

ZAKAT ON THE TRUST FUNDS

Q: 5- 'Instead of our managing a portfolio of shares, we have invested some spare cash in some trust funds i.e. private ones and also those set up by the government. The price of the fund is closely linked with the index of quoted shares and the price is given each day. Dividends are also declared and given each year.

Do we have to treat this as cash and pay zakah on its market value or only on its dividends? In this case the dividends should be enough to cover for the zakah of 2.5% of total market value, therefore, it would not cause undue hardship as we do not have to sell the capital portion to pay the zakah." (Ibid)

A: A Trust Fund is a mutual fund where a portfolio of the shares of different listed companies is maintained. The share of a participant in such a fund is represented by a negotiable instrument usually called a 'unit'. These 'units' represent their holders' proportionate share in the portfolio, and ultimately a proportionate share in different companies, as well as a proportionate share in the capital gain the portfolio earns. Thus, a unit of a "Trust Fund" does not represent cash only, like the bonds, but it represents a proportionate share in the assets of the relevant companies also. Therefore, it will be treated like a share of a quoted company for the purpose of zakah, and all the rules mentioned with regard to the shares of a company are also applicable to the 'units' of a Trust Fund. Therefore, zakah will be payable on the market value of such units, irrespective of the amount of dividend declared on them. It is like the stock in trade on which zakah is payable on the basis of its market value, irrespective of the rate of profit earned on it.

Contemporary fatawaa