



The method of computation

What is Zakat

Zakat is an obligatory form of charity, and one of the five pillars of Islam, which is required of Muslims once their wealth is equivalent or exceed a certain threshold for one full Lunar year. Zakat is prescribed to serve philanthropic purposes, which include providing for the needy and achieving social justice among members of society.

Zakat is more than just a payment or a random act of charity. It's a unique form of religious social welfare which benefits the whole community.

Conditions for its Fulfillment

Payment of Zakat is obligatory once a person's wealth equals or exceeds a certain threshold. The threshold is specified as 85 grammes of pure gold or 595 grammes of pure silver or their equivalent in cash and funds of all types, such as stocks, properties of all kinds, tradable assets and all that is mentioned in the table below, the methodology in estimating the threshold of Zakat in cash money is as follows: price of gramme gold today x 85 = The threshold.

For example, if price of one gramme gold today is birr 3,500, then the threshold will be birr 297,500. If you at least have an amount equivalent or exceeds this threshold, for one full lunar year, you must pay Zakat at 2.5% on this full amount.

The Zakat payer's Lunar year begins on the date when a person's wealth reaches the threshold. To simplify matters and to avoid the repetition of Zakat date within a single Lunar year, it is acceptable for a Muslim to specify a single date on which to pay Zakat and to adhere to such date every year whether one full Lunar year has passed on every portion of his/her wealth or not, assuming that his/her wealth has reached the threshold on this date.

If a person dies before he/she has paid Zakat and it is due, his/her heirs must pay it from his/her estate, after settling debts before paying bequests. Children, minors, orphans, widows and widowers must pay Zakat on their wealth if the conditions mentioned above are met. This is because Zakat is tied to wealth and not individuals or status. Therefore, guardians (of minors) and trustees of such people should pay Zakat on their behalf.



Who is Entitled to Zakat?

Zakat may only be paid to the eight categories of peoples, namely: (1) the poor, classified as someone who doesn't have sufficient resources to meet half of his/her basic needs, (2) the needy, classified as someone who doesn't have sufficient resources to meet all of his/her basic needs, (3) collectors and distributors of Zakat (as in wages), (4) to those who have recently embraced Islam, for example, to compensate them for difficulties they may face as a result, (5) in order to free a slave, (6) to support debtors who genuinely cannot pay off their debts, (7) in the cause of Alla, which is everything intended to champion Allah's word, and (8) to support the traveler stranded far from home.

It is preferred for Zakat to be paid first to relatives only if they fall within one of the eight categories mentioned above, then to the people of the same village, city or country and then people of other countries. It is also preferred for the person paying Zakat to pay it directly him or herself, if he/she knows those who are entitled to it, so that compassion and benevolence may be engrained in their heart. Otherwise, he/she may delegate this task to others.

Who is Not Entitled to Zakat?

Zakat should not be paid to those whom the person paying Zakat is obligated to support, for instance a wife, children, grandchildren, parents and grandparents.

However, a wife may pay Zakat to her husband if he falls within one of the eight categories above. Also, the following are not entitled to receive Zakat: those who have wealth; those who are able to find a job and earn a living but choose not to do so.

Method of Calculating Zakat

The method of calculating Zakat is generally as follows: (total Zakatable wealth less total debts due within the coming year only) multiplied by 2.5% = the amounts to be paid and distributed among those who fall under the eight categories. A more detailed explanation follows in the table:



Zakat Calculation Table

Use this Table to Calculate your Zakat

	Type of Wealth	Ruling	Amount	Important Remarks
1	Gold, silver and precious stones for the sake of trade or investment	Zakatable		Zakat is payable on its market value.
2	Gold and silver for a woman's personal use	Not Zakatable		No Zakat is payable if the jewelry is used within a woman's social status. But Zakat must be paid for that quantity which is beyond that. If a woman wants to pay Zakat voluntarily on all of her gold and silver jewelry she is allowed to do so. No Zakat is payable on jewelry worn by a woman not made from gold and silver, like diamonds and other precious stones.
3	Cash in hand	Zakatable		
4	Balance of current accounts	Zakatable		
5	Balance of saving and other deposit accounts	Zakatable		Zakat is payable on balance and earned profits.
6	Shares owned for trading (buying and selling)	Zakatable		Calculated at their market value.
7	Shares held for capital gain or dividend (long term investment)	Not Zakatable		Zakat is payable as advised by the respective company on each of the company's shares or calculated on the net working capital (current assets less current liabilities). Any dividends received are Zakatable.
8	Employee's rights in pension funds and social insurance, which have not been paid out	Not Zakatable		If the employee receives such benefits, he/she must pay Zakat once one full Lunar year has passed from date of receipt.
9	Savings for marriage, pilgrimage or to buy a car, house, etc.	Zakatable		Zakat is payable on such funds if not used for the intended purpose.

Zakat Calculation Table (Continued)

Use this Table to Calculate your Zakat

	Type of Wealth	Ruling	Amount	Important Remarks
10	Residential property and furniture for personal use	Not Zakatable		
11	Properties intended for sale (whether land or buildings under construction, or a building ready for sale) held by a person in the business of buying and selling properties	Zakatable		Zakat is calculated on the market value of such properties, provided that one full Lunar year has passed with the properties under the ownership of the individual.
12	Properties intended for rent	Not Zakatable		However, Zakat is payable on the rental income on Zakat due date.
13	Properties held by an individual who is not in the business of buying and selling, but who may sell out of need or at favorable market condition.	Not Zakatable		Zakat is payable for one year only at the time of sale if one full Lunar year has already passed, even if the individual has owned the property for more than one year.
14	Goods available for sale	Zakatable		Zakat is payable on the market value as of the Zakat date.
15	Plant, equipment and tools used for manufacturing	Not Zakatable		
16	Debts owed to you by others, which are not doubtful.	Zakatable		Zakat is payable on the loaned amount as if it were cash in hand. However, if the borrower is in financial difficulty, or if he/she defaults or repudiates the debt, and you do not have any evidence to prove the debt, no Zakat is payable on the loaned amount. If the loan is eventually settled and at least one full Lunar year has passed on this wealth Zakat must be paid for only one year regardless of the number of years already passed on the loan.

Zakat Calculation Table (Continued)

Use this Table to Calculate your Zakat

	Type of Wealth	Ruling	Amount	Important Remarks
A	Total Zakatable wealth			
B	Less: Total debts due within the coming year only		()	
C	Net Zakatable wealth (A - B)			
D	Zakat rate		2.5%	
E	Zakat amount distributable to those who are entitled to it (C x D)			

This guidance document is prepared by Feysel & Associates.
It has not been approved by sharia scholars.