72315 - He is asking about paying zakah on the profits of a company only

the question

I am the owner of a small company that designs and manufactures decorative glass. My question has to do with paying zakah. I pay zakah on the net profits after deducting taxes, which reach a rate of 30%. Is paying it in this manner correct?
I got confused about my situation after I heard from some of the brothers that this is not correct.
Please note that the way my company works is that we make a contract with a customer to design and manufacture some domes or windows made of coloured glass, then we import the raw materials such as glass, lead, tin solder etc from abroad. We bring it to our warehouse where we use it for manufacturing, and some of it remains and is counted among our stock at the end of the financial year, when we do our stocktaking and the finance department publishes the budget showing the profits for that year, on which the payment of zakah is based.
My question is:
Should zakah be paid on the net profits, or on the capital?
Or should it be paid on the assets of the owner that are listed in the budget issued by the finance department?
Are the taxes – which are taken from the profits and paid to the department of zakah and income – regarded as a kind of zakah?
I hope that you can tell me the right way of paying zakah, because I am confused about my situation. I pray that Allaah will guide me to the right way so that I can correct any mistake that I may have made in the past or so that I can put my mind at rest if what I have done is correct.

Detailed answer

Praise be to Allah.

We ask Allah to reward you with good for your keenness to ask about the rulings of your religion. What every Muslim should do is to ask about the rulings of his religion without any delay or hesitation.

The answer to your question is:

Firstly:

This company of yours is a manufacturing and commercial company, and manufacturing and commercial companies must pay zakah on trade goods, but there is no zakah on the tools, materials, vehicles, buildings and furnishings that are intended to be used and not to be sold for profit.

See question no. [74987] and [69916]

Based on this, the way in which your zakah is to be worked out at the end of the year is:

You should calculate what the company has in its stores of materials that were bought with the aim of selling them. That includes the “glass, lead, solder etc”. Its value should be calculated at the end of the year, regardless of the price for which it was bought.

To that should be added the cash that is kept in the company or in the bank.

To that should be added the debts that people owe you and which you expect will be repaid. Then you should pay zakah on the total at a rate of 2.5%.

Secondly:

With regard to the company’s profits throughout the year, these profits may be divided into two types:

1 – Profits that result from the sale of glass to customers

These profits are subject to zakah, and a new year should not be started for them, rather the year

for them starts when the capital with which they are bought was acquired, if it reaches the nisab.

Al-Mughni, 4/75

2 – Profits that result from the assembly process itself (i.e., they may be regarded as payment for assembly and manufacturing). zakah is due on these profits if they meet the nisab and one year has passed since they were acquired.

It may be difficult in practical terms to differentiate between these two types of profit, hence it is better to pay zakah on the entire profit at the end of the year as based on the capital. Whatever is profit on trade goods, you will have paid its zakah at the proper time (i.e., after a year has passed) and whatever is payment for the work, you will have paid its zakah in advance, and paying zakah ahead of time is permissible.

Thirdly:

There is no zakah on profits that are spent during the year and which do not remain at the end of the year.

Fourthly:

The year of trade goods for a company does not start from the date the company was first established or from when the raw materials were purchased, rather it starts from when the money with which the raw materials were purchased was acquired.

For example: if you first acquired the nisab in Muharram, and the company was founded in Rajab, and you bought the raw material and started work in Ramadaan, the year for the trade goods starts in Muharram, not in Ramadaan.

Shaykh Ibn ‘Uthyameen (may Allah have mercy on him) said: Note that the year for trade goods does not end one year after they were bought, rather it is one year after the original wealth was acquired. Because it is it is another form of money which is part of your capital, where you have changed it into trade goods, so the year starts with the acquisition of the original wealth."(Majmoo’

Fatawa Ibn ‘Uthaymeen, 18/234)

See also the answer to question no. 32715

Fifthly:

With regard to calculating zakah after deducting taxes:

If the taxes are deducted and paid before the end of the year (i.e., the year for zakah purposes), then what you are doing is correct, because the money that has been paid has not been with you for a year.

But if they are paid after the year is over, then it is more on the safe side to pay zakah on it; the fact that this money is taken wrongfully from you does not mean that zakah is waived.

Sixthly:

As for regarding taxes as part of zakah, that is not permissible, because zakah is to be spent in specific ways as defined by Allah, may He be exalted, in the verse (interpretation of the meaning):

“As-Sadaqaat (here it means zakah) are only for the Fuqaraa’ (poor), and Al-Masaakeen (the poor) and those employed to collect (the funds); and to attract the hearts of those who have been inclined (towards Islam); and to free the captives; and for those in debt; and for Allah’s Cause (i.e. for Mujaahidoon — those fighting in a holy battle), and for the wayfarer (a traveller who is cut off from everything); a duty imposed by Allah. And Allah is All-Knower, All-Wise”

[al-Tawbah 9:60]

Taxes are not spent in these ways. Moreover, governments do not take taxes on the basis that they are zakah.

The scholars of the Standing Committee said:

The fact that taxes are on a property does not mean that zakah should not be paid, and that does

not waive the duty to pay it on the income earned through that building, if it reaches the nisab and one year has passed."(Fatawa al-Lajnah al-Daa'imah, 9/339)

See also question no. 2447

The scholars of the Standing Committee were also asked:

What do you say about the manner of paying zakah? I own a shop that sells lumber and one year has passed for the products that are in the store. There are debts connected to the products in the store, as the purchasers have paid some of the price and the rest is to be paid at a later date. There are also annual expenses such as the rent for the store, annual fees, taxes, insurance, and employee salaries.

They replied:

zakah must be paid on the products that are offered for sale, such as the lumber etc, if its value reaches the nisab by itself or when added to whatever cash or other trade goods you have, and one year has passed. As for the debts, rent, fees, etc, these do not mean that it is not obligatory to pay zakah."(Fatawa al-Lajnah al-Daa'imah, 9/348)

Seventhly:

With regard to zakah for past years, you have to work out the zakah for every year and pay whatever you still owe, because ignorance of how zakah is to be paid does not mean that the obligation is waived. This is a debt that you owe and must pay.

See the answer to question no. 69798

And Allah knows best.