69912 - Do We Pay Zakah on Shares?

the question

I hope that you can give me some details on the ruling on zakah on company shares – is zakah due on them or not? And at what rate?.

Summary of answer

1- If the shareowner intends to trade in shares and make a profit, then zakah is due on the commercial shares, both on the price of the share and on its profit.
2- Zakah is due on profits from manufacturing companies if it reaches the nisab and one year has passed, but no zakah is due on shares in such companies except for the cash reserves of the company.
3- In the case of agricultural companies, zakah is due on the value of the shares in crops or produce, if they are of types on which zakah is due, subject to the condition that the amount of shares reaches the nisab, which is 300 saas. zakah is also due on the value of shares in the company's cash reserves.
4- Zakah on shares in companies is one-quarter of one-tenth, i.e., 2.5%.

Detailed answer

Praise be to Allah.

What is a share?

"Share" refers to a partner's portion of the capital of a joint-stock company.

The word is also used to refer to the document which proves that he owns this share. (See: al-Ashum wa'l-Sanadat (p. 47); Mawsuah al-Mustalahat al-Iqtisadiyyah wa'l-Ihsaiyyah, p. 775)

The share produces a part of the company profits and may increase or decrease based on the success of the company and its increase or decrease in profits. It is possible that shares may suffer loss, because the shareholder owns a part of the company, proportionate to his number of shares.

Value of shares

The share has a number of values, as follows:

1. Nominal value: this is the value assigned to the share when the company was founded, and is mentioned in the share certificate.
2. Book value: this is the value of the share after the company's obligations have been deducted and the remainder has been shared out according to the number of shares issued.
3. True value. This is the monetary value represented by the share, i.e., if the company were to be dissolved and its assets divided according to the number of shares.
4. Market value. This is the value for which the share is sold in the market, which changes according to supply and demand.

Shares can be traded among individuals, like other products, which makes people take them as a means of trade by buying and selling them with the aim of making a profit.

In the answer to question no. 8590 , we have stated that there is nothing wrong with selling company shares so long as the company's activities are not haram.

How should zakah be paid on company shares?

Some shareholders buy shares to trade them with the aim of making a profit, and some of them buy them and keep them so that they may have income from their profits, without trading in them.

In the former case, the shares are regarded as trade goods, for buying and selling on the stock exchange. So they come under the same ruling as trade goods, and zakah must be paid on them according to their value at the end of every year.

In the latter case, the contemporary scholars and researchers differed concerning such shares , but there are two main points of view:

- They should be regarded as trade goods, regardless of the company's activities.

They said: because their owner makes a profit from them like any other trader makes a profit from his goods, so in this sense they are like trade goods. This opinion is based on the idea that tools and equipment for manufacturing are now subject to zakah because, in their view, they are regarded as wealth whose value may increase.

This view was adopted by Muhammad Abu Zahrah, 'Abd al-Rahman ibn al-Hasan, 'Abd al-Wahhab Khallaf and others.

- The ruling on shares differs according to the type of company that has issued the shares.

This is the view of the majority of contemporary scholars, although they may differ amongst themselves concerning some details.

Types of share-issuing companies

The share-issuing companies may be divided into four kinds:

1. Manufacturing and service companies that do not engage in any kind of trade, such as dye companies, hotel companies and transportation companies. No zakah is due on shares in these companies, because the value of these shares is based on equipment, tools, buildings, furnishings and so on, which are needed in order to do the work, and there is no zakah on these things. Rather zakah is due on the profits of these shares if it reaches the nisab and one year has passed.
2. Companies which engage only in trade (commercial companies).
3. Companies which engage both in manufacturing and trade.

Companies which engage only in trade are those which buy goods and sell them without doing anything to change them, such as import/export companies, and international trade companies.

As for companies which engage both in manufacturing and trade, these are companies that combine both activities, such as companies that extract or buy raw materials, subject them to some changes, then trade in them, like petroleum companies, textile companies, metal companies, chemical companies, and so on.

zakah must be paid on shares in these two types of companies (those that engage in trade only and those that engage in manufacturing and trade), after deducting the value of the buildings, tools, and equipment owned by these companies.

The net value of the buildings and equipment may be worked out by referring to the company's annual budget.

1. Agricultural companies

In this case, zakah is due on the crops and produce – if the produce is of the type on which zakah is due. So it should be worked out what each share is worth in terms of crops and produce, then the share-owner must pay zakah on it. He should pay one-tenth if the crops are irrigated naturally and half of one-tenth if they are irrigated artificially, subject to the condition that the shares reach the nisab, which is 300 saas.

The above is based on the assumption that the factories, buildings such as hotels, and cars etc that are used by the company are not subject to zakah, except the zakah that is due on any profits made, if it reaches the nisab and one year has passed. This has already been discussed in the answer to question no. 74987

This second view is more correct, because a share is a part of the company, so it comes under the same rulings with regard to zakah, whether the company is involved in manufacturing, trade or agriculture.

This was the view of Shaykh 'Abd al-Rahman 'Isa in his book al-Mu'amalat al-Hadithah wa Ahkamuha; and Shaykh 'Abd-Allah al-Bassam and Dr. Wahbah al-Zuhayli, as stated in Majallat al-Majma' al-Fiqhi, 4/742.

Al-Bassam stated that differentiating between commercial and manufacturing companies is the view of the majority. (Majallat al-Majma' al-Fiqhi, 4/1/725)

It should be noted that manufacturing and agricultural companies also have cash reserves, and there is no dispute that zakah is due on this money. It should be worked out what each share is worth of this money, and the shareowner should pay zakah on that, if it reaches the nisab by itself, or if it reaches the nisab when added to his own money.

This is the view of Dr. 'Ali al-Salus, as stated in Majallat al-Majma' al-Fiqhi, 4/1/849

Shaykh Ibn 'Uthaymin also drew attention to this when he said:

"If a person has bought these shares for the purpose of trade – meaning that he buys these shares today and will sell them in the future whenever he can make a profit – then he must pay zakah on these shares every year, and pay zakah on any profit that he makes.

But if these shares are for the purpose of investment, and he does not intend to sell them, then it depends. If they are money – gold, silver or cash money – then zakah must be paid on them, because zakah is due on cash, gold and silver and must be paid every year.

In that case he should ask those who are in charge of this institution what money they have in their reserve.

If the wealth is in the form of a product or other benefits, other than gold, silver or cash, then no zakah is due on it, rather zakah is due on any profits that are made, when one year has passed since taking possession of it." (Majmu' Fatawa Ibn 'Uthaymin, 18/199)

The Standing Committee for Issuing Fatwas was asked: We have invested some money in buying company shares, knowing that some of these companies deduct the zakah before distributing the profits, and some of them do not calculate the zakah. Should we pay zakah on the capital or on the profits of these companies? Please note that there are two types of shares:

- Those the aim of which is to receive the profits, not to sell the shares

- Another type which is to sell the shares like other kinds of trade goods.

They replied:

“He has to pay zakah on the shares which are for selling and on their profits every year. If the company pays zakah on behalf of its owners with their permission, that is sufficient. As for the shares which are for investment only, zakah should be paid on their profits when one year has passed, unless it is cash, in which case zakah must be paid on the capital and on the profit.” (Fatawa al-Lajnah al-Daimah, 9/341)

Shaykh Ibn ‘Uthaymin (may Allah have mercy on him) was asked: Some commercial companies invest in real estate etc and issue shares, and the money may be left with the company for a long time, maybe years. How should zakah be paid on the value of these shares? Is it permissible for the owner of the company to pay zakah on all these shares at the proper time, then deduct it from the capital of the shareholders or from the profits before they are distributed?

He replied:

“Zakah is due on commercial shares every year, because they are trade goods. Their value should be worked out every year when the zakah becomes due, and one-quarter of one-tenth should be paid, whether it is equivalent to the purchase price, or more or less.

With regard to the company owner paying the zakah on these shares, if that is done with authorization from the shareholders, there is nothing wrong with it, and the zakah should be worked out as explained above. But if they did not authorize him to pay the zakah, then he should not do so; but he has to inform the shareholders of its value at the time when zakah becomes due, so that each of them may pay the zakah on his shares by himself, or authorize him to pay the zakah. If some of them authorize him and some do not, then he should pay the zakah of those who authorized him and not that of the others.

Of course, if he pays the zakah he will deduct it from the capital, or from the profit.” (Majmu’ Fatawa Ibn ‘Uthaymin, 18/217)

In conclusion, if the shareowner intends to trade in shares and make a profit, then zakah is due on the commercial shares, both on the price of the share and on its profit.

Zakah is due on profits from manufacturing companies if it reaches the nisab and one year has passed, but no zakah is due on shares in such companies except for the cash reserves of the company.

In the case of agricultural companies, zakah is due on the value of the shares in crops or produce, if they are of types on which zakah is due, subject to the condition that the amount of shares reaches the nisab, which is 300 saas. zakah is also due on the value of shares in the company's cash reserves.

Is zakah due from the company in which shares are held or from the shareholders?

Some researchers are of the view that zakah on shares is due from the company. They quote as evidence the fact that the company is an independent entity which has the power to dispose of its wealth, and zakah is a duty that has to do with the wealth, hence no conditions have been stipulated concerning being an adult and of sound mind with regard to it.

The response to that is that even though the company is an independent entity, that does not mean that zakah is enjoined upon it, because other conditions of zakah being obligatory are that one should be a Muslim and be free (as opposed to being a slave), etc. These are attributes that cannot be applied to a company. Moreover, the company's ownership of the wealth is on behalf of the shareholders, so basically the shareholders are the owners, not the company.

They also quoted as evidence the analogy with owning shares in an an'am animal (camel, cow, etc), because the zakah is due on the shared wealth as a whole, not on the wealth of each partner individually.

The answer to this is that the fact that zakah is due on combined flocks does not mean that the zakah is obligatory upon this partnership as a separate entity, rather what it means is that the

wealth of the partners is added together and the zakah is worked out like the zakah of a single person.

The majority of scholars are of the view that zakah is obligatory upon the shareholder – and this is the correct view – because the shareholder is the true owner of the money, and the company handles his shares on his behalf according to the conditions stipulated in the company's regulations. And zakah is an act of worship which requires an intention (niyyah) when it is done; there is reward for paying it and punishment for withholding it, and this is inconceivable in the case of shareholding companies.

Who should pay zakah on shares – the company or the shareholder?

The basic principle is that the one who should pay zakah on shares is the owner of the shares himself, because the owner is the one who is obliged to pay his zakah. But there is nothing wrong with the company paying zakah on behalf of shareholders. The Fiqh Council has stated that there is no reason why a company cannot pay zakah on behalf of shareholders in four cases:

1. If that is stated in the basic regulations,
2. or if a decision to that effect is issued by the general membership,
3. or if the law of the state obliges companies to pay zakah,
4. or if the shareholder delegates the company to pay zakah on his shares." (Majallat al-Majma' al-Fiqhi, 4/1/881)

Rate of zakah on shares

Zakah on shares in companies is one-quarter of one-tenth, i.e., 2.5%, whether the owner intends to trade in them or keep them for the sake of their annual profit, because if they are for the purpose of trade, then they are trade goods, and the zakah on trade goods is one-quarter of one-tenth. If they are bought in order to be kept so that one may benefit from the annual profit, then they are like real estate that is rented out, and the zakah on rent for property is one-quarter of one-tenth.

When does the year for shares begin?

With regard to shares in commercial companies or shares that a person deals in, the profits are connected to the capital with regard to the year (for calculating zakah), because a new year cannot be started for the profits on trade, rather the year starts when the wealth was originally acquired, if the original wealth reached the nisab. (Al-Mughni, 4/75)

It must be noted that if trade goods are bought with gold, silver or cash, a new year cannot be started for them from the time of purchase, rather the year should continue from the time when the money with which they were bought was acquired, if it reaches the nisab.

Shaykh Ibn ‘Uthaymin (may Allah have mercy on him) said:

“Note that the year for trade goods does not come one year after buying them, rather it comes one year after the original wealth was acquired, because trade goods are a form of money and part of your capital which you turned into trade goods, so the year starts from the time you acquired the wealth with which you bought the trade goods.” (Majmu’ Fatawa Ibn ‘Uthaymin, 18/234)

See also the answer to question no. 32715

With regard to manufacturing companies and those whose shares are kept for the purpose of investment and earning the annual profit, not for trade, zakah is due on the profits of these shares if the profit on its own reaches the nisab, or if it reaches the nisab when added to the money that a person has. The year begins from the time this profit was acquired, as stated by the Fiqh Council and Shaykh ‘Abd-Allah al-Bassam. (See Majallat al-Majma’ al-Fiqhi, 4/1/722)

It must be noted that in the case of shares in agricultural companies and produce and crops on which zakah is due, it is not stipulated that one year should pass before zakah becomes due, according to scholarly consensus, because Allah says (interpretation of the meaning):

“but pay the due thereof (their zakah) on the day of their harvest” [Al-An’am 6:141] (Al-Mawsu’ah

al-Fiqhiyyah, 23/281)

So the zakah of each harvest should be worked out separately.

How should the value of shares be calculated in order to pay zakah?

With regard to the shares on which zakah is due (namely shares in which the owner deals, or shares in commercial companies), the zakah must be paid according to their market value at the end of the year, because these shares are trade goods, and the value of trade goods should be worked out at the end of the year and the zakah paid on the basis of this value, regardless of the nominal value of the shares. Please see question no. 32715

With regard to shares on which no zakah is due (shares in manufacturing or service companies), there is no need to work out their value at the end of the year, because the zakah is due only on their profits, not on the shares.

Shaykh Ibn ‘Uthaymin (may Allah have mercy on him) was asked: Is the zakah on shares based on the official value of the shares or on the market value, or what?

He replied:

“Zakah on shares and other kinds of trade goods is based on their market value. If it was worth one thousand at the time of purchase and is worth two thousand at the time when zakah becomes due, then zakah must be based on the value of two thousand, because what counts is the value of a thing at the time when zakah becomes due, not at the time of purchase.” (Majmu’ Fatawa Ibn ‘Uthaymin, 18/197)

And Allah knows best.