

231858 - How to Pay Zakah on Real Estate

the question

What are the situations in which zakah is due on real estate and land?

Summary of answer

The general principle is that real estate is not wealth that is subject to zakah; therefore the basic guideline is that zakah is not due on it unless it is for trade.

Detailed answer

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It is well-known that real estate nowadays is different from what it was previously, with regard to its popularity and people's interest in it, and there are different situations in which the ruling on zakah differs accordingly.

What is meant by real estate is that which a person may own of land and the structures that may be built on it such as houses, palaces, high-rise buildings, apartments, shops, gas stations, leisure facilities and so on.

To discuss the matter of zakah on real estate in more detail, we may note the following:

Is real estate wealth?

The general principle concerning this matter is that real estate is not wealth that is subject to zakah; therefore the basic guideline is that zakah is not due on it unless it is for trade.

When is zakah on real estate due?

With regard to real estate that a person acquires for his accommodation or for any personal use, such as storage and the like, no zakah is due on it, according to scholarly consensus.

That is because in this case real estate is regarded as [personal property](#) , and no zakah is due on personal property, according to consensus.

Regardless of whether the intention of keeping it as personal property was present at the time of purchase, or it came about after that, merely having the intention to keep the real estate for personal use puts it under the heading of wealth that is not subject to zakah, even if it is kept for many years, so long as the owner's intention does not change.

Is agricultural land subject to zakah?

Agricultural land is not subject to zakah; rather zakah is to be paid on the crops and fruits only.

But if a person buys land in order to trade it, and he cultivates it until he sells it, so the palm trees bear fruit and crops grow and ripen, then he must pay zakah on the fruit and grains, at a rate of one tenth, and he must pay zakah on the value of the land, because they are two different types of dues, which differ in the reasons why they are obligatory; one of them does not cause the other to be waived.

Zakariyya al-Ansari said:

“If he grows crops for personal use on land that is bought for the purpose of trade, then each of them is subject to its own ruling. Zakah on specific crops must be given on the crops that he grows, and zakah on trade goods must be given for the land.” (Asna al-Matalib, 1/385)

Is there zakah on real estate acquired for renting?

With regard to real estate that a person acquires for the purpose of making use of it – i.e., [by renting it out and benefitting from the income generated thereby](#) – there is no zakah on its value; rather zakah is due on the rent that is collected from it, when one full year has passed.

So with regard to dwellings, storage places, furnished apartments, hotels and high-rise buildings, if they are prepared to be rented out, no zakah is due on these types of real estate according to the majority of scholars, so the owner does not have to work out the value of this real estate every year and pay zakah on it.

Zakah on real estate acquired for trading

With regard to real estate that a person acquires with the intention of trading or selling it, zakah is due on it according to the majority of scholars.

What is meant by having the intention of trading or selling it is that one intends, by taking possession of this real estate, to make money thereby and make a profit on it.

Al-Mirdawi said: “The intention of trading or selling it” means that he aims to make money from it by selling it.” (Al-Insaf, 3/154)

However simply wanting to sell does not necessarily make it trade goods, because items may be sold for many purposes or reasons, such as to get rid of the item, or because one no longer has any interest in it, or because of financial difficulty and so on. As for trading, this refers to selling with the aim of making money and making a profit from it.

Shaykh Ibn ‘Uthaymin said:

“If a man has land that he bought intending to build on it, then he changes his mind and decides to sell it because he does not need it, or because he has several pieces of land, then he needs money so he decides to sell one of them in order to meet his needs, then he does not have to give zakah for this or for the others, because his intention is not to sell it for trade in this case. Rather his intention in the first scenario is because he no longer needs it, and in the second scenario he decided to sell it because he needed its value. This is unlike the one who owns trade goods and expects to make a profit on them, so from the outset he only wanted the item to be for trade.” (Fath Dhi’l-Jalal, 6/173)

Is there zaka on real estate that is not for trade?

If he buys real estate but does not have any firm intention of wanting it for trade, or he has no specific intention, then it is not subject to zakah.

Al-Qarrafi said: “If he buys it with no particular intention, then it is regarded as being for personal use, because that is what is usually the case.” (Adh-Dhakhirah, 3/18)

Shaykh Ibn ‘Uthaymin (may Allah have mercy on him) was asked: There is a man who has a piece of land and is not quite sure what to do with it (i.e., his intention is not clear). He does not know whether he is going to sell it, develop it, rent it out, or live on it. Should he pay zakah when one year has passed?

He replied:

“This land is not subject to zakah at all, so long as he has no firm resolve that he bought it for trade. So no zakah is due on it, because he is hesitant, and when there is hesitation, even if it is only one percent, no zakah is due.” (Majmu’ Fatawa al-‘Uthaymin, 18/232)

If he takes possession of the [real estate for his personal use](#) and to live there, then he decides to trade it after that, then there is a difference of scholarly opinion as to whether zakah is due in this case. We have previously noted that the view that zakah is due on it is more likely to be correct.

If he acquires the real estate with the intention of trading, then he changes his mind and decides to keep it for personal use or to rent it out, then no zakah is due on it, because the condition of intention is that one should have that intention until one full year has passed. So if he changes his intention before the end of the year, zakah is waived. An-Nawawi said: If he decides to keep for personal use trade goods that are in his possession, they become personal property (and therefore not subject to zakah), according to scholarly consensus.” (Al-Majmu’, 6/49)

Is there zakah on real estate for personal trade and trading?

If he acquires the real estate for personal use plus trading, or for trading plus personal use, then what matters is what his intention was when he bought that property. Whoever buys any item with the intention of using it himself, and also intends that if he could make a profit on it he will sell it, then no zakah is due on it. But whoever buys an item with the intention of trading it, and uses it for personal benefit whilst he is waiting until he can sell it, then zakah is due on it every year, until it is sold.

Similarly, if he decides to use it and benefit from it for a certain length of time before selling it, then it is subject to the zakah on trade goods, because his initial intention to make use of it is not contrary to its being prepared for trade.

Ruling on zakah on real estate still at the construction stage

If the [real estate is still at the construction stage](#) – and it is for trade – then zakah is due on it whether it is offered for sale or will not be sold until after construction is complete. Zakah must be paid on it according to its value in the current situation at the time when zakah becomes due.

In the case of real estate when the owner is waiting for prices to go up, zakah must be paid on it every year according to its value, even if that continues for years.

Buying real estate with the intention of making money on it in the distant future does not mean that zakah on it is waived.

That includes buying land far from the city, waiting for such time as people show interest in it and prices begin to rise. This intention of selling the land in the future makes zakah obligatory, and the fact that the intention is to sell it at a later date has no impact, so long as the land is kept for trade and the aim is to increase one's wealth thereby.

The scholars call such a person “the trader who is biding his time”. The most correct scholarly view concerning this case is that of the majority of scholars, which is that zakah due every year.

Ruling on real estate bought for protecting one's wealth

In the case of real estate that is bought with the intention of protecting one's wealth, no zakah is due on it, unless the owner is trying to evade zakah.

Ruling on real estate not taken possession of

If a person buys real estate for the purpose of trade, but he does not take possession of it until one year has passed since his acquisition of the wealth with which he bought it, then zakah is due on it, because ownership of real estate passes to the purchaser once the contract is done and he is able to take possession of it.

Shaykh Ibn 'Uthaymin (may Allah have mercy on him) was asked: A man bought some land that was prepared for trade; please note that this man has not taken possession of the land

until now, and he has not even taken possession of the title deed. Does he have to pay zakah on it?

He replied:

“Yes, he has to pay zakah on this land, even if he has not taken possession of the title deed, so long as the sale has been concluded and become binding. So he must give the zakah on trade goods for it, and he should work out its value at the time when zakah becomes due, and give one quarter of one tenth (i.e., 2.5%) of its value.” (Majmu’ Fatawa wa Rasail al-‘Uthaymin, 18/234)

Is there zakah on mortgage property?

With regard to [mortgaged property](#) , zakah must be paid on it if it is prepared for trade.

Shaykh Ibn Baz said:

“If you have prepared it for trade, but it is mortgaged, then you must pay zakah on it. But if it is mortgaged and not prepared for trade; rather it is mortgaged until you pay off what is due to the person with whom it is mortgaged, and once you pay them off you either live in it or rent it out, then it is not subject to zakah.” (Fatawa Nur ‘ala ad-Darb, 15/43)

Zakah on real estate owned by multiple partners

In the case of partners in ownership of real estate, each partner must pay his share of zakah, if it reaches the minimum threshold (nisab), according to the majority of scholars.

Shaykh Bakr Abu Zayd said:

“In order for zakah to be obligatory upon each partner in ownership of real estate, the value of his share of the property must reach the minimum threshold by itself or when added to other wealth of his that is subject to zakah, such as cash or trade goods.” (Fatwa Jami’ah fi Zakat al-‘Iqar, p. 12)

In the answer to question no. 147855 , we explained that the view of the Shafi'is is that what matters is the total value of the property, not the minimum threshold of each individual. So if the value of the real estate reaches the minimum threshold, each of them must give zakah, even if his own share does not reach that threshold.

This was the view adopted by the Islamic Fiqh Council, and Shaykh Ibn 'Uthaymin was also inclined towards this view.

Is there zakah on real estate endowed for charitable causes?

With regard to [real estate that is endowed for charitable causes](#) (i.e., a waqf), such as to benefit the poor, there is no zakah on it, because it is no longer the property of any individual.

Is there zakah on real estate that is not selling?

With regard to zakah being obligatory, there is no differentiation between real estate that sells easily and that for which a buyer cannot be found, so long as it still has value for which it may be sold.

This is the view of the majority of scholars, because the basic reasoning on which the obligation of giving zakah on trade goods is based is the fact that they constitute wealth that is expected to increase, like currency, regardless of whether it actually does increase or not, and regardless of whether a profit is made or a loss is incurred.

The fact that the trade goods are not selling makes no difference with regard to zakah, so long as the items still have a real market value and can be bought and sold.

In Fatawa al-Lajnah ad-Daimah (8/102), it says:

“In the case of land that is offered for sale, zakah is due on it every time one full year passes, because it comes under the heading of trade goods. Its value is to be worked out at the beginning of each new year, and one quarter of one tenth is to be given, regardless of whether it is selling easily or not selling, because of the general meaning of the evidence

for zakah being due on anything that has been prepared for sale or trade.” [Ibn Baz, Al ash-Shaykh, al-Fawzan, al-Ghadyyan]

Shaykh ‘Abd ar-Rahman al-Barrak said:

“The fact that real estate is not selling (because of a slump in the market) has no impact and does not mean that zakah is waived; rather the amount of zakah may be reduced, because land that is not selling should be evaluated based on the price that it could be sold for, no matter how little it may be.”

But if the real estate is not selling, to the extent that the owner is offering it for sale but cannot find anyone to buy it from him, then some of the scholars said that he should pay zakah on it for one year when he does sell it.

Ruling on shares in real estate

With regard to [shares in real estate](#) , zakah should be paid on them at the same rate as zakah on trade goods, because these [real-estate companies](#) buy land for the purpose of trading in it.

When one year has passed since the shareholder bought his shares, he must work out the value of his shares in this company, and pay zakah on them at a rate of one quarter of one tenth.

Ruling on property on which there is a lien

With regard to property on which there is a lien, or real-estate companies that are in turmoil, in which one has shares, no zakah is due on them; they come under the ruling on wealth that is beyond one’s control.

“With regard to land that is designated for public facilities, schools and so on, where the owner is prevented from disposing of it unless the authorities decide that they no longer need it, no zakah is due on it until after the owner becomes able to dispose of it, in which

case he should wait to pay zakah on it until one year has passed since he became able to dispose of it.” (al-Masail al-Mustajiddah fi’z-Zakah, p. 87)

The same applies to shares in real-estate companies that are in turmoil, where the reason for turmoil may be because of corruption and cheating on the part of the management of the company, or the reason may be impediments in the rules and regulations laid down by the state, or disputes or liens against that property. Whatever the case, if there are [shares in real estate](#) that the owner cannot dispose of, no zakah is due on them.

When should the value of the real estate be worked out?

The [value of the real estate](#) should be worked out at the end of the year, based on the market value at year’s end, which may be lower or higher than the original purchase price.

The [working out of the year](#) does not begin from the time of purchasing the real estate; rather the year in question is one year from acquisition of the wealth with which the real estate is purchased.

And Allah knows best.