

FATAWA INFLATION AND INDEXATION 2006

Indexation OF Nisab of Zakah

Subject: Indexation for Inflation

From: Rasha

Sent: Monday, July 10, 2006 9:49 AM

Question

Dear Prof. Dr. Kahf, Asalam Alikom Wa Rahmatoo Allah Wa Barakatooh,

Regarding the book edited by you and entitled: Mawared Al Dawlah Al Maleiah fe Al Mojtam'a alHadeth mn wejhata Al Nathar Al Islameiah. ("State Financial Resources in the modern society from an Islamic Prospective) 2nd edition, (2000). Published by Islamic Development Bank, the IRTI section.

Kindly find attached page Nr 87 of this book, which is written by Dr. Muhammad Awad.

In number 5 of this page the author indicating that zakat does not need indexation –as it is in taxes) since the zakat (Islamic tax) are not only proportional with wealth, rather it is a percentage of the quantity base and not the base value.!

Pleas Dr. what does it mean: as % of the Kameiah and not from Qeemah (line nr. 3 of sentence 5)??? Kindly advise...

Rasha

My Answer

Dear Sr Rasha

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

Zakah is in principle in kind. If you have an inventory of 200 television sets for sale the due Zakah is 5 sets (assuming they are all same is all their specifications). Then indexation doesn't become a matter. Because no matter what the value of the 200 sets the value of the 5 sets with remain 2.5% of that! Right! Wassalam,

Monzer Kahf

From: Rasha

Sent: Thursday, July 13, 2006 12:36 PM

Question

Dear Prof. Dr. Kahf, Asalam Alikom Wa Rahmatoo Allah Wa Barakatooh,

I hope you are O.k. I was anxious to receive your E-mail So,,,,, that's Prof. what I wanted to ask you.

If my deposit in the Islamic bank have reached to: 5000 \$(including Islamic interest), how then can I pay or take the 85 gram of Gold of theses 5000 –Isn't' this the in-Kind method or am I wrong???.

But if I need to see how much the 85 gram of gold equals in dollars to determine the Nisab, then this is not in-Kind payment/method. The same for your example: how you have calculated 5 T.V set as Nisab out of 200? Please help me...

Rasha

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Rasha

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

You still need to be more accurate in your thinking and expressions. If you have US\$ 5000 you just calculate the Zakah at 2.5% = \$ 250 you don't need to think of Gold or any thing. Zakah is due out of the thing (= item, in this case cash money) that you own. If you own TV's you pay it out of TV's same rate 5 out of 200. If you own gold you also pay it out of gold. If you decide for any item to pay it from a different thing then you evaluate and this evaluation is on the day it is due, the day you are supposed to pay it. This means there is implicit indexation but the rate is fixed. The 85 grams of gold comes in the picture of a cash deposit only for one reason: to make the test of Zakatability. Am I subject to Zakah or not? Then if my items are not gold I don't use it and I don't need it at all. If Zakah were a given sum of gold, instead of a ration, or a ratio that is calculated at a different price than the current price of the item, evaluation would then only affect the actual amount I have to pay.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Rasha

Sent: Friday, July 14, 2006 9:47 AM

Question

Dear Prof. Dr. Kahf, Asalam Alikom Wa Rahmatoo Allah Wa Barakatooh,

- 1- So paying in kind means from the same kind of assets: like If I have cash money, I pay my zakat in terms of cash money If I have camels, I pay sheep....etc of details If I have a company, I pay my zakat in cash money out of my net worth If I have shares, then I pay my zakat in shares. If I m a woman and have many gold, so I pay zakat in terms of gold. But what does the sentence that scholars have mentioned in their writings: choosing between paying in kind or in cash? Does it mean the above mentioned cases for paying in-Kind? Does it mean that for cases like Livestock and corps only I can pay what equals their zakat due amount in cash??
- 2- But in all of the previous above cases, I have to see if I'm obligated to pay zakat (inter alia) by doing / calculating the Nisab that is based on Gold: that is to see how much 85 gram of gold equal in dollar/euro/dinar, the day of payment
- 3- In your email Prof. you said on 5000 I have to pay 250, but I think it is 125??
- 4-You make me confused with your sentences mentioned in your last email: Then if my items are not gold I don't use it and I don't need it at all. If Zakah were a given sum of gold, instead of a ration, or a ratio that is calculated at a different price than the current price of the item, evaluation would then only affect the actual amount I have to pay.

I didn't get what you want to say? Salam

rasha

My Answer

Dear Sr Rasha,

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

1. You are right the amount of Zakah is 125 not 250.
2. The principle is to pay from each item and Zakah is estimated from each item in kind, but if the government, when it administers Zakah, or the payer or an organization that is given the Zakah as a distribution agent finds it convenient to pay in money, you take the value on the day it is due. Clearly there is no issue of indexation because it is built in. Indexation is needed in income tax because it is only imposed in money terms (if your income is 10-12 you pay 10%, for the strata of 12-14 you pay 12%, etc. Here your nominal income becomes 13 but its real value equals the 12 of last year, yet your tax becomes 12%). Think of it in Zakah, this doesn't happen.
3. I don't know why do you still hang on the issue of Nisab? It is really a very small and narrow issue that needs no worry at all. Which company in the whole world that only owns US\$ 1000 or 1700. It is ridiculous to talk about Nisab when we deal with companies. All companies, every where in the world are subject to Zakah (from this point of view). so if every one is subject what is the benefit of talking about Nisab? Nisab is a test of Zakatability for individuals in poor areas only. I can almost make a claim that every American Muslim passes this test and she/he is subject to Zakah. In Jordan, yet many people in the countryside and in cities don't pass it. But certainly every company, including personal partnerships, in Jordan passes it and if you find any other result then you must doubt it and redo the test again.
4. The sentence in 4 below is correct, a bit complex, but correct, think of it again.

Wassalam,

Monzer Kahf

Riba and Inflation

Subject: Question on Riba and Inflation

From: Ibad through Islam on line

Sent: Monday, June 12, 2006 1:50 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I understand that RIBA (appreciation or augmentation to the principle) is Haram in Islam. This means if we earn interest on the money in bank it is Haram. My question is: How do we explain the depreciation in the value of money due to inflation? What is the Islamic way to counter this depreciation in monetary value?

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Ibad

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh First, kindly notice that interest is not a compensation for inflation and it has never been. Simply, interest is an increment stipulated in a contract of loan provision while inflation happens with time and no one knows, at the time of contract what the inflation is going to be. Interest is a price for lending money or a price for indebtedness, it has nothing to do with inflation and it is contracted whether there is or there is no

inflation. However, whenever people expect inflation they manage their prices so that they cope with their expectations (which obviously may not be true in a sense that actuality would often come different than what was anticipated). A seller who expects inflation that will affect the cost of new goods he will buy would go ahead and increase the price of the goods he is selling now. Interest lenders do the same. This means that when interest lenders expect a rate of inflation of say 5% they would add this rate to the rate they want to collect as a price for the indebtedness (interest). Also when there exist risks of default of currency value in terms of other currencies (exchange rates of currencies) lenders will also add a risk premium to the rate they want as interest. In other words you will notice that in interest lending the charge consists of three components: interest per se, anticipated inflation rate and risks premium. All these three components are put together under one name simply interest because, contractually, they can't be distinguished from the charge for indebtedness. Of course when put together they are all together Haram. But if we are able to deal with each one alone, take the case of risks premium: suppose we have an Islamic non-profit organization such as a Waqf as a lender. It gives loans without any price of indebtedness. It is known indisputably in Shari'ah that the actual cost of its operation can, and must, be charged to the beneficiaries of its loans (this is well established in classical Shari'ah writings and there is also a resolution to this effect by the OIC Islamic Fiqh Academy) would it be permissible for it to consider the actual losses caused by default, foreign exchange and other mishaps as part of its cost and charge the same to the beneficiaries. The answer is: YES of course. Now inflation is a little different because you don't know what it really is! This may sound strange, but can any one tell me what is the loss of value of currency because of inflation? There is really no way of knowing it exactly. It is estimated by changes in price index. But what is the index, which one we use, consumer prices, producer prices, retail, wholesale, prices calculated by labor unions or by the association of industrialist or by the government, and which department of it, etc. Inflation is felt but can't be exactly known. This leaves open the idea that any rate you may assign as "compensation for inflation" may include a portion as a price of indebtedness. Thus it is mixed with Riba and can't really be distinguished although theoretically we talk about it and know what it is! Paradoxical as it is, this treatment of inflation is called indexation. In other words, indexation is assigning a rate that compensates the decline in the value of money. Because of the way it is calculated and because it is always intermingled with interest, it has become controversial some people argue it is Haram and some other it is Halal. One way of solving this problem is by government action. If, after a period of inflation the government decrees that all debts in the society that are affected during this period should be increased by a given rate, this indexation may become permissible and independent from interest.

Finally, you cannot decide for yourself, or in a two party contract, that this increment or part of it is a compensation for inflation and all such increments on bank accounts are interest and must be given away to Muslim charity.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf
