74989 - Zakah on shares in real state companies

the question

Is zakah due on shares in real estate companies?.

Detailed answer

Praise be to Allah.

In the answer to question no. 69912 we have discussed the zakah on shares in detail, including when it is due and when it is not due.

With regard to shares in real estate companies, one of the following two scenarios must apply:

1 – The companies buy land in order to build on it or make use of whatever buildings are on it to rent them out, for example, so there is no zakah on these shares, rather zakah is due on the profits only, if they reach the nisaab and one year has passed, because these lands and properties are not subject to zakah, rather zakah is due on their returns or income if it reaches the nisaab and one year has passed.

But it should be noted that these companies' reserves are bound to contain cash and funds in the bank, and this money is subject to zakah, so it is essential to know what proportion of these funds each share represents, and pay zakah on it each year.

2 – Or the companies buy properties – land or buildings – with the aim of trading in them. These shares are regarded as trade goods, so zakah is due on them and on their profits. So zakah must be paid according to their value each year, plus their profits. This is the usual activity of real estate companies.

Shaykh Ibn 'Uthaymeen (may Allah have mercy on him) was asked about a man who bought shares in a piece of land belonging to a real-estate company. Many years have passed – how

should he pay zakah on that?

He replied:

It would seem that these shares are trade goods, because those who buy shares in land intend to trade them and earn from them, hence they have to pay zakah on them every year, by working out their value and paying zakah. So if a person has thirty thousand shares and at the end of the year they are worth sixthy thousand, he has to pay zakah on sixty thousand. If at the end of the year the thirty thousand is worth only ten thousand, then he only has to pay zakah on ten thousand. Based on this, the questioner has to work out the zakah for every year, and he should pay zakah for each year. But if these shares have not yet been sold, he should pay zakah on them when they are sold. But no one should be negligent, rather he should sell them for whatever Allah decrees, and then pay the zakah on them."(Majmoo' Fatawa Ibn 'Uthyameen, 18/226)

The scholars of the Standing Committee for Issuing Fatwas were asked about a man who bought shares in a piece of land, then sold them after five years. How should he pay zakah on them?

They replied:

He should pay zakah for each of the four previous years, according to their value each year, whether he made a profit or not, and he should pay zakah on the profit and on the capital for the last year."(Fatawa al-Lajnah al-Daa'imah, 9/350)

This applies whether the company sells the land as it is or builds on it and then sells it.

Shaykh Ibn 'Uthaymeen was asked about a man who buys land and, at the time of purchasing, intends to sell it when it has been built on. After the building is completed, he offers it for sale, and after receiving its price, he buys more land and so on. Does he have to pay zakah in this case?

He replied:

The zakah on trade goods is due on this land, because he has bought it in order to make a profit from it, and it makes no difference whether he intends to sell it before developing it or afterwards.

This is like one who buys fabric in order to make a profit from it after sewing it into garments."(Majmoo’ Fatawa Ibn ‘Uthaymeen, 18/227).