

Working out and giving Zakat

A guide for businesses



**National Zakat
Foundation**

Our mission is to connect every Muslim in the UK through Zakat



I need to work out how much Zakat to give on my business – help!

While many Muslims have at least a basic understanding of how to work out their personal Zakat, working out how much Zakat to give when you own a business can leave you in a spin.

This step-by-step guide tells you everything you need to know to feel confident about working out the right amount of Zakat on your business assets.

Right, so what counts as a business asset?

Examples of business assets which require Zakat to be paid on them:

- **Cash** – any cash owned by the business
- **Cash receivables** – money owed to the business for a cash loan
- **Trade receivables** – outstanding invoices for goods and stock
- **Stock & inventory** – any stock or inventory bought to resell

Examples of business assets which don't require Zakat to be paid on them:

- **Service receivables** – any money owed to the business for services
- **Prepaid expenses** – money which has already been paid and is therefore no longer owned by the business
- **Fixtures & fittings** – Personal assets and belongings which may grow in value over time
- **Property, plants and equipment** – As these items may grow in value over time, they're not considered to be productive wealth in Islamic law
- **Intangible fixed assets** – for example copyright, trademark, patent and / or good will

Working out the value of your stock

To figure out how much your stock is worth for your Zakat calculation, find out its retail price (as opposed to cost price) on your Zakat anniversary.

Dead stock, undelivered stock, damaged stock and work in progress materials are all valued at their current state and their value in that state.

I get the principle, but what does this actually mean?

This is all fine in theory, but if you're still scratching your head about what this means in practice, here's a few examples to show how different types of business would value their stock:

Jewellers

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

Restaurants

Ingredients and all food products are valued at their current worth. If this can't be figured out, the cost price can be used.

Property development

Property bought to resell should be valued at its current market price.

Groceries


Fruits, vegetables and other food products should be valued at their current worth.



So what counts as an intention?

You can have different intentions when buying an asset, and this is an important point when considering whether Zakat should be paid on the asset in question.

Here are some of the different intentions and what they imply in terms of Zakat:



All four schools of thought agree that for a business asset to be liable for Zakat, the owner must intend to resell it.

1. **Clear intention to resell** – If you purchase an asset with the clear purpose of reselling it, you need to pay Zakat on the asset regardless of when it's actually sold.
2. **Clear intention for personal use** – Anything you own (besides gold, silver or cash) which was purchased for personal use is not liable for Zakat.
3. **No clear intention** – If you buy an asset without any intention or without clearly stating an intention, it is not liable for Zakat.
4. **A conditional intention** – If you buy an asset for personal use with the intention of selling it only if the value goes up then you don't need to pay Zakat on the asset. The same rule applied if you buy an asset for personal use or as buy to let with the intention of selling one day if there are favourable market conditions.
5. **Clear intention to sell in the future, but leased in the meantime** – If an asset is bought with the intention of reselling, but is leased in the meantime, it is still liable for Zakat provided the intention to sell still exists and it's still treated as saleable in the interim.

Can I take off anything the business owes?

Certain money owed by a business can be taken off the value of your total assets although it's advisable not to take off anything unless necessary.

What can be taken off:

1. Debts payable in full within 12 months
2. 12 months' worth of instalments of long-term debts
3. Arrears

You can deduct whatever is currently due on your Zakat anniversary. Debts to be repaid within the next 12 months should only be taken off your Zakat amount if you won't be able to pay off the debt because of the Zakat payment.

What can't be taken off:

1. Future expenses and bills – Expenses which haven't yet been paid (e.g. next month's rent or bills)
2. A long-term debt which is not due in the next 12 months
3. Unlawful income such as interest

I'm ready to work it out...

Now you've understood the principles of business Zakat, it's time to start working it out.

First, figure out how much your assets are worth. This can be done in the following ways:

Stock count

The best and most accurate way to work out business Zakat is to do a proper valuation of stock on your Zakat anniversary.

Personal & up to date record

If a stock count is very difficult or impractical, keep an up-to-date record of transactions, cash flow and stock. This can then be used as a fairly accurate way to calculate the amount on which Zakat is due.

Balance sheet

If keeping an accurate record is very difficult and impractical due to having such a high amount of stock and assets, as a last resort, you can use the latest balance sheet as a reference for your net assets on which Zakat should be paid.

However, in such a scenario, you must do the following two things:

1. Consider and determine any obvious adjustments to your net assets on the actual Zakat anniversary.

2. Apply the gross margin percentage (see the following page to find out more about this and how to calculate) to the value of stock on the balance sheet. To make sure your Zakat is paid fully, it's a good idea to pay a bit more to be on the safe side.

What's next?

Once you've figured out the value of your stock using one of the previously mentioned methods, take the following steps to finish working out your business Zakat:

- Add up the value of your stock with any cash owned by the business, and any cash and trade receivables.
- Take away any money owed based on the details provided in the section about debts which can be taken off your Zakat liable amount.
- Work out the balance and then pay Zakat of 2.5% on that final amount.

Working out the 'gross margin percentage'

If you work out the value of your stock based on the balance sheet approach, it will reflect the cost price of items not the retail price.

Therefore, you need to try and work out accurately the total retail value of the stock. To be on the safe side, we suggest adding on what's known as a gross margin percentage.

How to do this...

1. Look up net sales and cost of goods sold in the income statement in the business accounts.
2. Take off the goods sold from the net sales to find out the gross profit figure.
3. Work out the percentage of gross profit in relation to net sales (e.g. £10k gross profit is 20% of £50k, therefore the gross margin percentage in that instance would be 20%).
4. Add this percentage to the value of the stock on your balance sheet.

It's always advisable to pay a bit more Zakat on stock in case you make a mistake when working it out.

FAQ

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

According to the Hanafi school, Zakat can be paid in kind. The other schools either disallow it completely or allow it only in some situations.

If you do choose to pay Zakat in kind, you must make sure you correctly work out the value of your stock to cover all the Zakat due. As ever, it's best to pay a bit extra to be on the safe side.

Who's responsible for paying Zakat for a business?

As businesses vary so much in terms of size and structure, Zakat liability varies too. If a business has a sole owner, the owner is liable for all of the business Zakat. In partnerships of two or more owners, each partner is liable for paying Zakat on their share of the relevant assets.

Here's a few examples of different structures and who's responsible in the different scenarios:

One business partner can pay the Zakat on behalf of the business / the other partners, with their consent.



NZF's vision is a thriving, closer community of Muslims in the UK powered by Zakat

Since its launch in 2011, tens of thousands of Muslims have given over £15m of Zakat through NZF. We're the only platform enabling Britain's Muslims to give Zakat to those who need it here.

About NZF – Bringing Zakat to life in the UK

So why give Zakat through NZF?

NZF is the only UK platform connecting Muslims who can give Zakat with those who should be receiving it locally.

Zakat given through NZF helps local Muslims by giving them food, clothing, a roof over their heads, skills for work, and education to help upcoming Muslim religious leaders and other community champions reach their potential.

Through NZF, you can:

- Instantly calculate how much Zakat you need to give
- Choose exactly how to allocate your Zakat across various funds
- Get full clarity on how you can cover the costs of our experienced team getting your Zakat to those who need it

You can be confident that your Zakat will only go to those who need it, you'll be updated when your Zakat is delivered and shown how you've helped improve the lives of fellow Muslims

By giving Zakat through NZF you will:

- Help people unlock their potential
- Help create a thriving, closer Muslim community in the UK
- And become part of a ground-up movement for positive change

Our Zakat policy

Those in need of Zakat can apply for one of four grants. The experienced and dedicated NZF team works with applicants on a personal level to establish the type of support they need and conduct meticulous checks to ensure Zakat is given in a religiously sound and impactful way.

We're confident that our Zakat policies adhere to scholarly opinions on how Zakat should be distributed, having adopted the most conservative approach to distributing across the different eligibility categories. All our policies and processes have been reviewed and certified by the Islamic Shari'ah Council. They are also currently being reviewed by other scholarly panels too.



Since 2011,
we've supported
over 15,000 Muslims
in need in the UK,
and in 2019 alone,
we supported
over 6,200.

I'm ready to give my Zakat, now what?

Just go to our website, www.nzf.org.uk to get started and in a few, simple steps you'll be bringing Zakat to life where you live.

And if you still have further queries or something is unclear, no worries! Email us at ask@nzf.org.uk and we'll be happy to help.

Give Zakat here



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