



In the name of the Allah, The Beneficent, The Merciful

Respected Al Qalam Scholars

In recent years, Muslims living in the UK have been fortunate in being able to have access to *Shari'ah* compliant home purchase plans as an alternative to an interest bearing mortgage. A question arises over how these are to be treated for *zakat* purposes. Many Muslims assume Islamic home purchase plans are considered to be a debt, and debts are normally deducted from assets, with *zakat* payable on the net balance.

Also there are three main types of *Shari'ah* compliant home purchase plan on offer; Murabaha, Ijarah and Diminshing Musharakah:

1. Murabaha plans allow the bank to own the entire property and sell it on a deferred basis over a number of years to the customer.
2. Ijarah plans are constructed so that part of the property is owned by the client and part of the property owned by the bank. The customer pays the bank a rental on the bank's share in the property. In addition to paying rent every month, part of the monthly payment is an 'on account' payment which builds up over time in a separate bank account. At the end of the term (usually 25 years) the customer uses the value of the on account payments to repurchase the bank's share in the property
3. With a Diminishing Musharaka agreement, the process is similar to Ijarah, with the key difference being the on account payments are used by the customer to instantly purchase an additional share in the property. Therefore the customer buys back a small share in the property every month rather than buying back the whole bank share in one go at the end of the term. Some providers, do not allow the customer to buy back a share every month, but less frequently, say every six months. In this case, the on account payments build up for the six months and are then used to buy a larger share on the six month anniversary.

Virtually all home purchase plan providers in the UK at present offer only the Diminishing Musharaka product. However, this product was developed after the initial introduction of the Murabaha and Ijaarah products back in the late 1990s. Therefore, customers who took home finance a few years ago would be using the older Ijarah and Murabaha products.

In light of the above scenarios, please can the Al Qalam *Shari'ah* scholar panel advise on the following questions:

1. Are *Shari'ah* compliant home purchase plans considered a debt?
2. Is the customer able to deduct any future rental installments due to the bank from their zakatable assets?
3. Is *zakat* payable on the value of on account payments?
4. What is the *Shari'ah* position with regards to *zakat* on Murabaha home purchase plans?
5. What is the *Shari'ah* position with regards to *zakat* on Ijarah home purchase plans?
6. What is the *Shari'ah* position with regards to *zakat* on Diminishing Musharaka home purchase plans?

Jazakallah Khair



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الجواب حامداً و مصلياً و منه الصدق و الصواب

1. Under the Murabaha home purchase plan the client purchases the desired property on a deferred payment basis from the financier. Ownership of the property is vested in the client at the time of contract and in return the client incurs a debt for the balance of the purchase price payable to the financier according to an agreed schedule. Under the Ijarah and Diminishing Musharakah home purchase plans the only debt incurred by the client is that of the outstanding monthly rental payments subsequent to his use of the property. This debt is then settled on a monthly basis by virtue of the rental payments.
2. The client cannot deduct rental payments for future periods from his zakatable assets. Only those payments that have fallen due on account of using the property may be deducted.
3. Ownership of the on account payments, both under the Ijarah home purchase plan and the Diminishing Musharakah home purchase plan, remains vested in the client and does not transfer to the financier until the on account payments are utilised to purchase the property or a portion thereof respectively. However, as the client does not have access to the on account payments, his ownership is deemed to be incomplete as 'complete ownership' is defined as ownership that comprises both proprietorship and [actual or constructive] possession characterised by the ability to benefit through effecting increase. *Zakat* is liable on only what is termed 'productive' wealth - *al-maal al-naami*. Wealth may be intrinsically productive - *khilqi*, such as gold and silver, or productivity may result as a consequence of one's action - *fi'li*, i.e., acquisition with the intent of trade. Productivity may be either real - *haqiqi*, by way of breeding or profit through trade, or constructive - *taqdiri*, on account of having the ability to effect increase through one's possession or that of one's agent. Thus, despite ownership of the on account payments, as the client is unable to effect actual or constructive increase as a consequence of not having access, *zakat* is not payable on such funds due to absence of the condition of productivity. For a detailed discussion please refer to the following link: <http://www.alqalam.org.uk/Shariah+Resources+%26+Edicts/43/>
4. Under the Murabahah home purchase plan the client incurs a debt for the balance of the purchase price that is payable over an extended period [typically 25 years as mentioned]. The normal rule, as discussed in jurisprudential texts, is that outstanding debts are deductible from one's zakatable assets. The rationale provided for this rule is that to settle one's outstanding debt is a basic necessity in order that one may protect oneself from punitive measures from one's creditors. However, it is the opinion of the Al-Qalam Shariah Panel [alongside many other contemporary scholars] that the entire sum of outstanding debt incurred under the Murabahah home purchase plan will not be deducted from one's zakatable assets in order to arrive at one's liability of *zakat*. Rather, only the outstanding sum payable for the coming lunar year will be deducted. The basis of this opinion is that it is only the latter sum that is being demanded until the next potential *zakat* liability date, and payment of which provides safeguard from any punitive measure from one's creditors. Settlement of the remaining outstanding amount is not from one's basic necessity, as there is no demand for payment of the latter for the coming lunar year. For a detailed discussion on the liability of *zakat* on long term liabilities please refer to the following link: <http://www.alqalam.org.uk/Shariah+Resources+%26+Edicts/43/>
5. Under the Ijarah home purchase plan the client incurs a debt only to the extent of the outstanding monthly rental payments subsequent to his use of the property. This debt is then settled on a monthly basis by virtue of the rental payments. However, if the client's *zakat* date arrives before

such debt has been settled, it will be deductible from his zakatable assets. Funds that have built up as a consequence of the on account payments are not subject to *zakat* as mentioned in no. 3.

6. Under the Diminishing Musharakah home purchase plan, the client again incurs a debt only to the extent of the outstanding monthly rental payments subsequent to his use of the property. Again, this debt is then settled on a monthly basis by virtue of the rental payments. However, as in the Ijarah home purchase plan, if the client's *zakat* date arrives before such debt has been settled, it will be deductible from his zakatable assets. Funds that may have built up as a consequence of the on account payments, as is the case with some providers, are not subject to *zakat* as mentioned in no. 3.

And Allah knows best.

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