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Description: Second part of an easy to follow guide outlining the essentials every new Muslim must know about zakah, one of the five pillars of Islam.

Category: <u>Lessons</u> › <u>Acts of Worship</u> › <u>Zakaah</u>

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Objectives

·To learn how is *zakah* calculated on stocks, shares, and 401k.

·To understand the eight categories of people who can receive *zakah*.

·To learn some practical tips on how to pay *zakah*.

Arabic Terms

·*Zakah* - obligatory charity.

·*Sadaqah* - voluntary charity.

·*Jihad* - a struggle, to exert effort in a certain matter, and may refer to a legitimate war.

Zakah on Stocks, Shares, & 401K

Zakah is calculated at a standard rate of 2.5% of total portfolio value at the *zakah* due date because they are bought with expectation of profit, and readily traded for money.

Short-term traders should estimate stock values on an established annual *zakah* due date, regardless of stock purchase dates or value fluctuations, and pay 2.5% of total portfolio value.

It seems best to consider all accounts - 401(k), Keogh, IRA, SEP-IRA, Roth IRA, etc. - as zakatable at the rate of 2.5% annually. Usually not all the money is accessible to the investor for withdrawal, up to 50% normally being allowed. Therefore, the following formula is suggested by some scholars:

Withdrawal Amount - Prescribed Penalty - Prescribed Tax = Zakatable Amount

Who Can Receive *Zakah*?

The Quran tells us who is entitled to receive *zakah*. The eight categories are found in the Quran in Chapter at-Tawbah, 9:60:

1. The Poor

Poor people who do not have sufficient money to meet their needs are qualified to receive *zakah*. It does not mean they are penniless, but cannot make their ends meet, yet they do not ask others for help out of modesty and a sense of self-respect.

2. The Destitute

These are people who are so poor that they have nothing to meet their needs. Obviously, they are in worse condition than the first category.

3. *Zakah* Administrators

People responsible for collecting and distributing *zakah* could be paid for their work from *zakah* funds. They can receive wages whether they are poor or not.

4. Reconcile Hearts

People who have recently accepted Islam can be given *zakah*. People can also be given money from *zakah* to seek their support or to prevent their opposition.

5. Freeing Slaves

In the past, *zakah* money was also used to buy slaves their freedom. The Quran has legislated it to be one of the legitimate ways to spend the money from *zakah*. It is a clear expression of the compassion of Islam towards treatment of slaves when they existed. Islam raised freeing slaves to an act of worship pleasing to God. No other religion has ever done that as far as this author is aware of.

6. Paying Debts

People who are overburdened with debt and do not have a way to pay on their own can also receive *zakah* funds. The debt can be due to medical reasons, marriage, or other lawful expenses.

7. Cause of Allah

Wealth can also be spent in the cause of Allah. The traditional understanding held by the classical scholars of Islam is that this category is reserved for jihad or a legitimate war. Later scholars have included efforts for the spread and ideological defense of

Islam in this category as well.

8. Travelers

People used to get stranded in the past while traveling with no access to their funds back home. It happens sometimes today as well. In such situations, those travelers may be given money from *zakah*. The condition is that their journey should not be in disobedience of Allah, but for an acceptable cause like seeking knowledge, looking for a job, or doing business.

Who Can Not Receive *Zakah*?

A wealthy person cannot give *zakah* to his or her parents because they are the child's responsibility. Also, a husband cannot give *zakah* to his wife as she is his financial responsibility. Furthermore, a non-Muslim cannot be given *zakah* according to the majority of scholars. Poor non-Muslims can be helped with *sadaqah* or voluntary charity.

Practical Tips on Giving *Zakah*

1.   You can give money to a poor and needy Muslims directly if you know them.

2.   Your local Islamic center most likely collects *zakah* and distributes it to the needy of the local community or works with a charitable organization. Therefore, you can always ask the local mosque if they accept *zakah*. You might even find boxes labeled "*zakah*" in the mosque in which you can simply drop your check or cash for *zakah*.

3.   Furthermore, you can search online and find numerous Islamic charitable organization that collect *zakah* to sponsor orphans or distribute food or medicine in disaster-struck areas.

The following are just some of the organizations you can give your *zakah* to:

www.zakat.org

www.islamic-relief.com

www.hhrd.org

Miscellaneous Issues

Zakah is to be paid on gold and silver jewelry. The *zakah* on the gold will be calculated according to the gold content in the jewelry (i.e. karats) and its value in the market. Hence when calculating the value of your gold, you must consult a jeweler for the

correct value (based on the content and weight). Any stones in the jewelry are not subject to *zakah*.

You must have the intention to pay *zakah* when you give it out. In other words, you cannot give money in donation, then later think to yourself, 'well, I have given so much in charity already, it will count as my *zakah*!'

Zakah must be paid immediately once it is due. It should not be delayed unless there is a good reason to do so, like waiting to have access to the poor.

A very common and widespread misunderstanding is that once I have paid *zakah* on some wealth, I do not have to pay *zakah* on the same wealth next year. That is baseless. In reality, as long as I have wealth above the *nisaab*, and a complete lunar year has passed on it, I will keep paying *zakah* on it every year.

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