250818 - Zakaah on a deposit paid to a school, rental or phone company, or to show commitment when entering into bidding

the question

Does one has to pay Zakat on a "Refundable Deposit" paid to a school for his child admission? Also note that the refundable deposit will be returned if the child leaves the school, so in this case one is not intending to withdraw the child from the school for the next 4-years ?
Is Zakat applicable to the amount which is lying with the school ?

Detailed answer

Money that a person puts down as a deposit for a school, or when entering into bidding, or for a phone company, and the like, is subject to further discussion:

1. If it is held temporarily, then he must pay zakaah on it along with the rest of his wealth, if it reaches the nisaab (minimum threshold at which zakaah becomes due) by itself or when other cash, gold or silver is added to it.

2. If it is held permanently or for a number of years, then he should pay zakaah on it once, when he takes it back, because it comes under the same heading as a debt for which one has no hope of repayment, or wealth that is not under one’s control.

It says in a statement of the Islamic Fiqh Council (no. 143 (1/16)), concerning zakaah on restricted-access accounts, Islamic insurance companies, money paid as insurance and end-of-contract bonuses:

The International Islamic Fiqh Council, belonging to the Organisation of the Islamic Conference (OIC), met in its sixteenth session in Dubai (in the United Arab Emirates), 30 Safar-5 Rabee‘ al-Awwal 1426 AH (9-14 April 2005 CE).

After studying the research papers submitted to the Council on the topic of zakaah on restricted-access accounts, Islamic insurance companies, money paid as insurance and end-of-contract

bonuses, and after listening to the discussion that took place on this topic, the following was determined:

1. Zakaah on investment accounts:

(a) Zakaah must be paid on the deposits in investment accounts and on the profits thereon, by the holders of these accounts, if they fulfil the conditions of zakaah, whether they are long- or short-term investments, and even if no withdrawal of the deposit is permitted because of restrictions imposed by the investment company or by the account holder.

(b) Zakaah must be given on current accounts. It makes no difference whether the money is being saved for something the account holder needs or to carry out investment projects, unless it is for the purpose of paying off debts that he owes.

2. Zakaah on accounts that are kept for the purpose of business transactions:

(a) Money that is offered to show commitment when bidding on a project (i.e., a sum of money that is offered to confirm a binding promise, in order to cover any harm or loss that may result from not fulfilling the promise), if it is not deposited in an investment account, and money that is offered as an initial security when entering into bidding is to be deducted from zakaatable funds held by the organisation where the money is deposited, and the owner must pay zakaah on it, along with other wealth that he possesses. If many years have passed since it was deposited, zakaah is to be paid on it for one year when it is given back to its owners. But if this money is in an investment account, then clause 1(a) is applicable to it.

(b) Deposits kept when bidding on a project, security deposits that are taken from individuals and companies in return for specific services such as phone and electricity services, and security deposits when renting places or equipment are subject to zakaah, to be given by the one who paid these deposits; he should give one year’s zakaah when he takes the deposit back.

(c) A downpayment is not to be deducted by the seller from other wealth of his on which zakaah is due; rather he must give zakaah on it, because he has taken possession of it, regardless of whether the purchaser cancels the deal or goes ahead with it.

3. Legal deposit

This is what special bodies or government departments stipulate must be deposited in the bank in order to issue a licence to the company. If it is held on a temporary basis, then the company should pay zakaah on it, along with other wealth it owns. If it is kept permanently, then the company should pay zakaah for one year when it is returned to them.

End quote from Qaraaraat wa Tawsiyaat Majma‘ al-Fiqh al-Islami (p. 265).

This was also stated in al-Ma‘aayeer ash-Shar‘iyyah. See: Mi‘yaar az-Zakaah (p. 573).

Shaykh Ibn ‘Uthaymeen (may Allah have mercy on him) was asked about orphans who have wealth that is deposited in the bank, and they cannot access it until they reach the age of maturity.

The reply: … Based on that, zakaah must be paid on the wealth of these orphans who are minors. But if it is in the bank and the bank is refusing to give it to them, and they cannot take it out of the bank, then no zakaah is due during the period in which the bank is withholding it, because they are not able to make use of their wealth. Therefore it is like a debt that is owed by someone who is not able to repay. But once they receive it from the bank, they must give zakaah of one year only.

End quote from Noor ‘ala ad-Darb.

And Allah knows best.