

Calculation of Zakat on Financial Assets for American Muslims: A Financial and Jurisprudential Approach

by

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ABSTRACT

This thesis presents a comprehensive framework for calculating Zakat on modern financial assets specifically tailored for American Muslims. As one of the five pillars of Islam, Zakat is an obligatory form of charity for those who meet specific wealth criteria. However, applying traditional Zakat principles to contemporary financial instruments poses significant challenges, particularly within the context of the U.S. financial system.

The research addresses these complexities by developing methodologies that consider diverse financial instruments, valuation challenges, tax implications, accessibility issues, and Shariah compliance. The framework covers a wide range of assets, including cash and bank accounts, stocks, mutual funds, bonds, cryptocurrencies, retirement accounts (401(k)s, Traditional and Roth IRAs), Health Savings Accounts (HSAs), employee stock options, precious metals and jewelry, and real estate investments.

Bridging classical Islamic jurisprudence with modern financial realities, this thesis provides detailed calculation methodologies for each asset class, incorporating U.S.-specific considerations such as tax-deferred accounts and capital gains implications. The framework is designed to be adaptable to evolving financial markets and balances various scholarly opinions on contentious issues. To enhance accessibility, both comprehensive and simplified calculation methods are offered, catering to users with different levels of financial literacy.

In conclusion, this thesis makes a significant contribution to Islamic finance by offering a structured, principle-based approach to Zakat calculation that is both Shariah-compliant and applicable in the modern American financial context. It provides a valuable resource for American Muslims striving to fulfill their religious obligations amidst the complexities of the U.S. financial system and lays the groundwork for future research in Islamic finance in Western contexts.

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This thesis is a testament to the collective effort, support, and love of all those mentioned and many more. Thank you all for being part of this transformative journey.

Biographical Sketch

Naveed Arsalan was born on March 18, 1985, in Zaheerabad, India. He earned his B.E. in Chemical Engineering from Visveswararajah Technological University, India, in 2006. After graduation, he joined Reliance Industries Limited as a Process Engineer in their downstream petrochemical facility.

Arsalan later moved to the United States to further his education. He obtained both his M.S.E. and Ph.D. in Petroleum Engineering from the University of Texas at Austin. During his time at the university, he published several papers focusing on rock fluid interactions and wettability studies.

In 2015, Arsalan joined Chevron Corporation, where he initially worked on developing and deploying Enhanced Oil Recovery projects across various global reservoirs. His interests later shifted to the emerging field of Data Analytics, leading him to work on implementing high-impact data science solutions to support Chevron's oil and gas operations.

Recognizing his exceptional contributions and potential, Chevron selected Arsalan for their prestigious Digital Scholar program in 2023. This opportunity has enabled him to pursue a master's degree in engineering and management at the Massachusetts Institute of Technology.

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*In the name of Allah,
the Most Gracious, the Most Merciful.*

Chapter 1

Introduction

Zakat, a cornerstone of Islamic practice, serves dual purposes: it purifies wealth and ensures social equity. As one of Islam’s five pillars, zakat represents a critical obligation for Muslims, yet its application in today’s complex financial environment, particularly in non-Muslim majority countries like the United States, presents significant challenges. Contemporary scholars have debated the adequacy of classical zakat jurisprudence in addressing these modern complexities, with some advocating for a fresh *ijtihad* to align zakat laws with the socio-economic realities of the 21st century [1–4].

The complexity of this task arises from several interconnected factors, including the diversity of financial instruments available in the U.S. market, the unique tax implications associated with various investment vehicles and retirement accounts, and the varying interpretations of zakat calculation methods among different schools of Islamic thought. Additionally, there is a need to reconcile traditional Islamic principles with modern financial practices and regulations. As scholars like Yusuf al-Qaradawi and others have noted, while classical jurists provided a robust framework for zakat during their time, the radical changes in wealth production and accumulation necessitate a reexamination of these principles to ensure their applicability in contemporary contexts [1–4].

This research seeks to bridge the gap between classical Islamic jurisprudence and contemporary finance, providing American Muslims with clear, practical guidelines for fulfilling their zakat obligations in compliance with both their faith and the U.S. financial system. By doing so, it addresses the concerns raised by modern scholars who call for both the preservation of zakat’s spiritual objectives and its adaptation to the realities of modern economic life.

1.1 Background on Zakat

Zakat, linguistically meaning “purification” and “growth,” is a mandatory form of charity in Islam for those who meet certain wealth criteria [1, 2]. It is mentioned numerous times (82 verses) in the Quran, often in conjunction with prayer, emphasizing its importance in Islamic practice [2]. For instance, Allah says in the Quran:

“And establish prayer and give zakat and bow with those who bow [in worship and obedience].”

(Quran 2:43)

“And establish prayer and give zakat and obey Allāh and His Messenger.”

(Quran 33:33)

“So recite what is easy from it and establish prayer and give zakat and loan Allāh a goodly loan. And whatever good you put forward for yourselves - you will find it with Allāh. It is better and greater in reward.”

(Quran 73:23)

The Prophet Muhammad (peace be upon him) further elucidated on the importance and implementation of zakat in various hadiths [1, 2]. One such hadith narrated by Ibn 'Abbas states:

“The Prophet (peace be upon him) sent Mu'adh to Yemen and said, ‘Invite the people to testify that none has the right to be worshipped but Allah and I am Allah’s Messenger, and if they obey you to do so, then teach them that Allah has enjoined on them five prayers in every day and night (in twenty-four hours), and if they obey you to do so, then teach them that Allah has made it obligatory for them to pay the Zakat from their property and it is to be taken from the wealthy among them and given to the poor.’”

(Sahih al-Bukhari 1395)

Historically, zakat played a crucial role in the economic system of early Islamic societies, serving as a means of wealth redistribution and social welfare [5, 6]. The basic principles of zakat, including the types of wealth subject to zakat, the minimum threshold (nisab), and the rate of zakat, were established during this early period [7]. However, the application of these principles to modern financial instruments presents significant challenges. As noted by Rahman 2003, the complexity of contemporary financial systems and the emergence of new forms of wealth necessitate a reevaluation and extension of traditional zakat guidelines [3].

In the context of the United States, where Muslims are a minority and the financial system operates under different principles than those in Muslim-majority countries, the calculation and payment of zakat become even more complex. American Muslims must navigate a financial landscape that includes instruments such as 401(k) plans, Individual Retirement Accounts (IRAs), and various investment vehicles, none of which existed in the formative period of Islamic law [2]. Furthermore, the U.S. tax system, with its implications for wealth accumulation and distribution, adds another layer of complexity to zakat calculation. As Taha and Khan 2018 points out, the tax-deferred nature of many retirement accounts in the U.S. creates unique challenges in determining the zakatable amount of wealth [8].

This thesis aims to address these challenges by developing a comprehensive framework for zakat calculation that is both faithful to Islamic principles and applicable to the modern American financial context. By doing so, it seeks to provide American Muslims with the tools they need to fulfill their religious obligations while navigating the complexities of the U.S. financial system.

1.2 Thesis Objectives and Scope

Given the challenges outlined in the previous section, this thesis aims to develop a comprehensive, practical, and religiously sound framework for calculating zakat on modern financial assets, with a specific focus on the needs of American Muslims. The primary objectives and scope of this research are as follows:

1.2.1 Primary Objective

Develop a Comprehensive Framework: The thesis aims to create a detailed, step-by-step methodology for calculating zakat on various modern financial assets common in the American financial landscape. This framework will address the unique characteristics of each asset class while maintaining consistency with Islamic principles. In doing so, it seeks to reconcile traditional Islamic zakat principles with contemporary financial instruments and practices, ensuring that the proposed framework is both Shariah-compliant and practically applicable in the modern context.

1.2.2 Scope of the Research

This thesis will focus on the following areas:

1. **Asset Classes:** The research will cover a wide range of financial assets commonly held by American Muslims, including but not limited to:
 - Cash and bank accounts
 - Stocks and Exchange-Traded Funds (ETFs)
 - Mutual funds
 - Bonds
 - Retirement accounts (401(k)s, Traditional and Roth IRAs)
 - Real estate investments
 - Cryptocurrencies
 - Employee stock options
 - Precious metals and jewelry
2. **Geographical Focus:** While the principles developed may have broader applicability, the primary focus will be on the U.S. financial system and the specific needs of American Muslims.
3. **Juristic Approach:** The research will consider various schools of Islamic thought, with a focus on developing practical solutions that can be widely accepted. Where significant differences exist, multiple viewpoints will be presented with reasoned arguments for the preferred approach.

4. **Temporal Scope:** The framework will be designed to address current financial instruments and tax laws, with considerations for potential future developments in the financial landscape.
5. **User Application:** While the thesis will delve into complex financial and juristic concepts, a key focus will be on translating these into practical, actionable guidelines for individual Muslims and financial advisors.

1.2.3 Research Question

The primary research question guiding this thesis is:

How can traditional zakat principles be applied to modern financial instruments in a way that is both Shariah-compliant and practically feasible?

This overarching question encompasses the various subtopics explored throughout the thesis, providing a unified focus for the research.

1.2.4 Thesis Structure

This thesis is structured to systematically address the objectives and research question outlined above. The organization is as follows:

- Chapter 2 provides a comprehensive literature review, exploring traditional Zakat principles, contemporary interpretations, and existing frameworks for Zakat calculation on modern assets.
- Chapter 3 details the methodology employed in this research, including the approach to developing Zakat principles for modern financial assets and methods for asset valuation and Zakat calculation.
- Chapter 4 presents a comprehensive Zakat calculation framework that integrates the findings from individual asset classes.
- Chapters 5 through 15 form the core of the thesis, each focusing on a specific asset class and providing detailed Zakat calculation methodologies.
- Chapter 16 concludes the thesis, summarizing key findings, contributions to the field, and suggesting areas for future research.

This structure allows for a thorough exploration of the topic, moving from theoretical foundations to practical applications, and culminating in a unified framework for Zakat calculation on modern financial assets in the American context.

Chapter 2

Literature Review

2.1 Introduction

Zakat, the third pillar of Islam, holds a pivotal role in the socio-economic structure of Islamic societies. Its significance extends beyond a mere financial obligation, encompassing spiritual purification and social welfare. The complexity of applying zakat in contemporary contexts, particularly within non-Muslim majority countries like the United States, necessitates a thorough understanding of both classical principles and modern financial realities. This chapter reviews the foundational concepts of zakat, the Quranic and Prophetic guidance on its practice, and the evolving scholarly discourse surrounding its application to modern financial instruments.

2.2 Basic Concepts and Pillars of Islam

Islam is founded on five fundamental pillars that define the core beliefs and practices of Muslims: Shahada (Declaration of Faith), Salah (Prayer), Zakat (Obligatory Charity), Sawm (Fasting during Ramadan), and Hajj (Pilgrimage to Mecca) [9–12]. These pillars collectively form the bedrock of Islamic worship and community life. Among them, zakat occupies a unique position, serving as a bridge between the spiritual acts of worship, such as prayer and fasting, and the tangible concerns of social justice and economic redistribution [1–3].

Linguistically, the Arabic term "zakat" signifies purification and growth, reflecting its dual role in purifying the wealth of the believer and fostering social equity through wealth redistribution [1–3]. Unlike voluntary charity (sadaqah), zakat is an obligatory act of worship mandated by Allah, requiring the transfer of a specific portion of wealth to designated categories of recipients each year [1–3].

2.3 Quranic Foundation and Prophetic Guidance for Zakat

The Quran underscores the importance of zakat, mentioning it 82 times, often alongside the command to establish prayer (salah) [1–3]. This pairing highlights the integral connection

between spiritual devotion and social responsibility in Islam. Key verses include:

“And establish prayer and give zakat and bow with those who bow [in worship and obedience].” (Quran 2:43)

“Take, [O, Muhammad], from their wealth a charity by which you purify them and cause them increase, and invoke [Allah’s blessings] upon them.” (Quran 9:103)

These verses emphasize the obligatory nature of zakat, its purifying effect on both wealth and the soul, and its role in economic redistribution and social welfare. The Prophet Muhammad (peace be upon him) provided further clarification on the implementation of zakat through detailed guidance on the types of wealth subject to zakat, the nisab (minimum threshold), the rate to be paid, and the categories of recipients [1–3].

2.4 Key Principles of Zakat and Traditional Zakatable Assets

The classical principles of zakat are built on several foundational concepts:

1. **Obligatory Nature:** Zakat is a mandatory act of worship for all Muslims who meet the specified criteria, distinguishing it from voluntary charity [1–3].
2. **Annual Payment:** Zakat is typically calculated and paid annually, based on the lunar calendar, reflecting its ongoing role in the life of a Muslim [1–3].
3. **Nisab (Minimum Threshold):** Zakat is only obligatory on wealth that reaches or exceeds a certain minimum amount, known as nisab, ensuring that only those with surplus wealth are obligated to pay [1–3].
4. **Haul (Time Period):** Most types of wealth must be in possession for one full lunar year before zakat becomes due, underscoring the principle of wealth accumulation over time [1–3].
5. **Growth Potential:** Zakat is generally due on wealth that has the potential for growth or generates income, aligning with the broader Islamic economic principle that wealth should be productive and beneficial [1–3].
6. **Purification and Redistribution:** Zakat serves to purify the wealth of the giver and redistribute wealth within the community, addressing economic disparities and promoting social cohesion [1–3].

These principles guide the classical understanding of zakatable assets, which traditionally include gold, silver, cash, trade goods, agricultural produce, and livestock, each with specific nisab thresholds and zakat rates [1–3].

2.4.1 Traditional Zakatable Assets and Their Rates

The traditional categories of zakatable wealth reflect the primary forms of wealth in early Islamic societies. These categories, along with their respective nisab and zakat rates, are summarized in Table 2.1.

Asset Type	Nisab	Zakat Rate
Gold	85 grams	2.5%
Silver	595 grams	2.5%
Cash and Monetary Assets	Equivalent to 85g gold	2.5%
Trade Goods	Equivalent to 85g gold	2.5%
Agricultural Produce (rain-fed)	653 kg	10%
Agricultural Produce (irrigated)	653 kg	5%
Livestock (Camels)	5 camels	Varies*
Livestock (Cattle)	30 cattle	Varies*
Livestock (Sheep/Goats)	40 sheep/goats	Varies*
Honey	70 kg	10%
Minerals and Treasures	Any amount	20%

Table 2.1: Traditional Zakatable Assets and Their Rates [1–3]

It is important to recognize that these categories reflect the economic realities of early Islamic societies. As economic structures and financial instruments have evolved, scholars have debated how these principles apply to modern wealth forms [4, 13].

2.5 Contemporary Interpretations and Debates on Zakat

The application of zakat to modern financial instruments has been the subject of extensive scholarly debate. Contemporary scholars have grappled with expanding the scope of zakatable assets to include modern forms of wealth, such as salaries, stocks, and intellectual property [1, 3, 4]. This section explores the key debates and interpretations surrounding the application of zakat in the contemporary context.

2.5.1 Expanding the Scope of Zakatable Assets

Many contemporary scholars, including Yusuf al-Qaradawi, argue for the inclusion of modern financial assets within the scope of zakatable wealth. This includes regular income, which is increasingly viewed as zakatable due to its potential for growth and its alignment with the broader objectives of zakat [1, 3]. Similarly, stocks and financial securities are generally considered zakatable, although there is ongoing debate about whether they should be treated as trade goods (subject to 2.5% zakat on total value) or whether only their yield should be subject to zakat [1–3].

2.5.2 Reassessing the Concept of Growth (al-nama')

The traditional concept of growth (al-nama') has also come under scrutiny as scholars seek to apply zakat principles to modern economic realities. For example, while fixed assets in businesses were traditionally exempt from zakat, some scholars now argue that machinery and equipment should be zakatable, given their role in wealth generation [4, 13]. Additionally, debates continue over whether to impose higher zakat rates on idle wealth to encourage its productive use in the economy [4, 13].

2.5.3 Key Debates and Considerations

Several key debates shape contemporary interpretations of zakat:

1. **Nisab and Inflation:** Some scholars advocate for adjusting the nisab to account for inflation and changing economic conditions, arguing that the spirit of zakat requires that the nisab represent a meaningful threshold of wealth [4, 13].
2. **Institutional Collection and Distribution:** The role of the state versus individual responsibility in zakat collection and distribution remains a contentious issue, particularly in non-Muslim majority countries [14].
3. **Zakat on Debt:** The treatment of debt in zakat calculations, especially in an era of widespread institutional and personal debt, continues to be debated among scholars [1–3].
4. **Local vs. Global Distribution:** With increased global awareness, scholars and practitioners debate the permissibility and advisability of distributing zakat beyond local communities, considering the global scope of poverty and need [1–3].

These debates reflect ongoing attempts to balance the traditional principles of zakat with the demands of modern economic systems. They also underscore the need for *ijtihad* (independent reasoning) in Islamic jurisprudence to address the challenges posed by contemporary financial realities [15–17].

2.6 Existing Frameworks for Contemporary Zakat Practice

In response to these challenges, various frameworks have been developed to apply zakat principles to modern contexts. These include both institutional frameworks and scholarly approaches aimed at bridging classical jurisprudence with contemporary economic realities.

2.6.1 AAOIFI Shariah Standard on Zakat

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has developed a comprehensive standard for zakat calculation, which has been widely adopted

by Islamic financial institutions globally [18, 19]. This standard recommends calculating zakat based on net assets and provides guidance on classifying modern financial instruments for zakat purposes. By offering clear guidelines, the AAOIFI standard seeks to ensure consistency and transparency in zakat calculation and distribution across different contexts [18, 19].

2.6.2 Governmental and NGO-based Zakat Management

In some Muslim-majority countries, state-run zakat systems have been established, such as those in Saudi Arabia, Malaysia, and Pakistan [20–22]. These systems often provide detailed guidelines for zakat calculation on modern assets and businesses, ensuring compliance and effective distribution. In contrast, in countries without state-run systems, NGOs like Islamic Relief and the National Zakat Foundation have emerged as key players in zakat collection and distribution, offering practical tools and resources to facilitate zakat payment in contemporary contexts.

2.7 Conclusion

The literature on zakat reveals a dynamic field of study that seeks to reconcile the timeless principles of Islamic jurisprudence with the evolving realities of modern finance. As this review has shown, while the classical principles of zakat provide a robust foundation, their application to contemporary contexts requires careful consideration and adaptation. This thesis builds on the existing scholarship by developing a comprehensive framework for zakat calculation that addresses the unique challenges faced by American Muslims in the U.S. financial system. By doing so, it contributes to the ongoing discourse on zakat and its role in promoting social justice and economic equity in the modern world.

Chapter 3

Methodology for Developing Zakat Principles for Modern Financial Assets

3.1 Approach to Developing Zakat Principles

This section outlines the methodological approach used to develop a comprehensive list of Zakat principles for modern financial assets, particularly in the American context. The approach integrates traditional Islamic jurisprudence with contemporary financial realities to create a framework that is both Shariah-compliant and practically applicable.

3.1.1 Principle Development Process

The principle development process for this thesis on Zakat principles for modern financial assets involves three critical stages, each designed to bridge traditional Islamic jurisprudence with contemporary financial realities.

Stage 1: Identification of Traditional Principles. The first stage involves identifying traditional Zakat principles from primary Islamic sources, primarily the Quran and Sunnah, using established methodologies in Islamic jurisprudence. This approach follows Yusuf al-Qaradawi's systematic method of deriving legal principles from Islamic sources [1, 3]. These principles are analyzed for their applicability to modern contexts through the lens of maqasid al-Shariah (the higher objectives of Islamic law), as articulated by al-Qaradawi and other scholars [1, 3]. This ensures that the foundational principles are not only rooted in classical Islamic scholarship but also aligned with the overarching goals of Islamic law, particularly in relation to social and economic justice.

Stage 2: Recognition of Modern Financial Realities. The second stage involves recognizing the unique challenges posed by contemporary financial instruments and the specific aspects of the American financial system. This includes identifying the complexities of various investment vehicles, tax implications, and regulatory frameworks that American Muslims must navigate.

Stage 3: Integration and Innovation. The final stage integrates traditional principles with modern financial concepts and develops new principles to address contemporary challenges. This integrative approach aims to create a framework that is rooted in Islamic

tradition while responsive to the complexities of modern finance in America. This process involves critical analysis and reinterpretation where necessary, ensuring that the resulting Zakat principles are both Shariah-compliant and practically applicable in the current financial landscape.

3.1.2 Key Considerations in Principle Development

The development of Zakat principles in this thesis is guided by several key considerations to ensure that the framework is both Shariah-compliant and practically applicable in the American context. First and foremost, the principles must align with Islamic jurisprudence, drawing on the comprehensive work of scholars like al-Qaradawi, who provides a detailed foundation for Zakat fiqh [3]. Practical applicability is also a central concern, as the principles are intended to be implemented in the real-world financial environment of the United States. This approach is informed by practical strategies advocated by institutions such as The Zakat Foundation of America [2].

Furthermore, the framework is designed to be comprehensive, covering a wide range of modern financial assets to ensure that all relevant asset classes are addressed. By integrating classical scholarship with contemporary financial realities, the principles developed in this thesis aim to be both religiously sound and adaptable to the evolving financial landscape.

3.2 Overview of Developed Principles

This section provides a detailed overview of the 18 principles developed for calculating Zakat on modern financial assets. Each principle is discussed in depth, drawing from traditional sources and contemporary interpretations to ensure both Shariah compliance and practical applicability.

3.2.1 Traditional Zakat Principles

The following principles are deeply rooted in classical Islamic jurisprudence and form the foundation of Zakat calculation:

1. **Nisab Threshold:** Zakat is obligatory only on wealth that exceeds a minimum threshold, known as Nisab. Traditionally, this threshold is set at the value of 85 grams of gold or 595 grams of silver for monetary assets [3]. The principle ensures that Zakat is paid by those who have wealth beyond their basic needs, thus fulfilling its role in wealth redistribution and social justice [2, 3]. In modern contexts, the value of Nisab can fluctuate based on the market value of gold and silver, requiring contemporary Muslims to regularly assess their wealth against these benchmarks.
2. **Haul (Lunar Year):** Assets must be held for a full lunar year before becoming subject to Zakat [3]. This principle allows for the stabilization and growth of wealth, ensuring that Zakat is paid on wealth that is both significant and stable. The haul period begins either when the Nisab is first reached or from the date of the previous Zakat payment.

Exceptions exist for continuously generated income, such as salaries, which become part of the Zakatable wealth after accumulation [3].

3. **Productive Wealth:** Zakat applies to wealth that has the potential for growth or generates income, aligning with the principle of productive use of assets in Islamic economics [2, 3]. This principle encourages Muslims to engage in economic activities that benefit society, with Zakat serving as a means to ensure that wealth is not hoarded but rather used in a way that promotes overall economic welfare [4].
4. **Full Ownership:** Zakat is due only on assets over which an individual has complete ownership and control [3]. This principle ensures that Zakat is paid on wealth that is fully at the disposal of the owner, preventing any injustice in taxing wealth that is not freely accessible or usable by the individual. For example, assets held in trust or those subject to significant legal restrictions may not be fully Zakatable [2].
5. **Intention of Asset:** The purpose of holding an asset—whether for trade, investment, or personal use—can affect its Zakatable status [3]. This principle highlights the role of intention (*niyyah*) in Islamic jurisprudence, ensuring that Zakat obligations are aligned with the intended use of wealth. For example, assets held for personal use, such as one’s primary residence or personal vehicle, are generally exempt from Zakat [2].
6. **Variable Nisab Thresholds:** Different categories of assets have distinct Nisab thresholds and Zakat rates, reflecting the diversity of wealth in Islamic law [3]. For instance, the Nisab for livestock differs from that for monetary assets or agricultural produce, ensuring that Zakat calculations are equitable across various types of wealth. This principle recognizes the varied nature of assets and seeks to apply a fair and just approach to Zakat obligations [2].

3.2.2 Modern Financial Principles

In response to the complexities of contemporary financial instruments, the following principles have been developed to address the unique aspects of modern finance, particularly in the American context:

7. **Asset Valuation and Volatility:** For assets with fluctuating values, such as stocks, bonds, and cryptocurrencies, Zakat is calculated using the current market value on the due date [2]. In cases where assets are highly volatile, such as certain cryptocurrencies, an average value over a specified period (e.g., the last 30 days of the Zakat year) is used to provide a more stable basis for calculation [4]. This approach ensures accurate and fair valuation, reflecting the true financial position of the individual.
8. **Capital Gains Consideration:** Both realized and unrealized capital gains are accounted for in Zakat calculation. After-tax proceeds of realized gains are included in Zakatable assets, while unrealized gains are adjusted by subtracting estimated future tax liabilities from the current market value of assets. This principle ensures that Zakat is calculated on the true accessible wealth, considering both the potential for future gains and the impact of taxes on those gains [3].

9. **Tax Liability Adjustment:** For pre-tax investments like traditional 401(k)s, Zakat should be calculated on the post-tax value [3]. This principle recognizes the impact of tax obligations on the true value of assets, ensuring that Zakat is calculated on the actual wealth available to the individual. This adjustment is crucial in contexts like the U.S., where tax-deferred retirement accounts are common, and it reflects a nuanced understanding of the interplay between taxation and Zakat obligations [2].
10. **Vesting Principle:** For assets with vesting periods, such as certain employer contributions, Zakat is calculated only on the vested portion. This principle acknowledges the conditional nature of some modern compensation structures, ensuring that Zakat is only due on assets that are fully owned and accessible by the individual. This principle is particularly relevant in the American context, where stock options and other deferred compensation plans are common [2].
11. **Accessibility Consideration:** The ability to access funds—such as restrictions on retirement accounts—may affect the Zakat rate or calculation method [3]. This principle recognizes that not all assets are equally accessible and adjusts Zakat calculations accordingly. For example, penalties for early withdrawal from retirement accounts may be considered when calculating the Zakatable amount, ensuring that the Zakat obligation reflects the true value of the asset that can be accessed by the owner [2].
12. **Currency Equivalence:** Cryptocurrencies and digital assets are treated based on their functional equivalence to traditional currencies or assets. This principle allows for the inclusion of new forms of wealth in Zakat calculations, ensuring that emerging financial instruments are appropriately accounted for in Islamic law. By considering the role and function of these assets, this principle helps maintain the relevance of Zakat in a rapidly changing financial landscape [2].
13. **Liquidity Consideration:** The ease of converting an asset to cash may influence the Zakat calculation method [3]. This principle recognizes that different assets have varying degrees of liquidity, which can affect their Zakatable value. For example, highly liquid assets like cash may be fully Zakatable, while less liquid assets, such as real estate or certain investments, may require adjustments in the calculation method to account for the time and cost of converting them to cash [2].
14. **Horizontal Equity:** Individuals with equivalent net worth should pay equivalent Zakat, regardless of the composition of their assets [23]. This principle ensures fairness in Zakat calculations across different asset portfolios, aligning with the broader goals of equity and justice in Islamic law. By standardizing the treatment of different asset types, this principle helps prevent disparities in Zakat obligations based solely on the form of wealth held by an individual.
15. **Debt Consideration:** Debts can reduce Zakatable assets, but the extent of this reduction varies among scholars [3]. This principle accounts for the impact of debt on an individual's true wealth, with special considerations for interest-bearing loans in the American context. By subtracting certain debts from Zakatable assets, this principle

ensures that Zakat obligations reflect the net wealth of the individual, aligning with the principle of fairness in Islamic law [2].

16. **Non-Duplication and Income Exclusion Principle:** Zakat is not reassessed on assets within the same lunar year after initial payment, preventing duplication. Regular income such as salaries and wages are not directly subject to Zakat at the time of receipt but become part of the Zakatable assets once they accumulate in bank accounts or investments [2]. This principle prevents double taxation and clarifies the treatment of regular income, ensuring that Zakat is applied consistently and fairly.
17. **Nisab Calculation and Basic Needs Exclusion:** Nisab is calculated on wealth that remains after fulfilling all basic living expenses for an entire lunar year [3]. This exclusion of basic necessities ensures that Zakat is paid only on wealth that exceeds one's essential needs, aligning with the principle of social justice in Islamic law [2]. This principle emphasizes that Zakat is intended to be a form of wealth redistribution that does not burden those who are themselves in need.
18. **Transparency Principle:** Clear disclosure of calculation methods is encouraged to enhance trust and compliance in the community. This principle promotes accountability and facilitates proper Zakat calculation and payment, ensuring that the process is transparent and accessible to all members of the community [2].

These principles, combining traditional Islamic concepts with modern financial realities, provide a comprehensive framework for calculating Zakat on contemporary financial assets in the American context. They aim to ensure that Zakat calculations are both Shariah-compliant and practically applicable in today's complex financial landscape.

3.3 Conclusion

This chapter has developed a comprehensive set of Zakat principles that integrate traditional Islamic jurisprudence with the realities of modern finance, particularly within the American context. These principles provide a robust framework for calculating Zakat on contemporary financial assets, ensuring that the process remains Shariah-compliant and practically applicable.

In the following chapters, these principles will be systematically applied to a variety of modern financial assets commonly held by American Muslims, including cash, stocks, retirement accounts, real estate investments, and cryptocurrencies. This approach ensures consistency and thoroughness in Zakat calculation across different types of wealth.

Chapter 4

Comprehensive Zakat Calculation

4.1 Introduction

This chapter outlines the integrated process for calculating Zakat on modern financial assets, summarizing the steps required to determine the total Zakat obligation. While subsequent chapters will provide detailed calculations for specific asset classes, this chapter offers a comprehensive framework that ensures all relevant assets are considered, the appropriate principles are applied, and the resulting Zakat obligation is accurately determined.

4.2 Consolidation of Zakatable Assets

Determining the total Zakat obligation involves consolidating Zakatable values across all relevant asset classes. This process involves compiling the Zakatable amounts calculated for each asset class, ensuring comprehensive coverage of the individual's financial portfolio.

4.2.1 Compilation of Zakatable Values

The first step is to aggregate the Zakatable amounts from each asset class, using the following formula:

$$\text{Total Zakatable Assets} = \sum \text{Zakatable Assets from All Classes}$$

This step ensures that every Zakatable asset is accounted for, providing a comprehensive view of the individual's wealth. Assets are assessed based on Principles 7 (Asset Valuation and Volatility) and 13 (Liquidity Consideration), ensuring that all assets are accurately valued and appropriately included in the calculation.

4.2.2 Consideration of Debts

In line with Principle 15 (Debt Consideration), necessary and immediate debts are deducted during the Zakat calculation of individual asset classes. As these debts have already been accounted for, no further deductions are required at this stage.

4.3 Application of the Nisab Threshold

Once Zakatable assets have been consolidated, the next step is applying the Nisab threshold, which determines whether Zakat is obligatory.

4.3.1 Determination of the Nisab Value

The Nisab value is calculated based on the lower of the values of 85 grams of gold or 595 grams of silver on the Zakat due date, in accordance with Principle 1 (Nisab Threshold). This value serves as the threshold for Zakat eligibility.

4.3.2 Comparison of Net Zakatable Assets with the Nisab

The total net Zakatable assets are then compared against the Nisab:

- If the total net Zakatable assets meet or exceed the Nisab, Zakat becomes obligatory.
- If the total net Zakatable assets are below the Nisab, no Zakat is due.

4.4 Final Zakat Calculation

If the total net Zakatable assets meet or exceed the Nisab, the Zakat obligation is calculated using the following formula:

$$\text{Zakat Amount} = \text{Net Zakatable Assets} \times 2.5\%$$

This calculation is guided by Principles 3 (Productive Wealth) and 17 (Nisab Calculation and Basic Needs Exclusion), ensuring that Zakat is paid on wealth exceeding essential needs and that wealth is used productively for the benefit of society.

4.5 Special Considerations

Several additional factors should be considered during the Zakat calculation process to ensure compliance with Islamic jurisprudence and practicality in financial application:

1. **Lunar Year (Haul) Principle:** Zakat should be calculated on assets that have been held for a full lunar year, as specified in Principle 2 (Haul). Continuously generated income may require different treatment.
2. **Currency Conversion:** For individuals holding Zakatable assets in multiple currencies, amounts should be converted to a single currency, typically the local currency, using the exchange rate on the Zakat due date, ensuring adherence to Principle 12 (Currency Equivalence).

3. **Timing of Payment:** Although Zakat is calculated annually, paying in installments throughout the year may ease financial burdens and ensure timely distribution, aligning with Principle 16 (Non-Duplication and Income Exclusion Principle).
4. **Intention (Niyyah):** The intention behind paying Zakat should be consciously reaffirmed, emphasizing its role as an act of worship and wealth purification, as highlighted in Principle 5 (Intention of Asset).

4.6 Documentation and Transparency

In accordance with Principle 18 (Transparency Principle), detailed records of the Zakat calculation process should be maintained. Documentation should include:

1. A breakdown of all asset classes and their corresponding Zakatable values.
2. The Nisab calculation and the threshold applied.
3. Any debts deducted and their justification.
4. The final Zakat amount calculation.
5. The date of calculation and intended payment date(s).

Chapter 5

Zakat Calculation for Cash and Bank Accounts

5.1 Introduction

Cash and bank accounts are central to most individuals' financial portfolios, comprising various liquid assets that are readily accessible and easily quantifiable. This chapter outlines a comprehensive approach to calculating Zakat on these assets, ensuring adherence to Islamic principles while accommodating modern financial realities.

5.2 Scope of Assets

The assets considered in this calculation include:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of Deposit (CDs)
- Foreign currency accounts
- Cash on hand
- Cash gifts received during the year

5.3 Valuation Date

In accordance with Principle 2 (Haul), the balance on the Zakat due date, marking the end of the haul period, is used for the calculation. This ensures that the Zakat is calculated on the wealth that has been held for a complete lunar year.

5.4 Calculation Methodology

The following steps should be followed to accurately calculate Zakat on cash and bank accounts:

1. **Individual Account Valuation:** Record the balance of each account on the Zakat due date. For foreign currency accounts, convert the balance to USD using the exchange rate on that date. Include accrued interest for CDs, even if not yet paid out.
2. **Zakatable Cash Assets Calculation:** Sum all account balances to determine the Zakatable Cash Assets. Include cash on hand and any cash gifts received during the year that individually exceed the Nisab threshold.
3. **Result:** The resulting Zakatable Cash Assets figure will be used in the final Zakat calculation, once all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix A.

5.5 Special Considerations

Several factors require additional attention when calculating Zakat on cash and bank accounts:

- **Interest Earned (Principle 3 - Productive Wealth):** Include all interest earned, even if not Shariah-compliant. Consider allocating non-Shariah compliant interest to charity separately from Zakat.
- **Joint Accounts (Principle 4 - Full Ownership):** Include only the portion of the joint account that belongs to the Zakat payer, ensuring that only the payer's share is considered.
- **Cash Gifts (Principle 16 - Non-Duplication and Income Exclusion):** Include cash gifts that individually exceed the Nisab threshold. For gifts below the Nisab, include them in the total balance but do not start a new haul period.
- **Foreign Currency Fluctuations:** Use the exchange rate on the Zakat due date for consistency. If there are significant currency fluctuations, consider using Principle 7 (Asset Valuation and Volatility) to ensure a fair assessment.

5.6 Documentation and Distribution

In line with Principle 18 (Transparency), maintain detailed records of all account balances, exchange rates used for foreign currencies, and any exclusions or special considerations applied. The calculated Zakat amount should be distributed as soon as possible after the due date, ensuring that the Zakat reaches eligible recipients promptly.

This framework provides a thorough and principled approach to calculating Zakat on cash and bank accounts, addressing the complexities of modern financial instruments while adhering to traditional Islamic principles. By following this methodology, American Muslims can ensure accurate and compliant Zakat calculations on their liquid assets.

Chapter 6

Zakat Calculation for Stocks and Exchange-Traded Funds (ETFs)

6.1 Introduction

Stocks and ETFs constitute a significant portion of many American Muslims' investment portfolios. These assets present unique challenges for Zakat calculation due to their fluctuating values and potential for both capital appreciation and income generation. This chapter provides a comprehensive approach to calculating Zakat on stocks and ETFs, balancing Islamic principles with modern investment realities.

6.2 Scope of Assets

The calculation encompasses the following:

- Individual stocks
- Exchange-Traded Funds (ETFs)
- Dividend-paying stocks and ETFs
- Growth stocks and ETFs

6.3 Valuation Date

In accordance with Principle 2 (Haul) and Principle 7 (Asset Valuation and Volatility), the market value on the Zakat due date is used to determine the Zakatable amount.

6.4 Calculation Methodology

To accurately calculate Zakat on stocks and ETFs, follow these steps:

1. Individual Stock/ETF Valuation:

- Determine the Current Market Value:

$$\text{Current Market Value} = \text{Number of shares} \times \text{Price per share on valuation date}$$

- Calculate the Cost Basis:

$$\text{Cost Basis} = \text{Original purchase price} \times \text{Number of shares}$$

- Compute Unrealized Gain/Loss:

$$\text{Unrealized Gain/Loss} = \text{Current Market Value} - \text{Cost Basis}$$

2. Capital Gains Consideration (Principle 8):

- Estimate taxes for unrealized gains:

$$\text{Estimated Tax} = (\text{Current Market Value} - \text{Cost Basis}) \times \text{Estimated Capital Gains Tax Rate}$$

- Consider potential tax savings for unrealized losses:

$$\text{Potential Tax Savings} = (\text{Cost Basis} - \text{Current Market Value}) \times \text{Estimated Capital Gains Tax Rate}$$

- Calculate Net Tax Impact:

$$\text{Net Tax Impact} = \text{Estimated Taxes} - \text{Potential Tax Savings}$$

- Adjusted Total Market Value:

$$\text{Adjusted Total Market Value} = \Sigma(\text{Current Market Values of all stocks/ETFs}) - \text{Net Tax Impact}$$

3. Dividend Income (Principle 3 - Productive Wealth):

- Include all dividends received during the Zakat year.
- For reinvested dividends, increase the cost basis of the respective stocks/ETFs.

4. Total Stock/ETF Assets Calculation:

- Zakatable Stock/ETF Assets = Σ (Adjusted Market Values of all stocks/ETFs) + Accumulated Dividends

5. **Result:** The resulting Zakatable Stock/ETF Assets figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix B.

6.5 Special Considerations

When calculating Zakat on stocks and ETFs, consider the following:

- **Intention of Asset (Principle 5):** Some scholars differentiate between stocks held for trading (always Zakatable) and those held for long-term investment (Zakatable if held for more than one haul).
- **Averaged Valuation for Highly Volatile Assets (Principle 7):** For highly volatile stocks or ETFs, consider using an average value over the last 30 days of the Zakat year.
- **Vesting Principle (Principle 10):** For employee stock options or restricted stock units, include only the vested portion in Zakatable assets.

6.6 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- All stock and ETF holdings
- Purchase dates and costs
- Valuation methods used
- Dividend receipts and reinvestments
- Tax rate estimations for unrealized gains

This framework provides a thorough and principled approach to calculating Zakat on stocks and ETFs, addressing the complexities of these modern financial instruments while adhering to traditional Islamic principles. By following this methodology, American Muslims can ensure accurate and compliant Zakat calculations on their equity investments, taking into account both the potential for capital appreciation and income generation.

Chapter 7

Zakat Calculation for Mutual Funds

7.1 Introduction

Mutual funds are a popular investment vehicle for many American Muslims, offering diversification and professional management. Calculating Zakat on mutual funds presents unique challenges due to their composite nature, potentially mixing various asset types and investment strategies. This chapter provides a comprehensive approach to calculating Zakat on mutual funds, adhering to Islamic principles while addressing the complexities of these modern financial instruments.

7.2 Scope of Assets

The calculation encompasses the following:

- Equity mutual funds
- Bond mutual funds
- Balanced or hybrid mutual funds
- Money market mutual funds
- Index mutual funds
- Sector-specific mutual funds

7.3 Valuation Date

In accordance with Principle 2 (Haul) and Principle 7 (Asset Valuation and Volatility), use:

- The Net Asset Value (NAV) on the Zakat due date

7.4 Calculation Methodology

The following steps should be followed to accurately calculate Zakat on mutual funds:

1. Individual Fund Valuation:

- For each mutual fund holding, determine:
 - Current Value = Number of units \times NAV on valuation date
 - Cost Basis = Original purchase price \times Number of units
 - Unrealized Gain/Loss = Current Value - Cost Basis

2. Capital Gains Consideration (Principle 8):

- For Unrealized Gains: Estimated Tax = Unrealized Gain \times Estimated Capital Gains Tax Rate
- Adjusted Current Value = Current Value - Estimated Tax

3. Dividend and Distribution Income (Principle 3 - Productive Wealth):

- Include all dividends and distributions received during the Zakat year
- For reinvested dividends/distributions, increase the cost basis of the respective funds

4. Total Mutual Fund Assets Calculation:

- Zakatable Mutual Fund Assets = Σ (Adjusted Market Values of all mutual funds) + Accumulated Dividends/Distributions

5. Result:

The resulting Zakatable Mutual Fund Assets figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix C.

7.5 Special Considerations

Several factors require additional attention when calculating Zakat on mutual funds:

- **Intention of Asset (Principle 5):** Consider the purpose of holding the mutual fund (e.g., long-term investment vs. short-term trading) when determining Zakatability.
- **Averaged Valuation for Highly Volatile Funds (Principle 7):** For funds with high volatility, consider using an average NAV over the last 30 days of the Zakat year.
- **Accessibility Consideration (Principle 10):** For mutual funds held in retirement accounts, refer to the specific guidelines for those account types.
- **Turnover Ratio:** Consider the fund's turnover ratio when estimating potential tax liabilities, as high turnover may lead to more frequent capital gains distributions.

7.6 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- All mutual fund holdings
- Purchase dates and costs
- Valuation methods used
- Dividend and distribution receipts and reinvestments
- Fund composition analyses
- Tax rate estimations for unrealized gains

This framework provides a thorough and principled approach to calculating Zakat on mutual funds, addressing the complexities of these composite investment vehicles while adhering to traditional Islamic principles. By following this methodology, American Muslims can ensure accurate and compliant Zakat calculations on their mutual fund investments, taking into account the diverse nature of fund compositions and the potential for both capital appreciation and income generation.

Chapter 8

Zakat Calculation for Bonds

8.1 Introduction

Bonds represent fixed-income investments that pose unique challenges for Zakat calculation due to their complex pricing structures and the potential for interest income, which is a concern from an Islamic perspective. This chapter provides a comprehensive framework for calculating Zakat on bonds, addressing various types of conventional bonds available in the American financial landscape.

8.2 Scope of Assets

The calculation encompasses the following:

- Government bonds (e.g., U.S. Treasury bonds)
- Corporate bonds
- Municipal bonds
- Zero-coupon bonds
- Inflation-protected securities (e.g., TIPS)

8.3 Valuation Date

In accordance with Principle 2 (Haul) and Principle 7 (Asset Valuation and Volatility), use the market value on the Zakat due date.

8.4 Calculation Methodology

The following steps should be followed to accurately calculate Zakat on bonds:

- **Step 1: Individual Bond Valuation**

- For each bond, determine:
 - * Current Market Value = Number of bonds × Market price on valuation date
 - * Face Value = Par value of the bond
 - * Accrued Interest

- **Step 2: Bond Pricing Calculation**

- For more accurate valuation, especially for bonds not frequently traded, use the following formula:
- Bond Price = $\sum_{t=1}^T \frac{CF_t}{(1+y)^t}$
- Where:
 - * CF_t = Annual coupon payment for $t = 1$ to $T-1$
 - * CF_T = Annual coupon payment + Face value of the bond for $t = T$
 - * y = Market interest rate (yield to maturity)
 - * T = Number of years to maturity
 - * F = Face value of the bond

- **Step 3: Capital Gains Consideration (Principle 8)**

- Unrealized Gain/Loss = Current Market Value - Purchase Price
- Estimated Tax = Unrealized Gain × Estimated Capital Gains Tax Rate
- Adjusted Market Value = Current Market Value - Estimated Tax

- **Step 4: Total Bond Assets Calculation**

- Zakatable Bond Assets = \sum (Adjusted Market Values of all bonds)

- **Result:** The resulting Zakatable Bond Assets figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix D.

8.5 Special Considerations

Several factors require additional attention when calculating Zakat on bonds:

- **Shariah Compliance (Principle 3 - Productive Wealth):** Consider the Islamic perspective on interest. Some scholars suggest paying Zakat on the principal amount only, while others recommend including interest for Zakat but purifying it separately.
- **Tax-Exempt Bonds:** Even though these bonds may not incur taxes, their full value should be considered for Zakat purposes.
- **Accessibility Consideration (Principle 11):** For bonds held in retirement accounts, refer to the specific guidelines for those account types.

8.6 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- All bond holdings
- Purchase dates and prices
- Valuation methods and bond pricing calculations
- Accrued interest amounts
- Tax rate estimations for unrealized gains

This framework provides a thorough and principled approach to calculating Zakat on bonds, addressing the complexities of these fixed-income instruments while adhering to Islamic principles. By following this methodology, American Muslims can ensure accurate and compliant Zakat calculations on their bond investments, taking into account both the potential for capital appreciation and income generation, while also considering the Islamic perspective on interest-bearing instruments.

Chapter 9

Zakat Calculation for Cryptocurrencies

9.1 Introduction

Cryptocurrencies represent a novel and often volatile asset class that has gained significant attention in recent years. Their unique characteristics and the lack of traditional regulatory oversight present distinct challenges for Zakat calculation. This chapter provides a comprehensive framework for calculating Zakat on cryptocurrencies, addressing their volatile nature and the various ways they can be held and used.

9.2 Scope of Assets

The calculation encompasses the following:

- Major cryptocurrencies (e.g., Bitcoin, Ethereum)
- Altcoins
- Cryptocurrency ETFs
- Cryptocurrency held in exchanges
- Cryptocurrency held in personal wallets
- Cryptocurrency staking rewards
- Mined cryptocurrency

9.3 Valuation Date

In accordance with Principle 2 (Haul), Principle 7 (Asset Valuation and Volatility), use the average value over the last 30 days of the Zakat year.

9.4 Calculation Methodology

The following steps should be followed to accurately calculate Zakat on cryptocurrencies:

- **Step 1: Individual Cryptocurrency Valuation**
 - For each cryptocurrency holding, determine:
 - * Average Value = $(\sum \text{Daily closing prices for last 30 days}) / 30$
 - * Current Value = Number of coins \times Average Value
 - * Cost Basis = Original purchase price \times Number of coins
 - * Unrealized Gain/Loss = Current Value - Cost Basis
- **Step 2: Capital Gains Consideration (Principle 8)**
 - Estimated Tax = Unrealized Gain \times Estimated Capital Gains Tax Rate
 - Adjusted Current Value = Current Value - Estimated Tax
- **Step 3: Staking Rewards and Mining Income**
 - Include the value of any cryptocurrency received through staking or mining during the Zakat year
- **Step 4: Total Cryptocurrency Assets Calculation**
 - Zakatable Cryptocurrency Assets = \sum (Adjusted Current Values of all cryptocurrencies) + Staking Rewards + Mining Income
- **Result:** The resulting Zakatable Cryptocurrency Assets figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix E.

9.5 Special Considerations

Several factors require additional attention when calculating Zakat on cryptocurrencies:

- **Currency Equivalence (Principle 12):** Treat cryptocurrencies based on their functional equivalence to traditional currencies or assets.
- **Accessibility Consideration (Principle 11):** Ensure that the cryptocurrencies are accessible and under full control of the owner. This is particularly important for assets held on exchanges or in smart contracts.
- **Lost or Inaccessible Cryptocurrencies:** Exclude any cryptocurrencies that have been lost (e.g., lost private keys) or are inaccessible.

- **Forked Cryptocurrencies:** Include any new cryptocurrencies received through hard forks if they have been accessed or claimed.
- **Non-Fungible Tokens (NFTs):** For NFTs with significant value, consider including them based on their average market value over the last 30 days, if a reliable valuation can be obtained.
- **Shariah Compliance (Principle 3 - Productive Wealth):** Consider scholarly opinions on the permissibility of cryptocurrencies in Islamic finance when determining their treatment for Zakat purposes.

9.6 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- All cryptocurrency holdings
- Purchase dates and costs
- Daily values used for the 30-day average calculation
- Staking rewards and mining income
- Tax rate estimations for unrealized gains
- Transactions and transfers between wallets or exchanges

This framework provides a thorough and principled approach to calculating Zakat on cryptocurrencies, addressing the unique challenges posed by this modern asset class while adhering to Islamic principles. By following this methodology, American Muslims can ensure accurate and compliant Zakat calculations on their cryptocurrency investments, taking into account the high volatility and evolving nature of these digital assets.

Chapter 10

Zakat Calculation for 401(k) and Traditional IRA

10.1 Introduction

401(k) plans and Traditional Individual Retirement Accounts (IRAs) are common retirement savings vehicles for American Muslims. These accounts present unique challenges for Zakat calculation due to their tax-deferred nature, potential employer contributions, and restrictions on withdrawals. This chapter provides a comprehensive framework for calculating Zakat on these retirement accounts, balancing Islamic principles with the specific characteristics of these financial instruments.

10.2 Scope of Assets

The calculation encompasses the following:

- 401(k) plans
- Traditional IRAs
- Employer-sponsored retirement plans (e.g., 403(b), 457 plans)
- SEP IRAs
- SIMPLE IRAs

10.3 Valuation Date

In accordance with Principle 2 (Haul) and Principle 7 (Asset Valuation and Volatility), use the account balance on the Zakat due date.

10.4 Calculation Methodology

The following steps should be followed to accurately calculate Zakat on 401(k) and Traditional IRA accounts:

- **Step 1: Account Valuation (Principle 7)**
 - Total Account Balance = Value of all investments in the account on the Zakat due date
- **Step 2: Tax Liability Adjustment (Principle 9)**
 - Estimated Tax Liability = Total Account Balance \times Estimated Tax Rate at Retirement
 - Note: The estimated tax rate should consider both federal and state taxes
- **Step 3: Vesting Consideration (Principle 10)**
 - For 401(k) plans with employer contributions, calculate the vesting ratio
 - For IRAs, typically the vesting ratio = 100%
- **Step 4: Accessibility Adjustment (Principle 11)**
 - Consider any early withdrawal penalties if applicable
- **Step 5: Zakatable Retirement Account Assets Calculation**
 - Zakatable Retirement Assets = (Total Account Balance - Estimated Tax Liability) \times Vesting ratio \times Accessibility Factor
- **Result:** The resulting Zakatable Retirement Assets figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix F.

10.5 Special Considerations

Several factors require additional attention when calculating Zakat on 401(k) and Traditional IRA accounts:

- **Tax Rate Estimation:** Carefully estimate the future tax rate, considering potential changes in tax brackets and retirement income levels.
- **Roth Contributions:** If the account includes after-tax Roth contributions, these should be calculated separately as they are not subject to future taxes.
- **Required Minimum Distributions (RMDs):** For individuals subject to RMDs, consider the impact on the tax liability estimation.

- **Early Withdrawal Scenarios:** If early withdrawals are being considered for Zakat payment, factor in potential penalties and taxes.
- **Investment Composition:** Be aware of the underlying investments in the account (e.g., stocks, bonds, mutual funds) as this may affect Shariah compliance considerations.
- **Loans Against 401(k):** If there's an outstanding loan against the 401(k), this should be factored into the calculation.

10.6 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- Account balances and statements
- Detailed breakdown of vested and unvested portions, including earnings on each
- Estimated tax rates used in calculations
- Any assumptions made about future accessibility or withdrawal plans
- Breakdown of pre-tax and after-tax contributions (if applicable)

This framework provides a thorough and principled approach to calculating Zakat on 401(k) and Traditional IRA accounts, addressing the complexities of these tax-deferred retirement vehicles while adhering to Islamic principles. By following this methodology, American Muslims can ensure accurate and compliant Zakat calculations on their retirement savings, taking into account the unique tax implications and accessibility considerations of these accounts.

Chapter 11

Zakat Calculation for Roth IRAs

11.1 Introduction

Roth Individual Retirement Accounts (Roth IRAs) present a unique case for Zakat calculation due to their after-tax contribution structure and tax-free growth. Unlike traditional retirement accounts, Roth IRAs offer more straightforward Zakat calculations but still require careful consideration of Islamic principles. This chapter provides a comprehensive framework for calculating Zakat on Roth IRAs, addressing their specific characteristics within the context of Islamic finance.

11.2 Scope of Assets

The calculation encompasses the following:

- Roth IRA accounts
- Roth 401(k) accounts (the Roth portion of 401(k) plans)
- Roth 403(b) accounts

11.3 Valuation Date

In accordance with Principle 2 (Haul) and Principle 7 (Asset Valuation and Volatility), use the account balance on the Zakat due date.

11.4 Calculation Methodology

The following steps should be followed to accurately calculate Zakat on Roth IRA accounts:

- **Step 1: Account Valuation**

– Total Account Balance = Value of all investments in the Roth account on the Zakat due date

- **Step 2: Contribution Basis Identification**

– Contribution Basis = Total amount of contributions made to the Roth account

– Growth = Total Account Balance - Contribution Basis

- **Step 3: Accessibility Consideration (Principle 11)**

– For account holders under 59½ years old:

- * Accessible Balance = Contribution Basis

- * (As contributions can be withdrawn without penalty)

– For account holders 59½ years or older and account open for at least 5 years:

- * Accessible Balance = Total Account Balance

- * (As all funds can be withdrawn tax- and penalty-free)

- **Step 4: Zakatable Roth IRA Assets Calculation**

– Zakatable Roth IRA Assets = Accessible Balance

- **Result:** The resulting Zakatable Roth IRA Assets figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix G.

11.5 Special Considerations

Several factors require additional attention when calculating Zakat on Roth IRA accounts:

- **Full Ownership (Principle 4):** Unlike traditional retirement accounts, Roth IRAs represent fully owned wealth as taxes have already been paid on contributions.
- **Tax-Free Growth:** The growth in Roth accounts is not subject to future taxes, simplifying the Zakat calculation compared to traditional retirement accounts.
- **Age and Account Duration:** The accessibility of funds changes significantly at age 59½ and when the account has been open for at least 5 years. This affects the Zakatable amount.
- **Roth Conversion:** If funds were recently converted from a traditional IRA to a Roth IRA, consider any tax implications that might affect the Zakatable amount.
- **Early Withdrawal Exceptions:** Certain exceptions allow penalty-free withdrawals before age 59½ (e.g., first-time home purchase, education expenses). Consider these if relevant to the individual's situation.

11.6 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- Account balances and statements
- Contribution history to accurately determine the contribution basis
- Age of the account holder and duration of account opening
- Any withdrawals made from the account
- Underlying investment composition

This framework provides a thorough and principled approach to calculating Zakat on Roth IRA accounts, addressing the unique characteristics of these after-tax retirement vehicles while adhering to Islamic principles. By following this methodology, American Muslims can ensure accurate and compliant Zakat calculations on their Roth retirement savings, taking into account the full ownership of these funds and their tax-free growth nature.

Chapter 12

Zakat Calculation for Health Savings Accounts (HSAs)

12.1 Introduction

Health Savings Accounts (HSAs) are tax-advantaged savings accounts designed to help individuals with high-deductible health plans cover medical expenses. These accounts present unique considerations for Zakat calculation due to their specific purpose, tax benefits, and potential for long-term growth. This chapter provides a comprehensive framework for calculating Zakat on HSAs, balancing Islamic principles with the distinctive features of these accounts.

12.2 Scope of Assets

The calculation encompasses:

- Health Savings Accounts (HSAs)

12.3 Valuation Date

In accordance with Principle 2 (Haul) and Principle 7 (Asset Valuation and Volatility), use the account balance on the Zakat due date.

12.4 Calculation Methodology

The following steps should be followed to accurately calculate Zakat on HSA accounts:

- **Step 1: Account Valuation**
 - Total Account Balance = Value of all investments in the HSA on the Zakat due date

- **Step 2: Tax Consideration**
 - Unlike traditional retirement accounts, no tax adjustment is needed for qualified medical expenses withdrawals
- **Step 3: Accessibility Consideration (Principle 11)**
 - Fully Accessible Amount = Total Account Balance
 - (As funds can be withdrawn for qualified medical expenses at any time without penalty)
- **Step 4: Non-Medical Use Consideration**
 - Potential Penalty = 20% of Total Account Balance
 - (If funds were to be used for non-medical purposes before age 65)
- **Step 5: Zakatable HSA Assets Calculation**
 - Zakatable HSA Assets = Total Account Balance - (Potential Penalty)
- **Result:** The resulting Zakatable HSA Assets figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix H.

12.5 Special Considerations

Several factors require additional attention when calculating Zakat on HSA accounts:

- **Dual-Purpose Nature:** HSAs serve both as health expense accounts and potential retirement savings, which may affect the intention consideration (Principle 5).
- **Tax Benefits:** Contributions are tax-deductible, growth is tax-free, and withdrawals for qualified medical expenses are tax-free. This affects the true value of the account.
- **Age Considerations:** After age 65, funds can be withdrawn for any purpose without penalty (though non-medical withdrawals are taxed as income), which may influence the Zakatable amount for older account holders.
- **Investment Component:** Many HSAs allow investment of funds above a certain threshold, potentially leading to significant growth over time.
- **Annual Contribution Limits:** Be aware of the annual contribution limits set by the IRS, as this affects the growth potential of the account.
- **Intention of Use:** The primary intention for the HSA (immediate medical expenses vs. long-term savings) may influence the Zakat calculation approach.

12.6 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- Account balances and statements
- Contribution history
- Any withdrawals made from the account and their purposes
- Age of the account holder
- Underlying investment composition, if applicable
- Estimated likelihood of non-medical use before age 65

This framework provides a thorough and principled approach to calculating Zakat on Health Savings Accounts, addressing the unique characteristics of these medical savings vehicles while adhering to Islamic principles. By following this methodology, American Muslims can ensure accurate and compliant Zakat calculations on their HSAs, taking into account both the immediate accessibility for medical needs and the potential for long-term savings.

Chapter 13

Zakat Calculation for Employee Stock Options

13.1 Introduction

Employee Stock Options (ESOs) represent a unique form of compensation that grants employees the right to purchase company stock at a predetermined price. These options present distinct challenges for Zakat calculation due to their conditional nature, vesting schedules, and potential for significant value fluctuations. This chapter provides a comprehensive framework for calculating Zakat on Employee Stock Options, addressing their complexities within the context of Islamic finance principles.

13.2 Scope of Assets

The calculation encompasses:

- Incentive Stock Options (ISOs)
- Non-Qualified Stock Options (NSOs)
- Restricted Stock Units (RSUs)
- Employee Stock Purchase Plans (ESPPs)

13.3 Valuation Date

In accordance with Principle 2 (Haul) and Principle 7 (Asset Valuation and Volatility), use the market value on the Zakat due date.

13.4 Calculation Methodology

The following steps should be followed to accurately calculate Zakat on Employee Stock Options:

- **Step 1: Option Valuation**
 - For each vested option grant:
 - * Intrinsic Value = (Current Stock Price - Strike Price) × Number of Vested Options
 - * If Intrinsic Value < 0, set to 0 (underwater options)
- **Step 2: Vesting Consideration (Principle 10)**
 - Only include vested options in the calculation
 - For partially vested grants, calculate the vested portion separately
- **Step 3: Tax Liability Estimation (Principle 9)**
 - Estimated Tax = Intrinsic Value × Marginal Income Tax Rate
- **Step 4: Accessibility Consideration (Principle 11)**
 - Consider any exercise restrictions or blackout periods
- **Step 5: Zakatable Employee Stock Option Assets Calculation**
 - Zakatable ESO Assets = \sum (Intrinsic Value of Vested Options - Estimated Tax Liability)
- **Result:** The resulting Zakatable ESO Assets figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix I.

13.5 Special Considerations

Several factors require additional attention when calculating Zakat on Employee Stock Options:

- **Vesting Schedules:** Carefully track vesting dates and include only vested options in Zakat calculations.
- **Expiration Dates:** Consider the time value of options, especially for those nearing expiration.
- **Market Volatility:** For companies with highly volatile stock prices, consider using an average stock price over a period (e.g., 30 days) for valuation.

- **Exercise and Sell-to-Cover:** If options are exercised using a sell-to-cover method, consider the net shares received after covering exercise costs and taxes.
- **Lockup Periods:** For newly public companies, consider any lockup periods that may restrict the ability to exercise options or sell shares.
- **Non-Transferability:** Most ESOs cannot be transferred or sold, which may affect their Zakatable status.

13.6 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- All option grants, including grant dates, strike prices, and vesting schedules
- Current vesting status of each grant
- Company stock price history
- Any exercise or sale transactions
- Tax rates used for liability estimation
- Any restrictions on exercise or sale

This framework provides a thorough and principled approach to calculating Zakat on Employee Stock Options, addressing the unique characteristics of these compensation instruments while adhering to Islamic principles. By following this methodology, American Muslims can ensure accurate and compliant Zakat calculations on their stock options, taking into account the conditional nature of these assets and their potential for significant value changes.

Chapter 14

Zakat Calculation for Precious Metals and Jewelry

14.1 Introduction

Precious metals, particularly gold and silver, hold a unique position in Islamic finance and Zakat calculations. This chapter focuses on these metals and jewelry, addressing their traditional significance and the contemporary debates surrounding their Zakatable status.

14.2 Scope of Assets

The calculation encompasses:

- Gold (in various forms: bullion, coins, jewelry)
- Silver (bullion, coins, jewelry)
- Other precious metals used in jewelry (e.g., platinum)

14.3 Valuation Date

In accordance with Principle 2 (Haul) and Principle 7 (Asset Valuation and Volatility), use the market value on the Zakat due date.

14.4 Calculation Methodology

- **Step 1: Asset Valuation**
 - For each precious metal or jewelry item:
 - Current Market Value = Weight × Market Price per unit weight on Zakat due date

- **Step 2: Nisab Consideration**
 - Evaluate gold holdings against the Nisab threshold of 85 grams
 - Evaluate silver holdings against the Nisab threshold of 595 grams
- **Step 3: Intention of Holding (Principle 5)**
 - Determine if jewelry is held for personal use or as an investment
- **Step 4: Zakatable Precious Metals and Jewelry Calculation**
 - Zakatable Value = Current Market Value
- **Result:** The resulting Zakatable Precious Metals and Jewelry figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix J.

14.5 Special Considerations and Scholarly Debate

The Zakatability of jewelry for personal use is a subject of debate among Islamic scholars:

1. **View Exempting Personal Jewelry:** Some scholars, including those from the Maliki and Shafi'i schools, argue that jewelry for personal use is exempt from Zakat [2]. They base this on the understanding that Zakat is due on growing wealth, and personal jewelry is not considered as such.
2. **View Supporting Zakatability of All Jewelry:** Other scholars, including those from the Hanafi school, argue that all gold and silver, including personal jewelry, is subject to Zakat [2]. They support this view with the following Hadith:

Narrated by Abdullah ibn Amr ibn al-'As: "The Prophet (peace be upon him) saw two gold bracelets on a woman's hands and asked, 'Do you pay Zakat on these?' She said, 'No.' He said, 'Would you like Allah to put two bracelets of fire on your hands on the Day of Judgment?' So she took them off and said, 'They are for Allah and His Messenger.'"

(Abu Dawood 3:1558)

3. **Moderate Approach:** Some contemporary scholars propose a middle ground, suggesting that Zakat is due on jewelry that exceeds what is customary for one's peers or social standing [2].

14.6 Practical Application

Given the varying opinions and the strong Hadith evidence, a conservative approach for American Muslims might be:

1. Calculate Zakat on all gold and silver, including personal jewelry.
2. For those following the exemption view, at minimum, pay Zakat on any jewelry that exceeds normal personal use or is clearly held as a store of value.

14.7 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- Inventory of all precious metal holdings and jewelry
- Weight and purity of each item
- Current market values used
- Assessment of jewelry for personal use vs. investment

This framework provides a thorough approach to calculating Zakat on precious metals and jewelry, addressing both the traditional views and contemporary debates. It allows American Muslims to make informed decisions about their Zakat obligations on these assets, with an awareness of the different scholarly opinions and the supporting Hadith evidence.

Chapter 15

Zakat Calculation for Real Estate Investments

15.1 Introduction

Real estate investments represent a significant asset class for many American Muslims. These investments can take various forms and present unique challenges for Zakat calculation due to their illiquid nature, potential for appreciation, and income-generating capabilities. This chapter provides a comprehensive framework for calculating Zakat on real estate investments, addressing the complexities within the context of Islamic finance principles.

15.2 Scope of Assets

The calculation encompasses:

- Rental properties
- Commercial real estate investments
- Real Estate Investment Trusts (REITs)
- Vacant land held for investment
- Property development projects

Note: Primary residences are generally exempt from Zakat and are not included in this calculation.

15.3 Valuation Date

In accordance with Principle 2 (Haul) and Principle 7 (Asset Valuation and Volatility), use the market value on the Zakat due date.

15.4 Calculation Methodology

- **Step 1: Property Valuation**

- For each real estate investment:
- Current Market Value = Estimated fair market value on Zakat due date
- (Consider professional appraisals or reliable real estate market data)

- **Step 2: Outstanding Mortgage Consideration**

- Net Property Value = Current Market Value - Outstanding Mortgage Balance

- **Step 3: Rental Income**

- Annual Net Rental Income = Total Rent Received - Operating Expenses - Property Taxes - Mortgage Interest

- **Step 4: Intention of Holding (Principle 5)**

- Determine if the property is held for rental income, capital appreciation, or both

- **Step 5: Capital Gains Consideration (Principle 8)**

- Unrealized Gain = Current Market Value - Purchase Price - Capital Improvements
- Estimated Tax = Unrealized Gain \times Applicable Capital Gains Tax Rate

- **Step 6: Zakatable Real Estate Investment Calculation**

- For income-generating properties:
- Zakatable Value = Annual Net Rental Income - Estimated Tax on Rental Income
- For properties held primarily for appreciation:
- Zakatable Value = Net Property Value - Estimated Tax

- **Result:** The resulting Zakatable Real Estate Investment figure will be used in the final Zakat calculation after all asset classes have been evaluated.

For detailed worked examples of this calculation, please refer to Appendix K.

15.5 Special Considerations

Several factors require additional attention when calculating Zakat on real estate investments:

- **Depreciation:** While used for tax purposes, depreciation should not be considered in reducing the Zakatable value of the property.

- **Income vs. Asset Value:** For income-generating properties, this approach focuses solely on the rental income rather than the property's value. This aligns with the view that the property itself is a fixed asset, and only its yield is subject to Zakat.
- **Property Under Development:** For ongoing development projects, consider the total invested amount as the Zakatable value.
- **REITs:** Treat these similarly to stocks, focusing on the market value of REIT shares owned.
- **Vacant Land:** If held for speculation, include the full market value. If held for personal use (e.g., future home building), it may be exempt.
- **Fractional Ownership:** Calculate Zakat based on the owned percentage of the property.
- **Leverage Consideration:** The use of mortgages can complicate calculations. Some scholars argue Zakat is due only on the equity portion.
- **Illiquidity Discount:** Some scholars suggest applying a discount to account for the illiquid nature of real estate.

15.6 Scholarly Perspectives

There are varying opinions among Islamic scholars regarding Zakat on real estate investments:

1. **Full Value Approach:** Some scholars argue that Zakat should be paid on the full market value of the property, regardless of outstanding debts [2, 3].
2. **Net Equity Approach:** Others contend that Zakat is due only on the net equity (market value minus outstanding mortgage) [2, 3].
3. **Rental Income Focus:** This approach, which we've adopted for income-generating properties, suggests paying Zakat only on the net rental income, treating the property itself as a fixed asset not subject to Zakat.
4. **Combined Approach:** A moderate view combines elements of the above, calculating Zakat on both the net equity and the rental income.

15.7 Documentation

In line with Principle 18 (Transparency), maintain detailed records of:

- Property details and ownership documents
- Purchase prices and dates

- Current market valuations and their sources
- Mortgage statements showing outstanding balances
- Rental income and expense records
- Tax assessments and payments

This framework provides a comprehensive approach to calculating Zakat on real estate investments, addressing the complexities of this asset class while adhering to Islamic principles. By following this methodology and considering the various scholarly perspectives, American Muslims can make informed decisions about their Zakat obligations on real estate investments, balancing the need for accuracy with the practicalities of modern real estate ownership and investment.

Chapter 16

Conclusion

16.1 Summary of Key Findings

This thesis has made significant contributions to the understanding and application of Zakat in the context of modern financial assets, particularly for American Muslims. The research has demonstrated that traditional Islamic principles can be effectively adapted to contemporary financial instruments, ensuring that Zakat calculations remain both relevant and faithful to the core tenets of Islamic law. By developing a flexible, principle-based framework, this thesis addresses the complexities of modern finance while maintaining the integrity of Islamic jurisprudence.

One of the central findings of this research is the importance of integrating U.S. tax implications into Zakat calculations. This consideration is crucial for accurately assessing zakatable wealth, particularly in tax-deferred retirement accounts and capital gains. The inclusion of tax liabilities ensures that the Zakat obligation reflects the true financial position of the individual, aligning with the principles of fairness and justice in Islamic finance.

Additionally, the thesis provides a comprehensive methodology for asset-specific Zakat calculations, offering practical guidance for American Muslims navigating a diverse array of financial products. This approach not only enhances the accuracy of Zakat calculations but also provides a clear and structured process that can be applied as new financial instruments emerge. The adaptability of the framework ensures that it remains relevant in an evolving financial landscape, thereby reinforcing the enduring significance of Zakat as a tool for social equity and economic justice.

The findings of this research have broader implications, highlighting the potential for Islamic financial principles to be harmonized with modern economic systems. By bridging the gap between classical Islamic jurisprudence and contemporary financial realities, this thesis contributes to the ongoing development of Islamic finance as a dynamic and responsive discipline.

16.2 Recommendations for Implementation

For the effective implementation of this Zakat calculation framework, it is recommended that we build digital tools designed to make the framework accessible and manageable. The

development of user-friendly applications and mobile tools that incorporate the framework's principles can significantly aid in the practical application of the framework. These tools should be designed to guide users through the process, making complex calculations more manageable and ensuring that Zakat is calculated accurately and in compliance with Islamic law.

Moreover, collaboration with Islamic financial institutions and scholars is essential to maintain the framework's relevance and adherence to Islamic principles as financial markets continue to evolve. This ongoing dialogue will help ensure that the framework remains both practical and theologically sound, offering a reliable tool for Zakat calculation across diverse financial scenarios.

Additionally, exploring partnerships with tax preparation services could further enhance the implementation of this framework. By incorporating Zakat calculation as an optional service for Muslim clients, these partnerships could streamline the Zakat calculation process and making it more accessible for individuals who already engage with these services for their tax needs.

By integrating these recommendations, the Zakat calculation framework can be effectively implemented, providing American Muslims with the tools and guidance necessary to fulfill their religious obligations in a manner that aligns with both modern financial practices and Islamic principles.

16.3 Suggestions for Future Research

While this thesis provides a robust foundation for Zakat calculation on modern financial assets, several areas warrant further exploration to enhance the framework's applicability and impact. Expanding the framework to address a broader range of financial contexts and instruments will ensure its continued relevance and utility for Muslims worldwide.

One important area for future research is the extension of this framework to other countries, accounting for differences in tax codes, financial asset landscapes, and economic environments. Each country has unique financial instruments, regulatory structures, and tax implications that can affect Zakat calculation. By adapting the framework to incorporate these factors, researchers can develop a more universally applicable model that serves the needs of Muslims in diverse contexts. This could include an examination of how different tax treatments, such as those found in countries with varying levels of capital gains tax, estate tax, and retirement account rules, impact the calculation and distribution of Zakat.

Additionally, future research should explore the incorporation of financial assets not currently covered by the framework. For example, 529 plans (education savings plans), pension plans, and other emerging investment vehicles should be examined to determine how they should be treated in Zakat calculations. By broadening the scope of the framework to include these assets, the model will better reflect the diverse financial portfolios of contemporary Muslims, ensuring that all relevant wealth is accurately assessed for Zakat purposes.

By addressing these areas in future research, the Zakat calculation framework can be further developed and refined to meet the needs of Muslims across the globe, ensuring that Zakat remains a powerful tool for promoting economic equity and social justice in the modern world.

Appendix A

Worked Examples for Cash and Bank Accounts

To illustrate the application of our Zakat calculation methodology for cash and bank accounts, we present two examples: a comprehensive calculation and a practical estimation.

A.1 Comprehensive Calculation Example

Let's consider a hypothetical individual with the following financial situation:

1. Checking Account: \$5,000
2. Savings Account: \$15,000
3. Money Market Account: \$10,000
4. Certificate of Deposit (CD): \$20,000 (with \$500 accrued interest)
5. Foreign Currency Account: 5,000 EUR (Exchange rate: 1 EUR = 1.2 USD)
6. Cash on Hand: \$1,000
7. Cash Gift Received: \$3,000 (received 6 months ago)

Estimated yearly expenses: \$30,000 Immediate necessary debts: \$5,000

• Step 1: Individual Account Valuation

- Checking Account: \$5,000
- Savings Account: \$15,000
- Money Market Account: \$10,000
- CD: $\$20,000 + \$500 = \$20,500$
- Foreign Currency Account: $5,000 \text{ EUR} \times 1.2 \text{ USD/EUR} = \$6,000$

- Cash on Hand: \$1,000
- Cash Gift: \$3,000

- **Step 2: Total Cash Assets Calculation**

- Total Cash Assets = \$5,000 + \$15,000 + \$10,000 + \$20,500 + \$6,000 + \$1,000 + \$3,000 = \$60,500

- **Step 3: Basic Needs Exclusion**

- Adjusted Cash Assets = \$60,500 - \$30,000 = \$30,500

- **Step 4: Debt Consideration**

- Zakatable Cash Assets = \$30,500 - \$5,000 = \$25,500

- **Result:**

- The Zakatable Cash Assets figure is \$25,500

A.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. Sum up all readily accessible cash and bank account balances.
2. Subtract an estimated amount for basic yearly needs and immediate debts.

Using the same figures as above:

- Total Cash and Bank Balances: \$60,500
- Estimated Yearly Needs and Debts: \$35,000 (\$30,000 + \$5,000)
- Practical Estimation of Zakatable Cash Assets = \$60,500 - \$35,000 = \$25,500

Note: In both cases, the final Zakat amount would be calculated by multiplying the Zakatable Cash Assets by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat on cash and bank accounts.

Appendix B

Worked Examples for Stocks and Exchange-Traded Funds (ETFs)

To illustrate the application of our Zakat calculation methodology for stocks and ETFs, we present two examples: a comprehensive calculation and a practical estimation.

B.1 Comprehensive Calculation Example

Let's consider a hypothetical individual with the following stock and ETF portfolio:

- Company A Stock: 100 shares, current price \$50/share, cost basis \$40/share
- Company B Stock: 200 shares, current price \$30/share, cost basis \$35/share
- ETF X: 150 shares, current price \$75/share, cost basis \$60/share
- Dividend-paying Stock C: 50 shares, current price \$100/share, cost basis \$90/share
- Dividends received: \$200

Estimated Capital Gains Tax Rate: 20%

- **Step 1: Individual Stock/ETF Valuation**

- Company A:

- * Current Market Value = $100 \times \$50 = \$5,000$

- * Cost Basis = $100 \times \$40 = \$4,000$

- * Unrealized Gain = $\$5,000 - \$4,000 = \$1,000$

- Company B:

- * Current Market Value = $200 \times \$30 = \$6,000$

- * Cost Basis = $200 \times \$35 = \$7,000$

- * Unrealized Loss = $\$6,000 - \$7,000 = -\$1,000$

- ETF X:
 - * Current Market Value = $150 \times \$75 = \$11,250$
 - * Cost Basis = $150 \times \$60 = \$9,000$
 - * Unrealized Gain = $\$11,250 - \$9,000 = \$2,250$
- Stock C:
 - * Current Market Value = $50 \times \$100 = \$5,000$
 - * Cost Basis = $50 \times \$90 = \$4,500$
 - * Unrealized Gain = $\$5,000 - \$4,500 = \$500$

- **Step 2: Capital Gains Consideration**

- Estimated Taxes:
 - * Company A: $\$1,000 \times 20\% = \200
 - * ETF X: $\$2,250 \times 20\% = \450
 - * Stock C: $\$500 \times 20\% = \100
- Potential Tax Savings:
 - * Company B: $\$1,000 \times 20\% = \200
- Net Tax Impact = $(\$200 + \$450 + \$100) - \$200 = \$550$
- Total Market Value = $\$5,000 + \$6,000 + \$11,250 + \$5,000 = \$27,250$
- Adjusted Total Market Value = $\$27,250 - \$550 = \$26,700$

- **Step 3: Dividend Income**

- Accumulated Dividends = $\$200$

- **Step 4: Total Stock/ETF Assets Calculation**

- Zakatable Stock/ETF Assets = $\$26,700 + \$200 = \$26,900$

- **Result:** The Zakatable Stock/ETF Assets figure is $\$26,900$.

B.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. Sum up the current market values of all stocks and ETFs.
2. Add any dividends received during the year.
3. Sum up unrealized gains and losses of all stocks and ETFs.
4. Apply estimated capital gains tax rate on the summed up unrealized gains and losses to calculate potential tax liabilities.

5. Calculate the Zakatable Stock/ETF Assets (Total Current Market Value + Dividends Received - Estimated Tax Liability).

Using the same figures as above:

- Total Current Market Value: \$27,250
- Dividends Received: \$200
- Total Unrealized Gains and Losses: \$2,750 (from Company A, Company B, ETF X, and Stock C)
- Estimated Tax Liability: 20% of \$2,750 = \$550
- Practical Estimation of Zakatable Stock/ETF Assets = $\$27,250 + \$200 - \$550 = \$26,900$

In this case, the practical estimation yields the same result as the comprehensive calculation. This method provides a quicker assessment while still accounting for potential tax liabilities in a simplified manner.

Note: In both cases, the final Zakat amount would be calculated by multiplying the Zakatable Stock/ETF Assets by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat on stocks and ETFs.

Appendix C

Worked Examples for Mutual Funds

To illustrate the application of our Zakat calculation methodology for mutual funds, we present two examples: a comprehensive calculation and a practical estimation.

C.1 Comprehensive Calculation Example

Let's consider a hypothetical individual with the following mutual fund portfolio:

- Equity Fund A: 1000 units, NAV \$25/unit, cost basis \$20/unit
- Bond Fund B: 500 units, NAV \$15/unit, cost basis \$16/unit
- Balanced Fund C: 750 units, NAV \$30/unit, cost basis \$28/unit
- Distributions received: \$500

Estimated Capital Gains Tax Rate: 20%

• Step 1: Individual Fund Valuation

– Equity Fund A:

* Current Value = $1000 \times \$25 = \$25,000$

* Cost Basis = $1000 \times \$20 = \$20,000$

* Unrealized Gain = $\$25,000 - \$20,000 = \$5,000$

– Bond Fund B:

* Current Value = $500 \times \$15 = \$7,500$

* Cost Basis = $500 \times \$16 = \$8,000$

* Unrealized Loss = $\$7,500 - \$8,000 = -\$500$

– Balanced Fund C:

* Current Value = $750 \times \$30 = \$22,500$

* Cost Basis = $750 \times \$28 = \$21,000$

$$* \text{ Unrealized Gain} = \$22,500 - \$21,000 = \$1,500$$

- **Step 2: Capital Gains Consideration**

- Estimated Taxes:

- * Equity Fund A: $\$5,000 \times 20\% = \$1,000$

- * Bond Fund B: $-\$500 \times 20\% = -\100

- * Bonded Fund C: $\$1,500 \times 20\% = \300

- Total Estimated Tax = \$1,300

- Adjusted Current Values:

- * Equity Fund A: $\$25,000 - \$1,000 = \$24,000$

- * Bond Fund B: $\$7,500 - (-\$100) = \$7,600$

- * Bonded Fund C: $\$22,500 - \$300 = \$22,200$

- **Step 3: Dividend and Distribution Income**

- Accumulated Distributions = \$500

- **Step 4: Total Mutual Fund Assets Calculation**

- Zakatable Mutual Fund Assets = $\$24,000 + \$7,600 + \$22,200 + \$500 = \$54,300$

- **Result:** The Zakatable Mutual Fund Assets figure is \$54,300.

C.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. Sum up the current values of all mutual funds based on their NAVs.
2. Add any distributions received during the year.
3. Estimate the overall unrealized gains and apply the capital gains tax rate.

Using the same figures as above:

- Total Current Value: $\$25,000 + \$7,500 + \$22,500 = \$55,000$

- Distributions Received: \$500

- Total Cost Basis: $\$20,000 + \$8,000 + \$21,000 = \$49,000$

- Estimated Overall Unrealized Gain: $\$55,000 - \$49,000 = \$6,000$

- Estimated Tax Liability: $20\% \text{ of } \$6,000 = \$1,200$

- Practical Estimation of Zakatable Mutual Fund Assets = $\$55,000 + \$500 - \$1,200 = \$54,300$

In this case, the practical estimation yields the same result as the comprehensive calculation. This method provides a quicker assessment while still accounting for potential tax liabilities using the same capital gains tax rate as in the comprehensive calculation.

Note: As before, the final Zakat amount would be calculated by multiplying the Zakatable Mutual Fund Assets by 2.5%, but this step is typically done after considering all asset classes.

Appendix D

Worked Examples for Bonds

To illustrate the application of our Zakat calculation methodology for bonds, we present two examples: a comprehensive calculation and a practical estimation.

D.1 Comprehensive Calculation Example

Let's consider a hypothetical individual with the following bond portfolio:

- U.S. Treasury Bond: Face value \$10,000, current market price 102%, 3% coupon, 5 years to maturity
- Corporate Bond: Face value \$20,000, current market price 98%, 4% coupon, 7 years to maturity
- Zero-coupon Bond: Face value \$5,000, current market price 85%, 10 years to maturity

Estimated Capital Gains Tax Rate: 20% Current Market Interest Rate (for simplicity, assume it's the same for all bonds): 3.5%

- **Step 1: Individual Bond Valuation**

- U.S. Treasury Bond:

- * Current Market Value = $\$10,000 \times 102\% = \$10,200$

- * Accrued Interest (assuming 6 months since last coupon) = $\$10,000 \times 3\% \times 0.5 = \150

- Corporate Bond:

- * Current Market Value = $\$20,000 \times 98\% = \$19,600$

- * Accrued Interest (assuming 3 months since last coupon) = $\$20,000 \times 4\% \times 0.25 = \200

- Zero-coupon Bond:

- * Current Market Value = $\$5,000 \times 85\% = \$4,250$

- **Step 2: Bond Pricing Calculation (for verification)**

- We'll use the bond pricing formula for the U.S. Treasury Bond as an example:
- Bond Price = $\Sigma (300/(1.035)^t) + 10,000/(1.035)^5 = \$10,201.57$
- This confirms our market value is accurate (slight difference due to rounding).

- **Step 3: Capital Gains Consideration**

- U.S. Treasury Bond:
 - * Assuming purchase price was par (\$10,000)
 - * Unrealized Gain = $\$10,200 - \$10,000 = \$200$
 - * Estimated Tax = $\$200 \times 20\% = \40
- Corporate Bond:
 - * Assuming purchase price was par (\$20,000)
 - * Unrealized Loss = $\$19,600 - \$20,000 = -\$400$
- Zero-coupon Bond:
 - * Assuming purchase price was 80% of face value (\$4,000)
 - * Unrealized Gain = $\$4,250 - \$4,000 = \$250$
 - * Estimated Tax = $\$250 \times 20\% = \50

- **Step 4: Total Bond Assets Calculation**

- Zakatable Bond Assets = $(\$10,200 - \$40) + (\$19,600 - (-\$400)) + (\$4,250 - \$50) + \$150 + \$200 = \$34,710$

- **Result:** The Zakatable Bond Assets figure is \$34,710.

D.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. Sum up the current market values of all bonds.
2. Add any accrued interest.
3. Estimate overall capital gains and apply the capital gains tax rate.

Using the same figures as above:

- Total Current Market Value: $\$10,200 + \$19,600 + \$4,250 = \$34,050$
- Total Accrued Interest: $\$150 + \$200 = \$350$
- Estimated Overall Capital Gain:

- (Assuming original purchase prices were \$10,000, \$20,000, and \$4,000 respectively)
- $(\$10,200 - \$10,000) + (\$19,600 - \$20,000) + (\$4,250 - \$4,000) = \$200 - \$400 + \$250 = \50

- Estimated Tax Liability: 20% of \$50 = \$10
- Practical Estimation of Zakatable Bond Assets = $\$34,050 + \$350 - \$10 = \$34,390$

In this case, the practical estimation yields a result very close to the comprehensive calculation (\$34,390 vs. \$34,710). This method provides a quicker assessment while still accounting for potential tax liabilities using the same capital gains tax rate as in the comprehensive calculation.

The slight difference between the two methods is due to the simplified approach of calculating the overall capital gain, rather than considering each bond individually. This practical method doesn't account for the nuances of tax treatment for different types of bonds but provides a reasonably accurate estimate for Zakat purposes.

Note: As before, the final Zakat amount would be calculated by multiplying the Zakatable Bond Assets by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat on bonds. The comprehensive calculation offers a more precise approach, while the practical estimation provides a quicker method that still considers the main factors affecting Zakat calculation for bonds.

Appendix E

Worked Examples for Cryptocurrencies

To illustrate the application of our Zakat calculation methodology for cryptocurrencies, we present two examples: a comprehensive calculation and a practical estimation.

E.1 Comprehensive Calculation Example

Let's consider a hypothetical individual with the following cryptocurrency portfolio:

- Bitcoin: 0.5 BTC, average 30-day price \$40,000, cost basis \$30,000 per BTC
- Ethereum: 5 ETH, average 30-day price \$2,500, cost basis \$2,000 per ETH
- Altcoin X: 1000 units, average 30-day price \$1, cost basis \$0.80 per unit
- Staking Rewards: 0.1 ETH received during the year
- Mining Income: 0.05 BTC mined during the year

Estimated Capital Gains Tax Rate: 20%

• Step 1: Individual Cryptocurrency Valuation

– Bitcoin:

- * Current Value = $0.5 \times \$40,000 = \$20,000$
- * Cost Basis = $0.5 \times \$30,000 = \$15,000$
- * Unrealized Gain = $\$20,000 - \$15,000 = \$5,000$

– Ethereum:

- * Current Value = $5 \times \$2,500 = \$12,500$
- * Cost Basis = $5 \times \$2,000 = \$10,000$
- * Unrealized Gain = $\$12,500 - \$10,000 = \$2,500$

– Altcoin X:

- * Current Value = $1000 \times \$1 = \$1,000$

- * Cost Basis = $1000 \times \$0.80 = \800
- * Unrealized Gain = $\$1,000 - \$800 = \$200$

- **Step 2: Capital Gains Consideration**

- Estimated Taxes:
 - * Bitcoin: $\$5,000 \times 20\% = \$1,000$
 - * Ethereum: $\$2,500 \times 20\% = \500
 - * Altcoin X: $\$200 \times 20\% = \40
- Total Estimated Tax = $\$1,540$
- Adjusted Current Values:
 - * Bitcoin: $\$20,000 - \$1,000 = \$19,000$
 - * Ethereum: $\$12,500 - \$500 = \$12,000$
 - * Altcoin X: $\$1,000 - \$40 = \$960$

- **Step 3: Staking Rewards and Mining Income**

- Staking Rewards Value = $0.1 \text{ ETH} \times \$2,500 = \250
- Mining Income Value = $0.05 \text{ BTC} \times \$40,000 = \$2,000$

- **Step 4: Total Cryptocurrency Assets Calculation**

- Zakatable Cryptocurrency Assets = $\$19,000 + \$12,000 + \$960 + \$250 + \$2,000 = \$34,210$

- **Result:** The Zakatable Cryptocurrency Assets figure is $\$34,210$.

E.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. Sum up the current values of all cryptocurrencies based on their 30-day average prices.
2. Add the value of staking rewards and mining income.
3. Apply a flat reduction for potential tax liabilities (using the 20% capital gains tax rate on estimated overall gains).

Using the same figures as above:

- Total Current Value: $\$20,000 + \$12,500 + \$1,000 = \$33,500$
- Staking Rewards and Mining Income: $\$250 + \$2,000 = \$2,250$
- Total Cost Basis: $\$15,000 + \$10,000 + \$800 = \$25,800$

- Estimated Overall Gain: $\$33,500 - \$25,800 = \$7,700$
- Estimated Tax Liability: 20% of $\$7,700 = \$1,540$
- Practical Estimation of Zakatable Cryptocurrency Assets = $\$33,500 + \$2,250 - \$1,540 = \$34,210$

In this case, the practical estimation yields the same result as the comprehensive calculation (\$34,210). This method provides a quicker assessment while still accounting for potential tax liabilities using the same capital gains tax rate as in the comprehensive calculation.

Note: As before, the final Zakat amount would be calculated by multiplying the Zakatable Cryptocurrency Assets by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat on cryptocurrencies. The comprehensive calculation offers a more precise approach, while the practical estimation provides a quicker method that still considers the main factors affecting Zakat calculation for cryptocurrencies.

Appendix F

Worked Examples for 401(k) and Traditional IRA

To illustrate the application of our Zakat calculation methodology for 401(k) and Traditional IRA accounts, we present two examples: a comprehensive calculation and a practical estimation.

F.1 Comprehensive Calculation Example

Let's consider a hypothetical individual with the following retirement accounts:

- 401(k): Total balance \$200,000 (80% vested)
- Traditional IRA: Total balance \$100,000 (100% vested)

Estimated Tax Rate at Retirement: 25% (combined federal and state) Early Withdrawal Penalty: 10% (for withdrawals before age $59\frac{1}{2}$) Current Age: 45 years old

- **Step 1: Account Valuation**

- Total Account Balance = $\$200,000 + \$100,000 = \$300,000$

- **Step 2: Tax Liability Adjustment**

- Estimated Tax Liability = $\$300,000 \times 25\% = \$75,000$

- **Step 3: Vesting Consideration**

- 401(k) Vested Amount = $\$200,000 \times 80\% = \$160,000$

- IRA Vested Amount = $\$100,000 \times 100\% = \$100,000$

- Total Vested Amount = $\$160,000 + \$100,000 = \$260,000$

- Vesting Ratio = $\$260,000 / \$300,000 = 0.8667$

- **Step 4: Accessibility Adjustment**

- Since the individual is under 59½, we'll apply an accessibility factor to account for the early withdrawal penalty.
- Accessibility Factor = $1 - 0.10 = 0.90$

- **Step 5: Zakatable Retirement Account Assets Calculation**

- Zakatable Retirement Assets = $(\$300,000 - \$75,000) \times 0.8667 \times 0.90 = \$175,506.75$

- **Result:** The Zakatable Retirement Assets figure is \$175,506.75.

F.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. Sum up the total balances of all retirement accounts.
2. Apply a flat reduction for estimated taxes and early withdrawal penalties.
3. Adjust for overall vesting if applicable.

Using the same figures as above:

- Total Account Balances: $\$200,000 + \$100,000 = \$300,000$
- Estimated Tax and Penalty Reduction:
 - $(25\% \text{ for taxes} + 10\% \text{ for early withdrawal}) = 35\% \text{ of } \$300,000 = \$105,000$
- Simplified Vesting Adjustment:
 - $(\$200,000 \times 80\% + \$100,000 \times 100\%) / \$300,000 = 0.8667$
- Practical Estimation of Zakatable Retirement Assets = $(\$300,000 - \$105,000) \times 0.8667 = \$169,006.50$

In this case, the practical estimation yields a result close to the comprehensive calculation (\$169,006.50 vs. \$175,506.75). This method provides a quicker assessment while still accounting for taxes, penalties, and vesting in a simplified manner.

Note: As before, the final Zakat amount would be calculated by multiplying the Zakatable Retirement Assets by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat on 401(k) and Traditional IRA accounts. The comprehensive calculation offers a more precise approach, while the practical estimation provides a quicker method that still considers the main factors affecting Zakat calculation for these retirement accounts.

Appendix G

Worked Examples for Roth IRAs

To illustrate the application of our Zakat calculation methodology for Roth IRAs, we present two examples: a comprehensive calculation and a practical estimation.

G.1 Comprehensive Calculation Example

Let's consider two hypothetical individuals with Roth IRA accounts:

- Individual A:
 - Age: 45 years old
 - Roth IRA Balance: \$50,000
 - Total Contributions: \$30,000
 - Account opened 8 years ago
- Individual B:
 - Age: 62 years old
 - Roth IRA Balance: \$100,000
 - Total Contributions: \$60,000
 - Account opened 15 years ago
- **Step 1: Account Valuation**
 - Individual A: Total Account Balance = \$50,000
 - Individual B: Total Account Balance = \$100,000
- **Step 2: Contribution Basis Identification**
 - Individual A:
 - * Contribution Basis = \$30,000
 - * Growth = \$50,000 - \$30,000 = \$20,000

- Individual B:
 - * Contribution Basis = \$60,000
 - * Growth = \$100,000 - \$60,000 = \$40,000

- **Step 3: Accessibility Consideration**

- Individual A (under 59½):
 - * Accessible Balance = Contribution Basis = \$30,000
- Individual B (over 59½ and account open for at least 5 years):
 - * Accessible Balance = Total Account Balance = \$100,000

- **Step 4: Zakatable Roth IRA Assets Calculation**

- Individual A: Zakatable Roth IRA Assets = \$30,000
- Individual B: Zakatable Roth IRA Assets = \$100,000

- **Result:**

- Individual A's Zakatable Roth IRA Assets figure is \$30,000.
- Individual B's Zakatable Roth IRA Assets figure is \$100,000.

G.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. For account holders under 59½, use total contributions as the Zakatable amount.
2. For account holders 59½ or older with accounts open for at least 5 years, use the full account balance.

Using the same figures as above:

- Individual A (45 years old):

- Practical Estimation of Zakatable Roth IRA Assets = Total Contributions = \$30,000

- Individual B (62 years old):

- Practical Estimation of Zakatable Roth IRA Assets = Total Account Balance = \$100,000

In this case, the practical estimation yields the same results as the comprehensive calculation. This method provides a quick and accurate assessment for Roth IRAs, as the calculation is relatively straightforward compared to other retirement accounts.

Note: As before, the final Zakat amount would be calculated by multiplying the Zakatable Roth IRA Assets by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat on Roth IRA accounts. The comprehensive calculation and practical estimation yield the same results due to the simpler nature of Zakat calculation for Roth IRAs, taking into account the full ownership of these funds and their tax-free growth nature.

Appendix H

Worked Examples for Health Savings Accounts (HSAs)

To illustrate the application of our Zakat calculation methodology for Health Savings Accounts (HSAs), we present two examples: a comprehensive calculation and a practical estimation.

H.1 Comprehensive Calculation Example

Let's consider two hypothetical individuals with HSA accounts:

- Individual A:
 - Age: 40 years old
 - HSA Balance: \$10,000
 - Primary intention: Long-term savings
- Individual B:
 - Age: 67 years old
 - HSA Balance: \$20,000
 - Primary intention: Mixed use (medical expenses and retirement savings)
- **Step 1: Account Valuation**
 - Individual A: Total Account Balance = \$10,000
 - Individual B: Total Account Balance = \$20,000
- **Step 2: Tax Consideration**
 - No tax adjustment needed for either individual as withdrawals for qualified medical expenses are tax-free.

- **Step 3: Accessibility Consideration**

- Both individuals have full access to their HSA funds for qualified medical expenses.

- **Step 4: Non-Medical Use Consideration**

- Individual A (under 65):

- * Potential Penalty = 20% of \$10,000 = \$2,000

- Individual B (over 65):

- * No penalty for non-medical use after age 65, so potential penalty = \$0

- **Step 5: Zakatable HSA Assets Calculation**

- Individual A: Zakatable HSA Assets = \$10,000 - \$2,000 = \$8,000

- Individual B: Zakatable HSA Assets = \$20,000 - \$0 = \$20,000

- **Result:**

- Individual A's Zakatable HSA Assets figure is \$8,000.

- Individual B's Zakatable HSA Assets figure is \$20,000.

H.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. For account holders under 65, use 80% of the total HSA balance as the Zakatable amount (assuming a 20% potential penalty for non-medical use).
2. For account holders 65 or older, use the full HSA balance as the Zakatable amount.

Using the same figures as above:

- Individual A (40 years old):

- Practical Estimation of Zakatable HSA Assets = \$10,000 × 80% = \$8,000

- Individual B (67 years old):

- Practical Estimation of Zakatable HSA Assets = \$20,000 × 100% = \$20,000

In this case, the practical estimation yields the same results as the comprehensive calculation. This method provides a quick and accurate assessment for HSAs, taking into account the age-based considerations for potential penalties.

Note: As before, the final Zakat amount would be calculated by multiplying the Zakatable HSA Assets by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat

on Health Savings Accounts. The comprehensive calculation and practical estimation yield the same results due to the relatively straightforward nature of HSA Zakat calculation, while still considering the unique characteristics of these accounts, such as the potential for non-medical use penalties before age 65.

Appendix I

Worked Examples for Employee Stock Options

To illustrate the application of our Zakat calculation methodology for Employee Stock Options, we present two examples: a comprehensive calculation and a practical estimation.

I.1 Comprehensive Calculation Example

Let's consider a hypothetical employee with the following stock option grants:

- Incentive Stock Options (ISOs):
 - 1,000 options, strike price \$50, fully vested
 - Current stock price: \$75
- Non-Qualified Stock Options (NSOs):
 - 2,000 options, strike price \$40, 75% vested
 - Current stock price: \$60
- Restricted Stock Units (RSUs):
 - 500 units, 50% vested
 - Current stock price: \$75

Marginal Income Tax Rate: 35%

• Step 1: Option Valuation

- ISOs:
 - * Intrinsic Value = $(75 - 50) \times 1,000 = \$25,000$
- NSOs:
 - * Intrinsic Value = $(60 - 40) \times (2,000 \times 75\%) = \$30,000$

– RSUs:

$$* \text{ Intrinsic Value} = 75 \times (500 \times 50\%) = \$18,750$$

• **Step 2: Vesting Consideration**

– All calculations above already consider vesting.

• **Step 3: Tax Liability Estimation**

– ISOs: No immediate tax liability (but consider potential AMT implications)

– NSOs: Estimated Tax = $\$30,000 \times 35\% = \$10,500$

– RSUs: Estimated Tax = $\$18,750 \times 35\% = \$6,562.50$

• **Step 4: Accessibility Consideration**

– Assume no current restrictions on exercise or sale.

• **Step 5: Zakatable Employee Stock Option Assets Calculation**

$$\text{– Zakatable ESO Assets} = (\$25,000 + \$30,000 + \$18,750) - (\$0 + \$10,500 + \$6,562.50) = \$56,687.50$$

• **Result:** The Zakatable Employee Stock Option Assets figure is \$56,687.50.

I.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. Calculate the total intrinsic value of all vested options and RSUs.
2. Apply a flat reduction for estimated tax liability (e.g., 30% to account for various tax implications).

Using the same figures as above:

• **Total Intrinsic Value:**

– ISOs: \$25,000

– NSOs: \$30,000

– RSUs: \$18,750

– Total: \$73,750

• **Estimated Tax Liability:** 30% of \$73,750 = \$22,125

• **Practical Estimation of Zakatable ESO Assets** = $\$73,750 - \$22,125 = \$51,625$

In this case, the practical estimation yields a result close to the comprehensive calculation (\$51,625 vs. \$56,687.50). This method provides a quicker assessment while still accounting for potential tax liabilities in a simplified manner.

Note: As before, the final Zakat amount would be calculated by multiplying the Zakatable ESO Assets by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat on Employee Stock Options. The comprehensive calculation offers a more precise approach, considering the specific tax implications of different types of stock options, while the practical estimation provides a quicker method that still accounts for the main factors affecting Zakat calculation for these complex compensation instruments.

Appendix J

Worked Examples for Precious Metals and Jewelry

To illustrate the application of our Zakat calculation methodology for Precious Metals and Jewelry, we present two examples: a comprehensive calculation and a practical estimation.

J.1 Comprehensive Calculation Example

Let's consider a hypothetical individual with the following precious metal and jewelry holdings:

- Gold bullion: 100 grams
- Gold jewelry (for personal use): 50 grams
- Silver coins: 700 grams
- Platinum ring (for investment): 10 grams

Market prices on Zakat due date:

- Gold: \$60 per gram
- Silver: \$1 per gram
- Platinum: \$30 per gram
- **Step 1: Asset Valuation**
 - Gold bullion: 100 grams \times \$60 = \$6,000
 - Gold jewelry: 50 grams \times \$60 = \$3,000
 - Silver coins: 700 grams \times \$1 = \$700
 - Platinum ring: 10 grams \times \$30 = \$300

- **Step 2: Nisab Consideration**

- Gold Nisab (85 grams): $85 \times \$60 = \$5,100$
- Silver Nisab (595 grams): $595 \times \$1 = \595
- Both gold and silver holdings exceed their respective Nisab thresholds.

- **Step 3: Intention of Holding**

- Gold jewelry is for personal use, but we'll include it in the calculation as per the conservative approach.

- **Step 4: Zakatable Precious Metals and Jewelry Calculation**

- Zakatable Value = $\$6,000 + \$3,000 + \$700 + \$300 = \$10,000$

- **Result:** The Zakatable Precious Metals and Jewelry figure is \$10,000.

J.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. Sum up the total value of all precious metals and jewelry.
2. Compare the total to the gold Nisab threshold.
3. If above the threshold, consider the entire amount as Zakatable.

Using the same figures as above:

- Total Value of Precious Metals and Jewelry: \$10,000
- Gold Nisab: \$5,100

Since the total value (\$10,000) exceeds the gold Nisab (\$5,100):

Practical Estimation of Zakatable Precious Metals and Jewelry = \$10,000

In this case, the practical estimation yields the same result as the comprehensive calculation. This method provides a quick and conservative assessment, ensuring that all potentially Zakatable items are included.

Note: As before, the final Zakat amount would be calculated by multiplying the Zakatable Precious Metals and Jewelry value by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat on Precious Metals and Jewelry. Both methods yield the same result in this case, reflecting a conservative approach that includes all items, even those for personal use. This approach aligns with the more stringent scholarly opinions and ensures compliance with Zakat obligations.

It's important to note that individuals may choose to follow different scholarly opinions regarding personal jewelry. Those who adhere to the view exempting personal jewelry might exclude the \$3,000 value of the gold jewelry from their calculation, resulting in a Zakatable value of \$7,000 instead.

Appendix K

Worked Examples for Real Estate Investments

To illustrate the application of our Zakat calculation methodology for Real Estate Investments, we present two examples: a comprehensive calculation and a practical estimation.

K.1 Comprehensive Calculation Example

Let's consider a hypothetical individual with the following real estate investments:

- Rental Property:
 - Current Market Value: \$300,000
 - Outstanding Mortgage: \$200,000
 - Annual Rental Income: \$24,000
 - Annual Operating Expenses: \$5,000
 - Annual Property Taxes: \$3,000
 - Annual Mortgage Interest: \$8,000
 - Original Purchase Price: \$250,000
 - Capital Improvements: \$20,000
- Vacant Land (held for investment):
 - Current Market Value: \$100,000
 - Original Purchase Price: \$80,000

Applicable Capital Gains Tax Rate: 20% Income Tax Rate: 25%

• Step 1: Property Valuation

- Rental Property: \$300,000

- Vacant Land: \$100,000
- **Step 2: Outstanding Mortgage Consideration**
 - Rental Property Net Value = \$300,000 - \$200,000 = \$100,000
- **Step 3: Rental Income**
 - Annual Net Rental Income = \$24,000 - \$5,000 - \$3,000 - \$8,000 = \$8,000
- **Step 4: Intention of Holding**
 - Rental Property: Held for income generation
 - Vacant Land: Held for appreciation
- **Step 5: Capital Gains Consideration**
 - Rental Property:
 - * Unrealized Gain = \$300,000 - \$250,000 - \$20,000 = \$30,000
 - * Estimated Tax = \$30,000 × 20% = \$6,000
 - Vacant Land:
 - * Unrealized Gain = \$100,000 - \$80,000 = \$20,000
 - * Estimated Tax = \$20,000 × 20% = \$4,000
- **Step 6: Zakatable Real Estate Investment Calculation**
 - Rental Property (income-generating):
 - * Estimated Tax on Rental Income = \$8,000 × 25% = \$2,000
 - * Zakatable Value = \$8,000 - \$2,000 = \$6,000
 - Vacant Land (held for appreciation):
 - * Zakatable Value = \$100,000 - \$4,000 = \$96,000
 - Total Zakatable Real Estate Investment = \$6,000 + \$96,000 = \$102,000
- **Result:** The Zakatable Real Estate Investment figure is \$102,000.

K.2 Practical Estimation Example

For a quicker estimation, one might use the following simplified approach:

1. For rental properties, remove estimated tax liability from the annual net rental income.
2. For properties held for appreciation, remove estimated tax liability on unrealized capital gains from the net property value.

Using the same figures as above:

- Rental Property:
 - Annual Net Rental Income: \$8,000
 - Practical Estimation = $\$8,000 \times (100 - 25)\% = \$6,000$
- Vacant Land:
 - Net Property Value: \$100,000
 - Estimated Tax Value: \$4,000
 - Practical Estimation = $\$100,000 - \$4,000 = \$96,000$
- Total Practical Estimation of Zakatable Real Estate Investment = $\$6,000 + \$96,000 = \$102,000$

In this case, the practical estimation yields the same result as the comprehensive calculation. This method provides a quicker assessment while still accounting for potential tax liabilities and the different nature of income-generating and appreciation-focused properties.

Note: As before, the final Zakat amount would be calculated by multiplying the Zakatable Real Estate Investment value by 2.5%, but this step is typically done after considering all asset classes.

These examples demonstrate how to apply the principles and methodology outlined in the previous sections, providing both a detailed and a practical guide for calculating Zakat on Real Estate Investments. The comprehensive calculation offers a more precise approach, considering specific tax implications and property details, while the practical estimation provides a quicker method that still accounts for the main factors affecting Zakat calculation for real estate investments.

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