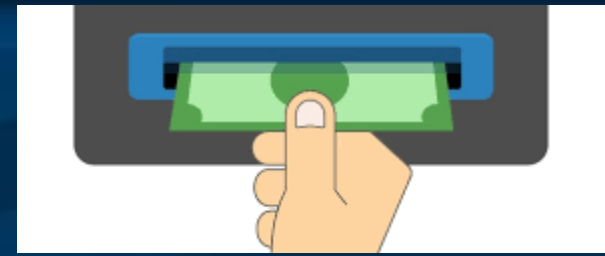


Retirement Accounts

Dr. Main Alqudah



Early Withdrawal from Accounts, like 401(K)

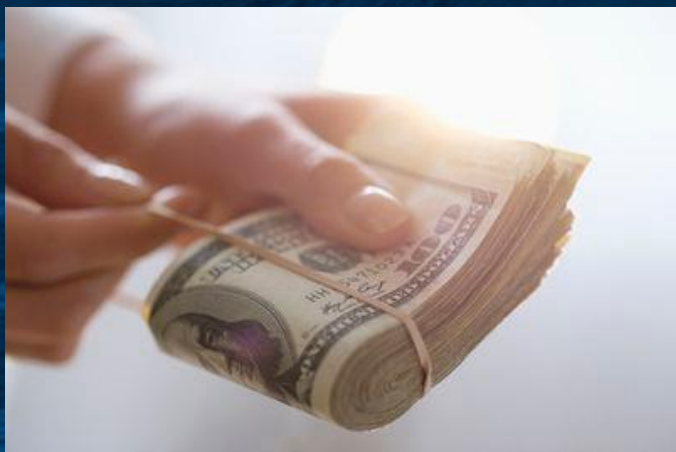


- (1) Take an interest-bearing loan from the investment company.
- Hence, this transaction is allowed because meanings and objectives are given the ultimate consideration in transactions taxes.
- (2) The employee may directly withdraw from his 401(K), in which case penalties are imposed on the account.



Investing Options for Retirement Accounts

- (1) STABLE VALUE FUND: Or a saving account that has a fixed interest rate. The client loans his money to the investment company, and in return, the company guarantees the investment by law and the account accrues interest. This option is clearly forbidden because it is interest.



- (2) **BALANCED FUND:** Usually 50% stocks and 50% bonds. This option is also forbidden because bonds are interest-based loans.
- (3) **LOCAL STOCK FUND:** This option is allowed as long as the stocks are for companies with Halaal dealings.



- (4) INTERNATIONAL STOCK FUND: This option is also allowed with the same requirements as the previous.
- (5) EMPLOYER STOCK FUND: This is also allowed as long as the company engages in Halaal dealings.



Mutual Fund Options

- Mutual funds are vehicles or platforms of investment.
- Individual-based retirement accounts
- 401(K) and the like are employer-nased retirement account.





Exchange Traded Funds (ETFs)

- No wealth managers of financial advisors involved.
- Abide by certain formulas and algorithm to keep the management cost to the minimum
- Mutual Funds are run manually

Requirements for Halaal Investment



- The invested capital and the profit cannot be guaranteed. Hence, choosing Stable Value Fund is prohibited.
- Also, Balanced Fund option is forbidden because a bond is essentially a loan with interest in which the borrower guarantees the money and the interest.



- One cannot invest in stocks of companies with unlawful dealings, such as banks, credit card companies, wineries, cigarette and tobacco products, gambling, casinos, musical instrument companies, adult film productions, mortgage companies... etc.



- Within the Halaal core business companies mentioned above;
- Haraam investment
- Haraam assets
- Debt-equity ratio have to be to the minimum.

Alternatives

- Socially responsible investing Companies (SRIC)
- Al-Huda University (Guidance College)

<https://www.guidancecollege.org/eltizam>



Zakah on Retirement Accounts

- Individual retirement accounts like mutual funds and ETFs are Zakatable annually in full after deducting fixed assets and all other expenses, in case the investment company actively trades in the securities of these accounts, which is most probably the case.





- The profit only of the individual retirement accounts like mutual funds and ETFs is Zakatable annually after deducting fixed assets and all other expenses, in case the investment company does not trade in the securities of these accounts, which is most probably not the case.



- The accessible portion only of any employer- based account like 401(K) is Zakatable annually after deducting fixed assets and all other expenses.





Zakah Rate

- The Zakah rate on retirement accounts is 2.5% if paid in Ramadan or based on the lunar calendar.
- Rate should be 2.575% if paid in December or based on the fiscal year, so to accommodate the 10 days difference between the lunar and the Gregorian year.



Haraam Securities



- If the portfolio encompasses Haraam securities like bonds or stocks belong to companies with prohibited core business, then Zakah is to be paid on the principal only.
- The profit of these securities is to be disposed in full as it is a prohibited earning.



Fixed Assets

- Excluding fixed assets of companies from Zakah calculation is very legitimate since these assets are not for-sale commodities or merchandise, thus, not Zakatable basically.