Zakat

OBLIGATIONS FOR RETIREES ON PAYING ZAKAT

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Zakat is **2.5%** of the Zakat-able wealth of an individual, provided one meets a requisite level of wealth called nisaab and meets other requirements (e.g., being sane, adult, Muslim, in complete ownership of the nisaab).

The nisaab is the minimum amount of wealth a Muslim must possess before they become eligible to pay Zakat. The nisaab was set by Prophet Muhammad (SAW) at a rate equivalent to 87.48 grams of gold and 612.36 grams of silver.

As we no longer use silver or gold as currency, you need to find out the equivalent monetary exchange value of the rates the Prophet Muhammad (SAW) set in Australian Dollars.

Zakat is an **INDIVIDUAL** measurement so it should be calculated separately for each member of the family. Husband and wife, each should do their own Zakat calculations.

Full Zakat is payable on pensions (superannuation) received after retirement.

For funds set aside for pensions before retirement, Zakat is only payable if the pension assets are being invested on behalf of the pension holder and if there is a specific amount of wealth attributed to the pension holder. This applies to money purchase schemes but not to final salary schemes. The Zakat liability will then depend on the nature of the investment, such as property or shares.

If pension funds can be invested, it is crucial to choose **Sharia-compliant investments** to ensure compliance with Islamic principles.

SHARES

When it comes to owning shares, the Zakat calculation depends on the purpose and intention behind the ownership:

1. If you own shares for long-term investment without intending to resell, Zakat is due on the dividend income received from those shares.
2. If your primary motivation for owning shares is capital appreciation, with the intention to resell them, then their market value should be included in your Zakat calculation.

Scholars have differing opinions on how to calculate Zakat for this type of wealth, and two approaches are commonly considered:

1. Some scholars base the Zakat calculation on the type of business the company deals in.
2. Others treat it similarly to Zakat on business and trade. This is the preferred opinion among many scholars.

It is essential to seek guidance from knowledgeable scholars to determine the most appropriate method for calculating Zakat on shares in accordance with Islamic principles.

Types of Shares

Ordinary shares are the most prevalent type and come with flexible dividends, adjusted according to the company's profit. These shares also grant full voting rights to the shareholders.

On the other hand, preferred shares offer fixed dividends, which must be paid before any dividends are distributed to ordinary shareholders. However, preferred shares do not provide voting rights to the shareholders.

If the value of shares reaches the nisaab threshold, Zakat becomes obligatory on them, calculated based on their value on the last day of the Zakat year.

Zakat is not applicable to options and any extra value associated with **golden shares**, as trading in these matters is not permitted in Islamic finance principles.

JEWELLERY, GOLD, AND SILVER

There is a difference of opinion among scholars regarding whether Zakat is payable on jewellery.

For lower carat gold items, where gold is mixed with other metals, Zakat is only due on the proportion that contains gold. Therefore, when calculating weights, please provide the best estimate of the weight of gold in your jewellery. To avoid underpayment of Zakat, it is safer to consider the total weight of gold jewellery.

Men are prohibited from wearing gold jewellery, if a man possesses a gold watch, for example, Zakat should still be paid on that watch.

Similarly, for silver alloy items, where silver is mixed with other metals, Zakat is only due on the proportion that contains silver. Again, use the best estimate of the weight of silver in your jewellery for calculating Zakat. For accuracy, consider the total weight of silver jewellery to avoid underpayment.

Zakat is not required on jewellery made of platinum, pearls, or any other precious metals.

SALARY AND INCOME

There is no Zakat due on the house that a person owns and resides in or if it is occupied by someone under their care. However, Zakat may apply to any other property or building owned by the individual, with different scenarios:

1. If you own property other than your primary residence for long-term investment without intending to resell, Zakat is due on rental income only.
2. If you own additional property with the primary intention of capital appreciation and the plan to resell it in the current Zakat year, then you must include the value of the property in your Zakat calculation.
3. If you own additional property with no intention either to resell or derive rental income, then no Zakat is due on that property.

Example:
Suppose a person owns three houses - one for personal residence, one occupied by elderly parents, and the third one rented out. Zakat is only applicable in this case to the third house, which is the rental property.

The Zakat obligation depends on the use of the property and building:

- If the property is for personal residence, no Zakat is due.
- If the property is used for business and trade, Zakat is not applicable on the property itself; however, Zakat is due on the business goods and profits from the business.
- If the property is rented out to tenants, Zakat is calculated based on the rental return from the property minus any property taxes, council fees, maintenance costs, real estate agency fees, security charges, etc.

The same rules apply to any inherited property.

If the properties up for sale are not sold yet and you do not have the funds to pay your Zakat, you must pay the Zakat once the properties are sold (according to Imam Malik)

MORTGAGE AND RENTAL BOND

It is not permissible to deduct your home mortgage debt from your Zakat liability.

If you are renting a property and have paid a rental bond to the landlord, you are required to pay Zakat only once on the bond amount when you receive the bond back at the end of the tenancy.