The Assembly of Muslim Jurists of America
16th Annual Imams' Conference
Houston – United States

Shariah Compliant and Halal Investment Opportunities for American Muslims

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Abstract

Retirement planning is a serious topic that is often neglected by all of us. Regardless of our age, we should all consider retirement planning as early as possible. Retirement planning takes care of our lifestyle when we decide to finish work or exit the business.

This paper will address the retirement plans available plus attempt to provide Imams and participants of the AMJA Conference with a holistic view of the investment universe in the United States. The paper gives an insight into the basic knowledge of investing, types of accounts available to investors, and the shariah component as well touch on the purification of the investment and the methods of Zakat on investments.

In the name of Allah, the Most Merciful, the Grantor of Mercy

Introduction

Imam Ahmed and Al-Tirmithi and narrated by Abdullah Ibn Busr reads as follows: ‘The Messenger of Allah (May Allah’s Salat and Peace be upon him) said, “The best of mankind is he who lives long and performs good deeds.”

Preparing for retirement is not something that we think about every day. In simplistic terms, we can either do nothing and let our savings grow through regular savings accounts or seriously think about our retirement plans now. Regular savings accounts will not help you during your retirement years. The regular savings accounts cannot maintain the purchasing power over time and there are no tax advantages to you.

This paper will address the retirement plans available for people to understand retirement planning and investment in general the American Muslim community experience in the United States. The paper will attempt to provide Imams with a holistic view of the investment universe in the United States. The paper gives an insight into the basic knowledge of investing, types of accounts available to investors, and the shariah component as well touch on the purification of the investment and the methods of Zakat on investments.

The Shariah component of these investments in retirement plans will be reviewed coupled with a predominant view of the Shariah component with differences among the different standards widely used around the world and the United States. Hence, the paper is not designed to address the detailed Scholarly opinion on the Shariah permissibility of investments through stocks and mutual funds.

The Importance of Retirement Planning

Cato the Elder is quoted saying, Cessation of work is unaccompanied by cessation of expenses. With most people being employees, contractors or small business owners, the lack of retirement planning poses a high risk for these people during retirement with little or no income and therefore must either rely on immediate family for financial assistance, charity, or government assistance.

Retirement planning is important to everyone. Retirement planning provides financial stability when retirement happens. Retirement planning gives people the opportunity to enjoy a lifestyle they desire and to cover the increasing medical bills that comes with old age.

A retirement plan is a strategic plan that contains many tools and resources designed to provide financial stability for life in retirement. The retirement plan will comprise two distinct areas. The first is the account vehicle that is utilized for retirement or investment. Most if not all these vehicles are Halal such as IRAs, 401(k)s or an ordinary investment account. The second is the investment plans for these vehicles such as stocks, mutual funds or other investment opportunities that may be considered. Each type investment plan will have different advantages and disadvantages. Professional advice should be considered when selecting the investment tools needed for the retirement plan or consider do it yourself (DIY) research is another option and less costly. The professional advice will be focused upon the person’s expected needs, tolerance for risk, and available funds.

Retirement planning can begin at any age, ideally as early as possible. Early retirement planning offers great rewards plus reduces stress on the lives of people in later years. Let us look at an example of Nicole and Ted.

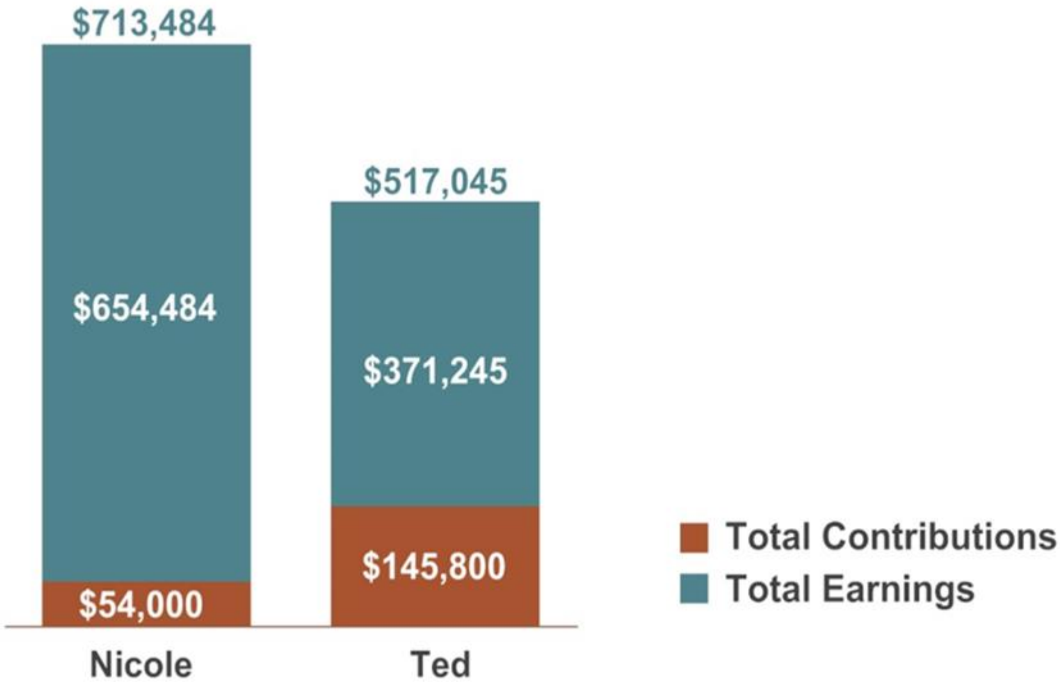

Figure 1 - Example of Retirement Planning

Nicole commences her retirement planning at age 30. Over a ten-year period, she contributes $450 a month to an IRA equating to $54,000. She leaves her money in the IRA until she retires. At the retirement age of 67 years, her IRA has generated total earnings of $654,484 plus her contributions has given Nicole a nice amount of $713,484 to retire.

Yet, Ted does not start his retirement planning until he turns 40. Ted made contributions of $450 a month to his employer's 401(k) plan for 27 years until he retires at age 67. After 27 years, Ted can access $517,045. This assumes both savers earn an average annual return of 8% on their retirement money.

The impact of starting early with a retirement plan is shown in Figure 1. Nicole's 10-year head start gave her a distinct advantage over Ted, even though she contributed less than half the amount he did.

Pocket Sense state that financial planners estimate that a person in retirement will need about a three-fourths of their pre-retirement income per year for at least 20 years. For example, if a person was earning $50,000 per year and life in retirement years was estimated at 20 years, the person would need about $750,000 put away for retirement. (Kennan, 2017)

Retirement Plans

Retirement plans are categorized into qualified and unqualified retirement investment plans. What is the difference between the two types of retirement plans? According to Zacks, a qualified retirement plan is a plan that is regulated by Employee Retirement Income Security Act (ERISA). Non-qualified retirement plans are not regulated by ERISA and can be used as part of a salary package for executives and other highly compensated employees. (Zacks, 2018)

To address the issue of retirees being without income, the U.S. Government has provided incentives for qualified retirement investment plans. Examples of qualified retirement plans include 401(k), 403(b), Traditional IRA, Roth IRA, Roll Over IRA, SEP IRA, and SIMPLE IRA. It is important to beware of not all retirements plans are qualified. Some investment plans are not qualified and, thus, not regulated by the ERISA. Examples of unqualified retirement plans are the 457 and 529 plans (college savings plans).

This paper will outline the qualified and unqualified retirement plans plus the Coverdell Educational Savings Account and Health Savings Accounts for the benefit of the reader.

Qualified Retirement Plans

The Employee Retirement Income Security Act of 1974 (ERISA) passed by U.S. Congress regulates the qualified retirement plan by setting of minimum standards for most voluntarily qualified retirement and health plans. The purpose of this Act is to provide protection for individuals by providing for their retirement in the private industry plans. The tax break incentives offered by this Act are designed to encourage employers to make contributions that are made for their employees to the qualified retirement plans.

Beware of non-qualified plans as they do not meet the ERISA guidelines for eligibility, participation, and other criteria. (US Department of Labor, 1974) More information on non-qualified plans are given later in this paper.

Qualified retirement plans are classified into two groups of plans: defined benefit plans and defined contribution plans. The difference between the two types of funds are explained. A defined benefit plans sets out a prescribed amount of payout for the individual. The amount prescribed is a guaranteed amount. The defined benefit plan is becoming less popular than the defined contribution plans. (US Department of Labor)

The more popular defined contribution plan is a retirement plan in which regular payments are made by the employer and/or employee. In likeliness, the employer will match the payment made by the employee which is typically a predetermined amount of pre-tax earnings. The value of monies held within these retirement plans will fluctuate depending upon the investment criteria and market conditions.

The highly recognized 401(k) is the most common type of defined contribution plan. Other defined contribution plans include 403(b) plans, employee stock ownership plans, and profit-sharing plans. (US Department of Labor, 2019)

401(k) Retirement Plans

A 401(k)-retirement plan is a qualified employer-sponsored retirement plan based upon the requirements of ERISA. The retirement plan is for the benefit of the employee. (Kagan, 2018)

Eligible employees may make salary-deferral contributions to the 401(k)-retirement plan on a post-tax and/or pretax basis. The contribution to the 401(k) is limited to a certain percentage of an employee's salary, and it has a maximum contribution level. The employer may elect to partially match or fully match the contribution on behalf of the employees; however, the Internal Revenue Service regulates the fund by placing limits on the percentage of salary-deferral contributions. The earnings generated by the 401(k) plan accrue on a tax-deferred basis.

403(b) Retirement Plans

The 403(b) Retirement Plan is a tax advantaged retirement investment fund that was established primarily for employees of public schools, ministers, and employees of some tax-exempt organizations. There are three types of plans available namely (a) an annuity contract provided by insurance company, (b) a custodial account that invest in mutual funds and (c) a retirement income account set up for Masjid (Church) employees. The investment criteria for the 403(b) plans is either mutual funds or annuities. (Internal Revenue Service, 2019)

There is a cap on Contributions to the 403(b) plans. If contributions exceed the capped level as regulated by the Internal Revenue Service, then penalties apply. The limit on annual contributions is capped at $56,000 for 2019 year. (Internal Revenue Service, 2019)

Traditional IRA

A traditional IRA is an individual retirement account (IRA) designed to give individuals the opportunity to save for retirement. There can be significant tax advantages for individuals who make contributions to this type of retirement plan. The contributions made to a traditional IRA are made from pre-tax dollars and may be partial or fully tax deductible depending upon the individual's circumstances. The earnings and gains accrued in the traditional IRA are not taxed until they are distributed. (Internal Revenue Service, 2018) (Internal Revenue Service, 2018)

Roth IRA

The Roth IRA has many similarities to the traditional IRA. Contributions made to the Roth IRA is made from after-tax income. Individuals can still make contributions to Roth IRA after the age of 70 years providing that they are still earning income.

The primary differences between a Roth IRA and traditional IRA retirement plan are that (a) the earnings and growth in the Roth IRA are tax-free and (b) distributions or withdrawals from the Roth IRA is tax-free. (Malone, 2018)

Roll Over IRA

A rollover Individual Retirement Account (IRA) is an account that has been designed to allow for transfer of assets from an earlier employer-sponsored retirement account to a traditional IRA. The rollover IRA from a 401(k), 403(b) or profit-sharing plan enjoys the status of maintaining the status of tax-deferred assets. Using the direct rollover method, the employer directly transfers the assets and the employees avoid having 20% of their transferred assets withheld by the Internal Revenue Service which is different from an indirect rollover. The indirect rollover allows for the employee to take possession of the retirement plan assets. The employee has 60 days to rollover the assets into an eligible retirement plan. In the indirect rollover method, 20% of the account’s assets may be withheld. Upon the employee filing their annual tax return, the 20% of the assets are unlocked and transferred to the eligible retirement fund. (Kagen, 2018)

Similarly, the assets held in the rollover IRA funds can be moved to a new employer's retirement plan. Rollover IRA funds allow transfers into and out of the fund.

There are no capping limits applied to the rollover IRAs to which an employee can roll over. The employee is permitted to invest in stocks, bonds, ETFs and mutual funds.

Unqualified Retirement Plans

As stated earlier in this paper, an unqualified retirement plan is a type of tax-deferred, employer-sponsored retirement plan that is not regulated by Employee Retirement Income Security Act (ERISA). The unqualified retirement plans are typically used as an incentive for improved performance by executives of an organization. These plans form part of an executive’s salary package and is an added benefit in addition to the qualified retirement plan.

Contributions to a non-qualified plan do not become tax deductible to the employer until the employee has taken a distribution from the plan for which the employee will be taxed.

457 Plan

The 457 plan is a non-qualified retirement plan that is available for governmental and certain non-governmental employers. Independent contractors can participate in the 457 plans whereas they cannot participate in the qualified 401(k) and 403(b) plans.

The 457 plan is available in two types – (a) 457(b) which is offered to state and local government employees and (b) 457(f) which is offered to highly compensated government and select non-government employees.

Employees are allowed to defer up to 100% of compensation not exceeding the applicable dollar limit for the year. If the plan does not meet statutory requirements, the assets may be subject to different rules.

The plan is considered to be a tax advantaged deferred-compensation retirement plan. The employer provides the plan, and the employee defers compensation into it on a pre-tax or after-tax (Roth) basis. This plan works in the same manner as a 401(k) or 403(b) plan. The key difference with this plan is that there is no 10% penalty if withdrawals are made if the individual is under the 55 years. Any withdrawals made from this plan will attract ordinary income tax.

529 Plans

U.S. Securities and Exchange Commission (SEC) state that a "529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs." (U.S. Securities and Exchange Commission , 2018) The 529 plans are qualified tuition plans that are sponsored by all states and educational institutes. The 529 plans are authorized and regulated by Section 529 of the Internal Revenue Code. Two types of 529 plans exist – education savings plan and prepaid tuition fees.

The tax-advantaged savings 529 plans do offer special tax benefits. In essence, the summary details are shown, but these details can change depending upon the type of 529 plan and the state.

Contributions. Many states offer tax benefits for contributions to a 529 plans such as deducting contributions from state income tax.

Withdrawals. 529 account withdrawals used for qualified higher education expenses or tuition for elementary or secondary schools are not subject to federal income tax and, in many cases, state income tax. If 529 account withdrawals are not used for qualified higher education expenses or tuition for elementary or secondary schools, they will be subject to state and federal income taxes, and an additional 10% federal tax penalty on earnings.

The earnings generated in a 529 plan are tax-free earnings.

Coverdell Educational Savings Account

According to the Internal Revenue Service, a Coverdell education savings account (Coverdell ESA) is a trust or custodial account designed to pay education expenses for the nominated beneficiary. Like most accounts, there are certain requirements that need to be addressed when setting up and maintaining a Coverdell Educational Savings Account. The requirements for this account are listed below.

- The nominated beneficiary must be under 18 years of age.
- The nominated beneficiary can be a special needs beneficiary.
- The account must be a Coverdell ESA when established.
- The document that regulates the Coverdale ESA must be in writing.
- Amounts held in this account must be distributed to the beneficiary by the age of 30 years unless the beneficiary is a special needs beneficiary.

Contributions must not exceed $2,000 per year. The contributions to the Coverdell Educational Savings Account are not tax deductible; Hence, distributions are tax-free for the nominated beneficiary if the distributions from the account are used to pay for educational expenses on the basis that the distributions do not exceed the limit of the beneficiary's education expenses. A portion of the Coverdell Educational Savings Account’s earnings become taxable if the distributions do exceed the beneficiary's education expenses. (Internal Revenue Service, 2018)

Health Savings Account (HSA)

A Health Savings Account (HSA) is an account owned by the individual to the purpose of saving for medical expenses that are not covered by high-deductible health plans (HDHPs). A Health Savings Account (HSA) is different from company-owned Health Reimbursement Arrangements (HRA) for the simple purpose of the account is owned by the individual and the company. The HSA funds can be used to pay for certain medical expenses without federal tax liability or penalty. The contributions made to HAS funds are made out of pre-tax income. By using untaxed dollars in a Health Savings Account (HSA), an individual can reduce their overall health care costs. (U.S. Centers for Medicare & Medicaid Services, 2018)

The HSA account can be created if the individual has a High Deductible Health Plan (HDHP) with a deductible limit for individual of $1,350 and families of $2,700. Limits are placed on the contributions made into the account. The contribution limits are up to $3,450 for self-only HDHP coverage for individuals and up to $6,900 for family HDHP coverage. If the funds are not spent by the end of the year, the balance of the account is rolled over to the next year. The earnings generated in the HSA account are tax-free.

Investment into Stocks

In this section of the paper, we will review the basics of investing into stocks.

Stocks can also be referred to as shares, securities, or equities. Stocks are individual shares in a company. When an investor is investing into a company's stocks, they are taking a percentage ownership of that company. If the company is a public company, then the shares are traded on a stock exchange between investors and intermediaries. Investment into stocks can be a good long-term investment particularly if the investor has a portfolio of shares. A portfolio of stocks can give a smoother long-term performance rather than bearing the ups and downs of individual stocks. An investor who is looking for short-term returns bears more risk as the market is more unpredictable.

The stock market is where buyers and sellers meet to decide on the price to buy or sell securities. Stocks that are traded on the stock exchange are typically purchased through a broker dealer or financial advisor. A broker dealer is an entity that will facilitate the purchase and selling of stocks and other financial securities. A financial advisor will perform the same functions directly or indirectly through the broker dealer plus they provide guidance to managing an investor's portfolio.

Investment into Mutual Funds

A mutual fund is a company that pools funds from investors for the purpose of making a return. The investor who invests into a mutual fund owns a portion of the company plus the income that is generated from the investments subject to the level of shares held in the mutual fund. The monies held in a mutual fund is invested into securities such as stocks, bonds, and short-term debt. Mutual funds provide liquidity and diversification for investors. The purchase of share units can be done directly with the Mutual fund, or indirectly through a participating broker dealer or a financial advisor. For the purpose of this paper, purchasing a share in a Mutual fund is the same as purchasing stocks in a company when it is related to retirement accounts and Shariah Compliance.

In the U.S., there are three Halal Funds - Amana, Azad, and Iman Fund. There are other financial companies that are Registered Investment Advisors (RIA) which are also Shariah compliant such as Shariah Portfolio, Wahed Invest, and Andalus Capital. Azzad is also a financial advisor.

Ethical & Shariah Compliant Investments

Qualified and unqualified retirement plans offered by most employers are available for American Muslims to participate in. To date, the lack of participation into these funds by American Muslims has been greatly associated with limited or lack of information coupled with the lack of Shariah compliant investment opportunities.

Individual scholars had permitted investing in companies prior to 1992. In 1992, the Fiqh Academy of the Organization of Islamic Cooperation (IIFA-OIC) organized the Fatwa (opinion) in a resolution permitting the participation of investor in purchasing stocks of companies that were deemed Shariah Compliant. The Muslim World League (MWL) followed the IIFA-OIC in permitting stock trading in 1995.

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was founded in 1990 as a not-for-profit organization. The organization is headquartered in Bahrain and maintains internationally renowned scholars. The purpose of the Institution was to maintain and promote Shariah standards for Islamic financial institutions. AAOIFI has standardized the resolution that was passed by the Organization of Islamic Cooperation (IIFA-OIC) through the development of standards that was to be adopted by all participants. AAOIFI plays an important role in ensuring that participants conform to the Compliance Standards set out in Islamic finance.

Since then, other institutions including the Dow Jones, S & P, FTSE, MSCI, and SC Malaysia have established their own criteria.

Shariah-Compliant Company

A Shariah-compliant company is governed by the requirements of Shariah law and the principles of the Muslim religion. (Chan, 2017) These investment funds are considered to be socially responsible investing. The justification of the permissibility is based the Shariah principal of removing hardship from the public (AAOIFI 2015). This paper will detail the guidelines for what constitutes a Shariah Compliant company. This paper will not discuss the Fiqh aspect of how Scholars attained the Fatwa on what is considered permissible or not but to the conclusion of their Fatwa and understanding. It is known that each of the different Shariah compliant Indexes (Dow Jones, S & P, FTSE, MSCI and SC Malaysia) use similar Fiqh understanding but follow different guidelines.

Shariah-compliant investment opportunities are well-positioned to take advantage of the growth of ethical and sustainable investing. Islamic finance is ethical and has similarities with Ethical, Social, and Governance (ESG) and Sustainable Responsible Investing (SRI) guidelines for other investment funds. As the growth continues, it will be seen that the future will offer more Islamic finance products that are also ethical and sustainable.

The criteria to be Shariah-compliant

The primary objective of Shariah-compliant investments is to provide an alternative option for investors who wish to abide to the Shariah requirements on their investments.

For an investment fund that wishes to become Shariah-compliant, these funds have many requirements that must be addressed and monitored. A Shariah-compliant fund does not include investments which generate most of their income from the selling of weapons, military equipment, alcohol, pork products, pornography, or gambling. The investment fund must have an annual Shariah audit. (Chan, 2017)

This paper will now take a look at the five conditions that must be passed by an investment fund in order for it to be considered shariah-compliant.

A. The Core business of the company is permissible but excludes those institutions whose predominant source of income is derived from conventional finance, gambling, liquors, pork and other products and services that may constitute impermissible income. The Quran says, "O you who believe, do not wrongfully consume each other's wealth" (4:29, Trans, Abdul Haleem, 2004)
B. A review of the company's interest-bearing accounts and liquid assets are required to ensure that the amount recorded on the balance sheet must not be greater than a certain percentage of the company's assets or market capitalization.
C. A review of the company's debt obligation is undertaken to ensure that the debt obligation must be less than a certain percentage of assets or market capitalization.
D. The next condition that is required to be met is designed to limit the trading in companies that have illiquid assets. This condition is achieved by ensuring that the company's account receivables or liquid assets must also meet a certain percentage of assets.
E. The final condition is the purification for a stock. This condition is to disburse of any income from the income generated from interest income.

Further empirical evidence shows the summary format of the Shariah Screening criterion of as set out by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Figure 2 below illustrates the screening process as set out by the Institution.

Categories of Filters	Names of Filters	Purposes of Filters	Benchmarks of Filters
Compliance Filters	Main business of the company	To exclude companies with impermissible core businesses	Impermissible core business may include activities based on *riba* or interest/usury (like conventional banks), trading in uncertainty/risk (*gharar*) (like insurance companies), gambling/games of chance (*maysir*) (like casinos), manufacturers or traders of impermissible products or services (like liquor, pork, prostitution, etc.)
	Non-compliant income to total income	To control interest and other types of impermissible income	Impermissible + interest income < 5% of total income of the company
	Interest taking deposits to market capitalization of total equity	To control interest income	Interest taking deposits < 30% of the market capitalization of total equity
	Interest bearing debt to market capitalization	To control the involvement of the company in paying interest	Interest bearing debt < 30% of the market capitalization of the corporation
Tradability Filter	Illiquid assets to total assets	To ensure that illiquid assets do not become small in amount	Total market value of illiquid assets ≥ 30% of the market value of the total assets

Figure 2 - AAOIFI Criteria

The filter of the company's main business is quite straight forward, and the rationale behind it is also obvious as illustrated in Figure 2 above. The principle involved is about 'wrongfully consuming' wealth that is prohibited in Shariah, hence, any such investments that falls under this criterion, means the business is becomes impermissible. Similarly, the interest earned is stated as being impermissible.

The Dow Jones Islamic Market Index (DJMI) & S &P Index use 33% of Cash & Interest-Bearing Securities (IBS) of Market capitalization. The AAOIFI used 30% of Market capitalization. While the FTSE, MSCI, and Security Commission – Malaysia (SC-Malaysia) use 33% of total assets.

In the Debt ratio, the DJMI, S & P index must have debt no more than 33% of market capitalization. Furthermore, AAOIFI requires 30% of market capitalization. However, the FTSE, MSCI, & SC-Malaysia require 33% of total assets.

Account Receivables the DJMI requires 33%, S & P 49%, FTSE 50%, & MISCI 33%. However, SC-Malaysia and AAOIFI don't take Account receivables into consideration.

Index	Debt / Average Market Cap	Debt / Total Assets	Cash + IBS	Account Receivables	Interest Income	Revenue from NSAC
DJMI	**33%**	**NA**	**33%**	**33%**	**X**	**X**
S & p	**33%**	**NA**	**33%**	**49%**	**X**	**5%**
FTSE	**NA**	**33%**	**33%**	**50%**	**5%**	**X**
MSCI	**NA**	**33%**	**33%**	**33%**	**X**	**5%**
SC - Malaysia	**NA**	**33%**	**33%**	**X**	**X**	**X**
AAOIFI	**30%**	**NA**	**33%**	**X**	**5%**	**X**

Purification

In simplistic terms, purification is the cleansing process that arises from the investment earned that is deemed not permissible according to Shariah-based investment principles be donated to charity. Purification, in the case of Shariah Compliant investment, refers primarily to interest earning and incidental income from other non-permissible sources as mentioned earlier in this paper and donating these incomes to charities (AAOIFI 2015). The purification finds clear Shari'ah basis exemplified in the classical annals of fiqh and statements of major learned scholars. Calculating purification may differ from one company to another, the purification is an essential part of the Shariah compliance. Each financial institution should provide a purification amount or estimated amount.

Zakat

Zakat or (Al-Zakat) means "that which purifies" in the Arabic language. Zakat is the third pillar of Islam that is focused on purifying an individual's worldly wealth for the welfare of the community. Zakat is an obligatory duty for all Muslims by taxing their surplus wealth above the set level that they have owned for one lunar year or more as a means of purification.

Zakat is the pillar for strengthening the life and soul of the community by establishing economic justice by imposing the obligatory duty on wealth and distributing this same wealth to the poor, and the less fortunate who meet certain conditions.

Criteria

Quran says: "Those who hoard up treasures of gold and silver and spend them not in the way of Allah; give them the news of a painful punishment, on the Day when that (wealth) will be heated in the Fire of Hell and with it will be branded their forehead, their sides, and their backs, (and it will be said to them:) 'This is the treasure which you hoarded for yourselves. Now taste of what you used to hoard.'" [Al Quran 9:34-35]. This verse has been interpreted by scholars to refer to those who withhold the obligatory zakat.

Islam has set criteria that establishes the Zakat system based upon the wealth of Muslims. The criteria are set out below.

1. There must be full ownership in the asset. The owner of the asset is the sole owner of the income generated and has the sole right to dispose of the asset.
2. Nisab (Limit of wealth) is defined as the individual's ability to possess a sufficient level of wealth to sustain an average family's necessities excluding food, clothing, shelter, transportation, and working tools. The nisab for gold regardless of its form is set at 85 grams of pure gold or its equivalent in currency, and 595 grams for silver. (e-Nisab, 2017)
3. Hawl (zakat year): The zakat year for cash and commercial assets as well as livestock is a lunar year (354 days). In case of adopting the solar year for cash and commercial assets, the zakat rate becomes 2.577%.
4. Applicable zakat rate is 2.5% being applicable to gold, silver, currencies, and articles of trade.

Methods of Calculation of Zakah Base for Investments

According to AAOIFI, there are two methods for calculation of Zakah base: the first is the method of net assets, and the second is the method of net investment method of net assets. The two methods have different bases of assessment. The methodology to choose is based on the intention of the investment. Shariah Standard No. 35 is based on the net assets method. (AAOIFI, 2015) Using the net asset method, the Zakat base shall be determined as follows:

Zakah base = Zakatable assets – (liabilities payable during the financial year as at the date of the balance sheet + all installments of liabilities of the financial year which will become due during the coming financial period + rights of the holders of non-restricted investment accounts + minority rights + sovereign rights +waqf rights + charitable rights + rights of non-profit-earning organizations that have no specific owner). (AAOIFI, 2015) The second method is to calculate the Zakatable asset base. The Zakat base shall be determined by using 2.5% for a lunar calendar year and 2.5775% for a solar calendar year (Nisab). There is a third method of calculating Zakat on investments that has not been accepted by AAOIFI.

The third methodology is to pay Zakah on the gains of the stock similar to how Zakat is calculated on "the produce of plowed land". Narrated on the authority of Salim bin Abdullah from his father: The Prophet 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) is compulsory (as Zakat); and on the land irrigated by the well, half of an Ushr (i.e. one-twentieth) is compulsory (as Zakat on the yield of the land)." Sahih Bukhari. Chapter 24, Obligatory Charity Tax (Zakat). According to Sheikh Al-Qardawi, he set this third methodology as a method to calculate Zakat on investments.

Conclusion

Retirement planning is important to everyone to provide financial stability when retirement happens. The lack of retirement planning poses a high risk for these people during retirement with little or no income and therefore, must rely on immediate family for financial assistance. Most people are employees, contractors, or small business owners.

This paper has addressed the retirement plans available plus attempted to provide a holistic view of the investment universe in the United States. The paper has given an insight into the basic knowledge of investing, types of accounts available to investors, and the shariah component as well touch on the purification of the investment and the methods of Zakat on investments.

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