

References

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The methodology for *zakah* calculation discussed herein has been reviewed and approved by the Fiqh Council of North America.

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Calculating Zakah On Your Equity Investments

Saturna Capital Corporation, investment adviser and administrator for Amana Mutual Funds, hopes to see all members of the Islamic community prosper.

To help, we can calculate *zakah* donations on behalf of investors in affiliated accounts.



“From their wealth, take alms so that you might purify and sanctify them.”

(Qur’an 9:103)



This verse means: ‘Take,’ O Messenger, a stipulated amount of alms ‘of those seeking to repent,’ such as the obligatory *Zakah*, or ‘take’ a voluntary unstipulated amount.

To ‘purify’ is to purify these people from the faults of stinginess, greed and meanness, and lack of remorse towards the needy, and other similar depravities.

To ‘sanctify’ these people is to develop and uplift them through righteous deeds and blessings until they are worthy of happiness on earth and in the Hereafter.

The Messenger of Allah (*Salla Allahu Alayhi wa Sallam*) said: “He who discharges *Zakah* of his property, his sins shall leave him.” The Prophet Muhammad (*Salla Allahu Alayhi wa Sallam*) gave to the needy all the money and gifts that exceeded his needs on a daily basis. He placed his faith in God to provide for his future needs.

Zakah, The Third Pillar of Islam

Zakah is the third pillar of Islam and the cornerstone of its economic system. It represents “the first and foremost mechanism to implement economic justice,” according to economist Dr. Monzer Kahf. As a religious duty and an obligation on all Muslims, it offers the donor the inner satisfaction of a duty accomplished. It induces a feeling of pleasure in giving up wealth by teaching that only those funds on which the due *zakah* has been paid are *halal* (legitimate) for appropriation or consumption. A well-known *hadith* states, “There [are] no people, who do not pay *zakah*, left without being made to suffer by God through disasters, or famine or drought.” *Zakah* is the right of the poor to the wealth of the rich, a right bestowed by the true Owner and Giver of wealth – Allah (*Subhanahu wa ta’ala*).

Nisab and Zakah

In order to distinguish the needy from the well off, a limit known as *nisab* was established by the Prophet (*Salla Allahu Alayhi wa Sallam*). According to Mahmoud Abu-Saud, the basic definition of *nisab* is the “amount which is sufficient to sustain the minimum average family for one year,” an amount which is roughly equal to the definition of the “poverty line” in the United States. Essential needs are defined as things which one could not live without: food, clothing, shelter, transportation, health care, education, and the tools of one’s profession. If your net worth surpasses the level of *nisab*, the excess is subject to *zakah*.

Who Receives Zakah?

Zakah funds should be distributed according to the categories of need outlined in the Qur'an (*at-Tawba 9:60*). These include:

- those who are poor
- those who are needy or destitute
- those employed to administer *zakah*
- those whose hearts are being reconciled
- those held captive
- those in debt
- those who are stranded
- in the cause of God (*fi sabilillah*)

The last category, *fi sabilillah*, is broad enough to allow *zakah* funds to be used for the general welfare of the community. Under this category, considering the fact that our mosques and community centers promote Islam and in many ways act as *dawah* centers, a portion of one's *zakah* may be paid to these centers. *Zakah* funds may also be used for education of the people and for promotion of Islam and the *ummah*.

When is Zakah to Be Paid?

Zakah is incumbent upon all Muslims and is paid according to the lunar calendar. No *zakah* is due on wealth before one year from the date of acquisition, the most well known *hadith* being: "No *zakah* is due on wealth till one (full) year passes." *Zakah* can be paid any time of the year. Many prefer to pay during the holy months of *Ramadan* or *Rajab* while others prefer *Muharram*, the first month of the *Hijri* year. Assuming *nisab* has been met, and the investment is held for a full lunar year, most jurists agree that *zakah* can be paid in advance, during the month of *Ramadan*, or when there is a special need because of a calamity, sickness, or *fi sabilillah*.

An estimated monthly payment of *zakah* is encouraged. This not only helps to mitigate the obligation by spreading out the payments, but it also fulfills the purpose of *zakah* sooner rather than later. The final calculation and reconciliation of payments, however, can be done at the end of each lunar year.

The legal provision that a complete lunar year should elapse starting from when *nisab* was exceeded means that a *zakah* year may run at different times for different investors. If an investor chooses the end of the fiscal or calendar year (to coincide with payment of other obligations like federal and state income taxes), one must keep in mind that the difference between the Gregorian and the lunar year is 11 days, the lunar year being shorter. *Zakah* is calculated on the basis of the lunar year not the Gregorian.

Investing and Zakah

There are different rates of *zakah* that apply to different types of assets. According to Imam Malik, *zakah* is due on three types of assets only: “the produce of plowed land, gold and silver, and livestock.” Contemporary Islamic jurists have extrapolated *zakah* rates for nearly all types of assets.

Zakah on Stock Investments

According to Sheikh Yusuf Qaradawi, stocks and investments are most appropriately categorized as “the produce of plowed land,” as both are “productive capital” assets which yield gains. Qaradawi notes that *zakah* is due on the gains of such “productive capital,” not the “productive capital” itself. As for the rate of *zakah* applicable to stock investments, the following hadith offers guidance: The Prophet (Salla Allahu Alayhi wa Sallam) said: “On a land irrigated by rain water or by natural water channels or if the land is wet due to a nearby water channel, *ushr* (i.e. one-tenth, 10%) is compulsory (as *zakah*); and on the land irrigated by the well, half of *ushr* (i.e. one twentieth, 5%) is compulsory (as *zakah* on the yield of the land).”

The *hadith* makes reference to a *zakah* rate of half of *ushr* (5%). However, according to Qaradawi, this rate is not appropriate for investments like stocks as it is possible to clearly calculate net gains. Thus, the full (10%) rate is appropriate.

Zakah on Long-term Investments

Muslims are encouraged by their faith to invest for the long-term. Though investors may see gains in their portfolio value, the gain may not be realized for years. Islamic jurists have agreed that in order to distribute *zakah* sooner rather than later it is allowable to **consider the difference in the market value of your portfolio from the beginning to the end of each Gregorian calendar year and pay 10.3% (or 10% calculated according to the lunar calendar) of the gain, if any, as zakah.** This method of estimating your *zakah* is based on two assumptions:

- You have/will reach *nisab* within the calendar year
- You have held your investments or your resources for investment (cash, for instance) for at least one lunar year before your *zakah* is calculated for the calendar year

Zakah on Retirement and Brokerage

For the purpose of *zakah*, retirement accounts are considered part of net worth, as the contributor has eventual access to the funds. Thus for retirement accounts (401(k), Keogh, IRA, SEP-IRA, Roth IRA), the investor is subject to *zakah* on 10.3% of the increase in a Gregorian calendar year. Public trusts and charitable organizations are not subject to *zakah*. The same method as that illustrated above with Amana shares can be applied to *zakah* calculation for entire portfolios. Brokerage accounts with Saturna Brokerage Services are automatically incorporated as part of the *zakah* estimation performed by Saturna Capital.

How We Estimate Zakah

We can send you a report advising you of the estimated *zakah* after the end of each calendar year. The report will estimate *zakah* for any Saturna-related account with your tax ID (including brokerage accounts held at Saturna Brokerage Services, a discount brokerage). Saturna Capital calculates *zakah* only for your Saturna-related accounts. Any other assets or investments you may have are not accounted for in the calculation. Your total *zakah* should be based on your net worth and may be different than what Saturna Capital calculates.

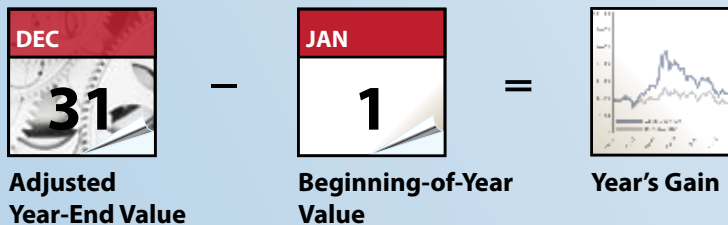
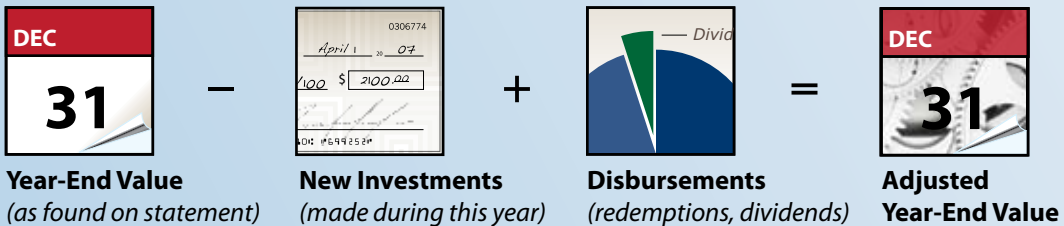
Our *zakah* estimation nets the cash flow in and out of the account. As the figure on the next page illustrates, the **beginning-of-year value** is subtracted from the **year-end value (adjusted for new investments and disbursements)**.

Reinvested dividends are excluded from the calculation since they are both disbursements and investments.

Consider the examples on the next page. Using the statement's transaction history, *zakah* may be estimated as follows:

New Investments of \$3,100 are subtracted, and Disbursements of \$1,070 are added back. The estimated amount subject to *zakah* for this calendar year is \$621.57. *Zakah* is 10.3% of that amount, or \$64.02.

How It Works



Example Mutual Fund Statement for Amana Income Fund

Share balance as of January 3, 2007: 56.12					
Date	Transactions history through 12/31/07	\$Amount	Price	Shares	Share Balance
1/3/07	Purchase by Check Today	\$1,000.00	\$27.65	36.17	92.29
4/2/07	Purchase by Check Today	\$2,100.00	\$28.93	72.59	164.88
5/31/07	Income Dividend @ \$0.119/share, reinvested	\$12.94	\$30.99	0.42	165.30
8/1/07	Redemption by Check	\$520.00	\$30.23	17.20	148.10
11/1/07	Redemption by Check	\$550.00	\$31.69	17.36	130.74

Summary of Mutual Fund Statement				
Investment	Account Number	Share Price	Share Balance	Value
Amana Income Fund	99999-00-10	\$32.15	130.74	\$4,203.29
December 31, 2007 value for Accounts on this Statement				\$4,203.29

Estimating 2007 Zakah on Amana Income Fund

Year-end Value (as of 12/31/2007)	\$4,203.29
Less 2007 New Investments	
1/3/07 Purchase for	-\$1,000.00
4/2/07 Purchase for	-\$2,100.00
	-\$3,100.00
2007 Disbursements Added Back	
8/1/07 Redemption for	\$520.00
11/1/07 Redemption for	\$550.00
	\$1,070.00
Adjusted 2007 Year-End Value	\$2,173.29
Beginning of Year Value (as of 1/3/07)	\$1,551.72
<i>Adjusted Year-End Value less Beginning-of-Year Value equals Gain.</i>	
	\$2,173.29 - \$1,551.72 = \$621.57
Total Amount Subject to zakah	\$621.57
Zakah 10.3%	\$64.02

How is my Zakah Distributed?

The amount of *zakah* you actually distribute remains your decision. You may redeem shares from an account that you specify, or transfer shares into a charity's account, or use any other financial resource available to you.

To receive an estimated *zakah* calculation after each calendar year-end, detach and return the completed form below. Since *zakah* is calculated per Tax ID (Social Security Number), please submit separate forms for each separate Tax ID (SSN).

Account Information

If any accounts are jointly-owned, include Joint Registrant's name.

Individual/Primary Registrant (or Custodian)

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First Name M.I. Last Name

Joint Registrant (or Custodian)

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First Name M.I. Last Name

Tax ID (SSN#):

□	□	□	-	□	□	-	□	□	□
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Saturna Account Number(s):

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Mailing address for *zakah* reports:

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City State Zip

Signatures

I (we) request Saturna Capital Corporation to calculate and report an estimation of the *zakah* due on my Saturna-related investment accounts, which carry the above Tax ID (SSN) number. The undersigned warrant(s) that I (we) have full authority to make this request. This request is not effective until it is received and accepted by Saturna Capital Corporation.

Signature of Individual/Primary Registrant (or Custodian) Date

Signature of Joint Registrant (or Custodian) Date

For assistance, please call:
888/73-AMANA or 360/594-9900
FAX 360/734-0755

Investor will specify the account(s) from which any zakah amount is to be debited, along with the amount of zakah to be distributed to Investor. The Investor may also elect to transfer/exchange shares in Saturna Capital-managed investment products into existing charitable accounts as a zakah donation. If a charity does not have an account, it may choose to open one in accordance with the limitations in the prospectus. Saturna Capital and Amana Mutual Funds Trust will not be responsible for obtaining donation records for tax purposes from 501(c)(3) organizations that are the beneficiaries of an investor's zakah. Saturna Capital and Amana Mutual Funds Trust do not recommend or endorse any charity.

Amana Mutual Funds Trust, Saturna Capital Corporation, and Saturna Brokerage Services, respectively, do not make any warranty, express or implied, and they disclaim any warranty about (i) the results to be obtained by any person in connection with the use of the zakah calculation method outlined above ("How We Estimate Zakah"); (ii) the accuracy or completeness of the zakah calculation; and (iii) its compliance with sharia law and other Islamic principles. Amana Mutual Funds Trust, Saturna Capital Corporation, and Saturna Brokerage Services will not be liable for any errors or omissions in the zakah calculation.