



# Hidaya Foundation

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## A Practical Guide for Calculating Zakat

### Includes:

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And perform As-Salat (Iqamat-as-Salat), and give Zakat and obey the Messenger (Muhammad, peace be upon him) that you may receive Mercy (from Allah). (Al-Qur'an 24:56)

Narrated by Ibn 'Umar: Allah's Apostle (Peace Be Upon Him) said: Islam is based on (the following) five (principles): To testify that none has the right to be worshipped but Allah and Muhammad is Allah's Apostle; to offer the (compulsory congregational) prayers dutifully and perfectly; to pay Zakat (i.e. obligatory charity); to perform Hajj. (i.e. Pilgrimage to Makkah), and to observe fast during the month of Ramadan.

[Sahih Al-Bukhari, Vol.1, Book 2, No.7]

### Hidaya Foundation

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## Basic Zakat Terminology:

### What is Zakat?

The literal meaning of Zakat is "to purify, to grow, and to increase." It is an obligatory act of charity ordained by Allah, Subhanahu wa Ta'ala (The Glorified and Exalted), to be performed by every sane, adult Muslim who possesses a certain minimum amount of wealth/assets (called Nisab) for a complete Hijri lunar year cycle. It is an act of worship (ibadah) and not a tax.

Zakat is owed on specific assets only, identified by Islamic Law as assets having the potential for growth, called "Zakatable Assets."

Zakat is the compulsory transfer of ownership of a portion of the wealth of the giver, calculated at the rate of 2.5%, to poor and deserving Muslims who qualify to receive Zakat according to Islamic Law.

Zakat is calculated after the passing of a complete Hijri calendar year on the market value of all Zakatable Assets after deducting Zakatable Liabilities.

### What are Zakatable Assets?<sup>1</sup>

Assets which have the potential to grow are Zakatable Assets.

**Assets on which Zakat was due during the early Islamic Era and are still applicable include:** gold, silver, business merchandise inventory, livestock, agricultural produce, buried precious metals or minerals (rikaz), profits from investments, accounts receivable, real estate business investment inventory (acquired for gain).

**Assets on which Zakat is due today which were not prevalent in the past include:** cash, stocks, mutual funds, stock options, employee stock purchase plan, private companies, corporations and partnerships, retirement plans (401K, IRA, etc.), real estate business investments in property owning companies, trusts, lump sum payments in terms of compulsory pension and provident funds, severance packages, income-tax refund.

1. Please keep in mind that any asset that involves interest is considered unlawful (haram) in Islam. Muslims must be very careful to avoid such financial dealings in order to please Allah (SWT) and to keep their wealth purified and blessed.

"Allah will destroy Riba (usury) and will give increase for Sadaqat (deeds of charity, alms, etc.) And Allah likes not the disbelievers, sinners." [Al-Qur'an 2:276]

"O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged." [Al-Qur'an 2:278-279]

### What are Zakatable Liabilities?

Any liabilities on Zakatable Assets are called Zakatable Liabilities, and one should deduct their value from their total Zakatable Assets. For example, the amount owed for acquired gold or silver jewelry, or borrowed money which you have to return are both examples of Zakatable Liabilities.

### What are Non-Zakatable Assets?

Any possessions that are not of productive nature, even if they exceed one's needs are Non-Zakatable - provided they are not intended for business gain/profit. This can include such assets as: cars, utensils, furniture, homes not used for business purposes (such as a house one lives in, etc).

Lastly, if one's total Zakatable Assets are below the value of Nisab, all their assets will be Non-Zakatable.

### What are Non-Zakatable Liabilities?

Liabilities due on Non-Zakatable Assets are called Non-Zakatable Liabilities. Non-Zakatable Liabilities can not be deducted from Zakatable Assets. Examples of Non-Zakatable Liabilities include: a loan on the house one lives in, a loan on a car one uses for transportation, liabilities which one must pay back, etc. Because one does not pay Zakat on the house they live in, or the car they drive - then they can not deduct the money owed on such things from their total Zakatable Assets.

### What is Nisab?

The minimum amount of Zakatable Assets which makes one liable to pay Zakat is called Nisab. In other words, any person who possesses this minimum amount of assets, or Nisab, for one Hijri lunar year cycle (hawl) is obligated to pay Zakat. Similarly if one does not have Nisab in their possession for the entire Hijri lunar year cycle, even if for just one day - they do not have to pay Zakat and are actually eligible to receive Zakat.

Nisab is nothing but a yardstick to find out who should pay Zakat and who should not, and who can accept Zakat and who can not. *It has no effect in calculating a person's Zakat.*

### What is Hawl?

The passing of one full lunar year cycle under the Hijri calendar is called Hawl.

## How to Calculate Nisab:

### Nisab for Gold and Silver:

According to a hadith<sup>2</sup>, Nisab can be according to the value of 20 dinar/20 mithqal of gold ~ (87.49 grams), or 200 dirhams/5 awaqa of silver ~ (613.35 grams).

	Nisab	Grams	Ounce	Troy oz.
Gold	20 dinar/20 mithqal	87.49	3.086	2.8125
Silver	200 dirhams/5 awaqa	613.35	21.635	19.6875

To find out the value of 87.49 grams of gold or 613.35 grams of silver, one must first find out the current value of gold or silver in the fluctuating international market which can be found at [www.kitco.com](http://www.kitco.com) or [www.goldprice.org](http://www.goldprice.org). For example, on NY spot gold and silver markets, on July 16, 2012:

- The price of gold was approximately \$51.07/gram. Therefore, the Nisab for gold was approximately \$51.07/gram x 87.49 grams = \$4,468.42
- The price of silver was approximately \$0.88/gram. Therefore, the Nisab for silver was approximately \$0.88/gram x 613.35 grams = \$538.54

If a person has wealth of nothing else but gold, then Nisab will be calculated according to the Nisab of gold, similarly for silver. But if a person has wealth

<sup>2</sup>. Sunan an-Nasa'i, Vol. 3, Book 3, Hadith 2486

comprising of gold, silver, cash, and other Zakatable Assets, in that case for calculating one's Nisab - scholars have different opinions on whether one should use the price of gold or silver. The opinion of the majority of Hanafi scholars is that Nisab should be according to the value of silver so more poor people may benefit.

### Nisab for Cash:

- The Nisab for cash is equivalent to the Nisab of gold or silver, whichever is less (per scholars), in order to benefit more Zakat recipients. During the early Islamic Era, the value of Nisab for 20 dinar/20 mithqal (87.49 grams) of gold was equal to the Nisab for 200 dirhams/5 awaqa (613.35 grams) of silver. Over the last 1400 plus years, there has become a big difference between the two.
- Presently, the Nisab of silver is less, so Zakat on cash can be calculated according to the Nisab of silver, which on July 16, 2012, was \$538.54.

### Nisab for other Assets:

- The values of all other Zakatable Assets, including business merchandise, should be converted into cash, and dealt with similar to how cash is dealt with.
- Nisab for agriculture products including wheat, barley, dry dates, dry raisins, rice, lentils, etc. is estimated at approximately 900 kg/5 awsaqa. (1 wasq = 60 sa, 1 sa = 3 kg)

## Practical Examples of How to Calculate Zakat:

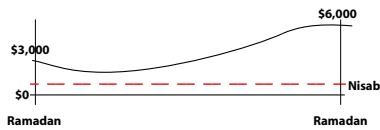


Figure 1

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

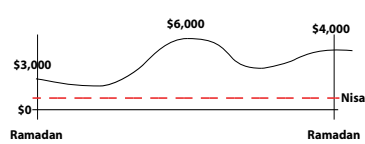


Figure 2

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

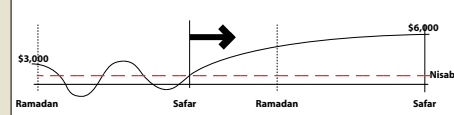


Figure 3

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

### Zakat Calculation for a Person whose Assets have Just Reached Above Nisab:

- A person who has just started earning or has acquired some Zakatable Assets for the first time as a gift should note down the date and month of the Islamic calendar year once their assets reach Nisab. This date will be the starting point of the Hijri lunar year cycle, in which Zakat would be due after the completion of one year from that date. (See Figures 1 and 2)
- If this person's Zakatable Assets stay above Nisab for an entire Hijri lunar year, then Zakat is due on that same Hijri date one lunar year later. The cash value of all Zakatable Assets in their possession at that time should be calculated, and 2.5% of that value should be given as Zakat.<sup>3</sup>
- If this person's Zakatable Assets falls below Nisab at any time during the Hijri lunar year, then the year cycle will restart only after their assets again reach the value of Nisab. They should again note down the date and month of the Islamic calendar year which their assets reached Nisab, and this date will be the new starting point of the Hijri calendar year in which Zakat will be due at the end. (See Figure 3)

#### Example 1:

Abdullah is 22 years old and he has just started working at his first job three months back. On July 1, 2012 (Shaban 12, 1433) after receiving his pay check, he has accumulated \$600, which is above the Nisab (of silver of that day). Therefore, he notes down the Islamic month and date as per the Hijri calendar (Shaban 12, 1433) to mark the starting date of the Hijri lunar year at which Zakat will be due at the end. If Abdullah's total accumulated cash and other Zakatable Assets remain above the level of Nisab for the entire Hijri lunar year, he will owe Zakat on the total Zakatable Assets in his possession on Shaban 12, 1434.

Let's suppose that on August 3, 2012 (Ramadan 15, 1433), Abdullah has accumulated \$1500. In order to get to and from work more easily, he buys a car for \$1200, leaving him with only \$300 in his possession. The car is a Non-Zakatable Asset, because it has no growth potential. Considering the \$300 (which is now below the level of Nisab) is his only Zakatable Asset, he no longer has to pay Zakat on Shaban 12, 1434. Instead, once Abdullah again accumulates cash at or above Nisab, he should again note that date to pay Zakat on his total Zakatable Assets a year from that date. In the mean time, until that year is over, Abdullah is not liable to pay Zakat (obligatory charity) but he can pay Sadaqah (non-obligatory charity) as much as he likes.

#### Example 2

Aaminah is 14 years old. She has two gold earrings and a gold necklace with a locket, all of which is worth about \$400. On June 15, 2012 (Rajab 25, 1433), her parents gave her \$200 for completing the 8th grade, and her aunt also gave her \$100 for acquiring good grades. With this \$300 in cash, and \$400 in gold, Aaminah now has Zakatable Assets worth \$700, which is above Nisab (of silver). So she notes down Rajab 25, 1433, knowing that if she stays above Nisab for a Hijri lunar year, she will owe Zakat on Rajab 25, 1434.

Let's suppose two months after on August 15, 2012 (Ramadan 27, 1433), Aaminah gives \$200 in Sadaqah (non-obligatory charity) to help a poor child. This leaves her with total Zakatable Assets of \$500, which is less than the Nisab (of that day), hence she will no longer have to pay Zakat on Rajab 25, 1434. Instead, once Aaminah again accumulates Zakatable Assets at or above the level of Nisab, she should again note that date as the beginning of the Hijri lunar year before Zakat is due on her total Zakatable Assets a year from that date (so long as her total Zakatable Assets stay above Nisab).

<sup>3</sup>. Sahih Al-Bukhari, Vol. 2, Book 24, Hadith 534



### Zakat Calculation for a Person whose Assets have Been Above Nisab for Several Years, but has not Properly Given Zakat:

• A well-off person whose Zakatable Assets are consistently above the Nisab does not have to note down the date and month of their assets reaching the Nisab level, as Allah (SWT) has Blessed them with plentiful wealth. Instead, they should immediately pay for the last year, and remember that date on the Hijri calendar, and pay Zakat on their total Zakatable Assets on that same date each Hijri calendar year.

• If for whatever reason, a person owes Zakat from the past several years due to not paying it properly or not paying it at all, scholars of Hanafi school of thought say that such people should put their best effort to calculate all Zakat from previous years that they owe and pay it off as soon as possible to complete their obligation towards Allah (SWT) and the rights of the poor.<sup>4</sup> In case it is difficult to pay off the past years of Zakat due to whatever reason and the person can not do so in their lifetime – it is necessary (wajib) to add what they owe of Zakat to their will, and it should be paid to the deserving from their estate before distribution among heirs.

There is another more lenient opinion by other scholars in which such people should repent and regret their actions of not paying Zakat in the past and only pay Zakat that year, and each year thereafter (on that same Hijri date). However, this person should give as much sadaqah as they can.

#### Example 3:

Muslim is 45 years old and has a wife and three children. With the Blessings of Allah (SWT), he has been steadily employed for 23 years in a good job and has always possessed far more than the Nisab all those years. He is very kind and has always given Sadaqah (non-obligatory charity), but never really had a clear idea about Zakat (obligatory charity) and that it has to be calculated properly and given first before any other kind of charity. While he was giving charity, he never made the intention for giving Zakat, and therefore never calculated to make sure that he was paying the proper 2.5% of his total Zakatable Assets.

Recently Muslim received "A Practical Guide for Calculating Zakat" and it encouraged him to sit and calculate his Zakatable Assets. When doing so, he found that his Zakatable Assets are worth \$200,000, which is far above Nisab, and for the last 23 years his Zakatable Assets have always been above Nisab.

First of all, Muslim should repent for his past wrong actions (make tawbah), then he should immediately pay Zakat of 2.5% on his current \$200,000 of Zakatable Assets, which equals \$5000, and continue paying every lunar year on that Hijri date henceforth.

If he follows the opinion mentioned above of scholars from Hanafi school of thought, he would additionally do his best to calculate how much he had to pay for the past 23 years which he did not pay, and make a plan to pay it off during his life time insha'Allah. If for some reason he is in a bind and can not do so, then he should add the amount of owed Zakat to his will, and that unpaid amount should be taken from his estate and given to the deserving before distribution among his heirs.

### Table A: Zakatable Assets Calculation

Assets	Total (\$)	Assets subject to Zakat (\$)	Assets exempt from Zakat (\$)
Gold and Silver (metal, excluding jewels)		✓	
Cash on hand and at bank		✓	
Stocks and Mutual Funds (at market value)		✓	
Stock Options		✓	
Business Merchandise Inventory		✓	
Private Companies, Corporations and Partnerships		✓	
Retirement plans, 401K/IRA/etc.		✓	
Real Estate Investment (as business merchandise inventory, e.g. 2 houses)		✓	
Immovable property acquired for investment (and not to resell), whether company owned or privately owned			x
Accounts Receivable		✓	
Profits from Investment		✓	
Trusts (yearly amount)		✓	
Severance Package		✓	
Loan account in companies - amount of income credited to loan account (excluding capital introduced)		✓	
House (which you live in)			x
Furniture and household effects			x
Motor vehicles			x
Diamonds and precious stones (not for business)			x
Plant, machinery and fixtures and fittings			x
Trade debtors		✓	
Stamp collection			x
Paintings			x
Loan debtors		✓	
Pledges, Deposits			x
<b>TOTAL ASSETS</b>			

### Table B: Zakatable Liabilities Calculation

Liabilities	Total (\$)	Deductible (\$)	Non-Deductible (\$)
Home Loan Payment			x
Bank overdraft (to fund stocks & trade debtors only)		✓	
Trade creditors		✓	
Installment sale and lease creditors to fund motor vehicles/plant and equipment			x
Any other liabilities incurred in respect of an asset on which Zakat is not payable			x
Loans to finance business merchandise and/or trade debtors		✓	
<b>TOTAL LIABILITIES</b>			

### Table C: Final Computation Table for Calculation of Zakat

Summary	USD (\$)
Total value of assets subject to Zakat (Table A)	
Deduct liabilities relating only to assets subject to Zakat (Table B)	
NET AMOUNT subject to Zakat (Table A – Table B)	
<b>Zakat = \$ NET AMOUNT x 0.025 (2.5%)</b>	

4. Sahih Muslim, Book 6, No. 2554

## The Purpose of "A Practical Guide for Calculating Zakat":

Given the fact that worldwide poverty is rampant, combined with the realization that the majority of Muslims today don't properly know how to calculate their Zakat (especially given the new forms of income that were not prevalent in the past), Hidayah Foundation took the challenge to consult with scholars and come up with this practical guide to help Muslims fulfill this religious obligation and the rights of the poor.

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

### Hidayah Foundation's Mission:

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

### How does Hidayah Distribute Zakat?

Hidayah Foundation collects and distributes Zakat donations for various projects according to Al-Qur'an (9:60) and as instructed by donors.

Zakat funds are used to support orphans, widows, poor elderly, families in extreme poverty, poor young women for marriage, deserving students, poor medical patients, and people affected by disasters.

The projects where Zakat donations are utilized are: No Orphan without Education, Job Skills Training, Spread Education, Support Hidayah Schools, Hidayah Institute of Farming and Agriculture, Clean Drinking Water, Medical Assistance, Medical Camps, Basic Computer Skills, Network Administration Training, Software Development Training, System Administration Training, Animal Farming, Farmer Assistance, Small Businesses for the Poor, Disaster Relief, Marriage Support, Widow/Orphan Support, One Million Meals, and Zakat Distribution.

### References

1. The Holy Qur'an
2. Hadith (Bukhari, Muslim, Abu Dawud, Baihaqi, At-Tabarani, etc.)
3. M. S. Omar (1991): How to Calculate your Zakah. Durban: AlBaraka Bank.
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6. Shaykh Abdur Rahman ibn Yusuf (2005): Zakah Workshop. San Jose: South Bay Islamic Association.
7. Shaykh Yusuf Talal DeLorenzo: www.muslim-investor.com

For more in depth information, additional topics about Zakat, and a functional Zakat Calculator, please visit: [www.hidayah.org/zakat](http://www.hidayah.org/zakat)

## How Should you Give Zakat?

It is obligatory to make an intention (niyyah) for the fulfillment of Zakat, similar to how we make intention for our 5 daily prayers (salah), fasting (sawm), and pilgrimage to Makkah (hajj). If the intention is not made, the Zakat will not be valid. While giving, the intention should be that "I am giving this as Zakat." It is not necessary to reveal to the deserving person whom the Zakat is being given to that it is Zakat.

It is better for an individual to pay his/her Zakat directly to deserving people, if possible. However, if that is difficult for them, then they may assign the responsibility to a trustworthy individual or organization. It is the individual's responsibility to ask questions from whoever is distributing their Zakat regarding what kind of people their Zakat is being distributed to, how and why they are selected, etc. Remember, Zakat is obligatory on every Muslim and if it is given to Non-Zakat deserving person(s), the obligation may not be fulfilled.

### Who Should Receive Zakat?

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

The verse above describes the following eight groups of people:

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

### Which Relatives Can and Can Not Receive Zakat?

Zakat can be given to one's brother, sister, nephew, niece, paternal or maternal uncle, paternal or maternal aunt, father-in-law, mother-in-law, step-grandfather, or step-grandmother provided they do not have Nisab. According to some narrations, relatives and neighbors have more rights on you to receive your Zakat.

Zakat can not be given to one's parents, grandparents, children, grandchildren, wife, husband, or family descendants of the Prophet Muhammad (pbuh). Zakat is only given by Muslims to Muslims.

## Donation Form



Hidayah Foundation is a non-profit 501(C)(3) charitable organization with US Tax ID # 77-0502583.

Make checks payable to: Hidayah Foundation, PO Box 5484, Santa Clara, CA 95056

Name \_\_\_\_\_  
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 Phone \_\_\_\_\_ Date \_\_\_\_\_  
 Signature \_\_\_\_\_

Zakat (Obligatory Charity)	Zakat	\$ _____
Fidya (\$3.50 Hanafi or \$7 other madhab per missed day of fasting)		\$ _____
Sadaqat-ul Fitr (\$3.50 or \$7 per person)		\$ _____
One Million Meals (\$50 for 100 meals, \$250 for 500 meals)	<input type="checkbox"/>	\$ _____
Widow/Orphan Support (\$20 per month)	<input type="checkbox"/>	\$ _____
Clean Drinking Water (\$200 per hand pump)	<input type="checkbox"/>	\$ _____
Other : _____	<input type="checkbox"/>	\$ _____
<b>Total</b>		\$ _____

You may sign up for **Automatic Recurring Donation** or **Quick Donations** towards any of our projects on our secure website at: [www.hidayah.org/createprofile](http://www.hidayah.org/createprofile)

Double your donation with **Corporate Gift Matching**. Contact us if you need help setting it up at your organization.

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