

480 - Zakat on retirement income

the question

Is zakat due on Mutual Funds investments that are in a RRSP (Registered Retirement Savings Plan) account? If yes, then is it due on the total value or only on that portion which will be available after Income Tax has been deducted at source?

(RRSP is the Canadian equivalent of the U.S. 401K Plan. Under this scheme, one can save money towards future retirement income and defer current Income Tax on the portion of the income that is being saved in the plan. The deferred income tax is later deducted at source when the funds are eventually withdrawn from the plan; however, since the withdrawals are usually done after retirement (when there is no other significant source of income), one ends up being taxed at a substantially lower tax rate. Naturally, withdrawal prior to retirement will incur higher tax rates.)

Detailed answer

If a person receives an amount of money that he could not have received before, like a bonus or lump sum paid at the end of a period of work, or on retirement, no zakat is due for the time that has passed. Zakat must be paid on whatever is left of that money after an entire Hijri year has passed.

If tax or anything else is deducted, then zakat is due only on the amount which the person receives, and after one year has passed.

And Allah knows best.