

## Zakaat Calculation

Written by Administrator

Saturday, 22 January 2011 06:36 - Last Updated Saturday, 22 January 2011 06:41

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### QUESTION

ASSALAMU - ALAIKUM Dear Mufti Saheb/Moulana/Brother,

Please can you assist me with the following queries on Zakaat.

#### TRADING

On our local radio station, in Ramadaan, the answer to the question on what cost should Zakaat be calculated for stock in trade, and, the answer was on the retail price.

As you are aware that the price that any article is sold varies from customer to customer and you have clearance sales, etc. Therefore on which retail price should the stock be valued for Zakaat purposes? You may say the last price at which the article was sold. But the last customer happened to be my brother, e.g, and I sold to him at cost price.

In the manufacturing and food outlet industry this becomes even more complicated. You have the raw materials, work in progress and the finished article. How does one calculate Zakaat in this case?

Let's take the case of a fast food outlet. One buys a pocket of potatoes for say R50. To make the chips the potatoes must be cleaned, sliced, fried, salt/masala/vinegar added, put into a container and handed to the customer. In addition there are costs of labour, oil and rent, packaging, electricity and water costs that need to be taken into account. From this pocket of potatoes 50 packets of chips are made and sold at R10 per packet. If one has 10 pockets of potatoes and other ingredients on the day the Zakaat is calculated how does one calculate the Zakaat payable?.

#### PENSION FUNDS

There are 2 kinds of pension funds:-

(1) Defined benefit Fund (Pension fund)

In this case when the member retires his pension fund, set up his employer, managed by a Board of Trustees, pays him a monthly pension in place of the salary he earned when employed. The employer must ensure, in

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terms of the Pension Funds Act, that the fund has sufficient funds at all times to pay the pensioners.

So for Zakaat purposes this is not a problem as the recipient calculates his Zakaat on his liquid assets he has on the date he annually calculates his Zakaat payable.

### (2) Defined Contribution Fund (Provident Fund)

In this case the employer contributes a fixed amount of the employee's salary monthly in to the Provident Fund and employee contributes a certain % of his salary. In this case also the employer sets up the Provident fund and is managed by a Board of Trustees. Both these contributions accumulate to the member's account and is invested by the Board. At retirement date the employee has a lump sum benefit. He can cash everything up and pay the taxes owed to the government OR he can buy an annuity from a service provider/insurer with the capital he accumulated in the Provident Fund. In this case no tax is payable on the capital amount that is transferred to the service provider. This annuity will pay him a monthly pension in 2 ways:-

(a) Life Time Annuity : He procures a life time annuity/pension. So as long as he lives the service provider will pay him a monthly pension based on the capital he invested/transferred. The service provider/insurer is responsible for the investments. When he passes away the pension/annuity is stopped.

(b) Living Annuity : In this case his capital is transferred to the service provider/insurer and he can draw between 2.5% and 17.5% annuity/pension per annum. The member has a choice of investments to choose from. When his capital runs out, after making his pension withdrawals, the service provider will stop paying the pension/annuity. If he dies before his capital is exhausted the balance will be available for his beneficiaries.

In both these annuity types once the capital is transferred/invested with the service provider/insurer one cannot get the capital returned.

How is Zakaat calculated/payable in these cases?

JAZAAKALLAH.

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### ANSWER

ASSALAMU ALAIKUM

7 Safar 1432 (11-01-2011)

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Your e-mail date 11-01-2011 refers.

(1) Zakaat is calculated on the wholesale price of stock, that is, the current price you will pay if you have to purchase it. Zakaat is not paid on the retail price. The retail price is a fiction. It has not been tangibly acquired.

(2) Regarding provident and pension funds, there are two kinds – voluntary and compulsory. If the worker has entered into the fund of his own accord, then he is entitled to only the sum he has actually paid into the fund. All excess funds he receives will be haraam and Waajibut Tasadduq, i.e. he has to give the extra money to charity without a niyyat of thawaab. He is allowed to accept for himself only the amount which he had contributed.

If the fund is a voluntary contract, then the contributor has to pay Zakaat each year on the actual amount of his contributions held by the pension fund. It will be in the category of savings in a bank.

If the scheme is a compulsory one, namely, the worker has no choice since the employer arbitrarily deducts from his 'salary' and makes the payment, while he (the employer) too adds to the contribution, then in this case there is no contract between the worker and the company in terms of the Shariah. When the funds pays out, the whole amount will be a gift to the contributor or his beneficiaries or to whomever the fund pays. Zakaat will be due only after taking physical possession of the money in this case.

(3) As far as all kinds of insurance policies are concerned, they are haraam. The contributor is permitted to accept for himself only the actual sum of his contributions. All excess is haraam riba which should be given to charity without niyyat of thawaab. In this case too, the contributor should pay Zakaat annually on the sum total of his contributions held by the insurance company.

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All 'profit' acquired from insurance investments are haraam and have to be given to charity.

Was-salaam

A.S. Desai

For

Mujlisul Ulama of S.A.