

Property

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Property can be purchased to hold for the long term and realise rental income or it can be bought for speculative purposes to resell as soon as an appropriate gain can be realised.

1. Land

Dr Yusuf Al-Qaradawi, Dean of the University of Qatar, in responding to a question on whether land is subject to zakat, states¹: "The purchased land can be categorised as one of two types. The first type is purchased for resale after a period for profit. This type of purchase is a trade transaction and the land in this case is considered a commercial commodity. The land should be appraised annually to determine its value and then Zakah is paid at a rate of 2.5% of that value. This is the opinion of the majority of scholars. Only the followers of Imam Malik have a different opinion. They hold that the land is not subject to Zakah unless it is actually sold. The Zakah is 2.5% of the amount a person receives when the property is sold. The majority of scholars, however, consider this land as wealth and it is then subject to Zakah. This opinion is the most appropriate.

"The second type is a land that is purchased to build on and not for resale. In this case, it is not subject to Zakah unless the owner has actually built on the land and rents out the property. Then, he should pay Zakah on the revenue derived from the rent."

The South African scholar Mufti Desai states: "If a residential plot or barren land, etc. is purchased for resale, then Zakat will be liable at the market value, but if it is purchased for purposes other than resale there will be no Zakat."

The issue of land is clear – if you hold land for resale you need to include its current value in your zakat calculation. If the land has been purchased to build a home for resale, then the land must be included in your zakat calculation at its current valuation.

If you purchased the land to build rental homes – then the land is subject to

Land held for resale or being held to be developed is subject to zakat at the market value of the land.

zakat at its current market value until you have commenced construction of the houses. The UK based Islamic scholar and author of a number of Islamic publications, Adil Salahi, in response to a question on this issue, statesⁱⁱ: "The plots of land bought for constructing houses are liable to zakah, because the whole project is an investment one. I realize that some people told the reader that as the plots now stand, they are not liable to zakah, but the basis of that opinion is faulty. These plots are bought for investment, and while no construction work is going on, they are treated as a commercial venture. If the owner receives an offer which gives him a tidy profit, he will seriously consider it, and he may very well sell them to buy some other plots where he constructs buildings, or may buy other types of property. As such they are treated as commercial commodities, and they are liable to zakah. However, the value which should be considered in assessing the zakah liability here is the market value on the zakah date, not the purchase price."

2. Rental properties and rental incomes

There are divergent views on this issue. Two schools of thought exist: one is that only the rental income is subject to zakat, whilst the second opinion states that both the rental property and the rental income are subject to zakat. The rate of zakat to be paid differs depending upon the option you chose.

Two views on rental properties:

- Only pay zakat on net rental
- Pay zakat on market value of property less loans.

The South African scholar, Mufti Ebrahim Desai statesⁱⁱⁱ: "Zakat is not payable on the actual property if it was not acquired for resale. Zakat is only levied on the income received. Your Zakat on the income received will be calculated as follows: Cash on hand less current liabilities (like annual bond repayments, rates, etc.) Zakat is payable on the balance."

This view is supported by the following issued by the Islamic Jurisprudence Academy in Jeddah (Islamic Conference Organization): "After the Academy surveyed the different studies submitted about "Zakah on buildings and non-arable leased land" and after detailed discussion on the subject, the following has been decided:

1. There is no Qur'anic verse or a Prophet's Hadith which points that Zakah is due on buildings and non-arable leased land.
2. There is no Qur'anic verse or a Prophet's Hadith which points that Zakah is immediately due on the revenues of buildings and non-arable leased land.

Therefore, the Academy decides the following:

First: Zakah is not due on the value of buildings and non-arable leased land.

Second: Zakah is due on their revenues following the lapse of a year after receipt.

The rest of Zakah payment conditions should be taken into consideration."

The alternate view is that both the property and rental are subject to zakat. Dr. Monzer Kahf states^{iv}: "Other people, including myself, argue that rental property, being an investment asset, is more similar to the capital of traders or merchants. Livestock are also similar to rental assets because the Arabs used to hold livestock as an investment capital. Therefore, Zakah must be calculated on the value of the asset itself plus any amount of the rent left at the end of the Lunar year (after payment of all expenses of the property itself and of family expenses) and the rate would be 2.5%. In other words, at the end of

the year, you look at the market value of the property, add other Zakatable assets that you have such as money and stocks, etc., and then calculate Zakah at 2.5%.”

The principle here is that your equity in an investment property can be cashed up.

3. What to do?

From an economic perspective, property, like shares represents a growing investment. Your net profit from rental income for the first few years of a property is low as you pay mortgage repayments, maintenance, rates, etc. In many cases it may even be negative. However, whilst your rental returns are low, your capital value is appreciating and this is not accounted for anywhere in your zakat calculation. Since zakat is wealth redistribution, is this correct?

This is a question you need to answer as you decide which option to pursue in your zakat calculation. If you elect to include the current market value of your rental properties, then you can deduct any liabilities you owe on the property.

4. What rate of zakat?

A number of scholars are of the opinion that zakat on rentals should be the same as that of agricultural land on the basis that rentals are a yield similar to the yield of agricultural land. You have a choice: either build a house to rent or sow crops. Dr Kahf: “Sheikh Yusuf Al-Qaradawi says that Zakah is calculated from either the net rent (after payment of insurance, taxes, maintenance and other related expenses) at a rate of 10%, similar to agricultural products that are watered by rain, or on the gross rent (before deductions) at the rate of 5%. This is based on an analogy made with agricultural land where its produce has Zakah.”

Scholars that state that the property itself should be included in the zakat calculation are of the view that the zakat rate is 2.5%.

5. Bibliography

The following books were referred to:

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ⁱ Zakah on a Land Purchased for Trade – Islamonline – 7 March 2003

ⁱⁱ Islamic Voice – India – December 2001 edition

ⁱⁱⁱ Abaligh – Mufti Desai – 24 November 2002

^{iv} Zakah on Rental Property – Islamonline – 10 September 2003