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Khums Before

Khums On The Surplus Or Profit Of The Income

A. When To Pay Khums

Khums becomes wajib at the beginning of the new financial year on the profit or surplus of the past year's income.

Beginning

The "beginning" of a new year means the time when the profit or surplus of the income becomes clear. So whenever there is profit or surplus of the income, and it is not used up on the household or commercial expenses of that year-- then pay one-fifth of it as khums.

Year

The consideration of the "year" in khums is because in most cases the surplus of the income becomes clear at the end of the year. Otherwise, the khums is actually associated with the profit or the surplus of the income as soon as it is known, and the owner may pay the khums before the end of the year.

Hijrah or Christian Calendar

Of course, one is allowed to fix any day of the year (or for that matter, the beginning of a fiscal year according to the Christian calendar) as the "beginning" of his year. Then he may every year count the surplus of his income on that day and pay khums. It is always easier to count from the day one starts earning.

B. Definitions of Income, Profit & Surplus

Khums is wajib on the profit or surplus of one's income after deducting the annual expenditure. To make the meaning of this sentence more clear, let me explain the definition of "income," "surplus" and "expenditure".

Income

Income means whatever you earn from business, wage or salary, dividend income, or by other means of possession recognized by the shari`ah.

Is khums also wajib on **gift, prize, legacy, charity, zakat and khums**?

According to most present mujtahids, it is precautionarily wajib to pay khums from such items also.

By "legacy" we mean anything bequeathed to a person in the will of a friend or of someone not related to him.

However, the khums is not liable on **dowry** or **inheritance** except when one inherits from the least expected person; for example, a very remote relative from whom one does not expect to inherit.

By "dowry" (mahr) we mean the marriage-gift which the husband agrees to pay to his wife at the time of marriage or whenever she demands it. In Islam, "dowry" is not something which a woman owns at the time of divorce or at the time of her husband's death; it is her right which she owns immediately after marriage has been consummated.

Surplus or Profit

In case of a wage earning person, the "surplus" of the income means whatever remains after deducting the annual expenditure of oneself and one's dependents.

The "**dependents** of a person" mean those persons whose maintenance is your responsibility. It does not make any difference whether the maintenance of these persons is obligatory on you (like wife, children and parents) or not obligatory (like a relative, a friend or an orphan).

In case of a business person, the "**profit**" means whatever remains after deducting the annual business expenses which includes the person's salary.

C. The Deductible Expenses

The expenditure which is to be deducted from the income is of two types: household expenses, and commercial expenditure.

1. The Household Expenses

(a) The Eligible Deductions

i. The items:

The deductible household expenses include food, drink, accommodation, transportation, furniture,

marriage expenses, medical expenses, payment of sadaqah, hajj, ziyarat, gifts, donations and charity, paying debts, legal penalties, wages of servants, insurance premiums, the amount deducted from your salary for mandatory provident fund or for mandatory pension plan, income tax, etc.

In case of "**paying debts**", only the debts for the essential needs can be deducted from the income, not the payment of loan or debt which is for expanding the business, etc. In the latter case, first one has to pay khums from the surplus of the income and then pay such debts from the remaining 80%.

The premiums paid for "permanent **life insurance**" cannot be counted as deductible expenses, rather it is a type of "saving" which will be paid either to the insured person himself (at the maturity of the policy) or to his heirs (in case of his death before the maturity). Like all the other savings, such insurance premiums are liable for khums.

But the premiums paid for most of the **other insurances** like car, fire, medical and protection insurance can be counted as deductible expenses and deducted from the annual income.

In case of **mandatory pension**, you will count it as part of your income whenever you get it, and then pay khums if you save anything from it in that year.

However, the non-mandatory "**retirement saving plan**" is just like life insurance -- you have to pay khums on the money that you set aside that year for your retirement saving plan. If you invest a large sum in such plans and thus find yourself without enough liquid asset to pay khums, then you should work out an installment plan to pay khums in a few months time.

ii. Is there a limit in household expenses?

All these household expenses differ from person to person. The manner and amount of the expenditure should be considered according to the needs and status of the person himself.

For example, if a person's annual income is \$ 20,000 and his needs and status require him to spend \$ 10,000 on his annual household expenses, but he exceed his limit and spends \$ 15,000 -- then he must pay the khums on everything over \$ 10,000.

However, if he lives meagerly and only spends \$ 7,000, then he must pay khums on everything over \$ 7,000. If his total income and his needs are equal, then there is no khums on him.

iii. Can I deduct for the loss in household items?

If the loss is in an item which is neither for trade nor for household consumption, then you cannot provide compensation from your income before paying khums.

However, if the loss is in an item which is part of the household consumption (like furniture or clothes), then you are only allowed to replace those items by new ones or to repair them and count the cost of

replacement or repair in the annual expenses.

(b) Rules On Household Expenses:

i. Two sources of income

One is permitted to deduct the household expenses from the income even if he has some other wealth which is not liable for khums.

For example, Ahmad's annual expenditure is \$ 10,000. He inherits \$ 10,000 from his father, and he also earns \$ 20,000 during that year. He has the option of either using the \$ 10,000 inherited money for his expenditure and pay the khums from the entire \$ 20,000 which he earned that year; or deducting the \$ 10,000 for his annual expenditure from his income, and pay khums from the remaining \$ 10,000 which is the surplus of the income. The \$ 10,000 dollars which Ahmad inherited is not liable for khums.

ii. New unused household items

All new items that have not been used (even once) by the end of your khums year must be counted as your savings.

For example, Ahmad has fixed the 30th of June as the end of his "year". On that day he realizes that he still has, for example, 10 k.g. sugar, 5 k.g. salt, 20 k.g. rice which has not been used in the "previous year". In such a case, he cannot deduct the price of these remaining food stuff from the profit or the income of that year. He can only deduct the price of the food which had been consumed in the year which ended on 30th June. Therefore, these food items must be included in calculating his annual savings.

iii. An earning woman

It is wajib on an **earning woman** to pay khums from the surplus of her income if she is the provider of the family. If her husband or father is the provider, then she has to pay khums from the entire amount of her income which is in excess to her own expenses.

If a **non-earning woman** gets some wealth from her husband or from any other person, then it is wajib to pay the khums from it provided it is more than her annual expenses. This does not apply to dower or inheritance which is not liable for khums.

iv. Income of a dependent

The same applies to the income of the person whose expenses are provided by someone else. For example, an earning person whose expenses are being provided by his father; he has to pay khums from the surplus of his income.

v. Two income family

If the husband and wife both are earning, and both of them contribute in the family expenditure, then practically khums has to be paid by calculating the total income and then deducting the total expenditure of both of them collectively.

(In theory, the amount spent by the wife on household expenses will be considered a gift to the husband -- who is Islamically responsible for family maintenance -- and thus his income, and consequently his khums, will increase.)

vi. A minor's income

Khums is not wajib on a non-baligh child (boys become baligh at completion of fifteen lunar years and girls at completion of nine lunar years) or an insane person. So if a non-baligh or an insane person gets any wealth which is more than his or her annual expenses, then there is no khums on that wealth at that time or at the time when he or she becomes baligh or sane respectively; or for that matter, it is not wajib even on their guardians.

vii. Family allowance

In many western countries, the parents get financial allowance for their child/ren from the government. Is this income eligible for khums? Such a parent has two options:

Either the parent spends the money for the child's maintenance; in this case, the family allowance has to be included in the income of the parent and counted accordingly.

Or the parent keeps the money aside for the child. In this case, it is not eligible for khums. However, if the child is baligh, then khums has to be paid on the allowance if it is not used by the end of the year.

viii. Khums in a person's estate

If a person dies before the end of his fiscal year, then how is his estate to be divided? First, his heirs should deduct his expenditure of that year up to the time of his death from his legacy. Then pay khums from the surplus of his remaining income. Only then can the heirs take their shares from the estate.

If the heir knew that the deceased had not paid khums from his estate, it is precautionarily wajib on them to pay the khums before dividing the estate.

2. The Commercial Expenses

(a) The Deductible Expenses:

This covers every expenditure in the way of business: wages or salaries of the employees, rent, insurance premiums, taxes demanded by government, purchasing machines and the expenditure of their

maintenance, etc.

(b) Rules On Commercial Expenditure:

i. Investment capital:

If a person who **needs** a capital to sustain himself and his family gets a capital, then:–

if the capital is **not more** than his annual expenditure, then he can use that capital to trade with, and there is no khums on it. For example, Zayd the needy gets \$ 10,000 as gift from a friend and his necessary annual expenses are \$ 11,000 -- then, there is no khums on that amount if he uses it as a capital for trade, etc.

if that capital is **more** than his necessary annual expenses (for example, if Zayd got \$ 15,000), then he may use the capital only after paying the khums from the amount which is more than his annual expenses (in the above example, on \$ 4,000).

If such a person is **not in need** of the capital, then he can use that amount to expand his already-existing business or to earn extra income only after paying khums from the entire amount.

ii. Increase in by-product of a khums-free commodity:

If someone has an item which is not liable for khums (or, if liable, it was paid) and there is an increase in it in form of by-products, then it is wajib on him to pay khums from the by-products of that item. And, in this case, it does not matter whether the by-product was a "separate by-product" like calf and milk of cow, wool of sheep or "connected by-product" like fruits on a tree.

iii. Increase in market value of a khums-free commodity:

If the market value of a commercial commodity increases, without any increase in its by-product, then:–

if he had bought it **for business**, then it is wajib to pay khums from the increased value provided it stays 'increased' till the end of the khums year;

if he had bought it, but **not for business** purpose, then it will become wajib to pay khums from the increased value only when he sells it.

if he has not bought it but came to own that item by **inheritance**, etc., then khums is not liable on its increased market value even if he sells it.

iv. Depreciation in or loss of a commodity:

If there is a decrease in the capital, one is permitted to make it up by deducting that amount from the profit of that year before paying khums. So this adjustment for depreciation can be regarded as the

"expenditure of commercial production" on which khums is not liable.

(Someone buys a commodity for business, then its market value increases during the year and he does not sell it due to negligence or in anticipation of further increase in its price, then by the end of the year its price again decreases to the same value -- then there is no khums on previously increased value. But, as mentioned in No. iii above, if the increase in its market value remains the same up to the end of that year, then he has to pay the khums from its increased value.)

v. Compensation for the loss:

Can one deduct the compensation for the losses of his property from the annual profit or income and count it as a part of his "annual expenses"? If the insurance does not compensate the loss, then there are three possibilities:–

if the loss is in an item which is a part of goods for trading and the trading is restricted to one type of commodity, then one is allowed to provide compensation for the destroyed goods from the profits before paying the khums.

For example, if a person's trading was limited to buying and selling of sugar and it happened that, during the year, part of it was destroyed by being sunk or he made loss on its sale, then he is permitted to provide the compensation for its destruction or loss from the profit or the income and count it in the annual expenditure.

if the loss occurs in a commodity of a trader whose trading is not restricted to one type of commodity, then one is allowed to provide compensation from the profit before paying khums. However, it is precautionarily better not to deduct the compensation for the loss of one section of the trade from the profit of another before paying the khums.

if the destruction or loss occurred in a trading commodity, while the trader made profit from activities outside trading such as agriculture or the like, in such a case, it is precautionarily better not to provide compensation for his trading loss from his agriculture profit before paying the khums.

vi. Selling an item on which khums is wajib:

If khums becomes liable on any item of trade, it is haram to sell it before paying its khums. However, if one sells it to a Shi`ah before paying khums, the transaction will be valid and the seller will have to pay the khums from the price of that item.

vii. Partnership with one who does not pay khums:

There is no harm in becoming partner of a person in trade or business who does not pay khums –

"no bearer of burden shall bear the burden of another."(53:58)

D. I Never Paid Khums Before

A person who has never paid khums in his life and then, by the grace of Allah, decides to pay khums, for such a person there are the following possibilities:–

It is wajib on him to pay the khums from every item which he has bought, built or planted and which is also in excess to his needs. For example, an apartment bought for renting purpose or a taxi for transportation business.

If such items are among his needs (for example, his own house or his own car) then:–

if he has come to own these items from the profit or the surplus of the income of that **same year**, then there is no khums on them. For example, in 1965, he earned \$ 25,000 and in the same year he bought a car for \$ 7,000 from that income, then there is no khums on his car.

if he has come to own these items from the accumulated surplus of **previous years**, then it is wajib to pay khums from those items also. For example, from 1960 to 1965, a person annually earned \$ 20,000. Then at the end of 1965, he buys a house of \$ 80,000. It is obvious that this house was not bought from the income of a single year. In this case, he has to pay khums on \$ 60,000 which was definitely from the savings of the previous years.

If a person's income was not stable, in some years he had profited and in some he had been in loss, and he cannot determine whether he bought his various properties in the year of profit or loss -- then, such a person should explain his circumstances to the mujtahid and come to a compromise with him about the amount of khums. This can be done by personal contact with the mujtahid or by corresponding with him or his authorized representative. (Most leading mujtahids have their authorized representatives in major parts of the Shi`ah world.)

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