

Zakat on Retirement

(401K, IRA (USA) RRSP (Canada) Accounts

Disclaimer: This article is for informational purposes only; Author is only giving opinion/options of different Islamic scholars/organizations on this subject matter, since Zakat is Fard (Mandatory) pillar of Islam. Reader must consult an Islamic scholar to decide how he/she wants to pay Zakat from these funds based on his person situation; I am not suggesting any of the method to be followed and not responsible if following one of these methods, your Zakat is not accepted in the court of Allah (SWT)

Retirement accounts like 401(k), IRA, pension funds, RRSP, etc. didn't exist in classical times, and so modern Islamic scholars have issued different opinions about Zakat on them. Here's a summary of the major scholarly positions:

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- ◆ 1. View: Zakāt is due only when funds become accessible (no Zakat while locked)
 - Scholars in this group say since you cannot freely withdraw

without penalty before retirement age, these funds are considered “non-possess able wealth” (māl ghayr mustafād)”.

- Zakāt is therefore not obligatory until you actually receive the money.
- Once withdrawn, you pay zakāt on the amount received if it meets niṣāb and a year passes.
- This view is held by scholars such as:
 - Sheikh Dr. Monzer Kahf (specialist in Islamic finance)
 - Some AAOIFI standards (Accounting and Auditing Organization for Islamic Financial Institutions) lean toward this approach.

◆ 2. View: Zakāt is due yearly on the entire balance (even if restricted)

- Some scholars say since this money is still your ownership, invested and generating growth, it is subject to Zakat like cash or investments.
- They argue that withdrawal penalties do not cancel ownership.
- Thus, one should calculate 2.5% of the total yearly balance and pay annually.
- Supporters include some contemporary fiqh councils, especially in Kuwait, Qatar, and Saudi Arabia, who take a stricter view of ownership.

◆ 3. Middle Position: Zakāt is due but only on the “accessible portion”

- A practical compromise: pay Zakat only on the amount you could withdraw immediately, even if penalties apply.
- For example: If your 401(k) has \$100,000, and after early withdrawal tax/penalty you would net \$70,000, then Zakat is on

\$70,000.

- This view is adopted by some scholars in North America and Europe, e.g., Fiqh Council of North America (FCNA) has leaned toward this type of reasoning.

◆ 4. Deferred Calculation Method

- Some scholars suggest waiting until retirement/withdrawal, then paying Zakat retroactively for one year only, not for all past years.
- Reason: Continuous annual Zakat on inaccessible funds may be an undue hardship.



Most Common Practical Fatwa for Muslims in the West:

Many imams and Islamic finance scholars recommend the middle approach (#3):

- Treat the account as yours but only pay Zakat on the net withdraw able amount (after penalty & tax).
- This keeps balance between ownership and actual accessibility.



Example Calculation:

- Balance in 401(k): \$120,000
- Early withdrawal penalty + estimated tax: 30% → Net accessible = \$84,000
- If \$84,000 > Niṣāb (about 3 oz gold / 85g = ~\$6,000 today), Zakat = 2.5% of \$84,000 = \$2,100 annually.


Summarizing:

1. No Zakāt until accessible Zakāt not due until funds are withdrawn or reach retirement age. Wealth is not fully accessible (ḥawl + tamalluk not complete).

Dr. Monzer Kahf, some AAOIFI members Pay zakāt only when funds are withdrawn.

2. Zakāt due yearly on full balance Zakāt due annually on entire account value, regardless of penalties. Ownership exists, funds are invested & growing, accessibility limits don't cancel ownership.

Some scholars in Kuwait, Saudi Arabia, Qatar Calculate 2.5% on total balance yearly.


3. Zakāt due only on “net accessible portion”  Most practical opinion for Muslims in the West Zakāt due yearly on what you could withdraw after taxes/penalties. Balances ownership with realistic accessibility. Fiqh Council of North America (FCNA), various Western scholars Deduct taxes/penalties, pay 2.5% of net.

4. Deferred Zakāt (1 year only) Zakāt not due until retirement; then pay zakāt once on total. Avoids hardship of yearly calculation

. Some minority contemporary scholars, Pay 2.5% once funds become available.

Key Points

- Nisāb threshold: If net value exceeds nisāb (~85g gold), Zakat applies.
 - Calculation frequency: Most views (#2 and #3) require annual Zakat since the account grows yearly.
 - Practical choice: Many Muslims in the West follow View #3 (net accessible portion), as it balances ownership and restrictions.
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 Here's a step-by-step guide to help Muslims calculate Zakat on 401k, IRA, or retirement accounts (based on the most practical opinion: View #3 – Zakat on net accessible portion).



Step-by-Step Guide: How to Calculate Zakāt on Retirement Accounts

Step 1. Find your total account balance

- Example: Your 401(k) statement shows \$120,000.

Step 2. Estimate withdrawal penalties & taxes

- Early withdrawal penalty (usually 10%) = \$12,000
 - Estimated tax (say 20%) = \$24,000
 - Total deductions = \$36,000

Step 3. Calculate your net accessible portion

- $\$120,000 - \$36,000 = \$84,000$

This is the amount considered as your zakāt-able wealth.

Step 4. Check against nisāb

- Nisāb = value of 85g gold (\approx \$6,000 today, check yearly rates).
 - Since \$84,000 > \$6,000 \rightarrow Zakat applies.

Step 5. Calculate Zakat (2.5%)

- 2.5% of \$84,000 = \$2,100

Step 6. Pay Zakat yearly

- Repeat this calculation once every lunar year (preferably) on the account balance.
- You don't have to withdraw from the retirement account; you can pay Zakat from other savings/cash.



Quick Notes

- If you follow the stricter view (#2), simply use the full balance ($\$120,000 \times 2.5\% = \$3,000$).
 - If you follow the lenient view (#1), you wait until retirement/withdrawal, then pay Zakat at that time.
- Always check your local tax rate for accurate calculations.



Another Practical Method, Probably the Safest (Which I prefer)



Paying Zakāt from Retirement Accounts via Will / Estate

If a person cannot withdraw from their retirement account (or chooses not to due to heavy penalties), they may:

1. Calculate Zakat annually on the retirement account balance (using one of the scholarly methods we discussed).
2. Record it as a liability (dayn / debt to Allah) in a written log or their wasiyyah (will).
3. Instruct their heirs that upon death, this amount must be paid first from the estate before inheritance is distributed.



Why This is Valid in Fiqh

- Zakāt is considered a debt owed to Allah (SWT).
- Inheritance distribution in Sharī‘ah follows this order:
Funeral expenses → Debts (including zakāt) → Wasiyyah (1/3 or less) → Inheritance shares. (Surah Nisa Aya 11 and Prophet Ahadith)
- If zakāt was due but unpaid, it must be settled before heirs receive their shares.
- Scholars like Ibn Qudāmah (Hanbali fiqh) and Imām Nawawī (Shafi’i fiqh) explicitly mention that unpaid Zakat is a debt, and heirs are obliged to fulfill it if the deceased left wealth.



Supporting Evidence

- The Prophet ﷺ said:
“The debt of Allah has more right to be fulfilled.”
(Sahih al-Bukhārī, Sahih Muslim)
- Classical scholars applied this to missed Zakat, kaffārah, fidya, etc.



Practical Guidance

- Each year, calculate Zakat on retirement accounts.
 - Keep a written log (notebook, Excel, ledger).
 - In your will (wasiyyah), clearly state:
“I owe Zakat in the amount of \$_____ (updated yearly, make sure it is cumulative i.e successive addition for every year). This must be paid from my estate before distribution to heirs.”
 - This ensures your Zakat obligation is fulfilled even if you pass away before withdrawal.
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A sample draft wording (Islamic will clause) that a Muslim in the U.S. (or West) could include in their will to cover unpaid Zakat from retirement accounts?

Here's a sample will (wasiyyah) clause can be adapted to cover unpaid Zakat on retirement accounts:



Sample Clause for Unpaid Zakat (to be included in a Muslim's Will)

Zakat Obligation Clause:

I acknowledge that Zakat is a debt owed to Allah (SWT). Since I hold funds in retirement accounts (such as 401(k), IRA, pension, etc.) from which I cannot withdraw freely during my lifetime without penalty, I have calculated the Zakat due on these funds annually and kept a record.

Therefore, I direct my executors and heirs that, upon my death, any Zakat amounts recorded in my Zakat log, or as reasonably determined from my financial records, shall be paid as a priority debt from my estate before the distribution of inheritance. This payment shall be treated as a debt owed to Allah (SWT) and must be fulfilled prior to any division of my wealth among my heirs.



Notes for Readers

1. Make it legally binding – Include this clause in your formal Islamic will (wasiyyah) that complies with your local law (e.g., U.S. state laws).
2. Keep Zakat records updated – Maintain a written or digital log each year of Zakat due from retirement accounts.
3. Executor's duty – Ensure the person you appoint as executor knows this obligation and respects its priority.



This way, your Zakat obligation is safeguarded and will not be lost due to withdrawal restrictions or oversight after death.

Note: Make sure you have enough in your assets at the time of your death to fulfill this obligation of Zakat which you could not do in your life time

Another Perspective for More Clarification (Paying Zakat from Retirement Accounts via Will/Estate. Some content may look repetitive but worth mentioning it again due to its importance:

The question of calculating Zakat annually on retirement accounts like IRAs and 401(k)s, keeping a log of the owed amounts, and including a provision in one's will (wasiyyah) to pay this accumulated Zakat as a debt to Allah (SWT) before distributing

inheritance is a nuanced issue in Islamic jurisprudence. It involves balancing the principles of Zakat, the accessibility of funds in retirement accounts, and the permissibility of deferring Zakat payments. Below, I outline the views of modern Islamic scholars on this approach, drawing on the principles of Zakat and the provided context.

Key Considerations from Islamic Jurisprudence

Zakat is an annual obligation on wealth that meets the nisab (minimum threshold) and has been held for one lunar year (hawl), provided the wealth is fully owned and accessible. Retirement accounts like IRAs and 401(k)s present a unique challenge because the funds are often subject to penalties, taxes, or restrictions on withdrawal before a certain age (e.g., 59½ in the U.S.). Scholars differ on whether Zakat is due on these accounts annually or only when the funds become accessible without penalty. There are two main perspectives:

1. Zakat is Due Annually on the Withdrawable Amount:

- Some scholars, including the Fiqh Council of North America, argue that Zakat is owed annually on the net withdrawable amount of a retirement account after deducting penalties, fees, and taxes. This view is based on the principle that the account holder has “absolute and undivided authority” over the portion of funds they can access, even if withdrawal incurs penalties.
- The calculation formula is: $\text{Account Balance (B)} - \text{Penalties (P)} - \text{Fees (F)} - \text{Taxes (T)} = \text{Zakatable Sum (ZS)}$. Then, $\text{ZS} \times 2.5\% = \text{Zakat Due}$.
- Scholars supporting this view allow flexibility in payment. For example, if someone lacks liquidity to pay Zakat annually, they may delay payment until the funds are accessible, provided they keep accurate records.

2. Zakat is Not Due Until Funds Are Accessible Without Penalty:

- Other scholars, such as Joe Bradford, argue that Zakat is not due on retirement accounts until the funds can be withdrawn without penalty (e.g., at retirement age, such as 55 or 59½). This view emphasizes that Zakat requires unhindered access and

active management of wealth, which restricted accounts do not fully satisfy.

- In this case, Zakat would be calculated and paid on the accessible amount at the time of withdrawal, covering only the year of withdrawal unless the funds remain in possession for subsequent years.

Permissibility of Logging Zakat Annually and Including in a Will

The approach of calculating Zakat annually, maintaining a log, and including a provision in one's will to pay the accumulated Zakat as a debt to Allah (SWT) before distributing inheritance aligns with certain scholarly opinions, particularly those allowing deferred payment. Here's an analysis of its acceptability:

1. Support for Deferred Payment and Record-Keeping:

- Scholars who advocate paying Zakat annually on retirement accounts explicitly permit delaying payment if the account holder lacks liquidity, provided they maintain accurate records. For example, the Zakat Foundation of America notes that scholars allow delaying Zakat payment with cause and paying it in increments. An example is given of Maryam, who calculates Zakat on her \$300,000 401(k) but pays only what she can afford annually (\$1,500 of \$4,500) and records the remaining \$3,000 as a Zakat debt.
- Including this Zakat debt in a will aligns with this view, as it ensures the obligation is fulfilled before inheritance distribution, treating unpaid Zakat as a debt to Allah (SWT). This is consistent with Islamic law, which prioritizes settling debts (including religious obligations like Zakat) before dividing an estate.
- Shaykh Faraz Rabbani (SeekersGuidance) advises paying Zakat annually on the total value of retirement accounts to avoid the complexity of tracking past years' obligations upon withdrawal. However, he acknowledges that if Zakat is deferred until funds are accessible, accurate record-keeping is necessary to calculate the cumulative Zakat owed. Including this in a will would be a practical way to ensure compliance.

2. Support from the Perspective of Deferred Zakat:

- For scholars who hold that Zakat is not due until funds are accessible without penalty, the approach of logging Zakat annually and paying it via a will may still be acceptable as a precautionary measure. For instance, an individual could calculate the Zakat owed each year (based on the net withdrawable amount or total balance, depending on the scholar's view) and record it as a potential obligation. Upon withdrawal or death, the logged amount could be paid as a lump sum to cover past years.

- This method ensures that if the individual adopts the stricter view (annual Zakat) later or if their circumstances change (e.g., early withdrawal), the obligation is documented and fulfilled.

3. Practical Implementation in a Will:

- Islamic law allows a person to allocate up to one-third of their estate in their will for non-inheritor purposes, such as charity or settling debts. Unpaid Zakat is considered a debt to Allah (SWT) and takes precedence over inheritance distribution. Including a provision in the will to pay accumulated Zakat from retirement accounts is thus Islamically valid, as it ensures the religious obligation is fulfilled.

- For example, if someone logs \$10,000 in Zakat debt over 10 years on their 401(k), they can stipulate in their will that this amount be paid from their estate before dividing the remainder among heirs. This aligns with the principle that debts, including Zakat, must be settled first.

4. Dissenting Views and Cautions:

- Some scholars might argue that calculating Zakat annually but deferring payment until death could lead to miscalculations or neglect, especially if records are not meticulously maintained. They may recommend paying Zakat annually from other liquid assets to avoid burdening the estate.

- Others, particularly those who view Zakat as due only upon withdrawal, might consider annual calculations unnecessary unless the funds are accessible. They might advise against including a Zakat debt in the will unless the individual adopts the

view that Zakat is due annually.

- There's also the risk that the estate may not have sufficient liquidity to cover the logged Zakat debt, especially if the retirement account is a significant portion of the estate. In such cases, executors might need to liquidate assets, potentially incurring penalties.

Modern Scholars' Views on Acceptability

- Fiqh Council of North America: Supports annual Zakat on the withdrawable amount and allows deferred payment with record-keeping, making the will-based approach acceptable if the Zakat debt is clearly documented.
- Shaykh Faraz Rabbani (SeekersGuidance): Recommends annual payment but acknowledges deferment with record-keeping, implying that including Zakat in a will is a valid way to ensure fulfillment.
- Joe Bradford: Suggests Zakat is due only upon penalty-free withdrawal, but calculating and logging annually as a precaution (and paying via a will) could be seen as a cautious approach, though not strictly necessary in his view.
- Zakat Foundation of America: Explicitly allows delaying Zakat payment with cause and paying in increments, supporting the idea of logging Zakat and settling it later, such as through a will.
- General Consensus: Most modern scholars agree that unpaid Zakat is a debt to Allah (SWT) and must be settled before inheritance distribution. Including it in a will is a practical and Islamically sound method, provided the calculations are accurate and the intent is to fulfill the obligation.

Practical Recommendations

To ensure the proposed method is acceptable and effective:

1. Consult a Scholar: Work with a knowledgeable Islamic scholar to determine whether to follow the annual Zakat view or the deferred view, based on your circumstances and school of thought (e.g., Hanafi, Shafi'i).
2. Maintain Accurate Records: Log the Zakat calculation annually, noting the account balance, estimated penalties/taxes, nisab

threshold, and the 2.5% Zakat owed. Specify whether you're calculating based on the total balance or the net withdrawable amount.

3. Draft a Clear Will: Include a provision in your wasiyyah stating that the accumulated Zakat debt (as recorded in your log) must be paid from your estate before inheritance distribution. Ensure the will complies with Islamic inheritance laws, keeping non-inheritor bequests (like Zakat) within one-third of the estate.

4. Seek Financial Advice: Consult a financial advisor familiar with Islamic ethics to estimate penalties and taxes accurately, as these affect the zakatable amount.

5. Consider Annual Payment if Feasible: If you have sufficient liquidity from other assets, paying Zakat annually may simplify the process and reduce the burden on your estate.

Conclusion

The approach of calculating Zakat annually on retirement accounts, logging the owed amounts, and including a provision in one's will to pay this as a debt to Allah (SWT) before inheritance distribution is generally acceptable among modern Islamic scholars, particularly those who advocate annual Zakat with deferred payment options. It aligns with the flexibility offered by scholars like those at the Zakat Foundation and Fiqh Council of North America, who allow delaying payment with proper record-keeping. However, it's critical to maintain accurate records and consult both a scholar and a financial advisor to ensure compliance with Islamic principles and practical feasibility. This method reflects a cautious and organized approach to fulfilling Zakat obligations while navigating the complexities of restricted retirement accounts.