

Superannuation Funds & Life Assurance

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Superannuation Funds

Zakat is only payable on voluntary contributions to superannuation funds.

Dr. Muzammil H. Siddiqi, President of the Fiqh Council of North America states: "The basic rule of Zakah is that it is due on the wealth that one owns and has the freedom to use. A committee of scholars under the leadership of Maulana Mujahidul-Islam Qasmi discussed this issue (of superannuation funds) in great detail. In the light of the discussion of the scholars the following points can be presented:

"The employee's contribution to this fund is Zakatable if it is done by his/her own choice. There is no Zakah due on these funds if the employers due to the company or government's policies collect them by force. Zakah will be due on these funds when they can be withdrawn.

"If these funds are withdrawn and they reach the value of *nisab* (3 ounces of gold or its cash value) and a year passes on them, then the Zakah (at the ration of 2.5 per cent) will be due.

"The Zakah must be paid for the money that one receives and then voluntarily contributes to a retirement fund, if it reaches the *nisab* and after a period of one year."

Mufti Ebrahim Desai¹: "Zakat is applicable on all voluntary contributions you have made towards the pension scheme. However, since the money is not in your possession, Zakat will not be levied at this moment but only once you get physical possession of it. Once you get possession, Zakat will have to be paid for all the previous years as well. For purposes of easier calculation, it is better to pay the Zakat annually on the complete sum of your pension contributions. Zakat is not levied on compulsory deductions nor on the amount contributed by your employer. Zakat on these will only come into effect when you get access to these funds."

In Australia, as an employee, your employers are required to pay 9% of your salary to superannuation funds for your benefit. Should you voluntarily increase this percentage as a deduction from your salary – then you need to

include these voluntary contributions in your zakat calculation. Any voluntary contributions you make as a business owner, need to be included in your zakat calculation.

Zakat is payable when you receive a pension or if you commute.

You need to include any monies received from the superannuation fund in your zakat calculation, to the extent that you did not include any contributions in earlier years. You only include it in your zakat calculation when you actually receive a pension or you commute part of your pension. In response to a question, Dr. `Abdul-Azeez Al-Qassar, professor of Comparative Jurisprudence, Faculty of Shari`ah, Kuwait University, says: "It is not obligatory to pay Zakah on what is known as retirement money (i.e. the pension paid to the employee upon his retirement) unless the money is really possessed. Muslim Jurists state that the person who is going to pay Zakah should possess the money he is going to pay."

Life Assurance Premiums

There are differing views with regards to the permissibility of life assurance – regardless, if you have made contributions to a growing asset base (for example an endowment policy) then you need to pay zakat on the surrender value of your policy.

Bibliography

The following books were referred to:

- The Holy Quran
- The following books containing hadith: Bukhari, Muslim, Abu Dawud, Muwatta
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- Nawawi: *Al-Maqasid*, Sunna Books.
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- Khaf: *The Calculation of Zakah*.

ⁱ Abaligh – Mufti Desai – 17 April 2004