

# Business Assets

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## CONTENTS

[Net Current Assets](#)

[Fixed Assets](#)

[Partnerships/Joint Ventures/Major Investments](#)

[Property/wealth owned through a trust](#)

[Bibliography](#)

## 1. Net Current Assets

You need to include your net current assets in your zakat calculation.

The majority of jurists agree that net current assets/variable assets need to be included in your zakat calculation. Certain Jurists refer to current assets as commercial commodities.

The Saudi Arabian Ministry of Islamic Affairs, Endowments, Da‘wah and Guidance states: “When the time of Zakah is due, the commercial body, whether an individual or company, should make an inventory and estimate the actual value of goods in hand. The value of these goods together with cash assets, whether used in business or not, and the total of recoverable debts owed to him by others are considered the amount of trade activity on which Zakah is due, after subtracting the debts he owes to others from the total value. The following equation may be useful to conveniently get the percentage of Zakah:

The amount of Zakah = the value of goods in hand + cash assets + recoverable debts - debts x 2.5%.”

Your net current assets (working capital) comprise:

- Stock
- Debtors
- Cash

*Less*

- Creditors
- Other liabilities

The zakat rate is 2.5%.

You need to prepare a balance sheet on the day you elect to calculate your zakat. Many Muslims prefer to calculate and pay their zakat in Ramadan and if this date differs with your normal financial/tax year end, then you will need to prepare a special balance sheet. With the accounting software currently available, this is a relatively simple exercise. Should you elect to calculate your zakat at the end of your financial/tax year, you should pay

your zakat immediately you can afford to do so and not wait for Ramadan to pay it.

Stock:

Narrated Samurah Ibn Jundub: The Prophet (PBUH) used to order us to pay zakat on what we prepared for trade. (Abu Dawud).

Stock in trade is subject to zakat at its current purchase value

Scholars concur that for stock to be included in the zakat calculation, it must have been acquired for re-sale. Stock may include any article or asset. For example, the stock of a clothing retailer is the clothing in his/her store, whilst the stock of a property developer/speculator is the property he/she has on hand (that is not yet sold). No zakat is due on stock not intended for trade.

Scholars also agree that zakat is only paid on stock after it has been held for a year. For businesses that turnover stock regularly, scholars view the replacement stock as a continuation of the original purchase. In practice, the stock on hand at the time the owner calculates his/her zakat should be included in the zakat calculation.

To ascertain the correct stock on hand, you need to conduct a stock count.

A number of scholars are of the view that stock should be its current purchase value. The Saudi Arabian Ministry of Islamic Affairs, Endowments, Da'wah and Guidance states: "Zakah is estimated according to the current market price. According to juristic authorities, estimating the amount of Zakah is based on the wholesale price of commodities. (This view is one of the recommendations of the First Contemporary Zakah Questions Symposium.)."

Debtors:

Debtors are included at book value less any write-off for bad debts. A bad debt is only recognised when the debtor no longer has an obligation to pay the debt (different from the commercial definition).

Zakat is payable on debts owing to you.

Under Hanafi law, debts are classified as follows:

- a) Debts arising from the sale/loan of zakatable assets (strong debts) - these are debts arising from the sale of stock and/or the loan of a zakatable asset (for example, cash). These debts must be included in your zakat calculation.
- b) Debts arising from the sale of non-zakatable assets (medium debts) - for example fixed assets, investments, etc. are only included in the zakat calculation when the cash is received and in possession at the date of the zakat calculation.

You may elect to include debtors in the zakat calculation in the year the debt is paid. Under Hanafi law, you would have to pay zakat for each year that the debt has been outstanding. Under Maliki law, if such an election is made, zakat only has to be paid once.

Cash:

All cash in the bank account of the business needs to be included in your

zakat calculation. This cash represents profits not invested in fixed assets or working capital.

Creditors/Liabilities:

The First Symposium of Zakat Contemporary Issues stated<sup>i</sup>: “As for the loans which finance the circulating working capital, they are to be deducted from the possessions upon which Zakah is due.”

You can deduct from your current assets any amounts that you owe your creditors for the purchase of stock and other items. If you have included fixed assets in your calculation, then to arrive at net assets, you can deduct any liabilities you have over the fixed assets.

Certain Shafi scholars are of the view that liabilities should not be deducted on the principle that how you finance your activities does not detract from the fact that you have accumulated wealth.

## 2. Fixed Assets

Fixed assets are buildings, plant and machinery, equipment, furniture and fittings, goodwill, etc. - all items used by a business to generate a profit. Some scholars are of the opinion that no zakat is payable on fixed assets on the basis that they are used to generate income. In response to a question on this issue Dr Yusuf Al-Qaradawi, Dean of the University of Qatar and author of the book “Fiqh-az-Zakah” states<sup>ii</sup>: “Zakah is imposed on trade goods as with liquid assets where there are items for sale that are transferred from one hand to another. For example, if the merchandise that is for sale is deposited in containers, then these containers are not subject to Zakah. This is because these containers are not for sale. The same rule applies to a building or an office with desks, scales, shelves, etc. All these are not accounted for when inventoried as capital that is subject to Zakah.

“Zakah in trade is imposed on liquid assets in trade (merchandise planned for sale), and the payable debts. Concerning fixed assets that are not planned for sale, these are not included in the accounting.”

Mufti Desai, a leading South African scholar concurs with the above view based on a fatwa on the topic issued by the leading Pakistani jurist, Mufti Usmani.<sup>iii</sup>

However, Dr Monzer Kahf a leading Islamic economist and author of the book “The Calculation of Zakah” is of the opinion that fixed assets represent wealth and hence should be included in the zakat calculation. Dr Kahf<sup>iv</sup>: “We think that all fixed assets used in business and industries carry more similarity to the principal of urud al tijarah (=business inventory) and to the stock of cattle, sheep and camels because all these assets are intended for investment to make growth and profits whether through production, exchange or grazing and the Shariah did not intend to favour one form of business use of wealth over another. Consequently zakah must be paid on the net worth including fixed and variable assets.” The Prophet (PBUH) stated that livestock is subject

Generally liabilities are allowed as a deduction.

There is a difference of opinion with regards to fixed assets.

Majority of scholars are of the opinion that it should not be subject to zakat.

to zakat.

Muslim economists/accountants are of the view that the profit arising from the use of the fixed assets should be included in the zakat calculation.

Monzer Kahf's argument is a compelling one. Some businesses (for example, a takeaway) have limited current/variable assets and fixed assets such as goodwill comprise the wealth in the company.

A better approach would be to include your net profits in your zakat calculation since some businesses may not have any fixed assets at all. The general principle of paying zakat on the income of investments applies here as well – your capital invested in the business attracts an income that should be zakatable. This is based on the following ruling issued by the Saudi Arabian Ministry of Islamic Affairs, Endowments, Da'wah and Guidance:

1. Capital goods stand for all properties that are not invested as trading objects. Treated as permanent assets, these goods are not counted for Zakah. Rather, Zakah is to be paid on their revenues if they remain after the lapse of a full year.
2. Revenues are added to the amount of Zakah payable on the owner's cash money and commercial commodities after the lapse of a full year at the rate of 2.5%. This view is adopted by the majority of jurists and agreed upon by the Fatwa and Legal Supervision Authority, the Kuwaiti House of Zakah.

Therefore, according to this view, your net profit should be added to your net current assets. There may be some duplication to the extent that your cash reserves capture realised profits to date.

### 3. Partnerships/Joint Ventures/Major Investments

Where you are not the sole shareholder/owner of a business, you have two options:

- a. let the business calculate the zakat due and pay it on your behalf; or
- b. you calculate your portion of the zakat.

Narrated Anas: Abu Bakr wrote to me what Allah's Messenger has made compulsory (regarding zakat) and there was mentioned in it: If a property is equally owned by two partners, they should pay the combined zakat and it will be considered that both of them have paid their zakat equally. (Bukhari).

The first option is only feasible if you have Muslim partners. If you elect this option you need to ensure that your partners have calculated and distributed the zakat correctly.

If you elect the second option, then you should calculate the zakat based on your shareholding of the net assets. For example, if you have a 15% shareholding in a company, then you should include 15% of the net current assets of the business in your zakat calculation (and net profit for the year, refer to the section on net business assets above).

If you cannot get access to a balance sheet then calculate your zakat based on the investments and loans made to the partnership/company.

## 4. Property/wealth owned through a trust

Zakat is payable on assets held in a trust

If you own property or a business through a trust then you need to ensure that zakat is paid on the qualifying assets/income.

If you have a fixed interest in the trust (either unit trusts or ordinary non discretionary trusts), there is no problem – your interest in the trust will be included in your zakat calculation in a similar manner to partnership assets. However, if you have a discretionary interest, then in theory you are not entitled to anything until the trustees distribute something.

From an Islamic perspective, if you have placed a property/income in a trust for taxation purposes but with no intention of the beneficiaries obtaining immediate ownership of the property, then the trust is not recognised under Islamic law and the property is still yours and must be included in your zakat calculation.

Most business trusts are discretionary trusts established for tax efficiency purposes. Either you need to pay zakat on what is really yours, but legally is not, or you should ensure that the trust calculates and pays zakat on behalf of its beneficiaries. The wealth is subject to zakat – somebody needs to calculate it.

Assets in a trust still comply with the condition that assets must be owned. Renowned Zakat scholar Sheikh Qardawi states in his book: *Fiqh al-Zakah*: “On the other hand, property of private trusts that are withheld for the benefit of an individual or a group of beneficiaries, such as children's trusts, are *zakatable*, since the right of private ownership is transferred on these properties to the benefit of the children, although they cannot, for some time, dispose of the property themselves.<sup>37</sup> This is more similar to privately owned things than to public trusts, since the most important element of private ownership is the exclusivity of benefit of the property and this feature exists in private trusts.”

## Bibliography

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<sup>i</sup> The Fatwas delivered by the First Symposium of Zakah Contemporary Issues (Held in Cairo Rabi` Al-Awwal 14, 1409 A.H. / October 25, 1988 A.D.)

<sup>ii</sup> Zakah on Warehouses & Showrooms – Islamonline – 1 September 2003

<sup>iii</sup> Mufti Desai – website – Imam Online - <http://www.islam.tc/ask-imam/index.php>

<sup>iv</sup> Monzer Kafh – The Calculation of Zakah