

Shares

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If you have shares in private companies or in Australian listed companies or other investment instruments such as options, warrants, convertible debt, etc then you need to include these investments in your zakat calculation. This section only applies if you have a minority shareholding and no involvement in the management of the business. If you have influencing shareholdings (in excess of 10 – 20%) you should include a portion of the net assets of the business in your zakat calculation (refer to the section on business assets).

Shares held for resale and speculative transactions

Shares held for resale or speculation are subject to zakat at the full market value of the

If you hold shares for resale, then you have to pay zakat on the market value of these shares, in the same way that a trader pays zakat on stock for resale. The UK based Islamic author and fiqh commentator Adil Salahi states in the monthly magazine *Islamic Voice*ⁱ: “If one is trading in shares, buying and selling according to the fluctuations of the market, then such shares are treated like other commercial commodities. Their market value is calculated on his zakah date and he pays zakah for that value every year. These shares are not different from the merchandise a businessman has in his shop, supermarket or other outlets. The rate of zakah payable is 2.5% of the market value every year.”

The fact that you are not a trader in shares is irrelevant – if you have an intention to sell the shares once they achieve a certain price, then you need to include the current market value of the shares in your zakat calculation. All jurists and scholars are in agreement on this. In this case you are holding the shares for capital gain rather than dividend income. Dr. Monzer Kahf, leading Muslim economist and author of a number of books on zakat statesⁱⁱ: “Stocks which are permissible to buy and own may be purchased for either holding them and expecting their dividends or for participating in the management of the company, or for using them as tradable objects waiting for a good opportunity to realise a capital gain and selling. In the latter case (where you are holding to sell) you are called in the Shariah a merchant or trader, regardless of the English jargon of “investor,” and you need to pay *Zakah* on the market value of the shares or the net asset value on the due date of *Zakah*.”

Daily share prices are available in most newspapers. Certain types of stock exchange investments by nature are regarded as speculative and hence need to be included in your zakat calculation – for example, options, and warrants depending upon the reason for the purchase.

Shares held for long term dividend returns

Currently the majority of scholars are of the opinion that the net dividends received from share investments (where you are a minority shareholder) are subject to zakat

The majority view in this regard is that the shares represent capital (similar to fixed assets) and hence only the income (dividends) from the shares should be included in the zakat calculation. **The fact that these shares will grow in capital value over this period is irrelevant.** The Islamic Jurisprudence Academy in Jeddah (Islamic Conference Organisation) issued a fatwa confirming that only dividends in this case should be included in your zakat calculation. Adil Salahi statesⁱⁱⁱ: “A person holding shares in a company for the income they generate does not pay zakah on the value of his shares, but on the profits or dividends he receives. His zakah becomes payable on the day of receipt of such returns, whether they are paid annually or every six months, or shorter or longer periods. He does not wait for a year after receiving his payment. Rather, he pays his zakah straightaway at the rate of 10% of the amount of returns. This ruling is based on analogy with agricultural land irrigated by rain only. Its produce is liable to zakah on harvest day at the rate of 10%.” Most scholars are in agreement with the 10% rate.

Alternate view:

An alternate view is that the full market value is subject to zakat

An alternate view is that the shares represent growing wealth similar to livestock (which the Prophet (PBUH) said was subject to zakat) and hence both the dividends and the current market value of the shares should be included in your zakat calculation at 2.5%. Adil Salahi states in *Islamic Voice*^{iv}: “The view I am more inclined to is to treat them as commercial commodities, which means that on one's zakah date, one should find out their market value and pay zakah on the basis of that value at the rate of 2.5%. The other view treats them in the same way as profit gained without effort, which means that only the dividends paid on these shares is liable for zakah at the rate of 10%.” Some scholars are of the opinion that since listed shares can be easily transferred to cash, they should be treated as cash.

An increasing number of scholars are of the opinion that the alternative view is the preferred option.

This is an issue that you need to decide on.

Share based unit trust investments are the equivalent of trading shares as you are investing in and hence becoming a partner of a trader in shares.

Bibliography

The following books were referred to:

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ⁱ Islamic Voice - India

ⁱⁱ *Zakah* on Stocks and Mutual Funds – Islamonline – 26 July 2004

ⁱⁱⁱ Islamic Voice - India

^{iv} Islamic Voice – India – December 2001 edition