

# Zakah Calculation in Modern Economy with Examples

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Zakah is one of the pillars of Islam.<sup>1</sup> It is obligatory on the wealth of a Muslim who meets the following criteria:

1. The owner has undivided and absolute ownership of the wealth i.e.:
  - a. He or she has absolute control and authority to dispose of the wealth<sup>2</sup> and
  - b. He or she is capable of deriving benefit from the wealth.<sup>3</sup>
2. The wealth must either be growing or has the potential for growth i.e. it provides the owner profit or benefit.<sup>4</sup> Actual growth occurs when the wealth is invested in a business. Wealth for example money has the potential to grow if it is invested properly.<sup>5</sup>
3. The wealth is in excess of the basic need (food, shelter, clothing, transportation, medication, education, and items needed to earn a living) of the person, his family, and all those he is required to support.<sup>6</sup>
4. The wealth in excess meets 'Nisab'.

Zakah was originally due on gold and silver, the produce of plowed land, livestock, minerals, and buried treasure. The applicability Zakah on other assets can be extrapolated through analogy. For the purpose of the Zakah, assets in modern industrial society can be divided into the following categories (Details are given in Appendices A and B):

- (1) Non-Revenue Generating Assets: These assets do not generate income by themselves, but can be invested in assets that generate income. The non-revenue generating assets include gold, silver, and by analogy currency, bank deposits, and on the face value (principle amount invested) of bonds, money market certificates, treasury bills, and etc.<sup>7</sup> (a) Zakah is due on the net value of the asset, if after meeting the expense for necessities and taking care of all the debts, the assets exceed Nisab. (b) The Nisab is met if the assets exceed 2.8 troy ounce of gold.<sup>8</sup> (c) The rate is 2.5 percent. (d) Zakah on these assets is due only if these assets were in possession for one lunar year. There is no Zakah on precious stones, gems, and diamond jewelry of personal use. Except in Hanafi Fiqh, women's gold and silver jewelry is also exempted from Zakah, provided that it is for her personal use and is within what is reasonable for women of her social status.
- (2) Revenue Generating Assets: These assets generate income in the form of crop from ploughed land and by extension products and revenue. These assets include agricultural lands and by analogy factories, businesses, rental properties, stocks, and etc. (a) Zakah is due on the product and/or income from the assets. There is no Zakah on income generating

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<sup>1</sup> "From their wealth, take alms so that you might purify and sanctify them, and pray for them." (Qur'an 9:103);

"They will ask you what they should give away. Say 'What is surplus to your needs' (Quran 2:219).

<sup>2</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, p.68.

<sup>3</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, p. 75.

<sup>4</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, pp. 76 and 80.

<sup>5</sup> There is a distinction between potential to grow and inability to grow. If the owner withholds his wealth from investment then his wealth is not exempted from Zakah, since it had the potential to grow if it was properly invested. However, if the wealth was stolen or was borrowed by someone as debt, then the owner is considered to be deprived to make his capital grow. In that case his wealth will not be subject to Zakah (Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, p. 80).

<sup>6</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, pp. 87, 88, and 90.

<sup>7</sup> For the purpose of Zakah calculation, interest will not be considered as generated income.

<sup>8</sup> The Nisab ordained by the Holy Prophet<sup>SAW</sup> is 20 dinars (3.1 ounce, 2.8 troy ounce, or 87.5 grams) of gold or 200 dirhams (21.6 ounce, 19.7 troy ounce, or 613.3 grams) of silver. Since the price of silver has dropped significantly, the Nisab of gold will be used in the examples. Since the price of gold in the United States is quoted in troy ounce, the price of 2.8 troy ounce of gold will be used in the exercise as Nisab. Use London a.m. or p.m. fixing, Engelhard Industrial, Handy and Harman base, or Krugerrand wholesale price.

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assets. (b) Nisab is equal to the price of 33.3 bushels of barley.<sup>9</sup> (c) The rate is ten percent of the net income or product.<sup>10</sup> (d) Zakah is due at the time the income is generated after meeting personal needs.<sup>11</sup>

- (3) Livestock: These include free grazing (i.e. not fodder fed) camel, cattle, and sheep. There is no Zakah on horses, mule, and donkeys of personal use.
- (4) Unexpected Income: These are wealth obtained from buried treasure (*Rikaz*) and lost and found items<sup>12</sup> and by analogy windfall profit and unexpected bonuses, since these are realized without any cost or effort. (a) Zakah is due on the total value of the wealth. (b) There is no Nisab requirement. (c) The rate is 20 percent. (d) Zakah is due upon finding the treasure or realizing the unexpected income.<sup>13</sup>
- (5) Minerals: These are the wealth obtained from mines (Ma'dan) that requires capital and effort for their mining. It falls under the category of buried treasure (*Rikaz*), except that it requires capital and labor to extract. (a) Zakah is due on the total value of the extracted minerals, after deducting all the expenses for the extraction. (b) The rate is 20 percent. (d) Zakah is due upon mining.<sup>14</sup>

### Zakah on Stocks:

Stocks in the United States are of two kinds: one that declares dividend and one that does not. Zakah on stocks that declare dividend will be on the dividend. The stocks that do not declare dividend rollover the profit from the business back into the business. Since the owner of the stock does not have control over the profit, he is not liable to pay Zakah till he sells the stocks. Since he realizes the profit upon the sale of the stock, he becomes liable for Zakah.

### Zakah on Saving/Retirement Plans:

Zakah on retirement funds is determined by whether or the contributor has total control over the fund. If the contributor has full control i.e. has full authority to dispose off the fund and is able to derive benefit from the wealth), then Zakah will be due every year.<sup>15</sup> The pension funds in which employer contributes the money and the employee can only draw benefit upon retirement, the employee has no control over those funds and is not obligated to pay Zakah until he starts receiving pension. The IRA plan where the contributor can contribute to the fund, but is not allowed to withdraw until reaching the retirement age without incurring penalty should also be considered as wealth over which the contributor does not have full control. The 401K plan where contribution is made before tax also falls in the same category, but after tax does not fall in that category.

### Funds Invested in Stocks:

In most of the saving/retirement plans, the contributor invests his earning in a bag of stocks (mutual funds) hoping that its value will increase with time and will provide income during retirement. Most of these funds are growth funds and any income in the form of dividend is rolled over into the plan. It is suggested that the Zakah on these funds should be paid when one starts withdrawing money from these funds during his retirement. The following is proposed to calculate Zakah on saving/retirement plans:

<sup>9</sup> The Nisab ordained by the Holy Prophet<sup>SAW</sup> is five *awsuq* (1600 pounds) of barley or something similar. Since the price of barley is quoted in bushels in the United States, the price of 33.3 bushels (48 pounds of barley per bushel) of barley will be used in the exercise as Nisab after meeting his personal needs.

<sup>10</sup> The Holy Prophet<sup>SAW</sup> levied 5% if the land is irrigated mechanically or by purchased water. This suggests that 5% discount was given to pay for irrigation expenses. By analogy 10% should be levied on net income after paying taxes and other expenses.

<sup>11</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, p. 93.

<sup>12</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, p. 226.

<sup>13</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, p. 276.

<sup>14</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, pp. 278-287.

<sup>15</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, p. 76.

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### *Detailed Method:*

The detailed method requires keeping track of the total amount contributed to the plan. This includes the owner's contribution as well as the matching contribution by the company.

$$\text{Zakah} = \text{Amount Withdrawn} * 0.10 * (1 - \text{Total Contribution} / \text{Value of the Investment})$$

$$\begin{aligned} \text{Adjusted Contribution} \\ = (\text{Value of the Investment} - \text{Amount Withdrawn}) \\ * (\text{Total Contribution before withdrawal} / \text{Total Value before withdrawal}) \end{aligned}$$

For the next year use the adjusted contribution as total contribution and the value of the investment at that time to calculate Zakah on 2<sup>nd</sup> year withdrawal.

### *Short Cut:*

Short cut method avoids the hassle of keeping track of all the investment over the years and assumes that all of the withdrawal is profit. Zakah will be 10% of the withdrawal after paying tax.

### Interest Bearing Funds:

Setting aside the issue of interest, the investment in interest bearing funds could be considered as loaned money. It could also be considered as the wealth over which the person does not have full control. Due to tax requirements, this fund cannot be withdrawn without incurring financial penalty. Since the society has changed, one cannot rely on his tribe (which does not exist anymore) or his children to take care of his financial needs in old age. As such saving for the old age has become a necessity. It is suggested to consider the withdrawal similar to funds invested in stock and pay 10 percent on the net withdrawal.

### **The Recipients of Zakah:**

The Holy Quran identifies the following as the recipients of Zakah: (1) the poor, (2) the needy, (3) the administrators of Zakah, (4) those whose hearts are to be reconciled, (5) those held in captivity, (6) those in debt, (7) in the cause of God, and (8) those who are stranded (Quran 9:60)

### **The Purpose of Zakah:**

The purpose of Zakah is to purify the wealth earned or accumulated. The very word Zakah means "to increase", "to purify," and "to bless."<sup>16</sup>

Sources: Fiqh-us-Sunnah (Volume III) by As-Sayyid Sabiq, and [http://www.amanafunds.com/zakah\\_main.html](http://www.amanafunds.com/zakah_main.html)  
<http://www.geocities.com/mihraab786/Zakah.html>;  
Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999.

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<sup>16</sup> "From their wealth, take alms so that you might purify and sanctify them." (Qur'an 9:103).

## Zakah Calculation in Modern Economy with Examples

**Table I**  
**Table for Calculating Zakah**

	<b>Examples</b>	<b>Zakah is due on</b>	<b>Zakah is due when</b>	<b>Nisab</b> (minimum above which Zakah becomes due)	<b>Rate of Zakah</b>
<b>Non-Revenue Generating Assets</b>	Gold, silver, other precious metals, currency, bank deposits, and the face value of bonds, money market certificates, treasury bills, and etc.	The asset itself.	Nisab is met and the asset is in possession for one lunar year.	Assets equivalent to 2.8 troy ounces of gold after subtracting the debt.	2.5% on net asset.
<b>Revenue Generating Assets</b>	Agricultural lands factories, businesses, rental properties, stocks, wages earned, and etc.	The product or the income.	The product is produced or the income is realized and Nisab is met.	Product or income equivalent to 33.3 bushels of barley after subtracting the expenses and tax.	10% on net product or income.
<b>Unexpected Income</b>	Buried treasure ( <i>Rikaz</i> ), lost and found items, windfall profit and unexpected bonuses.	The asset itself.	When the treasure is found or profit or bonus is realized.	No minimum	20% of the treasure, Lost and found property, windfall profit, and bonuses
<b>Minerals (Ma'din)</b>	Mines	The asset itself.	Upon mining.	No minimum	20% of the asset after deducting all the expenses for the extraction
	Livestock <sup>17</sup> : See Table II				

<sup>17</sup> <http://www.geocities.com/mihraab786/Zakah.html>; *Fiqhuz Zakah*~Yusuf al-Qaradawi, vol.1, pages 360, 372-373 (Beirut, 1977). English translation by Monzer Kahf, pages 232-236 (London 1999).

## Zakah Calculation in Modern Economy with Examples

**Table II**  
**Zakah on Livestock<sup>18</sup>**

Examples	Zakah is due on	Zakah is due when	Nisab (minimum above which Zakah becomes due)	Rate of Zakah
Cows and buffaloes	The livestock itself.	The cattle are free grazing, is in possession for one lunar year, and Nisab is met.	30 in number	For every 30, one 1-year-old;
				For every 40, one 2-year-old.
Goats and sheep	The livestock itself.	The cattle are free grazing, is in possession for one lunar year, and Nisab is met.	40 in number	One for the first 40
				two for 120
				three for 300
				One for every additional 100
Camels	The livestock itself.	The cattle are free grazing, is in possession for one lunar year, and Nisab is met.	5 in number	See Table III

**Table III**  
**Zakah on Camels**

Number of camels	Zakah
for each five camels up to 24 camels	one sheep or goat
25-35 camels	one 1-year-old she-camel
36-45 camels	one 2-year-old she-camel
46-60 camels	one 3-year-old she-camel
61-75 camels	one 4-year-old she-camel
76-90 camels	two 2-year old she-camels
91-120 camels	two 3-year-old she-camels
121 or more camels	for each additional 40, one 2-year-old she-camel
	for each additional 50, one 3-year-old she-camel

<sup>18</sup> <http://www.geocities.com/mihraab786/Zakah.html>; *Fiqhuz Zakah*~Yusuf al-Qaradawi, vol.1, pages 360, 372-373 (Beirut, 1977). English translation by Monzer Kahf, pages 232-236 (London 1999).

### Procedure for Calculating Zakah

1. Determine the type of assets you have.
2. Calculate the Nisab for each type of assets.
3. Determine if the Nisab is met on each type of assets.
4. If Nisab is met, calculate the Zakah using proper factors.

#### Example No. 1 (Has bank balance and meets Nisab):

Adam has three family members, owns a house, three cars, and maintained a minimum of 10,000 in the bank over the last year. The price of gold is \$630 per troy ounce. Would he pay zakah? If so, how much?

Non-Revenue Generating Assets:

Nisab:	$630 \times 2.8 = \$1764.$	
Total Asset exceeding the basic necessity:	$\$10,000 > 1764$	Nisab is met
Zakah on the bank balance:	$10,000 \times 0.025 =$	\$250.

#### Example No. 2 (Has bank balance, but does not meet Nisab):

Anisa has two family members, rents a two bedroom apartment, has a car, and maintained a minimum of 900 in the bank for the lunar year. The price of gold is \$630 per troy ounce. Would she pay zakah? If so, how much?

Non-Revenue Generating Assets:

Nisab:	$630 \times 2.8 = \$1764.$	
Total Asset exceeding the basic necessity:	$\$900 < 1764$	Nisab is not met
The person does not meet the Nisab and is not required to pay zakah.		

#### Example No. 3 (Has bank balance, but lost Nisab):

Ahmad has three family members, rents a two bedroom apartment, and has two cars. At the beginning of the year his bank balance was 2,000. About the middle of the year the transmission of one of his car broke down. He wrote a check of 1500 to fix it. At the end of the lunar year his balance was back to 2,000. The price of gold is \$630 per troy ounce. Would he pay zakah? If so, how much?

Non-Revenue Generating Assets:

Nisab:	$630 \times 2.8 = \$1764.$	
Balance at the beginning of the year:	\$2,000	
Minimum balance during the year:	\$500 (<\$1764, lost the Nisab)	
Balance at the end of the year:	\$2,000	
Minimum asset exceeding the basic necessity:	$\$500 > 1764$	Nisab is not met
The person does not meet the Nisab and is not required to pay zakah.		

#### Example No. 4 (Has bank balance but incurred debt):

Afsa has three family members, owns a house, two cars, and maintained a minimum of 10,000 in the bank for the lunar year. The family went for a skiing trip. There her son had an accident. The medical bill was \$10,000. The insurance has paid \$8,000. She has to pay \$2,000 as co-payment. The price of gold is \$630 per troy ounce. Would she pay zakah? If so, how much?

Non-Revenue Generating Assets:

Nisab:	$630 \times 2.8 = \$1764.$	
Balance at the beginning of the year:	\$10,000	
Minimum balance during the year:	\$10,000	
Balance at the end of the year:	\$10,000	
Debt to be paid	\$2,000	

## Zakah Calculation in Modern Economy with Examples

Net balance	\$8,000	
Total Asset exceeding the basic necessity:	\$8,000 > 1764	Nisab is met
Zakah on the bank balance:	$8,000 * 0.025 =$	\$200.

**Example No. 5 (Has bank balance as well as credit card balance):**

Amjad has three family members, owns a house, two cars, and maintained a minimum of 10,000 in the bank for the lunar year. He has a credit card payment due of \$1,500. The price of gold is \$630 per troy ounce. Would she pay zakah? If so, how much?

Non-Revenue Generating Assets:

Nisab:	$630 * 2.8 = \$1764.$	
Balance at the beginning of the year:	\$10,000	
Minimum balance during the year:	\$10,000	
Balance at the end of the year:	\$10,000	
Debt to be paid	\$1,500	
Net balance	\$8,500	
Total Asset exceeding the basic necessity:	$8,500 > 1764$	Nisab is met
The person meets the Nisab and must pay zakah.		
Zakah on the bank balance:	$8,500 * 0.025 =$	\$212.50

**Example No. 6 (Has bank balance and jewelry):**

Amina has three family members, owns a house, two cars, and maintained a minimum of 10,000 in the bank for the lunar year. Amina had some gold jewelry given to her at the time of marriage by her parents. The jewelry has 5 troy ounce of gold in it. The price of gold is \$630 per troy ounce. Would she pay zakah? If so, how much?

Non-Revenue Generating Assets:

Nisab:	$630 * 2.8 = \$1764.$	
Gold in the Jewelry:	$5 \text{ troy ounce} * 630 = \$3,150$	
Balance at the beginning of the year:	\$10,000	
Minimum balance during the year:	\$10,000	
Balance at the end of the year:	\$10,000	
Total Asset exceeding the basic necessity:	$10,000 > 1764$	Nisab is met
The person meets the Nisab and must pay zakah.		
Zakah on jewelry and the bank balance:	$10,000 * 0.025 =$	\$250.00

Note: Except in Hanafi Fiqh, women's personal gold and silver jewelry are exempted from Zakah. The followers of Hanafi Fiqh will also pay \$78.75 ( $\$3,150 * 2.5\%$ ) on jewelry.

**Example No. 7 (Has bank balance, jewelry, and diamond ring):**

Ayesha has three family members, owns a house, two cars, and maintained a minimum of 10,000 in the bank for the lunar year. Ayesha had some gold jewelry given to her at the time of marriage by her parents. The jewelry has 5 troy ounce of gold in it. She also has a 5 carat diamond ring which is worth \$5,000. The price of gold is \$630 per troy ounce. Would she pay zakah? If so, how much?

Non-Revenue Generating Assets:

There is no Zakah on diamond ring		
Nisab:	$630 * 2.8 = \$1764.$	
Gold in the Jewelry:	$5 \text{ troy ounce} * 630 = \$3,150$	
Balance at the beginning of the year:	\$10,000	
Minimum balance during the year:	\$10,000	
Balance at the end of the year:	\$10,000	
Total Asset exceeding the basic necessity:	$10,000 > 1764$	Nisab is met
Zakah on jewelry and the bank balance:	$10,000 * 0.025 =$	\$250.00

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Note: Except in Hanafi Fiqh, women's personal gold and silver jewelry are exempted from Zakah. The followers of Hanafi Fiqh will also pay \$78.75 (\$3,150\*2.5%) on jewelry.

### Example No. 8 (Has bank balance and rents a house):

Akbar has three family members, owns two houses, three cars, and maintained a minimum of 10,000 in the bank for the lunar year. He lives in one house and rents the other. The market value of the rented house is \$200,000. The rent from the house was \$1,000 per month. The tax on the house was \$2,000 and the expenses on the house were \$1,000 for the year. The price of gold is \$630 per troy ounce and the price of barley is \$3.85 per bushel. Would he pay zakah? If so, how much?

#### Non-Revenue Generating Assets:

Nisab:	$630 \times 2.8 = \$1764.$	
Total Asset exceeding the basic necessity	$\$10,000 > 1764$	Nisab is met
The person meets the Nisab and must pay zakah.		
Zakah on the bank balance:	$10,000 \times 0.025 =$	\$250.

#### Revenue Generating Assets:

Nisab:	$\$3.85 \times 33.3 = \$128$	
Zakah on the rent:		
Rent for the year:	$12 \times \$1,000 =$	\$12,000
Tax + Expenses	$\$2,000 + \$1,000 =$	- \$3,000
Net Profit from the house	$\$9,000 > \$128$	
Nisab is met.		
Zakah (*10%)	$\$9,000 \times 0.10 =$	\$900

Total Zakah

\$1,150

### Example No. 9 (Has bank balance, rents a house, and made profit selling stocks):

Khadijah has three family members, owns two houses, and three cars. The bank deposit at the beginning of the year was \$10,000. During the lunar year she took out \$5,000 from the bank and bought stocks and later sold it for \$6,000 and deposited the money in the bank. She will have to pay \$300 in tax on the profit from the stock. She lives in one house and rents the other. The market value of the rented house is \$200,000. The rent from the house was \$1,000 per month. The tax on the house was \$2,000 and the expenses on the house were \$1,000 for the year. The price of gold is \$630 per troy ounce and the price of barley is \$3.85 per bushel. Would she pay zakah? If so, how much?

#### Non-Revenue Generating Assets:

Nisab:	$630 \times 2.8 = \$1764.$	
Total Asset exceeding the basic necessity:	$\$10,000 > 1764$	Nisab is met
The person meets the Nisab and must pay zakah.		
Balance at the beginning of the year:	\$10,000	
Minimum balance during the year:	\$5,000	
Balance at the end of the year:	\$11,000	
Zakah on the bank balance:	$\$5,000 \times 0.025 =$	\$125.

#### Revenue Generating Assets:

Nisab:	$\$3.85 \times 33.3 = \$128$	
Zakah on the profit from the stock:		
Total Profit	\$1,000	
Tax	\$300	
Net Profit	\$700	
Zakah on the rent:		
Rent for the year:	$12 \times \$1,000 =$	\$12,000
Tax + Expenses	$\$2,000 + \$1,000 =$	- \$3,000
Net Profit from the house	\$9,000	
Net Profit from Revenue Generating Assets:	$\$9,700 > \$128$	Nisab is met.

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Total Zakah on Revenue Generating Assets:	$\$9,700 * 0.10 =$	\$970
Total Zakah		\$1,095

**Example No. 10 (Has bank balance, rents a house, but lost money selling stocks):**

Hira has three family members, owns a house, and three cars. The bank deposit at the beginning of the year was \$10,000. During the year she took out \$5,000 from the bank and bought stocks. Unfortunately the price of stock started falling. She panicked and later sold it for \$4,000 and deposited the money in the bank. She can take credit of \$300 in losses from the stock in tax. She lives in one house and rents the other. The market value of the rented house is \$200,000. The rent from the house was \$1,000 per month. The tax on the house was \$2,000 and the expenses on the house were \$1,000 for the year. The price of gold is \$630 per troy ounce and the price of barley is \$3.85 per bushel. Would she pay zakah? If so, how much?

**Non-Revenue Generating Assets:**

Nisab:	$630 * 2.8 = \$1764.$	
Total Asset exceeding the basic necessity:	$\$10,000 > 1764$	Nisab is met

The person meets the Nisab and must pay Zakah.

Balance at the beginning of the year:	\$10,000	
Minimum balance during the year:	\$5,000	
Balance at the end of the year:	\$9,000	
Zakah on the bank balance:	$\$5,000 * 0.025 =$	\$125.
Balance at the end of the year:	\$9,000	

**Revenue Generating Assets:**

Nisab:	$\$3.85 * 33.3 = \$128$	
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**Profit from the stock:**

Total Profit	-\$1,000	
Tax	-\$3,00	
Net Profit from the stock	-\$700	

**Profit on the rent:**

Rent for the year:	$12 * \$1,000 =$	\$12,000
Tax + Expenses	$\$2,000 + \$1,000 =$	- \$3,000
Net Profit from the house	\$9,000	

Net Profit from Revenue Generating Assets	$\$8,300 > \$128$	Nisab is met
Zakah (*10%)	$\$8,300 * 0.10 =$	\$830

Total Zakah		\$955
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**Example 11 (Dividend Generating Stocks):**

Hameed invested \$17,500 in a dividend generating mutual stock in 2004. The stock price in 2004 was \$17.50 per share. The stock yielded \$0.14 per share in 2005 and \$0.10/share in 2006. Hameed sold the entire stock in January 2007, when its price was \$26.00 per share. Calculate the Zakah.

Total amount invested	= \$17,500	
Price of Share in 2004	= \$17.50/share	
Total number of shares	= 1000	
Profit (dividend) in 2005	= \$0.14/share or \$140	
Nisab for Revenue Generating Assets	= \$3.85 * 33.3 = \$128	
Nisab is met.		
Zakah on dividend in 2005	= 10% of \$140 = \$14	
Profit (dividend) in 2006	= \$0.10/share or \$100	
Nisab for Revenue Generating Assets	= \$3.85 * 33.3 = \$128	
Nisab is not met.		
Zakah on dividend in 2006	= none	

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Price of Share in 2007	= \$26.00/share
Proceed from the sale of entire share in 2007	= \$26,000
Profit from the sale of the stock	= \$26,000 - \$17,500 = \$8,500
Nisab for Revenue Generating Assets	= \$3.85 * 33.3 = \$128
Nisab is met.	
Zakah on the profit from the sale of shares	= 10% of \$8,500 = \$850

### Example 12 (Non-dividend Generating Stocks):

Shareef invested \$15,000 in a mutual fund in 2004. The price of the fund per share in 2004 was \$15.00. The fund does not give any dividend. Shareef held the stocks for two years and then sold them in 2006 at \$21 per share. Calculate the Zakah.

Total amount invested	= \$15,000
Price of Share in 2004	= \$15.00/share
Total number of shares	= 1000
Price of Share in 2006	= \$21.00/share
Proceed from the sale of entire share in 2006	= \$21,000
Profit from the sale of the stock	= \$21,000 - \$15,000 = \$6,000
Nisab for Revenue Generating Assets	= \$3.85 * 33.3 = \$128
Nisab is met.	
Zakah on the profit from the sale of shares	= 10% of \$6,000 = \$600

### Example 13 (Saving/Retirement Plans):

Akbar was an employee of Crescent Company for 25 years. During his employment he contributed 15% of his income before tax to Employee Savings Plan. His company contributed 5% of his salary to the plan. By the time he retired, total contribution (his and company's) amounted to \$200,000. The value of his investment at the time of his retirement was \$600,000. After his retirement, he started withdrawing \$1,000 per month from his plan. After a year the value of his plan was \$575,000. How much Zakah will he pay in the first two years of his retirement?

#### First Year:

Total contribution at the beginning of the 1 <sup>st</sup> year (before any withdrawal)	= \$200,000
Total value of the investment at the beginning of the 1 <sup>st</sup> year (before any withdrawal)	= \$600,000
Total withdrawal in the 1 <sup>st</sup> year	= \$12,000
Calculated Profit just at the beginning of the 1 <sup>st</sup> year (before any withdrawal)	= \$600,000 - \$200,000 = \$400,000
The Amount of profit in the withdrawal	= 12,000 * (400,000/600,000) = \$8,000
The Amount of contribution in first year withdrawal	= 12,000 - \$8,000 = \$4,000
Nisab for Revenue Generating Assets	= \$3.85 * 33.3 = \$128 < \$8,000
Nisab is met.	
Zakah on the first year withdrawal	= 10% of \$8,000
	= \$800 (6.7% of withdrawal).

#### Using Formula:

$$\begin{aligned} \text{Zakah} &= \text{Amount Withdrawn} * 0.10 * (1 - \text{Total Contribution} / \text{Value of the fund}) \\ &= 12,000 * 0.10 * (1 - 200,000/600,000) \\ &= \$800 \end{aligned}$$

The New Adjusted contribution

$$= (\text{Value of the Investment} - \text{Amount Withdrawn})$$

## Zakah Calculation in Modern Economy with Examples

$$\begin{aligned} & * (\text{Total Contribution before withdrawal} / \text{Total Value before withdrawal}) \\ & = (600,000 - 12,000) * (200,000 / 600,000) \\ & = \$196,000 \end{aligned}$$

### Second Year:

The adjusted contribution at the beginning of the 2 <sup>nd</sup> year	= \$200,000 - \$4,000 = \$196,000.
Total value of the investment at the beginning of the 2 <sup>nd</sup> year	= \$575,000
Total withdrawal in the 2 <sup>nd</sup> year	= \$12,000
Calculated Profit at the beginning of the 2 <sup>nd</sup> year	= \$575,000 - \$196,000 = \$379,000
The Amount of profit in the withdrawal	= 12,000 * (379,000/575,000) = \$7,910
The Amount of contribution in 2 <sup>nd</sup> year withdrawal	= 12,000 - \$7,910 = \$4,090
Nisab for Revenue Generating Assets	= \$3.85 * 33.3 = \$128 < \$7,910
Nisab is met.	
Zakah on the 2 <sup>nd</sup> year withdrawal	= 10% of \$7,910 = \$791 (6.6% of withdrawal).

### Using Formula:

$$\begin{aligned} \text{Zakah} &= \text{Amount Withdrawn} * 0.10 * (1 - \text{Total Contribution} / \text{Value of the fund}) \\ &= 12,000 * 0.10 * (1 - 196,000/575,000) \\ &= \$791 \end{aligned}$$

### Short Cut:

The amount withdrawn	= \$12,000 per year
Zakah @ 10%	= 0.10 * 12,000 = \$1,200 per

### **Zakah on Partial Withdrawals from Funds:**

The same methodology can be applied to stocks fund from which a partial withdrawal is made.

### **Example 14 (Performance Sharing Plan or Bonus):**

The company Ahmad works for did very well this year. The company gave each employee 15% bonus to each employee. As a result Ahmad receive \$2,000 in bonus. How much Zakah should he pay.

Since bonus is not a part of Ahmad's salary. He was not expecting this but received this because the company did exceptionally well. This is unexpected income. As such the Zakah on the bonus will be 20%. He will pay \$400 in Zakah.

### **Example 15 (Lost and Found):**

It was raining hard. Zaki was walking on the Main street, when he saw a chunk of dollar bill on the road. He picked it up, since not picking it up would have destroyed the dollar bill. There was no way he could locate the rightful owner. The total amount was \$200. What should he do?

Since there is no way he can locate the owner and leaving it on the road will spoil the currency, he should pick it up, pay 20% (\$40) in Zakah and keep the rest.

## Zakah Calculation in Modern Economy with Examples

### Appendix A

#### Bonds, Treasury Bills, Money Market Certificates, and Stocks

##### **Bond<sup>19</sup>:**

A bond is simply a long term loan in the form of a security, in which the authorized issuer owes the holders a debt and is obliged to repay the principal and interest at a later date. The borrower pays interest at a predetermined rate and schedule. The interest rate is often referred to as the coupon. The date on which the issuer has to repay the amount borrowed (known as face value) is called the maturity date. Most bonds have a term of up to thirty years. Some bonds have been issued with maturities of up to one hundred years, and some even do not mature at all.

##### **Money Market Certificates<sup>20</sup>:**

The money market is a short term loan, maturing in less than one year. Money market investments are also called cash investments because of their short maturities. Money market securities are essentially IOUs issued by governments, financial institutions and large corporations. These instruments are considered extraordinarily safe. Because they are extremely conservative, money market securities offer significantly lower returns than most other securities.

##### **Treasury Bills<sup>21</sup>:**

T-bills are short-term securities that mature in one year or less from their issue date. They are issued with three-month, six-month and one-year maturities. T-bills are purchased for a price that is less than their par (face) value; when they mature, the government pays the holder the full par value. Effectively, your interest is the difference between the purchase price of the security and what you get at maturity. For example, if you bought a 90-day T-bill at \$9,800 and held it until maturity, you would earn \$200 on your investment.

##### **Stocks<sup>22, 23</sup>:**

Stock (also called equity and share) in the United States and Canada refers to a share in the ownership of a company. In the United Kingdom, South Africa, and Australia, *stock* can also refer to government bonds or, less commonly, to all kinds of marketable securities.

Holding a company's stock means that you are one of the many owners (shareholders) of a company and, as such, you have a claim (albeit usually very small) to everything the company owns. A stock is represented by a stock certificate, a fancy piece of paper that is proof of your ownership. In today's computer age, you won't actually get to see this document because your brokerage keeps these records electronically. This is done to make the shares easier to trade.

Being a shareholder of a public company does not mean you have a say in the day-to-day running of the business. Instead, one vote per share to elect the board of directors at annual meetings is the extent to which you have a say in the company.

The importance of being a shareholder is that you are entitled to a portion of the company's profits and have a claim on assets. Profits are sometimes paid out in the form of dividends.

Some companies reinvest some of the profit back into the company, which increases the value of the stock. Some companies do not declare any dividend. All the profit is reinvested in the company resulting in the increase in the value of the stock.

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<sup>19</sup> <http://www.investopedia.com/university/> (accessed October 29, 2008).

<sup>20</sup> <http://www.investopedia.com/university/> (accessed October 29, 2008).

<sup>21</sup> <http://www.investopedia.com/university/> (accessed October 29, 2008).

<sup>22</sup> <http://www.investopedia.com/university/> (accessed October 29, 2008).

<sup>23</sup> Wikipedia contributors, "Stock," *Wikipedia, The Free Encyclopedia*, <http://en.wikipedia.org/w/index.php?title=Stock&oldid=245974202> (accessed October 29, 2008).

## Zakah Calculation in Modern Economy with Examples

### **Bond versus Stocks<sup>24</sup>:**

Bonds are debt, whereas stocks are equity. This is the important distinction between the two securities. By purchasing equity (stock) an investor becomes an owner in a corporation. Ownership comes with voting rights and the right to share in any future profits. By purchasing debt (bonds) an investor becomes a creditor to the corporation (or government). The primary advantage of being a creditor is that you have a higher claim on assets than shareholders do: that is, in the case of bankruptcy, a bondholder will get paid before a shareholder. However, the bondholder does not share in the profits if a company does well - he or she is entitled only to the principal plus interest.<sup>25</sup>

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<sup>24</sup> <http://www.investopedia.com/university/> (accessed October 29, 2008).

<sup>25</sup> <http://www.investopedia.com/university/> (accessed October 29, 2008)

**Appendix B**  
**Details about Zakah**

**Zakah on Bonds, Money Market Certificates, Treasury Bills, Bank Deposits and Debts:**

Scholars have divided loans into two categories: secure and non-secure debts. Whereas the return of secure debt is guaranteed, there is no such assurance for non-secure debts.<sup>26</sup> In modern economy we can define secure debts as those debts which the owner willfully loans his wealth to financial institutions with the intent of deriving benefit from it in the form of interest or preserving the value of the capital. Non-secure debts are debts which the owner of the wealth loans to a person in need or help him start a business. In this case the lender is unable to derive any benefit from the loan.

In modern economy all the securities offered by financial institutions for example bonds, money market certificates, and treasury bills can be considered as secure debts. These debts are not only secure, they are voluntary debts. Investors out of their free will offer these debts to the financial institutions with the intent of deriving benefit from it in the form of interest or preserving the value of the capital. These debts can be easily converted into cash. Technically bank deposits (checking and saving accounts) are also money borrowed by the banks for investment purpose. In many cases they yield interest to the depositor. The depositors derive benefits in terms of safety, ease of transaction, and interest. Setting aside the issue of interest, all these debts will be considered as capital that had the potential to grow similar to gold and silver. All the rules that apply to gold and silver will apply to the secure loans.<sup>27</sup>

Zakah on non-secure loans will be paid after its recovery. He will not be liable for any Zakah for the period he was not able to derive any benefit from it, since deriving benefit or ability to derive benefit is one of the conditions for Zakah.<sup>28</sup> All the rules that apply to gold and silver will apply to the recovered loans since its recovery.

**Zakah on Stock Investments:**

Stock investments are often categorized as gold and silver, i.e. financial holdings. According to Sheikh Yusuf Qaradawi, it is more appropriate to categorize stock investments as “the produce of plowed land.” Both are “productive capital” and both are assets which yield gains. Qaradawi notes that Zakah is due on the gains of such “productive capital” not the “productive capital” itself.<sup>29</sup>

As for the rate of Zakah applicable to stock investments, the following hadith offers us guidance:

The Prophet (Pbuh) said: *“On a land irrigated by rain water or by natural water channels or if the land is wet due to a nearby water channel Ushr (i.e. one-tenth, 10%) is compulsory (as Zakah); and on the land irrigated by the well, half of Ushr (i.e. one twentieth, 5%) is compulsory (as Zakah on the yield of the land).”*

Applying the principle that Zakah is due on gain of the productive capital not the productive capital itself, we can state the following for the ploughed land:

As long as the agricultural land is in the possession of the owner, Zakah will be levied on the produce from the ploughed land.

Zakah on the produce from the ploughed land is 10% when there is no irrigation expense. Since the Zakah on irrigated land drops to 5%, we can infer that a discount of 5% is given

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<sup>26</sup> Al-Qaradawi, Yusuf, “Fiqh az-Zakat – A Comparative Study,” Dar Al Taqwa Ltd, 1999, pp. 74-75.

<sup>27</sup> Al-Qaradawi, Yusuf, “Fiqh az-Zakat – A Comparative Study,” Dar Al Taqwa Ltd, 1999, p. 334.

<sup>28</sup> Al-Qaradawi, Yusuf, “Fiqh az-Zakat – A Comparative Study,” Dar Al Taqwa Ltd, 1999, p. 80.

<sup>29</sup> Al-Qaradawi, Yusuf, “Fiqh az-Zakat – A Comparative Study,” Dar Al Taqwa Ltd, 1999, p. 333.

## Zakah Calculation in Modern Economy with Examples

for watering the land. According to Qaradawi, the 10% Zakah should be on the net profit (after tax and other expenses) from stocks.

In case the ploughed land is sold, Zakah will be levied on the net profit from the sale of the land at a rate of ten percent.

Applying the same principle on stocks:

As long as the stock is in the possession of the owner, Zakah will be levied on the net dividend from the stock at a rate of ten percent.

In case the stock is sold, Zakah will be levied on the net profit from the sale of the stock at a rate of ten percent.

### **Zakah on Rental Properties:**

Applying the same principle on rental property:

As long as the rental property is in the possession of the owner, Zakah will be levied on the net rent (after deducting tax and other expenses) from the property at a rate of ten percent.<sup>30</sup>

In case the rental property is sold, Zakah will be levied on the net profit (after deducting tax and other expenses) from the sale of the property at a rate of ten percent.

### **Zakah on Businesses:**

Applying the same principle on businesses:

As long as the business is in the possession of the owner, Zakah will be levied on the net profit from the business at a rate of ten percent.

In case the business is sold, Zakah will be levied on the net profit (after deducting tax and other expenses) from the sale of the business at a rate of ten percent.

### **Zakah on Lost and Found Items:**

Lost and found properties are treated as '*Rikaz*'. One-fifth (twenty percent) Zakah is due on things found where owner does not exist or could not be located regardless of whether these are on the surface of the earth or under it.<sup>31</sup>

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<sup>30</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, p. 305.

<sup>31</sup> Al-Qaradawi, Yusuf, "Fiqh az-Zakat – A Comparative Study," Dar Al Taqwa Ltd, 1999, p. 276.