338679 - How to pay zakah on shares in real estate funds

the question

I am a shareholder in a number of real estate investment trusts (REITs) that are registered in the Saudi stock exchange, for the purpose of long-term investment and earning from the returns on these funds. I want to work out the zakah on these shares. I pay my zakah annually in the month of Ramadan. I looked for a way to work out the zakah on these shares, but I could not find any clear answer. These funds are regarded as new on the stock exchange, and I know that the managers of the funds are not obliged to pay zakah on them. I hope that you can explain the way to work out my zakah.

Detailed answer

Praise be to Allah.

With regard to zakah on shares in real estate, you should look at what is there and the nature of the investment in it, which is of two types:

The first type:

Where the real estate is to be rented out and money made from the rent. In this case, zakah is paid on what each shareholder earns of income [from the investment], if it reaches the nisab (minimum threshold at which zakah becomes due) by itself, or when added to other currency or gold and silver.

The one who gives zakah should pay attention to the year for this income, which starts from when he took possession of the money with which he bought the shares, or he may give zakah on it when the year for the other currency that he owns begins.

So if you used to pay zakah on your money in Ramadan, but the year for the money with which

you bought the shares begins in Shawwaal, and you chose to give zakah on these shares in Ramadan – assuming that the property is to be rented out and not sold – then you may add whatever you have of income from these shares to other currency that you have, and pay 2.5% of the total amount.

The second type:

Where the real estate is to be sold – which is usually the case. In that case you must pay zakah on the shares in the same manner as zakah on trade goods. So when one year has passed, you should look at the market value of the shares, and give 2.5% of this value.

The year begins from when you took possession of the money that reaches the nisab, with which you bought these shares.

Shaykh Ibn ‘Uthaymeen (may Allah have mercy on him) said concerning shares in land belonging to a real estate company:

These shares are trade goods, as it appears, because those who buy shares in land want to sell it and make money. Hence they must give zakah on it every year, by evaluating it according to the market price, then paying zakah. So if we assume that the shareholder bought shares worth thirty thousand, and after one year had passed their value was now sixty thousand, he must give zakah on sixty thousand. If, after one year, the value of thirty thousand had dropped to only ten thousand, then he must only give zakah on ten thousand."(*Majmoo‘ Fataawa Ibn ‘Uthaymeen* 18/226).

Dr. Muhammad ibn Sa‘ud al-‘Usaymi (may Allah preserve him) was asked how to give zakah on Islamic investment funds; if the companies pay zakah to the government department, then do the shareholders not have to give zakah on these funds?

He replied: It is important to note that investment funds, whether they are investing in shares or trade goods, are not committed to paying zakah; rather giving zakah is the job of the shareholder, according to the contract with the agent. Therefore you have to give zakah on these funds, based

on the market value of each share.End quote

Dr. Yoosuf ash-Shubayli (may Allah preserve him) was asked:

How should I give zakah on my wealth that is in investment funds?

He replied: Wealth that is in investment funds comes under the rulings on trade goods. It is well-known that no zakah is collected on these funds by the government departments of zakah and income. Based on that, you must give zakah on your entire share of these funds, by working out their value at the time when your zakah becomes due, then giving one quarter of one tenth of that value – in other words, 2.5% of the value of your share in the fund, according to whatever gains or losses you have.

End quote from Dr. Yoosuf ash-Shubayli site.

It says in a fatwa of the Sharee'ah Council of Bank al-Bilaad: zakah on investment shares must be paid by the investor (the shareholder), based on the market value (the latest value announced by the bank), when one year has passed.

End quote from *zakah al-Mahaafiz wa's-Sanaadeeq al-Istithmaariyyah: Ru'yah Jadeedah*, Muhammad ibn Ibraaheem as-Suhaybaani and Khaalid ibn 'Abd ar-Rahmaan al-Muhanna.

And Allah knows best.