

A step-by-step guide to
understanding and calculating

Zakat on Businesses



**Our mission is to
distribute Zakat
transformatively
within the UK**

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Zakat on business

Zakat in society

Zakat is more than just a tool of poverty alleviation and purification of wealth; Zakat is one of the foundational pillars of Islam and a macro-micro element for success.

Until these pillars are not uplifted again, we cannot expect success at any level. Thus, Zakat plays a huge role as a safety-net from disbelief. Zakat is a spring which elevates the faith of the community. Zakat, along with the other pillars of Islam, has the power to uplift and support the sustainable development of an entire nation. Zakat strengthens faith and empowers society to prosper spiritually, economically and socially.

Islam encourages Muslims to seek halal employment and take part in entrepreneurial activity, but for commerce to benefit society, Islam places several obligations on those with wealth. Amongst these is the obligation of Zakat.

Scholars state that the giving of Zakat has both an outer and an inner dimension.

- **The inner dimension suppresses the ego**, helping Muslims to overcome tendencies such as selfishness and miserliness, and it also involves the purification of a Muslim's wealth.
- **The outer dimension involves removing barriers** for individuals and provides opportunities for the community to prosper.

This is why it is essential that we are all up to date with Zakat payments

Why Zakat on business assets?

You may be aware about Zakat on personal wealth, however, the Qur'an and Sunnah have also given specific guidance on paying Zakat on business. The following verse refers to Zakat on business:

"O you who have believed, spend from the good things which you have earned."

(Quran 2:267)

The Sunnah explicitly highlights Zakat on business assets. Samurah bin Jundub (May Allah be pleased with him) said:

"The messenger of God commanded us to give Sadaqah (Zakat) on what we intended for trade."

(Sunan Abu Dawud)

The benefits of paying Zakat on your business

Sayyida Aishah (May Allah be pleased with her) narrates:

"Sadaqah (Zakat) is never intermingled with any amount of wealth without destroying and rotting it."

(al-Bayhaqi)

When Zakat is not paid, a business portfolio is exposed to destruction, loss of blessings and the displeasure of Allah. Therefore, despite an annual turnover of millions and a high profit margin, a business person is exposed to loss in this world and the hereafter for not fulfilling the right of Allah. Remember, without Zakat, there can never be profit. Allah reminds us about eternal and everlasting profit in the following verse:

"Indeed, those who recite the Book of Allah and establish prayer and spend out of what We have provided them, secretly and publicly, can expect a profit that will never perish."

(Qur'an 35:29)

In another verse, Allah reminds us that the successful business people are those who are obedient to Allah in their business:

"Men whom neither commerce nor sale distracts them from the remembrance of Allah and performance of prayer and giving of Zakat. They fear a Day when hearts and eyes will be overturned. That Allah may reward them [according to] the best of what they did and increase them from His bounty. And Allah gives provision to whom He wills without account."

(Qur'an 24:37-38)

The differences between Zakat and tax

Although Zakat functions like a tax, the two are completely different payments. Zakat cannot be treated or regarded as another tax on wealth. The nature, objectives and philosophy of Zakat is different to that of tax.

A Muslim should love Zakat as a command of Allah and thus embrace it with love. The differences between Zakat and tax are highlighted below:

	Zakat	Tax
Nature	Religious duty enjoined upon us by Allah	Government levy
Purpose	<ol style="list-style-type: none"> 1. Worshipping Allah through wealth 2. Strengthening Iman of needy Muslims 3. Wealth purification for payer 4. Fulfilling needs of needy 	A source of funds for governments to spend on administration and facility provision to the nation
Payers	Only Muslims	All members of the society
Payment eligibility	Only upon owning equal to or more than the defined threshold (Nisab)	Varying thresholds and formulae for different taxes
Assets	Gold, silver, cash, business assets and investments, animal livestock and agricultural produce	Income, capital gain, roads, corporations, houses, shares, inheritance and more
Amount	2.5% of Zakatable assets only	Varies and fluctuates
Changeability of rates	Rate cannot be changed. It is fixed in the Shariah	Rates can be changed by the government or legislators from time to time
Recipients	<ol style="list-style-type: none"> 1. The poor 2. The needy 3. The administrators of Zakat 4. For heart reconciliation 5. Those in bondage 6. Debtors 7. For those in the cause of Allah 8. The wayfarer 	No direct recipients. It is collected by government and decided by the government where it should be spent
Geographic limits	Zakat can be sent to elsewhere if one has needy relatives or if there are needier people than one's locality	It is generally utilised only in the countries in which it is collected

Zakatable assets



What are business assets according to Zakat principles?

Before analysing the different assets in a business, it is necessary to understand what makes an asset zakatable in a business. Remember, not all assets owned in a business are zakatable.

So, what defines a zakatable asset in a business?

An asset purchased to resell or developed in a manufacturing contract to sell becomes a zakatable business asset. Such an asset is a 'productive asset' (Mal Nami) in Shariah. According to all four schools of jurisprudence, only 'productive' assets are zakatable. Productivity in terms of Zakat refers to the potential of an asset to grow and increase in one of the following ways:

1. Intrinsic productivity
2. Productivity by trading
3. Productivity by the breeding of flock

Gold, silver and their substitute fiat currencies are intrinsically and naturally productive, therefore, no intention (niyyah) of trading is required for them and they are always zakatable assets in themselves. Other assets (excluding animals pastured for their milk and offspring) such as stock and inventory, require an intention to sell for it to become productive wealth (Mal Nami). This intention of sale must be made at the time of a commutative acquisition. Then, as long as the intention for sale remains, the business asset remains productive wealth (Mal Nami) and continues to be zakatable.

Business assets and Zakat treatment

After understanding the importance of Zakat on business and understanding what makes an asset Zakatable in a business, we now look at the common assets in businesses and analyse the Zakat treatment of the assets.

Zakatable assets

Assets in a business	Treatment for Zakat	Why?
Cash	Zakatable	Zakat is payable on currency as it productive wealth (Mal Nami) according to Zakat principles. Currencies are, by extension, similar to gold and silver which were the primary currency in Islam.
Cash receivables	Zakatable	A receivable is merely a 'liability', thus the scholars consider what the liability is in lieu of. The debt here is in lieu of the initial cash loan which is a Zakatable asset. Therefore, the counter-exchange is also Zakatable.
Trade receivables	Zakatable	Outstanding invoices for goods and stock sold on credit are Zakatable. The debt is in lieu of a Zakatable asset, namely, trade stock. Therefore, the counter-exchange is also Zakatable.
Stock and inventory	Zakatable	Stock and inventory are productive wealth (Mal Nami) according to Zakat principles. The Shariah regards any asset bought to resell as productive wealth and Zakatable. Tangible stock as well as intangible stock such as software and apps are all Zakatable.

Non-Zakatable assets

Assets in a business	Treatment for Zakat	Why?
Service receivables	Non-Zakatable	The debt is in lieu of a non-Zakatable asset, namely, services. Therefore, the debt is non-Zakatable whilst outstanding. Thus, outstanding fees, accrued income, wages or payments due in lieu of a service are not Zakatable whilst outstanding.
Prepaid expenses	Non-Zakatable	The prepaid sum is no longer in one's ownership and therefore it is not Zakatable.
Fixtures and fittings	Non-Zakatable	Personal assets and belongings which may appreciate will not be Zakatable as they are not productive wealth (Mal Nami).
Property, plant and equipment	Non-Zakatable	Property, plant and equipment which may appreciate will not be Zakatable as they are not productive wealth in Shariah.
Intangible fixed assets (eg copyright, trademark, patent, goodwill)	Non-Zakatable	These assets are not purchased to resell and neither do they fall under productive wealth (Mal Nami). They are similar to other fixed assets such as property, plant and equipment.

Stock valuation

As a principle, all stock should be valued at retail price on one's Zakat anniversary and not at cost price. Different types of Zakatable stock and their valuation methods

Dead stock

Type: This refers to stock which has depreciated in value and is illiquid.

Value: This should be valued at what it is currently worth as dead stock.

Undelivered stock

Type: This refers to stock which you have purchased but not yet delivered to you.

Value: This should be valued according to the price in its current location.

Work in process & raw materials

Type: This refers to unfinished products and goods.

Value: These should be priced and valued in their current state. If that is not possible, they can be valued at the cost price as a last resort.

Damaged stock

Type: This refers to damaged goods which have depreciated.

Value: These should be valued at whatever they are worth in their current damaged condition.

Examples of stock valuation

Considering the above principles, let us consider how the following businesses will value their stock:



Jewellers

Value: Gold, silver and all jewellery are valued at retail price.



Property development

Value: Property purchased to resell should be valued at its current market value.



Restaurants

Value: Ingredients and all foodstuff are Zakatable and are valued at what they are currently worth. If the current value cannot be ascertained, the cost price may be used.



Groceries

Value: Fruits, vegetables and foodstuff should be valued at what they are currently worth.

Importance of intention

The Zakat treatment for business assets is principally based upon the intention at the time of purchasing an asset or stock. Assets purchased to resell are Zakatable business assets.

However, a person can have different intentions when purchasing an asset, therefore, it is worth considering the different types of intentions and their consequences in respect to Zakat liability.

1. Clear intention to resell

If an asset is purchased with the express intention to resell, it will be a Zakatable business asset regardless of when it is eventually sold.

2. Clear intention for personal use

If an asset besides gold, silver or currencies was purchased for personal use, then such an asset will not be Zakatable.

3. No clear intention

If an asset is purchased without any intention or without a clear and express intention, then the asset is not Zakatable.

4. A conditional intention

If an asset is purchased for personal use with an intention of selling only if there is capital appreciation, such an asset will not be Zakatable. Similarly, if an asset is bought for personal use or as buy to let with the intention to sell one day in the future upon favourable market conditions, the asset will not be Zakatable.

5. Clear intention to resell in future but leased in the interim

If an asset is bought to resell but is leased in the interim, the property or asset will be zakatable if the intention to resell remains and it is still treated as saleable in the interim.

Remember

All four schools of jurisprudence agree that for a business asset to be Zakatable, an intention to resell that asset must be present at the time of purchasing that asset.

The majority of scholars assert that an intention to resell must coincide with a commutative transaction like a sale. An intention to resell which coincides with non-commutative transactions like gifting and inheritance will not make an asset a zakatable business asset.

A business asset will no longer be Zakatable if a person changes his mind about selling the item and stops trading that asset.

Personal items up for sale will not be Zakatable whilst on the market. Only the net cash from the eventual sale on one's Zakat anniversary is Zakatable.

Business liabilities



The schools of Islamic law permit certain debts to be subtracted from one's gross value of Zakatable assets in a Zakat calculation, however, we advise not to make a deduction unless necessary.



Deductible debts

1. Debts payable in full within 12 months

Incurred expenses (i.e. only those incurred prior to the Zakat anniversary date) to be settled in full within 12 lunar months can be deducted from one's Zakat calculation.

2. 12 month's instalments of long term liabilities

If the debt is scheduled to be repaid over a number of years, on the Zakat anniversary, one may deduct one year's worth of instalment repayments.

One can deduct whatever is currently due on their Zakat anniversary. Debts to be repaid within the next 12 months should only be deducted if the ability to repay the debt is impacted by the Zakat payment.

3. Arrears

All arrears and overdue payments can be deducted from one's Zakat calculation.



Non-deductible debts

1. Future expenses and bills

Expenses not incurred yet but will incur in the future cannot be deducted at present. For example, next month's rent or next month's utility bills cannot be deducted right now.

2. Not payable at all in the next 12 months

A long-term debt which is not due to be repaid now or in the next 12 months cannot be deducted right now. For example, despite the scholarly debate on the impermissibility of conventional student loans, a student who did take out a student loan cannot deduct the debt during their studies as that is not currently payable.

3. Unlawful income

Despite the explicit prohibition in the Qur'an and Sunnah of dealing with interest, if a person still engaged in interest dealings and had to pay interest, the interest amount cannot be deducted. The interest money must be dispensed in charity or to public welfare projects as a relinquishment of unlawful wealth and not as a rewarding act.

Common liabilities for businesses

Deductible liabilities	Treatment for Zakat
Outstanding invoices and trade creditors	Deductible.
Utility bills (broadband, telephone, electric, gas, sewer or water)	Any current and outstanding utility bill is deductible.
Corporation tax, VAT, capital gains tax and PAYE	Any current and outstanding tax bill is deductible. Unpaid tax in relation to a previous financial year can be deducted from one's cash balance when calculating Zakat due. However, any money being saved to pay for taxes in relation to the current financial year cannot be excluded.
Bank loans	If interest is involved, such a loan is prohibited in Sharia. However, if a business borrowed money from a bank, only the capital repayments can be deducted and not the interest element of the forthcoming lunar year.
Personal or private loans	The outstanding amount is deductible.

Non-deductible liabilities	Treatment for Zakat
Interest payments	Non-deductible.

Zakat calculation



The different methods of stock valuation

Zakat on a business can be calculated in the following ways:

Stock count

- The most precise and ideal method of Zakat calculation is performing a valuation of stock on one's Zakat anniversary.

Personal and up to date record

- If a stock count is very difficult or impractical, a business should keep a track record of up-to-date transactions, cash flow and stock. This can then be used as a fairly accurate method to calculate Zakat.

Balance sheet

If keeping an accurate record is very difficult and almost impractical due to a high quantity of stock and Zakatable assets, as a last resort, you may use the last balance sheet as a reference for your net Zakatable assets. However, in such a scenario, one MUST do the following two:

1. Consider and determine any obvious adjustments to net Zakatable assets on the actual Zakat anniversary.
2. Apply the gross margin percentage to the value of stock on the balance sheet. See the next page to calculate this.

As a precautionary measure to ensure one's Zakat liability is fulfilled, paying a little more than your net figure is prudent and sensible.

Step by step Zakat calculation on a business

The following is a step by step breakdown to assist you in calculating Zakat on your business:

Stock count

1. Value your stock using the appropriate stock valuation method as discussed in the stock valuation section.

3. Step Deduct any deductible liabilities as mentioned in the liabilities section. This will give you a net figure.

2. Add up the value of cash, stock, cash and trade receivables in the business.

4. Step Pay 2.5% of the net figure calculated in step 3.

Remember, Zakat on a business is due on one's personal Zakat anniversary. Therefore, a business person should calculate his net Zakatable assets on his Zakat anniversary coinciding with his personal Zakat.

Balance sheet

The value of stock and inventory on a balance sheet reflects the cost price and not the current retail price. Therefore, one should try his best to accurately determine the total value of the retail prices of his stock. To get a more accurate representation of the retail price of stock, one may apply a conservative gross margin percentage to his current stock to get an idea of the current retail price of the stock. Remember, gross margin is net sales less the cost of goods sold. This can be determined from the income statement.

Determining gross margin percentage:

1. Look up net sales and cost of goods sold in the income statement found in the company's accounts.

2. Minus the cost of goods sold from net sales. This will give you a gross profit figure.

Let's assume that a company has net sales of £50,000 and its cost of goods sold is £40,000. This means its gross profit is £10,000 (net sales of £50,000 minus its cost of goods sold of £40,000).

3. Calculate the percentage of gross profit in relation to the net sales.

£10,000 (Gross profit) is 20% of £50,000 (net sales). Therefore, the gross margin percentage is 20%.

4. Apply the gross margin percentage to the value of stock on your balance sheet.

If the current stock is valued at £100,000, the proxy of 25% can be utilised by adding 20% to the current stock value. Therefore, the current stock can be estimated to be worth £120,000 at retail price.

It would be praiseworthy and prudent to pay extra Zakat on stock to cover any possibility of miscalculation.

Case study for a business Zakat calculation

Zakatable assets	Value (£)	Zakat treatment
Fixed assets		
Property, plant and equipment	300,000	Non-zakatable
Goodwill	200,000	Non-zakatable
Current assets		
Stock and inventory	200,000	Zakatable
Trade receivables	100,000	Zakatable
Cash at bank	200,000	Zakatable
Petty cash	1,000	Zakatable
Prepaid expenses	5,000	Non-zakatable
Total Zakatable assets	501,000	

Deductible liabilities	Value (£)	Zakat treatment
Creditors: amounts falling due within one year (lunar)		
Trade and other payables	10,000	Deductible
Loans and other borrowings	50,000	Deductible
Corporation tax	100,000	Deductible
Paye and social security	50,000	Deductible
VAT	50,000	Deductible
Interest	10,000	Non-deductible
Total deductible liabilities	260,000	

Net Zakatable assets	241,000
Zakat due at 2.5%	6,025

Can Zakat be paid in kind by giving some of my business assets?

Zakat can be paid in kind according to the Hanafi school, whilst other schools either reject this entirely or allow it in some circumstances and not others or allow it with a degree of reprehensibility.

If a person pays Zakat in kind, he must ensure he values the assets correctly to cover his Zakat liability. Thus, a businessman

may pay Zakat by giving stock, however, he must accurately determine the value of the item to ensure the Zakat liability is covered. Businesses with high asset and low cash flow may pay their Zakat in kind instead of cash. It would be praiseworthy and prudent to pay extra Zakat on stock to cover any possibility of miscalculation.

Who is responsible to pay Zakat in a business?

Businesses are of different legal structures. The Zakat liability on a business can vary depending on the legal structure of the business.

Below are a few examples of different legal structures and their Zakat treatment.

Sole proprietorship

The owner is responsible to pay the entire Zakat on the net Zakatable assets of the business.

Business partnerships

Each partner is responsible to pay Zakat on their share of the underlying net Zakatable assets.

Private limited companies (LTD) & public limited companies (PLC)

Shareholders are responsible to pay Zakat proportionate to their share of the underlying net Zakatable assets.

Limited liability partnerships (LLPs)

Each member is responsible to pay Zakat proportionate to their share of the underlying net Zakatable assets.

Franchising

Whoever owns the underlying assets is responsible to pay Zakat on the Zakatable assets.

Co-operative

Each equity owner is responsible to pay Zakat on their share of the underlying net Zakatable assets.

In the above scenarios, one business partner may pay Zakat on the business on behalf of the other partners with their consent.

Zakat calculation essentials

1. Zakatable assets

(What you own)

2. Deductible liabilities

(What you owe)

3. Zakat calculation

(2.5% of the total)

Zakat is calculated using a simple formula by subtracting deductible debts from your Zakatable assets. If the resulting figure is above a certain threshold (known as Nisab) then you must pay 2.5% of that figure as Zakat.

The Nisab is a figure based upon the value of a certain amount of gold or silver. As the price of these fluctuate, so does the Nisab value. We will help you to work this out later in the guide.

When referring to previous years, months or days in this guide, it will be based upon the Islamic (Hijri) Calendar. We will provide tools to help you work this out.

1. Zakatable assets

(What you own)



Gold and silver

Gold and silver – All forms of gold and silver, e.g. jewellery, coin, are subject to Zakat. The Hanafi school treats all gold and silver jewellery as Zakatable, regardless of whether it is worn or stored. The resale value will be used to determine its worth. Other schools of Islamic law do not consider personal worn gold and silver as Zakatable.



Pension

Pension – Defined contribution schemes are Zakatable whereas defined benefit schemes are not. For defined contribution schemes, Zakat is only due on the Zakatable assets in the pension fund. Zakat is calculated by determining the percentage of Zakatable assets in proportion to the pension pot value. Then, 2.5% of that net figure is the Zakat due on the pension. If the portfolio consists only of equities, NZF advises to take 25% of the current market value of the portfolio as a proxy and then pay 2.5% of this figure. Rental property in a pension fund is not Zakatable regardless of the percentage.



Cash & receivables

Cash – All forms of cash, e.g. in a bank account, wallet, net rental income, or even under your mattress, are Zakatable.

Receivables – Cash which you have lent to others and debts owed to you from any business activity are also Zakatable.



Investments

Shares, Unit Trusts & Equity Investments – If shares are purchased with the main intention for resale, then the entire shareholding is Zakatable at the current market value. However, if shares are purchased as a long-term investment to generate dividends, then Zakat is only due on the net Zakatable assets of the company. This can be calculated from the company's annual balance sheet.



Business assets

Stock – Anything purchased with the intention to resell is Zakatable and is to be valued at its sale price for Zakat.

2. Deductible liabilities

(What you owe)



Personal liabilities

Debts that are due or outstanding for repayment on one's Zakat anniversary are deductible liabilities. Whereas debts in relation to future bills are not deductible, eg rent, utilities.

For long-term debt, eg mortgages, or student loans, the non-interest or capital amount can only be deducted for the forthcoming lunar year.

However, it is recommended that this deduction is only made if one fears the inability to repay the debt as a result of not making the deduction.

3. Zakat calculation

(2.5% Zakat on total)



Take the total value of your Zakatable assets and subtract the total value of deductible liabilities. If the resulting figure equals or exceeds the Nisab (minimum threshold on that day), you must pay Zakat, which is 2.5% of this figure.

My net Zakatable assets are:

£ — £ = £



National Zakat
Foundation™

**Together, we have
helped over 10,000
people with more than
£10m of Zakat funds**

NZF is the UK's only Zakat focused institution. We distribute grants in our communities to offer support and relief for those in poverty as well as to further the cause of devotion to God in larger society.

**Our vision is for Islam to flourish in society
as a source of prosperity and harmony for all.**

Our Zakat Strategy

The purpose of Zakat is to enable Islam to flourish in society.

But this purpose can only be achieved when Zakat is given out efficiently and effectively.

In order for Zakat distribution to be effective, it needs to be unified, localised and balanced to address the various concerns affecting Islam and Muslims.



Stronger together

Unified

Our Zakat is so much more powerful when we pool our resources.



Focused

We distribute Zakat locally to focus on the society for which we are most responsible.



Balanced

We distribute Zakat across the eight categories mentioned in the Qur'an.

The Qur'an (9:60) specifies eight categories for the distribution of Zakat, supported through NZF's programmes:

Economic Empowerment Programme

1. The poor
2. The needy
5. To [free] those in bondage
6. Those in debt
8. The stranded traveller

Leadership Investment Programme

4. Bringing hearts together
7. The cause of God

Administration

3. Those who work on [administer] it



How can you calculate Zakat?

NZF provides Zakat payers with many ways to help ensure they pay the right amount of Zakat

- **Online Zakat calculator**
- **Website content**
- **Publications**
(available online and hard copy)

How can you pay Zakat?

NZF provides Zakat payers with many avenues to ensure safe and secure Zakat collection

- **Remote collection**
(website, bank transfers, post, Al Rayan Bank branches)
- **In-person collection**
(Zakat Centre, mosque collections)

For more information:

Website: nzf.org.uk
Helpdesk: help.nzf.org.uk
Guides: zakatguide.co.uk

Contact us:

Call: 03333 123 123
Email: zakatquery@nzf.org.uk / info@nzf.org.uk

Ensuring trust

NZF is audited by a leading auditor in the not-for-profit sector and has consistently had full, clean audits. In addition, the Strategy, Policy & Research team consults a wide range of expert advisers – scholars, researchers and practitioners – who are committed to ensuring our Zakat distribution in the UK is legally sound, purposeful and effective.

**Your Zakat will make
a big difference.**

**Join thousands in giving
your Zakat locally.**



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Thank you