

69912 - Detailed discussion of zakaah on shares

the question

I hope that you can give me some details on the ruling on zakaah on company shares – is zakaah due on them or not? And at what rate?.

Detailed answer

Praise be to Allah.

“Share” refers to a partner’s portion of the capital of a joint-stock company.

The word is also used to refer to the document which proves that he owns this share.

See: al-As-ham wa’l-Sanadaat (p. 47); Mawsoo’ah al-Mustalahaat al-Iqtisaadiyyah wa’l-Ihsaa’iyyah, p. 775

The share produces a part of the company profits and may increase or decrease based on the success of the company and its increase or decrease in profits. It is possible that shares may suffer loss, because the shareholder owns a part of the company, proportionate to his number of shares.

The value of shares

The share has a number of values, as follows:

1 - Nominal value: this is the value assigned to the share when the company was founded, and is mentioned in the share certificate.

2 - Book value: this is the value of the share after the company’s obligations have been deducted and the remainder has been shared out according to the number of shares issued.

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3 - True value. This is the monetary value represented by the share, i.e., if the company were to be dissolved and its assets divided according to the number of shares.

4 - Market value. This is the value for which the share is sold in the market, which changes according to supply and demand.

Shares can be traded among individuals, like other products, which makes people take them as a means of trade by buying and selling them with the aim of making a profit.

In the answer to question no. [4714](#) we have stated that there is nothing wrong with selling company shares so long as the company's activities are not haraam.

How should zakaah be paid on company shares?

Some shareholders buy shares to trade them with the aim of making a profit, and some of them buy them and kept them so that they may have income from their profits, without trading in them.

In the former case, the shares are regarded as trade goods, for buying and selling on the stock exchange. So they come under the same ruling as trade goods, and zakaah must be paid on them according to their value at the end of every year.

In the latter case, the contemporary scholars and researchers differed concerning such shares, but there are two main points of view:

1 - They should be regarded as trade goods, regardless of the company's activities.

They said: because their owner makes a profit from them like any other trader makes a profit from his goods, so in this sense they are like trade goods. This opinion is based on the idea that tools and equipment for manufacturing are now subject to zakaah because, in their view, they are regarded as wealth whose value may increase.

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This view was adopted by Muhammad Abu Zahrah, 'Abd al-Rahmaan ibn al-Hasan, 'Abd al-Wahhab Khallaaf and others.

2 - The ruling on shares differs according to the type of company that has issued the shares.

This is the view of the majority of contemporary scholars, although they may differ amongst themselves concerning some details. The share-issuing companies may be divided into four kinds:

(i) Manufacturing and service companies that do not engage in any kind of trade, such as dye companies, hotel companies and transportation companies. No zakaah is due on shares in these companies, because the value of these shares is based on equipment, tools, buildings, furnishings and so on, which are needed in order to do the work, and there is no zakaah on these things. Rather zakaah is due on the profits of these shares if it reaches the nisaab and one year has passed.

(ii) Companies which engage only in trade (commercial companies).

(iii) Companies which engage both in manufacturing and trade.

Companies which engage only in trade are those which buy goods and sell them without doing anything to change them, such as import/export companies, and international trade companies.

As for companies which engage both in manufacturing and trade, these are companies that combine both activities, such as companies that extract or buy raw materials, subject them to some changes, then trade in them, like petroleum companies, textile companies, metal companies, chemical companies, and so on.

Zakaah must be paid on shares in these two types of companies (those that engage in trade only and those that engage in manufacturing and trade), after deducting the value of the buildings, tools, and equipment owned by these companies.

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The net value of the buildings and equipment may be worked out by referring to the company's annual budget.

(iv) Agricultural companies

In this case, zakaah is due on the crops and produce – if the produce is of the type on which zakaah is due. So it should be worked out what each share is worth in terms of crops and produce, then the share-owner must pay zakaah on it. He should pay one-tenth if the crops are irrigated naturally and half of one-tenth if they are irrigated artificially, subject to the condition that the shares reach the nisaab, which is 300 saa's.

The above is based on the assumption that the factories, buildings such as hotels, and cars etc that are used by the company are not subject to zakaah, except the zakaah that is due on any profits made, if it reaches the nisaab and one year has passed. This has already been discussed in the answer to question no. [74987](#)

This second view is more correct, because a share is a part of the company, so it comes under the same rulings with regard to zakaah, whether the company is involved in manufacturing, trade or agriculture.

This was the view of Shaykh 'Abd al-Rahmaan 'Eesa in his book al-Mu'aamalaat al-Hadeethah wa Ahkaamuha; and Shaykh 'Abd-Allaah al-Bassaam and Dr. Wahbah al-Zuhayri, as stated in Majallat al-Majma' al-Fiqhi, 4/742.

Al-Bassaam stated that differentiating between commercial and manufacturing companies is the view of the majority.

Majallat al-Majma' al-Fiqhi, 4/1/725

Note:

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It should be noted that manufacturing and agricultural companies also have cash reserves, and there is no dispute that zakaah is due on this money. It should be worked out what each share is worth of this money, and the shareowner should pay zakaah on that, if it reaches the nisaab by itself, or if it reaches the nisaab when added to his own money.

This is the view of Dr. 'Ali al-Saloos, as stated in Majallat al-Majma' al-Fiqhi, 4/1/849

Shaykh Ibn 'Uthaymeen also drew attention to this when he said:

If a person has bought these shares for the purpose of trade – meaning that he buys these shares today and will sell them in the future whenever he can make a profit – then he must pay zakaah on these shares every year, and pay zakaah on any profit that he makes.

But if these shares are for the purpose of investment, and he does not intend to sell them, then it depends. If they are money – gold, silver or cash money – then zakaah must be paid on them, because zakaah is due on cash, gold and silver and must be paid every year.

In that case he should ask those who are in charge of this institution what money they have in their reserve.

If the wealth is in the form of a product or other benefits, other than gold, silver or cash, then no zakaah is due on it, rather zakaah is due on any profits that are made, when one year has passed since taking possession of it. End quote.

Majmoo' Fataawa Ibn 'Uthaymeen, 18/199

The Standing Committee for Issuing Fatwas was asked: We have invested some money in buying company shares, knowing that some of these companies deduct the zakaah before distributing the profits, and some of them do not calculate the zakaah. Should we pay zakaah on the capital or on the profits of these companies? Please note that there are two types of shares:

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(a) Those the aim of which is to receive the profits, not to sell the shares

(b) Another type which is to sell the shares like other kinds of trade goods.

They replied: he has to pay zakaah on the shares which are for selling and on their profits every year. If the company pays zakaah on behalf of its owners with their permission, that is sufficient. As for the shares which are for investment only, zakaah should be paid on their profits when one year has passed, unless it is cash, in which case zakaah must be paid on the capital and on the profit. End quote.

Fataawa al-Lajnah al-Daa'imah, 9/341

Shaykh Ibn 'Uthaymeen (may Allaah have mercy on him) was asked: Some commercial companies invest in real estate etc and issue shares, and the money may be left with the company for a long time, maybe years. How should zakaah be paid on the value of these shares? Is it permissible for the owner of the company to pay zakaah on all these shares at the proper time, then deduct it from the capital of the shareholders or from the profits before they are distributed?

He replied:

Zakaah is due on commercial shares every year, because they are trade goods. Their value should be worked out every year when the zakaah becomes due, and one-quarter of one-tenth should be paid, whether it is equivalent to the purchase price, or more or less.

With regard to the company owner paying the zakaah on these shares, if that is done with authorization from the shareholders, there is nothing wrong with it, and the zakaah should be worked out as explained above. But if they did not authorize him to pay the zakaah, then he should not do so; but he has to inform the shareholders of its value at the time when zakaah becomes due, so that each of them may pay the zakaah on his shares by himself, or authorize him to pay the zakaah. If some of them authorize him and some do not, then he should pay the zakaah

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of those who authorized him and not that of the others.

Of course, if he pays the zakaah he will deduct it from the capital, or from the profit. End quote.

Majmoo' Fataawa Ibn 'Uthaymeen, 18/217

Conclusion

If the shareowner intends to trade in shares and make a profit, then zakaah is due on the commercial shares, both on the price of the share and on its profit.

Zakaah is due on profits from manufacturing companies if it reaches the nisaab and one year has passed, but no zakaah is due on shares in such companies except for the cash reserves of the company.

In the case of agricultural companies, zakaah is due on the value of the shares in crops or produce, if they are of types on which zakaah is due, subject to the condition that the amount of shares reaches the nisaab, which is 300 saa's. Zakaah is also due on the value of shares in the company's cash reserves.

Is the zakaah due from the company in which shares are held or from the shareholders?

Some researchers are of the view that zakaah on shares is due from the company. They quote as evidence the fact that the company is an independent entity which has the power to dispose of its wealth, and zakaah is a duty that has to do with the wealth, hence no conditions have been stipulated concerning being an adult and of sound mind with regard to it.

The response to that is that even though the company is an independent entity, that does not mean that zakaah is enjoined upon it, because other conditions of zakaah being obligatory are that one should be a Muslim and be free (as opposed to being a slave), etc. These are attributes that cannot be applied to a company. Moreover, the company's ownership of the wealth is on behalf of

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the shareholders, so basically the shareholders are the owners, not the company.

They also quoted as evidence the analogy with owning shares in an an'aam animal (camel, cow, etc), because the zakaah is due on the shared wealth as a whole, not on the wealth of each partner individually.

The answer to this is that the fact that zakaah is due on combined flocks does not mean that the zakaah is obligatory upon this partnership as a separate entity, rather what it means is that the wealth of the partners is added together and the zakaah is worked out like the zakaah of a single person.

The majority of scholars are of the view that zakaah is obligatory upon the shareholder – and this is the correct view – because the shareholder is the true owner of the money, and the company handles his shares on his behalf according to the conditions stipulated in the company's regulations. And zakaah is an act of worship which requires an intention (niyyah) when it is done; there is reward for paying it and punishment for withholding it, and this is inconceivable in the case of shareholding companies.

Who should pay zakaah on shares – the company or the shareholder?

The basic principle is that the one who should pay zakaah on shares is the owner of the shares himself, because the owner is the one who is obliged to pay his zakaah. But there is nothing wrong with the company paying zakaah on behalf of shareholders. The Fiqh Council has stated that there is no reason why a company cannot pay zakaah on behalf of shareholders in four cases:

If that is stated in the basic regulations, or if a decision to that effect is issued by the general membership, or if the law of the state obliges companies to pay zakaah, or if the shareholder delegates the company to pay zakaah on his shares.

Majallat al-Majma' al-Fiqhi, 4/1/881

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Rate of zakaah on shares

Zakaah on shares in companies is one-quarter of one-tenth, i.e., 2.5%, whether the owner intends to trade in them or keep them for the sake of their annual profit, because if they are for the purpose of trade, then they are trade goods, and the zakaah on trade goods is one-quarter of one-tenth. If they are bought in order to be kept so that one may benefit from the annual profit, then they are like real estate that is rented out, and the zakaah on rent for property is one-quarter of one-tenth.

When does the year for shares begin?

With regard to shares in commercial companies or shares that a person deals in, the profits are connected to the capital with regard to the year (for calculating zakaah), because a new year cannot be started for the profits on trade, rather the year starts when the wealth was originally acquired, if the original wealth reached the nisaab.

Al-Mughni, 4/75

It must be noted that if trade goods are bought with gold, silver or cash, a new year cannot be started for them from the time of purchase, rather the year should continue from the time when the money with which they were bought was acquired, if it reaches the nisaab.

Shaykh Ibn 'Uthaymeen (may Allaah have mercy on him) said: Note that the year for trade goods does not come one year after buying them, rather it comes one year after the original wealth was acquired, because trade goods are a form of money and part of your capital which you turned into trade goods, so the year starts from the time you acquired the wealth with which you bought the trade goods." End quote.

Majmoo' Fataawa Ibn 'Uthaymeen, 18/234

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See also the answer to question no. [32715](#)

With regard to manufacturing companies and those whose shares are kept for the purpose of investment and earning the annual profit, not for trade, zakaah is due on the profits of these shares if the profit on its own reaches the nisaab, or if it reaches the nisaab when added to the money that a person has. The year begins from the time this profit was acquired, as stated by the Fiqh Council and Shaykh 'Abd-Allaah al-Bassaam.

See Majallat al-Majma' al-Fiqhi, 4/1/722

It must be noted that in the case of shares in agricultural companies and produce and crops on which zakaah is due, it is not stipulated that one year should pass before zakaah becomes due, according to scholarly consensus, because Allaah says (interpretation of the meaning):

“but pay the due thereof (their Zakaah) on the day of their harvest”

[al-An'aam 6:141]

al-Mawsoo'ah al-Fiqhiyyah, 23/281

So the zakaah of each harvest should be worked out separately.

How should the value of shares be calculated in order to pay zakaah?

With regard to the shares on which zakaah is due (namely shares in which the owner deals, or shares in commercial companies), the zakaah must be paid according to their market value at the end of the year, because these shares are trade goods, and the value of trade goods should be worked out at the end of the year and the zakaah paid on the basis of this value, regardless of the nominal value of the shares.

See question no. [32715](#)

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With regard to shares on which no zakaah is due (shares in manufacturing or service companies), there is no need to work out their value at the end of the year, because the zakaah is due only on their profits, not on the shares.

Shaykh Ibn 'Uthaymeen (may Allaah have mercy on him) was asked: Is the zakaah on shares based on the official value of the shares or on the market value, or what?

He replied:

Zakaah on shares and other kinds of trade goods is based on their market value. If it was worth one thousand at the time of purchase and is worth two thousand at the time when zakaah becomes due, then zakaah must be based on the value of two thousand, because what counts is the value of a thing at the time when zakaah becomes due, not at the time of purchase. End quote.

Majmoo' Fataawa Ibn 'Uthaymeen, 18/197.