360987 - Investment in Forex Trading

the question

Approximately three years ago, I signed a contract with a Forex company, whose dealings are in accordance with Islamic teachings, according to the manager. I invested four thousand dollars to trade in it, and he made me a portfolio that included several shares, the value of each of which was one thousand dollars. Approximately every four months, the profits are distributed, of which the company takes 20% and the rest goes to the shareholders. What is the ruling on that? Is this way of investing valid? If there is anything wrong with it, what is the ruling on the profits that I have actually received? How can I pay zakah on this money? Is it to be paid on the profits after one full Hijri year has passed, or on the entire amount?

Summary of answer

There is nothing wrong with giving money to the company to trade in currencies with it, on the basis that the company will have 20% and the remainder will go to the shareholders.

Detailed answer

Praise be to Allah.

Conditions of investing in currencies

If the companies deal in currencies in accordance with Islamic guidelines, it is permissible to invest money in them. Dealing in currencies is subject to a number of conditions:

1. The investment company should avoid financial leverage, and limit trading to money that the company has.
2. There should be hand-to-hand exchange when trading currencies, so that the currencies are put into the accounts of the buyer and seller in the meeting in which the transaction is done.

3. You should avoid haram contracts such as options and derivatives.

For more, please see these answers: When is the Forex halal? and Ruling on investing in the eToro website .

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How to calculate zakah on wealth

Zakah must be given on the money (capital) and its profits every year. As for the money, that is because it is cash that the company trades with, transferring it from one currency to another. As for the profit, it is connected to the money (capital).

The scholars of the Permanent Committee (9/356) were asked: I have wealth amounting to 15,000 riyals. I gave it to a man to trade with it on the basis that he would have half of the profits. Is zakah due on this money? On which of them is zakah to be paid, the capital or the profits or both? If zakah is due on the capital, we bought some specific trade goods, such as carpets, furniture and so on, so what is the ruling in this case?

They replied:

“Zakah must be given on the money and wealth mentioned that is prepared for trade, when one full Hijri year has passed since they were acquired. Zakah must be paid on the capital and profits after one year has passed. If the wealth was used to buy trade goods, then their price should be worked out when one year has passed at the current market value, then zakah should be paid at a rate of 2.5 percent of the total of the capital plus the profits.

Shaykh ‘Abd al-‘Aziz ibn ‘Abdillah ibn Baz, Shaykh ‘Abd ar-Razzaq ‘Afifi, Shaykh ‘Abdullah ibn Ghadyyan.”

Ruling on using financial leverage

If the company uses financial leverage or deals in any kind of haram contracts, it is haram to get involved with it. You must repent and withdraw your money immediately, and zakah is due on the capital but not the profits earned in haram ways; you must get rid of the haram profits, unless you were unaware of the prohibition.

And Allah knows best.