

Islam Question & Answer

General Supervisor:
Shaykh Muhammad Saalih al-Munajjid

220314 - He owns half of the company's capital and takes an extra percentage in return for managing the company; how should he pay zakaah?

the question

The manager of a company owns half of its shares, and he takes half of the annual profits in return for his share in the company; he also takes one third of the company's total profits in return for running the company.

The question is: should this manager pay zakaah on his capital in the company, as well as the profits and whatever he gets in return for managing the company? Or should he pay zakaah on his capital and the profits only, on the grounds that what he gets for managing it is regarded as a salary that is not subject to zakaah?

In terms of numbers, for example, if the manager's capital is 5 million, and his profit is 6 million, and what he is paid in return for managing the company is 4 million, should he pay zakaah on 15 million [5+6+4]? Or should he pay zakaah on 11 million only, seeing that the other 4 million is a salary that is not subject to zakaah?

Detailed answer

Praise be to Allah

Firstly:

The share-holding manager who was one of those who invested capital and takes an extra percentage in return for managing the company is in fact no more than a partner; he is not an employee of this company, because:

1. The money he charges in return for managing the company is worked out as a percentage, and

Islam Question & Answer

General Supervisor:
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is not a set fee. If there is no profit, he does not receive anything in return for managing the company. Such a person is a partner, not an employee.

2. The fuqaha' have stated that it is permissible to make the share of the partner who is in sole charge of running a 'inaan partnership [in which two people enter into a partnership by both investing a sum of money] greater than his partner's share. In fact some of them regard this as a condition of such a partnership being valid.

Az-Zarkashi said:

When two people form a partnership for the purpose of mudaarabah [profit sharing] – such as two people contributing to the capital and one of the two being in charge of running the business, as when each of them puts in one thousand, and one of the two will run the business – it is essential that it be stipulated that the one who does the work should receive something in addition to the return on his investment, such as stipulating that he receive two thirds, or half plus a quarter. A similar case is the scenario under discussion here. Thus what he receives in addition to the return on his investment is in return for the effort he puts into working on his partner's investment.

End quote from Sharh az-Zarkashi 'ala Mukhtasar al-Khuraqi (4/131).

We have previously explained that this type of partnership is permissible, in the answer to question no. [165923](#).

Thus it becomes clear that what you are receiving of additional profit in terms of a percentage in return for running this company is not subject to the same rulings as a set fee in return for work.

Secondly:

The way to work out zakaah in the case of the scenario mentioned in the question is as follows:

1. Zakaah on his share of the company's capital depends on the property of the company that is

Islam Question & Answer

General Supervisor:
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subject to zakaah (e.g., cash, trade goods, etc). Zakaah is not based on the amount contributed in order to form the company at the outset. In other words it should be done as follows: The value of goods and materials that were purchased for the purpose of being sold should be worked out after one year has passed, based on the price for which they would be sold. Then the value of any cash held by the company, on site or in bank accounts, should be added to that total, along with any debts that are owed to the company by others which they expect to recover. From this grand total, one quarter of tenth (2.5%) should be given in zakaah.

2. The same should be done with regard to returns (profits) on the capital, because that profit is connected to the capital, so zakaah should be paid on it at the same rate and at the same time as the capital.

The manner of paying zakaah on company wealth and profits has been discussed in the answer to question no. [72315](#).

3. With regard to zakaah on the money he earned for running the company, there is a difference of scholarly opinion on how to pay zakaah in this case. What is most likely to be the case is that zakaah must be paid on it when one full year has passed, just as zakaah must be paid on money that he earned as the return on his share in the capital, regardless of whether the profit has been divided or not yet.

Shaykh Ibn 'Uthaymeen (may Allah have mercy on him) said:

The share of the profit for the one who is running the business is a matter concerning which there is a difference of scholarly opinion: should zakaah be paid on it or not?

The correct view is that if one year has passed and it has not yet been divided, it is still subject to zakaah, because it is profit from capital, and zakaah is due on it as it is also due on the capital.

Furthermore, this is what appears to be the practice among people from the time of the

Islam Question & Answer

General Supervisor:
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Messenger (blessings and peace of Allah be upon him) until the present day: when zakaah becomes due on wealth, it also becomes due on profits made from that wealth.

End quote from at-Ta'leeq 'ala al-Kaafi (3/121).

This has been discussed previously in the answer to question no. [139631](#).

And Allah knows best.