property, which must be reported at fair value. Under the IFRS, assets are usually recorded at historical cost. The only exceptions are PP&E, investment property, biological assets, and certain financial instruments which can be reported according to fair or market value. Beyond the UK, there is a similar practice on how assets are measured on a balance sheet, and whether historical cost, fair value or net asset values are used.

Zakat on Zakatable assets is not paid at historical cost, nor is Zakat calculated at net assets value. Instead, Zakat is paid on the current retail value of assets if they have a price tag, or their fair value if they do not have a price tag. Therefore, if a balance sheet is used to calculate one's Zakat, a business must adjust the value of the assets to address the discrepancies between the historical cost values and the retail values. This can be done by adding the typical profit margin applied to goods to the value on the balance sheet.

Zakat Treatment of Items on a Balance Sheet

An asset is a resource that is meant for the inflow of economic benefits in the entity that owns and controls it. Different kinds of assets are recorded in the asset side of the balance sheet under the sub-headings like non-current assets, current assets, etc. Businesses own different types of assets which serve different purposes, for example, operating assets, non-operating assets, current assets, non-current assets, tangible, and intangible assets.

When an entity being an individual, corporation or government owns or controls an asset, they do it with the expectation of an inflow of economic benefit from it in the form of improved sales, reduced expenses, or other forms of cash flow. Assets are generally recorded on the balance sheet on a historical cost basis. Depending on the accounting policies followed by the entity the assets can be revalued based on the fair market value.

ASSET CLASS	DEFINITION	ZAKAT TREATMENT
Cash	Cash is the funds that are readily available for disbursements.	Zakatable
Cash equivalents	Cash equivalents are short-term commitments "with temporarily idle cash and easily convertible into a known cash amount". They are highly liquid, low-risk, and low-return instruments or investments. Examples of cash equivalents include money market instruments, treasury bills, short-term government bonds, marketable securities, and commercial paper. They mature within three months compared to short-	Zakatable but some cash equivalents are not Shariah compliant and must be abstained from. Therefore, any gain must be given for purification if they are not Shariah compliant.

	<p>term investments that mature in 12 months and long-term investments that mature in over 12 months.</p>	
Accounts receivable	<p>Accounts receivable, abbreviated as AR or A/R, are legally enforceable claims for payment held by a business for goods supplied or services rendered.</p>	<p>Accounts receivables for trade assets sold on credit are Zakatable.</p> <p>Receivables for non-trade assets may not always be Zakatable.</p> <p>Service receivables will not be Zakatable whilst outstanding according to the Hanafi fiqh.</p>
Trade receivables	<p>Trade receivables arise when a business makes sales or provides a service on credit.</p> <p>Trade receivables, also referred to as accounts receivable, are another type of financial asset.</p> <p>These are amounts owed to a company by its customers for products and services</p>	<p>Receivables for goods sold on credit are Zakatable each year. Receivables for services are not Zakatable whilst outstanding.</p>

	<p>already delivered.</p> <p>They are typically reported at net realisable value, an approximation of fair value, based on estimates of collectability.</p>	
Non-trade receivables	<p>Non-trade receivables are amounts due for payment to an entity other than its normal customer invoices for merchandise shipped or services performed.</p> <p>Examples of non-trade receivables are amounts owed to a company by its employees for loans or wage advances, tax refunds owed to it by tax authorities, or insurance claims owed</p>	<p>Non-trade receivables for a loan are Zakatable each year whilst outstanding.</p> <p>Receivables due to refunds are typically Zakatable since the funds are held by the seller as either safekeeping if not used, or as Qard (loan) if the amount is being used and simply a liability owed, then the amount will be Zakatable each year.</p> <p>If the receivables are not accessible and prevented from being received, then it will not be Zakatable.</p>

	to it by an insurance company.	
Inventory	Inventories are physical products that will eventually be sold to the company's customers, either in their current form (finished goods) or as inputs into a process to manufacture a final product (raw materials and work-in process).	Zakatable at retail value if they are finished goods, or market value if they are raw materials or work-in-process.
Short term investments	A short-term investment, also called a temporary investment or marketable security, is a debt or equity security that is expected to be sold or converted into cash in the next 3 to 12 months.	Debt will typically be Zakatable at face value and equity will be Zakatable at the current market value as these are held with no intention but to firmly resell in the very near future.

<p>Marketable securities</p>	<p>Marketable securities are also financial assets and include investments in debt or equity securities that are traded in a public market, and whose value can be determined from price information in a public market. Examples of marketable securities include treasury bills, notes, bonds, and equity securities, such as common stocks and mutual fund shares.</p>	<p>Debt will typically be Zakatable at face value and equity will be Zakatable at the current market value as these are held with no intention but to firmly resell in the very near future.</p>
<p>Prepaid expenses</p>	<p>The prepaid expense consists of the expense that the company has already paid, but until now, services for that payment have not been received. The company is expected</p>	<p>Not Zakatable as the cash is not owned by the company.</p>

	to receive the service in the near future.	
Trade Debtors	Customers you have sold to on credit who have not yet paid.	Debtors for goods or loans are Zakatable each year whilst outstanding. Debtors for services will not be Zakatable at present.
Long-term investments	Long-term investments as the name suggests are held by the business for more than a year and are shown under non-current assets in the balance sheet.	If these are debt investments, they will typically be Zakatable each year at face value or outstanding capital and profit each year when it is Murabaha or Commodity Murabaha. If it is equity based, then this
Prepayments	Goods/services that you have been invoiced for and paid for, but have not yet received the benefit of.	This accounting entry is not Zakatable.

Zakat Made Easy

<p>Accrued Income</p>	<p>Often combined with prepayments. This refers to work that has (partially) been performed but not yet invoiced to the customer, perhaps as the job is not yet complete.</p>	<p>If this is reflective of a service provision, then the receivable will not be Zakatable whilst outstanding.</p>
<p>Deferred Tax Assets</p>	<p>Deferred tax assets may result when the actual income tax payable based on income for tax purposes in a period exceeds the amount of income tax expense based on the reported financial statement income due to temporary timing differences.</p>	<p>This is not Zakatable as it is either an advance payment or payment on account.</p>

Assets held for sale	Assets held for sale refer to non-current assets or fixed assets such as real estate, buildings, machinery etc or intangible assets which the company wants to dispose of through sale.	
Property, Plant and Equipment	Property, plant, and equipment (PPE) are tangible assets that are used in company operations and expected to be used (provide economic benefits) over more than one fiscal period. Examples of tangible assets treated as property, plant, and equipment, include land, buildings, equipment, machinery, furniture, and natural resources such as	Not Zakatable.

	<p>mineral and petroleum resources. IFRS permits companies to report PPE using either a cost model or a revaluation model.</p>	
Intangible Assets	<p>Intangible assets are identifiable non-monetary assets without physical substance. An identifiable asset can be acquired singly (can be separated from the entity) or is the result of specific contractual or legal rights or privileges. Examples include patents, licenses, and trademarks.</p>	Not Zakatable.
Investment Property	<p>Some property is not used in the production of goods or services or for administrative purposes. Instead, it is</p>	<p>The property is not Zakatable. The rental income in one's ownership is Zakatable at one's Zakat year-end.</p>

	<p>used to earn rental income or capital appreciation (or both). Under IFRS, such property is considered to be investment property.</p>	
Goodwill	<p>When one company acquires another, the purchase price is allocated to all the identifiable assets (tangible and intangible) and liabilities acquired, based on fair value. If the purchase price is greater than the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, the excess amount is recognized as an asset, described as goodwill.</p>	Not Zakatable.

Shareholders' Equity	Shareholders' Equity is an account on a company's balance sheet that consists of share capital plus retained earnings. It also represents the residual value of assets minus liabilities. By rearranging the original accounting equation, $Assets = Liabilities + Stockholders\ Equity$, it can also be expressed as $Stockholders\ Equity = Assets - Liabilities$.	Not Zakatable as this is just an accounting entry for balancing the accounting equation.
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Zakat Trade Assets

One of key types of Zakatable assets are trade assets. In Arabic, they are known as *Amwal al-Tijara*. Technically, they are assets purchased in an *Aqd al-Tijara* (contract of exchange) with an intention of *Tijara*. *Tijara* is business. In simple terms, *Amwal al-Tijara* are goods in which a company runs a business. What's key to understand here is that these are goods of "business". Business can take any form and any set up.

Accounting is the language of finance and provides the necessary frameworks in understanding and recognising various contemporary assets. Although accounting frameworks are not identical to the Shariah principles of Zakat, there are several overlaps that can assist us in understanding the nature of Zakatable assets further. For instance, the International Accounting Standard (IAS) 2 defines inventories as:

Inventories include assets held for sale in the ordinary course of business (finished goods), assets in the production process for sale in the ordinary course of business (work in process), and materials and supplies that are consumed in production (raw materials). [IAS 2.6]

Further, IAS 40 on investment property clearly states that property held for resale will also be part of inventory:

'property held for sale in the ordinary course of business or in the process of construction of development for such sale (IAS 2 Inventories).'

From the definition and discussion of the *Fuqaha* on *Amwal al-Tijara*, there are a number of parallels between what IAS 2 and IAS 40 consider as inventory and what the *Fuqaha* describe as *Amwal al-Tijara*. Of course, there will be differences, but in essence, *Amwal al-Tijara* are inventories. Just as inventory is that which has been

purchased for resale in the ordinary course of business, *Amwal al-Tijara* are purchased with the intent of resale in the ordinary course of business. As such, *Amwal al-Tijara* are inventories of a business.

In principle, when a person does 'business' in any asset and purchases to resell seeking profit, that will always be *Zakatable* at its retail value. The operating cycles of businesses are generally short-term in nature; they buy inventory and stock to resell as soon as possible. Of course, some businesses run longer term cycles depending on the sector.

Groceries in a grocery store are *Amwal al-Tijara*. Similarly, restaurants will treat all their stock and inventory that are cooked or used in their dishes and are part of the meals they serve as *Amwal al-Tijara*. If a person has a business or a side business where they buy and sell equities and shares as their 'business', this will be a form of inventory and will be *Amwal al-Tijara*. The key issue to note here is that this applies to buying and selling of financial instruments or equities which are performed in a business-like manner, where the financial instruments are bought to resell as the only firm intention.

In the above scenarios, there is certainty in the intention to resell, but there can be uncertainty in the time of resale as it depends on market forces and external factors. The certainty to resell as the primary intention underpinning the initial acquisition is what is key to establish something as *Amwal al-Tijara*, whilst uncertainty in the eventual sale price will not disqualify something being *Amwal al-Tijara*. This is like a person who sells inventory on eBay through a bidding mechanism; even though the final sale price is unknown, the clear intention to resell at present qualifies the inventory as business and *Amwal al-Tijara*.

A Breakdown on Different Intentions and their Zakat Treatment

No.	INTENTION	TREATMENT	EXAMPLE
1	An item purchased for personal use with no intention to resell at the time of the purchasing or investing in the asset, and neither is there an intention to sell the item in the future.	Not Zakatable.	Personal belongings such as smartphones and laptops.
2	Goods purchased for resale in the ordinary course of business and the goods are finished goods. This includes stock on shelves, stock in storage and excess stock.	Zakatable at resale/retail price.	All Inventory in a business such the groceries, foodstuff, drinks, shelved items in a grocery store.

3	<p>Goods purchased for resale in the ordinary course of business, but the goods purchased are raw materials, work-in-progress or need development and preparation for resale, and therefore require some time before sale.</p>	<p>Zakatable at current market value.</p>	<p>All frozen meat and other items not yet cooked in a restaurant. Similarly, the meat and poultry in the freezers of butchers.</p>
4	<p>Goods purchased to ultimately sell one day in the future if there is ever any financial need to sell, but at present, the goods are not being sold.</p> <p>Furthermore, the timing, price, circumstance, and eventual reason for sale are all unknown at present, and the asset is purchased more as a</p>	<p>Not Zakatable trade assets.</p> <p>Not Zakatable on full market value or fair value, rather just on the underlying Zakatable assets if any.</p> <p>These assets are not being sold, as such they are disqualified from being trade assets.</p>	<p>A land bought as wealth preservation and back-up for cash if ever needed.</p> <p>Shares as part of a growth portfolio.</p>

	<p>safety net and back-up in case there was ever a financial need.</p> <p>Furthermore, the asset is not being advertised for trade, nor is it part of any business to on-sell.</p>		
5	<p>Shares purchased in a business to definitely exit one day in the future but at present there is no intention to sell and nothing firm in the near future.</p>	<p>The share of the business will not be a Zakatable trade asset, instead the owner will pay Zakat according to the underlying net Zakatable assets.</p>	<p>Private equity or start-up investment.</p>
6	<p>An asset purchased as an income-generating asset which may be liquidated one day in the future.</p>	<p>Not Zakatable.</p>	<p>A buy-to-let property.</p>
7	<p>An asset was purchased for resale, but the</p>	<p>Not Zakatable.</p>	<p>A property trader decides to rent out a property and not sell the property</p>

	intention was changed intention to not sell.		initially purchased for resale.
8	An asset purchased for resale that is treated as an asset for trade, but it used in the meantime for personal use or other reasons.	Zakatable at retail price. Such a dual intention or dual usage will not negate it from being a Zakatable trade asset.	Used-cars dealer who at times uses cars for non- business activities.

CHAPTER 6:

ISLAMIC FINANCING

PRODUCTS' ZAKAT

CALCULATION

Introduction to Islamic Finance

FINANCE IS DEFINED AS the management of money and includes activities such as investing, borrowing, lending, budgeting, saving, and forecasting.

Financing typically refers to the process of providing funds for business activities, making purchases, or investing. Financial institutions, such as banks, are in the business of providing capital to businesses, consumers, and investors to help them achieve their goals.

In financing, there is typically a deferred payment payable from the counterparty to the financier. Hence, Islamic Finance is all about management of money and activities such as investing, borrowing, lending, financing and saving in a Shariah compliant model. Further, Islamic Financing is the provision of funds through a

Shariah compliant structure for Shariah aligned activities, with repayments on a deferred basis.

Murabaha financing

Definition

Murabaha is typically translated as cost-plus financing. This is used in consumer, corporate, subordinate and term financing. A typical transaction flow is that an Islamic bank purchases goods at the request of a client. The client makes deferred payments that cover the cost of the goods plus a markup to provide the Islamic bank within an agreed profit margin. The title of the goods is then transferred to the client at the time of purchase but the client normally provides the same or other assets as collateral for the period of financing.

Zakat Treatment

There are different stages in Murabaha, and the Zakat treatment for the financial institution depends on which stage the Murabaha is at. Before executing the first leg of the transaction where the financial institution purchases the asset, there is no Zakat payable on the asset. Once the first leg has been executed and the purchase of the asset is secured, Zakat would be due at that particular time if the asset was held by the financial institution. In practice, this is very rare and the asset is generally sold not long after executing the first transaction. Once the second leg is transacted, meaning the Murabaha to the customer, then the financial institution is responsible for Zakat for all the outstanding receivables.

Musharaka financing

Definition

Musharaka refers to the practice of commingling by two or more persons with either their money or work to earn a profit or appreciation in value and sharing profit and loss in the business of the Musharaka. It is pertinent to note that the loss in the Musharaka is shared according to the partners' proportionate share in the Musharaka, however, it is possible for the profit to be shared in any ratio between the parties, if the said persons are active/working partners in the Musharaka arrangement. If any of the partners is a sleeping partner, then the sleeping partner(s) cannot have a profit sharing ratio higher than the share contributed by the said partner(s).

The most common form of Musharaka used by financial institutions is Diminishing Musharaka; which is a form of a partnership in which, one of the partners promises to buy the equity share of the other partner in a Musharaka asset gradually, until the title to the Musharaka asset is completely transferred to the other partner and until such time, the partner using the asset pays the rent for use of the financial institutions share in the Musharaka asset.

Zakat Treatment

In a Musharaka, each partner will be responsible to pay Zakat on their corresponding share of the underlying net Zakatable assets and share of profits.

If Musharaka is used for financing residential property through a diminishing structure, then the customer will not be liable to pay Zakat on the property. However, the Islamic bank would be responsible to pay Zakat on their equity value since it was purchased with the sole intention to resell.

Ijara Muntahiya Bit-Tamlik financing

Definition

This is a lease ending in acquisition of lease item. It is also known as Ijara thumma al bay' (lease followed by sale) or Ijara wa al-iqtina' (hire and purchase).

The objective of this financing is to transfer the legal title of the leased asset to the lessee at the end of the lease period. At the end of this contract, the bank will surrender its ownership of the asset to the client. The surrendering can take place through a gift or a peppercorn amount.

The concept of Ijara Muntahiya bit-tamlik is an alternative to finance leasing and in particular hire-purchase financing. There are several forms of Ijara Muntahiya bit-tamlik financing that reflect the different modes of transferring the ownership of the asset, such as a gift, sale and transfer of equity claim, from the lessor to the lessee.

Zakat treatment

In any Ijarah financing structure, the customer is not responsible to pay Zakat on the underlying leased asset, as it is not in their ownership. It should be kept in mind that the outstanding principal amount is not a debt owed by the customer in terms of Shari'ah. Therefore, this amount will not be deducted from customer's zakatable assets. If the Islamic bank is holding the Ijara assets with the firm intention to resell, then the Ijara assets are Zakatable for the Islamic bank.

Commodity Murabaha financing

Definition

This product is called Tawarruq and Commodity Murabaha. Commodity Murabaha refers to an arrangement of three sale and purchase contracts which are executed in quick succession on platforms designed to broker such deals. The economic effect of these transactions is that they create a receivable owed to investors and funding for the client. Thus, rather than retaining the asset for use in its business, the client sells it at spot price to a third party. The asset used is typically a freely tradable commodity such as platinum or copper (gold or silver, which Shariah treats as currency, cannot be used). In this way, the customer can obtain a cash sum in return for periodic instalment payments.

Zakat Treatment

In a Commodity Murabaha, the financier is liable to pay Zakat on the outstanding receivables owed after the Commodity Murabaha financing. If the financier's Zakat year-end was on the day the commodities were bought and were to be sold a few days later, the financier would be liable to pay Zakat on the market value of the commodities.

Similarly, the customer of the financier would be able to deduct the deductible amount of payables owed to the financier, and pay Zakat on any funds owned as a result of the onward sale of the commodities.

Istisna' financing

Definition

Istisna' is a contract to build, manufacture, construct or develop the object of sale at a definite price, according to agreed specifications between the parties. An Istisna' contract can be established between a bank and contractor, developer or producer that allows the bank to make progress payments as construction progresses.

Istisna' financing is provided in the form of advance progress payment(s) to the customer who builds, manufactures, constructs or develops the object of sale. Upon completion of the project, the asset is delivered to parties who agreed to take delivery of the asset.

Zakat Treatment

An Islamic bank would be responsible to pay Zakat on the outstanding debt from the financing through Istisna', as the outstanding funds are receivables in lieu of a sale asset. Typically, Islamic banks enter into parallel Istisna', so they are ordering an asset and acquiring the asset to resell, hence the asset is a Zakatable trade asset.

Salam financing

Definition

Salam refers to the purchase of a commodity for deferred delivery in exchange for immediate payment. Thus, in a Salam contract, the price is paid in full and in advance while the commodity is deferred to an agreed date in the future.

In Islamic banking, advance payment made by the bank to the customer to deliver or produce the goods constitutes Salam financing. However, in Islamic banks, this is typically structured using a parallel product. Parallel Salam is based on two independent Salam contracts whereby the financier will be both the seller and the buyer in this arrangement.

In the first Salam contract, the IFI (Islamic Financial Institution) will be the buyer of the Salam asset by providing full payment to the seller against a future delivery of an asset. Then, this IFI may enter into a Salam contract as a seller with another party for a shorter period of delivery of the asset. The spread between the first and second Salam contract is the profit earned by the IFI through this parallel Salam arrangement.

Zakat Treatment

At the time of executing the Salam transaction, the bank pays the price of the goods to the customer for providing goods identified through specification, at a future date. These funds are in ownership of the customer; hence the customer is responsible to pay Zakat of these funds.

Upon the delivery of the goods, the customer is not responsible to pay Zakat on the goods because after delivery the bank is the owner of the goods.

If Salam goods are sold by the customer as an agent on behalf of the bank, the customer is not responsible to pay Zakat on the goods. The Islamic bank would be responsible to pay Zakat on the goods as these assets were purchased to resell.

Mudaraba financing

A Mudaraba is an arrangement whereby an investor or group of investors (known as the '*Rab al Mal*') place funds in the hands of a company (it is preferable for the Mudaraba capital to be in the form of cash because a contribution in kind is less certain), who acts as the investment manager (known as the '*Mudarib*') for the Mudaraba. Mudaraba investments can be arranged through negotiable instruments called Mudaraba certificates. The client provides management expertise and entrepreneurship, but not capital. This means that if the activity makes a loss the financial institution bears all the loss unless loss resulted from management negligence.

Zakat Treatment

Since the Mudaraba capital and any assets within the Mudaraba pool is owned by the *Rab al-Mal*, Zakat of such assets will be the responsibility on the *Rab al-Mal*.

CHAPTER 7:

LIABILITIES AND DEBTS

Introduction to debt deduction

THE ISSUE OF DEBT deduction is somewhat tricky and there exist different views among scholars. Further, with the debt-based economy that we live in today, the issue becomes all the more disputed.

The early Hanafi jurists were of the view that both short-term/immediate and long-term/deferred loans will be deducted when calculating Zakat. That was the known default view of the Imams of the school. Whereas the Shafi'i jurists are of the view that debt is not deductible at all.

Why should debts be deductible now?

If we consider the Hanafi reasonings behind the deduction of debts, they can be summarised as follows:

1. Zakat is the right of Allah as a worship, and worldly debts are the rights of people. Ibn al-Humam states that the rights of the person will be given preference over the rights of Allah when they are clashing, since Allah is not in need⁵¹.

⁵¹ Ibn al-Humam. Fath al-Qadir.

2. Settling one's outstanding debts is a basic necessity, and while one's Zakatable assets are engaged and overshadowed by one's basic necessity, one cannot be deemed to be wealthy or possess wealth. One's actual net worth is next to nothing. The reason it is a basic necessity is that the settling of one's debts safeguards a person from physical and psychological harm, harassment and detention etc. from one's creditors.

3. The funds that are equivalent to the debt are non-existent. They are engaged with the debt to repay the debt, and hence cannot be counted or included in one's assets.

4. The debtor's ownership of the amount owed as debt is endangered as his creditors are permitted to recover their debt without requiring recourse to a court ruling or the debtor's consent.

Contemporary guidance on debts

Contemporary Hanafi jurists have opined that in this era, not all debts should be deducted. This view is taken due to the following reasons:

1. Debt financing is very common.

2. Many people have mortgages and other forms of financing which would eliminate any Zakat liability. Considering how people live, before they get a job, there is rarely any Zakat obligation, and when they start working and get married a couple of years later, they purchase a property on mortgage lasting 20-25 years. If the entire financing value was to be deducted, such people would rarely ever pay Zakat.

3. High-net worth individuals who are used to gearing and leveraging, enjoy all the luxuries of life yet on paper, live with financing and debt. Adopting the view of every debt being deductible despite the length of the debt would reduce any Zakat liability from them despite being very comfortable.

4. Businesses are typically financed and get access to working capital and liquidity in the short term, despite them being a going concern and being able to operate annually.

5. If the wealthy who live a debt-financed lifestyle were to deduct all their borrowings, Zakat would rarely ever be paid by the wealthy. The Zakat payments would be largely on the working class.

6. There are many wealthy Zakat payers who have more than one buy-to-let properties on mortgages. If they were permitted to deduct all debts, they would again evade Zakat altogether despite enjoying significant wealth. This leaves them in a very comfortable position of having a huge debt which qualifies for deduction and therefore are left with very little if any Zakat to pay. Further, the mortgage payment is rarely ever made from the wealth they have. Instead, the rent earned pays the mortgage off.

7. If less Zakat is paid overall, the poor and needy will be impacted with the reduced availability of capital.

Therefore, many, if not most of the contemporary Hanafi jurists agree with some form of debt deduction. Some Hanafi scholars take support from an opinion on the permissibility of deducting deferred dower to show that long-term debts are

deductible. Other scholars do not cite the deferred dower as a legal precedent, rather they look at the economic context that we live in, and deem that not everything should be deductible. The AAOIFI Shariah Standards have yet a different view on deductions. The Standards state:

If the debts owed by the Institution have arisen from obtaining current zakatable assets for the purpose of trade they should be deducted from the Zakah base.

If the debts owed by the Institution have arisen from obtaining non-zakatable fixed assets, they should not be deducted from the Zakah base.

Hence, according to the AAOIFI Standards, debts arising from acquiring Zakatable assets are deductible.

Liabilities Deductions

The following debts can be deducted from your gross Zakatable assets:

1. Any liability which has been incurred and is payable in full within 12 months.
2. 12 months' 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) All arrears and overdue payments can be deducted from one's Zakat calculation.

4) The amount of personal and private loans intended to be repaid in the next 12 months.

5) 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.

The following should not be deducted:

- Unlawful debts as a result of an unlawful transaction.
- Any debt not payable in the next 12 months.
- Any debt which has not been incurred yet.

A Review of Taxes and their Impact on Zakat

1. Income tax – This is a tax on people’s income.

Most people pay Income Tax through PAYE . This is the system your employer or pension provider uses to take Income Tax and National Insurance contributions before they pay your wages or pension. Your tax code tells your employer how much to deduct.

In such an instance, income tax is not deductible for Zakat purposes as it has already been paid before even receiving your pay. Future months’ income tax cannot be deducted either, as the tax is contingent on salary, and a person earns a salary periodically. Next months’ income tax liability is not guaranteed unless one earns the income. As such, the debt has not crystallised or materialised.

A person who is self-employed or has earned additional income from other sources is required to file a self-assessment tax return. If a person is aware of the tax liability amount, then they can deduct the tax payable upon the self-assessment.

2. Capital gains tax

Capital Gains Tax is a tax on the profit when you sell (or 'dispose of') something (an 'asset') that's increased in value. It's the gain you make that's taxed, not the amount of money you receive. Capital gains tax is reported through creating a Capital Gain Tax on UK property account online. The reporting requirements as of present are that a person reports it 30 days after selling a property, if the completion date was between 6 April 2020 and 26 October 2021, and 60 days of selling it, if the completion date was on or after 27 October 2021.

If a person has realised capital gains as a result of the completion date and their Zakat year-end comes after, then the capital gains tax amount can be deducted from one's Zakat calculation.

3. National Insurance Contributions

Another type of income tax is National Insurance Contributions, which are based on a similar principle of taking a certain percentage of income. National Insurance is money paid to HMRC by employees, employers, and the self-employed.

An employed person cannot deduct National Insurance as it is paid from their gross salary. Similarly, the future National Insurance contributions are contingent on earnings of the future, and therefore are not crystallised debts at present. As such, they cannot be deducted from one's gross Zakatable assets' value.

A person who is self-employed or has earned additional income from other sources is required to file a self-assessment tax return for National Insurance. If a person is aware of the National Insurance liability, they can deduct the tax payable upon the self-assessment.

4. Value-Added Tax

Value Added Tax (VAT) is a general tax placed on almost all goods and services sold. The simple principle behind VAT is that consumers pay a tax on the products they buy based on the value of the product. VAT rates are percentage based, which means the greater the price, the more the consumer pays.

A company which is VAT registered does not include the VAT amounts collected for Zakat calculation purposes, as it is an amount owed to HMRC. If a company added all the income received including VAT, then it should add the corresponding VAT liability as this amount is payable to HMRC.

If a company has more input VAT than output VAT, meaning that it paid more VAT than it collected, then the company can reclaim the difference and HMRC will refund the balance. This surplus is Zakatable as they have a claim on it, and it is a debt owed to the company in lieu of the additional payment. The overpayment is visible in one's VAT account and is accessible for a refund. It is similar to a loan from a Zakat perspective.

5. Excise duties

Excise duties are indirect taxes on the sale or use of specific products, such as alcohol, tobacco and energy. The revenue from these excise duties goes entirely to the country to which they are paid.

Excise duties may be paid by:

- the person or business who is the authorised warehouse-keeper of the place where excise products are produced, processed, stored, dispatched or received.
- the sender, recipient, transporter or 3rd party providing a movement guarantee - who caused the goods to leave the duty-suspension arrangement.
- the person importing the goods, if they are imported without being put under the duty-suspension arrangement.

Excise duty for the purchase of any halal assets, such as energy, if payable, can be deducted by the liable party from their Zakat calculation.

6. Corporation tax

Corporation tax is a direct tax paid by companies on their profits, including those arising from all sources of income (other than dividends from UK companies) and *chargeable gains*.

At a company's Zakat year-end, unpaid tax in relation to a previous financial year can be deducted from the company's gross Zakatable assets' value. Similarly, any corporation tax which one is confident is liable for the current year and is to be paid within the next 12 months, can also be deducted.

The reason for the above position is that the tax liability for the previous year is known and cannot change. It is a fixed liability now that must be paid. By contrast, tax in relation to the current financial year is neither known precisely in terms of its overall amount, nor is it due to be paid.

7. Stamp duty

A *stamp duty land tax (SDLT)* is a tax imposed by the U.K. government on the purchase of land and properties with values over a certain threshold.

Once a purchase of property is complete and the solicitor hands the stamp duty bill, that liability can be deducted from one's gross Zakatable assets' value if their Zakat year-end comes before the bill is due.

8. Stamp Duty Reserve Tax (SDRT)

SDRT is a tax which is charged on agreements to transfer 'chargeable securities' for consideration.

Where SDRT is due on an agreement to transfer shares there's a deadline for notifying HMRC and paying the tax. The deadline depends on whether the transfer was made through the CREST electronic system or an 'off-market' system other than CREST. The due date is known as the 'accountable date'. If one's Zakat year-end comes before the accountable date and after the transfer of shares, then the SDRT can be deducted.

9. Inheritance tax

Inheritance Tax is a tax on the estate (the property, money and possessions) of someone who's died.

Inheritance Tax must be paid by the end of the sixth month after the person's death. If there's a will, it's usually the executor of the will who arranges to pay the Inheritance Tax. If there isn't a will, it's the administrator of the estate who does this.

IHT can be paid from funds within the estate, or from money raised from the sale of the assets. However, in practice, most IHT is paid through the Direct Payment Scheme (DPS). This means, if the person who died had money in a bank or building society account, the person dealing with the estate can ask for all or some of the IHT due to be paid directly from the account through the DPS. When the tax and debts are paid, the executor or administrator can distribute what remains of the estate.

Since IHT is not owed or paid by any of the beneficiaries, it is not deductible for them. Similarly, a person in their lifetime cannot deduct a potential IHT bill once they are deceased.

CHAPTER 8:

ZAKAT CHARTS

Personal Zakat	Zakat treatment
Money	Zakatable
Gold	Zakatable
Silver	Zakatable
Money owed to you for a loan	Zakatable every year

Asset Class	Zakat Treatment
Shares and stocks	Trading = Zakatable at full market value of portfolio. Investing = Can apply a proxy of 25% and pay 2.5% of 25% as Zakat.
Private equity and start-ups	Can apply a proxy of 25% and pay 2.5% of 25% as Zakat.
Bonds	Face value is Zakatable at 100% and any coupon payments must be given away in charity.
Sukuk	Dependent on Sukuk Structure. Wakala – typically all Zakatable. Ijara – only rental income Zakatable.

	<p>Musharaka – Only net Zakatable assets are Zakatable.</p> <p>Mudaraba – typically all Zakatable.</p> <p>Murabaha – all outstanding receivables are Zakatable.</p>
Pensions	<p>Shariah Fund = 26%</p> <p>Direct Property Fund = 15%</p> <p>Equity Fund = 27%</p> <p>Mixed Asset Fund = 50%</p> <p>Bonds/Fixed Interest or Fixed Income Fund = 100%</p>
Investment Land	<p>If simply an investment or store of value, not Zakatable.</p> <p>If trading, Zakatable at market value.</p>
Investment Property	<p>If simply an investment or store of value, not Zakatable.</p> <p>If trading, Zakatable at market value.</p>
Mutual Funds	Zakatable according to the percentage of the underlying Zakatable assets in the fund.
Exchange-Traded Funds	Zakatable according to the percentage of the underlying Zakatable assets in the fund.
Exchange-Traded Commodities	Zakatable according to the percentage of the underlying Zakatable assets in the fund.
REIT Funds	Only rental income is Zakatable.
Unit Trusts	Zakatable according to the percentage of the underlying Zakatable assets in the fund.
Crypto-assets	If trading, all Zakatable at current market value.

	If held for other than trading, depends on the type of Crypto-asset.
Non-Fungible Tokens	If trading, all Zakatable at current market value. If held for other than trading, depends on what the NFT represents.
Collectibles	Typically not Zakatable unless purchased to trade.
Commodities Investing	If contract is invalid, Zakat payable on payment if retrievable.
Precious Metals	If trading, Zakatable at current market value. If gold or silver, Zakatable always. Other metals bought as investments are not Zakatable.
Options	If contract is invalid, Zakat payable on payment if retrievable.
Forwards	Typically not Zakatable and any payment due not deductible.
Futures	Typically not Zakatable and payment due not deductible.
Swaps	Any amount already received is in one's possession and ownership will be subject to Zakat. What is not received will not be Zakatable
Forex	If contract is invalid, Zakat payable on payment if retrievable.
Contracts for Difference	If contract is invalid, Zakat payable on payment if retrievable.

ASSET CLASS	ZAKAT TREATMENT
Cash	Zakatable
Cash equivalents	Zakatable but some cash equivalents are not Shariah compliant and must be abstained from. Therefore, any gain must be given for purification if they are not Shariah compliant.
Accounts receivable	Accounts receivables for trade assets sold on credit are Zakatable. Receivables for non-trade assets may not always be Zakatable. Service receivables will not be Zakatable whilst outstanding according to the Hanafi fiqh.
Trade receivables	Receivables for goods sold on credit are Zakatable each year. Receivables for services are not Zakatable whilst outstanding.
Non-trade receivables	Non-trade receivables for a loan are Zakatable each year whilst outstanding. Receivables due to refunds are typically Zakatable since the funds are held by the seller as either safekeeping if not used, or as Qard (loan) if the amount is being used and simply a liability owed, then the amount will be Zakatable each year. If the receivables are not accessible and prevented from being received, then it will not be Zakatable.
Inventory	Zakatable at retail value if they are finished goods, or market value if they are raw materials or work-in-process.

Short term investments	Debt will typically be Zakatable at face value and equity will be Zakatable at the current market value as these are held with no intention but to firmly resell in the very near future.
Marketable securities	Debt will typically be Zakatable at face value and equity will be Zakatable at the current market value as these are held with no intention but to firmly resell in the very near future.
Prepaid expenses	Not Zakatable as the cash is not owned by the company.
Trade Debtors	Debtors for goods or loans are Zakatable each year whilst outstanding. Debtors for services will not be Zakatable at present.
Long-term investments	If these are debt investments, they will typically be Zakatable each year at face value or outstanding capital and profit each year when it is Murabaha or Commodity Murabaha. If it is equity based, then this
Prepayments	This accounting entry is not Zakatable.
Accrued Income	If this is reflective of a service provision, then the receivable will not be Zakatable whilst outstanding.
Deferred Tax Assets	This is not Zakatable as it is either an advance payment or payment on account.
Assets held for sale	Not Zakatable.
Property, Plant and Equipment	Not Zakatable.

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Intangible Assets	Not Zakatable.
Investment Property	The property is not Zakatable. The rental income in one's ownership is Zakatable at one's Zakat year-end.
Goodwill	Not Zakatable.
Shareholders' Equity	Not Zakatable as this is just an accounting entry for balancing the accounting equation.

Common Liabilities for Businesses

Deductible Liabilities	Treatment for Zakat
Outstanding invoices and trade creditors	Deductible
Utility bills (broadband, telephone, electric, gas, sewer or water)	Any current and outstanding utility bill is deductible.
Corporation Tax, VAT, Capital Gains Tax and PAYE	<p>Any current and outstanding Tax bill is deductible.</p> <p>Unpaid tax in relation to a previous financial year can be deducted from one's cash balance when calculating Zakat due. However, any money being saved to pay for taxes in relation to the current financial year cannot be excluded.</p>
Bank loan	If interest is involved, such a loan is prohibited in Shariah. However, if a business borrowed money from a bank,

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	only the capital repayments can be deducted and not the interest element of the forthcoming lunar year.
Personal or private loans	The outstanding amount is deductible.

Non-deductible Liabilities	
Interest payments	Non-deductible

Zakat Treatment of a Pension Portfolio

Assets in a Pension	Treatment For Zakat
<p>Equities</p> <p>Listed Equities, Private Equity</p>	<p>25% of the value of equities are Zakatable.</p>
<p>Fixed Interest/Income</p> <p>Bonds, High Yield Credits, Structured Finance, Gilts, Money Market</p>	<p>Despite the unlawful nature of the investment, the invested capital is 100% Zakatable whilst returns are unlawful and must be dispensed in charity.</p>
<p>Precious Metals</p> <p>Only gold and silver</p>	<p>Gold and silver assets are Zakatable at 100% of their value.</p>
<p>Cash and Equivalents</p> <p>Cash, Currencies</p>	<p>Cash assets are Zakatable at 100%.</p>

<p>Alternatives</p>	<p>Alternatives incorporate a range of non-traditional assets. This is usually a relatively small percentage and due to the high possibility of alternatives including Zakatable assets, one should add 100% of this as a precaution.</p>
<p>Commodities</p>	<p>Commodities are Zakatable at 100%.</p>
<p>Hedge Funds</p>	<p>Despite the unlawful nature of hedge funds, the invested capital is 100% Zakatable whilst returns are unlawful and must be dispensed in charity.</p>
<p>Other (unless identified as property)</p>	<p>The 'Other' asset incorporates several asset classes, many of which are Zakatable by default. Therefore, as a precaution, this should be treated as Zakatable at 100%.</p>
<p>Property and Real Estate</p>	<p>Property owned by a fund for rental income is not Zakatable.</p>

	<p>Note: shares in property development or real estate development companies are equities and are treated as equities.</p>
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About the Book

Have you ever wondered what Zakat is all about? How is it at odds with Riba? What Zakat does for the economy? Are you looking for a book that addresses Zakat on businesses and investments? This is your book! With this book, you will learn what Zakat is from a spiritual and an economic perspective. It will empower you with a refreshed look on the pillar of Zakat, making sense of the principles, economic impact and the objectives that Zakat achieves. Further, you will have an in depth understanding of how to calculate Zakat for the simple things such as cash, or to the more complexed calculations like pensions, shares and other investments.

This book unravels the wisdoms and makes sense of why, what, how and when. This book not only explains the calculation principles, but it also attempts to unpack the rationale from an economic and financial perspective. *Zakat Made Easy* does a deep dive on everything Zakat, and looks at the following:

1. Zakat from a spiritual and economic perspective.
2. Zakat as a system and antithesis to the Riba system.
3. Zakat on personal assets.
4. Zakat on 23 different investment asset classes including investment funds, ETFs, Crypto-assets, NFTs, private equity, shares and more.
5. Practical approach to Zakat on business, considering how to use a balance sheet for Zakat calculation purposes.
6. Zakat treatment of various Islamic financing products, such as Murabaha, Musharaka, Ijara, Salam and more.

About the Author

Mufti Faraz Adam is a well-known UK-based Islamic Finance & Fintech consultant and heads the global Shariah advisory firm Amanah Advisors. He is advising several global Islamic financial institutions spread across the UK, US, Canada, Malaysia, Singapore, Bahrain, Saudi Arabia, UAE and other countries. He is passionate about the development of the Islamic economy and serves across its various sectors such as Islamic banking, Islamic capital markets, Takaful, SME financing and Islamic social finance.

Mufti Faraz completed a six-year Alimiyyah program (Islamic Studies) in the UK after which he went on to specialise in Islamic law and finished a Mufti course in Durban, South Africa. He holds a Master's Degree in Islamic Finance, Banking and Management from Newman University, UK. He qualified with an MBA Diploma from the International Business Management Institute and successfully accomplished a Fintech Specialisation course from the University of Michigan. He recently achieved the ACCA Level 4 Qualification in Accounting and Business.

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He has an interest in writing, researching and reading. He recently authored a book on Islamic Fintech called 'Introduction to Islamic Fintech', and has written several research papers on Islamic Finance and complexed products.