69941 - The difference between shares and stocks

the question

We know that zakah must be paid on shares. Are stocks also subject to zakah? How should zakah be worked out for them?.

Detailed answer

Praise be to Allah.

Firstly:

With regard to zakah on shares, we have discussed the zakah on them in detail in question no. [69912]. We stated there that there are some kinds of shares on which zakah is due, and others on which no zakah is due.

With regard to stocks, they are something different than shares.

A stock is a written document stating the amount of a loan given by the bearer on a specified date in return for specified interest.

A share is a partner’s portion of the capital of a corporation.

From these definitions we can see the difference between shares and stocks.

The difference between shares and stocks:

1 – A share represents a stake in a company, meaning that the shareholder is a partner, whereas a stock represents a debt owed by the company, meaning that the stockholder is a lender.

Based on this, the shareholder only earns profits when the company makes a profit, whereas the stockholder earns guaranteed annual interest whether the company makes a profit or not.

Also based on this, if the company makes a loss, the shareholder has to bear some part of the loss, depending on the amount of shares he has, because he is a partner and owner of part of the company, so he must bear some part of the loss.

The stockholder, on the other hand, does not bear any of the company's losses because he is not a partner in the company, rather he is simply a lender, who lends money in return for benefits agreed upon whether the company makes a profit or makes losses.

Ruling on dealing in stocks:

Dealing in stocks is haraam according to sharee'ah, because it is a loan in return for agreed-upon interest, and this is riba (usury) which Allah has forbidden and warned against, as He says (interpretation of the meaning):

"O you who believe! Fear Allah and give up what remains (due to you) from Ribaa (from now onward) if you are (really) believers.

279. And if you do not do it, then take a notice of war from Allah and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums)" [Al-Baqarah 2:278-279]

The Messenger (peace and blessings of Allah be upon him) cursed the one who consumes riba, the one who pays it, the one who writes it down and the two who witness it, and he said: they are all the same. Narrated by Muslim, 2995.

In the second conference of the Islamic Bank in Kuwait 1403 AH/1982 CE it was stated: That which is called interest in the terminology of western economists and those who follow them is the essence of riba that is forbidden according to sharee'ah."(Majallat al-Majma' al-Fiqhi, 4/1/732)

See also the answer to question no. 2143.

zakah on stocks

Although it is haraam to deal in stocks, zakah is due on them because they represent a debt owed to their owner, and debts that one hopes will be repaid are subject to zakah according to the majority of scholars. So its zakah must be worked out every year, but it need not be paid until one takes possession of the value of the stock. As for the interest that is taken in return for the stock, this is unclean and haraam wealth that must be disposed of by donating it to charitable causes.

The rate of zakah which must be paid is 2.5 per cent.