



KHUMS

A BRIEF GUIDE

ACCORDING TO THE FATWAS OF HIS EMINENCE
AL-SAYYID ALI AL-HUSAYNI AL-SISTANI
with a special focus on the change in ruling on loans

SECOND EDITION



THE WORLD
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OF KHOJA SHIA ITHNA-ASHERI MUSLIM COMMUNITIES

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THE FEDERATION OF KHOJA
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PAKISTAN



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INTRODUCTION

فَإِنَّ إِخْرَاجَهُ مِفْتَاحُ رِزْقِكُمْ وَ تَمْحِيطُ ذُنُوبِكُمْ وَ مَا تَمْهَدُونَ لِأَنْفُسِكُمْ لِيَوْمِ فَاقَتِكُمْ

“Paying *khums* is a key for your provision, and a purification for your sins, and it is something that you prepare to benefit you on the day of your poverty [the Day of Judgement].”

Imam Ali ibn Musa al-Rida (a)
(*Al-Kafi*, v.2, p.738)

This booklet is the result of a four-stage initiative called ‘The Khums Guidance Project’. The aim of the project has been to provide practical guidance to the community on how *khums* is to be calculated according to the most up-to-date rulings of His Eminence al-Sayyid Ali al-Husayni al-Sistani (may Allah protect all our scholars).

In Stage One of the project, the Islamic Education department of The World Federation sought to acquire a thorough understanding of the new ruling on *khums*, which was stated in a footnote to Ruling 1231 in the latest edition of *Minhaj al-Salihin*, His Eminence’s three-volume work on Islamic law. Stage Two consisted of a day-long meeting in March 2019. At this meeting, a team of four scholars and five practitioners – the latter being accountants and lawyers with significant experience in dealing with *khums*-related matters – examined how the new ruling would be applied in scenarios that are typically encountered by members of the community. Unresolved questions from that meeting were tackled at the next stage, which involved translating the questions and getting clarification and guidance from His Eminence’s office. The fourth and final stage was about output: presenting the findings of the process to the community. To this end, a public seminar was held in Stanmore in May 2019, and all the information was then gradually articulated into a concise guide. This booklet effectively marks the completion of the project.

As the detailed rulings on *khums* are readily available in English in *Islamic Laws* and on the iSistani app,* as well as in *Khums: An Islamic Tax* by Sayyid M Rizvi, we felt this guide should present only an overview of the most essential rulings on *khums* and then focus on the new ruling and its application.

Drawing upon the profound words of Imam al-Rida (a) in the tradition above, we pray this guide will help us all in making that all-important investment which will come to our aid on the day of our poverty.

Mohammed Ali Ismail
Deputy Head, Islamic Education
November 2019

* Now the OneStopFiqh app.

What is *khums*?

'*Khums*' literally means 'one-fifth'. In Islamic law, it refers to an obligatory (*wajib*) religious tax which one must pay on several things, the most common of which is surplus income from earnings and gains. The amount of *khums* one must pay on surplus income is 20%.

What happens to the *khums* payments?

Khums payments are divided into two equal parts:

One half is given to the Imam (a) of the time; this is called 'Sahm-e Imam' (The Portion for the Imam (a)). According to His Eminence al-Sayyid al-Sistani, the obligatory precaution is that this part must either be given to the most learned Marja, or to an individual or organisation that has been given permission (*ijaza*) to collect *khums* on behalf of the Marja. This portion is then used for worthwhile purposes authorised by the Marja.

The other half is given to sayyids (descendants of the great grandfather of the Prophet (s)) who are poor, orphans, or stranded travellers. This is called 'Sahm-e Sadat' (the Portion for Sayyids).

Why do we pay *khums*?

Khums is one of the pillars of Islam. It has been prescribed by Allah (in Surat al-Anfal, verse 41), and it was practised during the life of the Prophet (s) and the Imams (a).

As such, *khums* is an act of worship and must be given with the intention of attaining proximity to Allah (*qurbatan ilallah*).

If *khums* is paid correctly, then one's earnings are purified and lawful (*halal*). On the other hand, if *khums* is neglected, the earnings will be considered 'spiritually impure' and the person will be subject to divine retribution.

Without *khums*, many important Islamic projects would not run and vast numbers of needy Muslims around the world would not receive the help they critically require.

What things are liable for *khums*?

Seven things are liable for *khums*, but for the majority of us today, the one that applies the most – and which is the focus of this guide – is 'surplus income from earnings and gains'. Earnings and gains include:

- Salaries and wages
- Earnings from businesses
- Earnings from investments
- Gifts
- Prizes and bonuses
- Welfare
- *Sadaqah*, based on obligatory precaution
- Inheritance from an unexpected source, based on obligatory precaution

However, the following receipts are not liable for *khums*:

- *Mahr* (the dowry given by a husband to his wife)
- Inheritance, unless the heir is certain that the deceased was committed to paying *khums* but did not pay it from the estate before his death.
- *Diyah* (blood money, i.e. compensatory payments defined by the sharia for personal injury)
- Financial loans (this will be explained in more detail later)

When do I pay *khums*?

By Allah's grace on His creation, *khums* is not payable immediately. Rather, you have a choice of either paying *khums* when you receive an income or postponing it until the end of the *khums* year having deducted all allowable expenses for that year from your income; you would then pay *khums* on the remaining amount, i.e. on your surplus income.

The date of your *khums* payments can be based on either the Islamic or the Gregorian calendar.

Deciding on the year-end will depend on your personal circumstances. If you are not working to earn a living – for example, you are retired, a housewife, a student, or unemployed – then every income and gain will have its own period for a year. For example, if you receive a gift of £100 today, then *khums* will be payable on whatever remains of that £100 in a year's time from now.

If you are earning a living by means of a job, you will have a single year-end date for all incomes; that date will be the day you started work.

Note: Based on obligatory precaution, *khums* is payable immediately on any income which you know you will not use until the end of the year.

Which expenses are deductible from my income?

The expenses that are deductible from your income are 1) those that are incurred by you and your dependents during the *khums* year; and 2) are necessary or conventionally reasonable for a person of your social standing to incur; and 3) are not forbidden in Islamic law.

Deductible expenses include:

- Food and drink
- Clothing
- Residence and accommodation (rent and mortgage payments)
- Furniture
- Household items and appliances
- Marriage costs
- Car and transport
- Holidays and vacations
- Hajj and *ziyarah*
- Charity (obligatory and voluntary)
- Gifts given
- Provision for guests

- Medical expenses
- Financial liabilities under the sharia, such as recompense (*kaffarah*), vow (*nadhr*), and compensative payments for missing a fast in the month of Ramadan (*fidyah*)
- Insurance
- Repayment of loans
- Books and apps
- Education
- Utility, internet, and telephone bills
- Maintenance and repairs
- Mandatory pension deductions
- Government taxes and penalties
- Toys for children
- Decorative items for the home
- Membership dues
- Payment of wages
- Business expenditure, including wages, rent, insurance, and taxes
- Depreciation or loss of a business commodity

Notes:

1. Procurements for future years are not deductible expenses. However, if you acquire an item in advance because it will not be available when you need it, or it will be excessively difficult for you to obtain it in the following year, then it will be considered a deductible expense.
2. If an item obtained during the *khums* year remains unused until the end of the year and it has a resale value, it will be liable for *khums*.

Are savings and loans liable for *khums*?

All savings for future years are liable for *khums*. Once *khums* has been paid on an amount that has been put aside for use in future years, that amount is not liable for *khums* again; only increases to it will be liable.

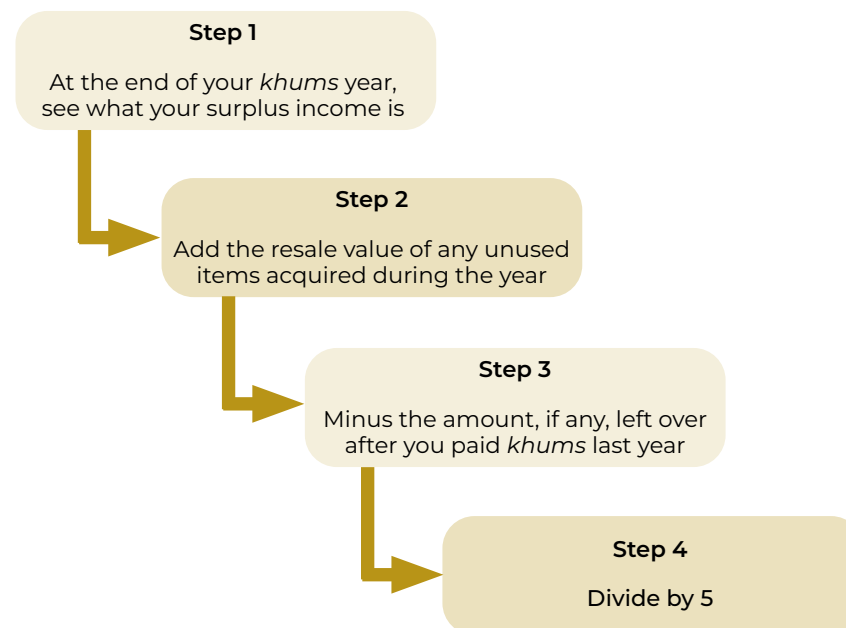
As for loans, these can be deducted from one's surplus income if:

1. The loan is taken to pay for a deductible expense that year.
2. The loan is taken to cover expenses for running a business, as long as there are no assets or cash available to cover those expenses. Expenses for running a business include:
 - Renting of premises to be used as an office, shop, storage etc.
 - Staff salaries
 - Taxes
 - Utility bills
 - Insurance
 - Hiring or purchasing tools and equipment
 - Marketing and advertising costs
 - Vehicle payments
 - Maintenance of premises and equipment

Note: A loan for the purchase of stock to be sold would not be deductible. Furthermore, based on obligatory precaution, stock items must be purchased with money on which *khums* has been paid.

Step-by-step process

To calculate your *khums*, follow these four steps:



Example

	STEPS 1 & 2	STEP 3	STEP 4	
A	B	C	D	E
END OF YEAR	SURPLUS INCOME + RESALE VALUE OF UNUSED ITEMS	AMOUNT LIABLE FOR <i>KHUMS</i> (B MINUS E OF PREVIOUS YEAR)	AMOUNT TO BE PAID (C DIVIDED BY 5)	REMAINDER AFTER PAYING <i>KHUMS</i> (B MINUS D)
1	200	200	40	160
2	400	240	48	352
3	300	0*	0	300
4	400	100	20	380

* The figure will be zero whenever B is lower than E of the previous year.

Change in ruling on loans

PREVIOUS RULING

Based on the previous ruling of His Eminence al-Sayyid al-Sistani, if a loan was taken to pay for something that was a deductible expense for that year, then the amount of that loan would be deductible from the surplus income of that year.

For example, if a person took a loan of £5,000 to buy a car, then:

1. If he had a surplus income at the end of the year of an amount equal to or more than the amount of the loan, such as £8,000, he could deduct £5,000 from the surplus income and *khums* would only be payable on the remaining £3,000.
2. If he had a surplus income at the end of the year of less than the amount of the loan, such as £1,000, no *khums* would be payable that year. The remaining amount (£4,000) could **not** be deducted from the net income of the following year.

CHANGE IN RULING

His Eminence now allows the remaining outstanding balance of a loan to pay for something that is a deductible expense to be deducted from the surplus income of future years until the time the person's cumulative surplus income reaches the amount of the outstanding loan balance. After that point, only payments of the interest part of the loan (if it was an interest loan) will be considered deductible expenses; repayments of the capital loan amount will not be deductible.

Based on this, in the second scenario above, the person would be able to deduct the remaining amount (£4,000) from the net income of the following year and every subsequent year, as long as his cumulative surplus income did not reach the amount of the outstanding loan balance.

For example, if a person takes a loan of £20,000, and his surplus income each year is £5,000, he would not be liable to pay *khums* for four years.

Notes:

1. His Eminence allows his Muqallids (i.e. those who follow him in matters of Islamic law) to continue applying the old ruling if they so wish.
2. The ruling only applies to loans that are deemed lawful by the sharia.

What kind of loans does the new ruling apply to?

The loan must be for an expense that is deductible (see section above: 'What kind of expenses are deductible from my income?').

It makes no difference if the loan is small or large, or if it must be repaid in full by a particular date or in monthly or yearly instalments.

How does the new ruling apply to mortgages?

The new ruling can affect many people who have mortgages on their homes.

So, if a person has bought a house for his residence with a loan secured on the house – i.e. a mortgage – then he can deduct the amount of the outstanding loan at the end of each *khums* year from that year's surplus income until his cumulative surplus income reaches the amount of the outstanding loan balance. During those years, he will not pay any *khums*. Thereafter, the mortgage repayments on the capital loan amount will not be deductible (as they were with the previous ruling). As for the interest on the loan, it will be considered a deductible expense.

The yearly process of deducting the loan from the cumulative surplus income will continue for as long as the house remains in one's residential use. If it is not used as one's residence for a year, then the process will end.

The new ruling therefore allows a person to have *khums*-free surplus income for at least some years. However, in the long term, the total amount that will be *khums*-free vis-à-vis the loan will be the amount of the loan, whether the new ruling is used or the old one.

For example, if a person takes out a 25-year mortgage of £250,000 to buy a house for his residence, then:

- If the new ruling is applied, the surplus income that is *khums*-free and those mortgage repayments which are deductible will eventually add up to £250,000.
- If the new ruling is not applied, the mortgage repayments will be deductible and will eventually add up to £250,000.

EXAMPLE 1

If a person takes out a 25-year mortgage of £250,000 to buy a house for his residence that costs £300,000, then the deposit/down-payment of £50,000 will be a deductible expense.

His yearly repayments towards the capital loan amount will be £10,000.

Any interest amounts paid above this will be deductible expenses.

END OF YEAR	MORTGAGE REPAYMENTS	OUTSTANDING LOANS	SURPLUS INCOME	CUMULATIVE SURPLUS INCOME	AMOUNT SUBJECT TO KHUMS	KHUMS PAYABLE
1	10,000	240,000	5,000	5,000	0	0
2	10,000	230,000	2,000	7,000	0	0
3	10,000	220,000	9,000	16,000	0	0
4	10,000	210,000	0*	16,000	0	0
5	10,000	200,000	3,000	19,000	0	0
6	10,000	190,000	4,000	23,000	0	0
7	10,000	180,000	6,000	29,000	0	0
8	10,000	170,000	6,000	35,000	0	0
9	10,000	160,000	9,000	44,000	0	0
10	10,000	150,000	5,000	49,000	0	0
11	10,000	140,000	3,000	52,000	0	0
12	10,000	130,000	1,000	53,000	0	0
13	10,000	120,000	4,000	57,000	0	0
14	10,000	110,000	6,000	63,000	0	0
15	10,000	100,000	0*	63,000	0	0
16	10,000	90,000	2,000	65,000	0	0
17	10,000	80,000	3,000	68,000	0	0
18	10,000	70,000	5,000	73,000	3,000**	600
19	10,000	60,000	5,000		15,000***	3,000
20	10,000	50,000	3,000		13,000	2,600
21	10,000	40,000	6,000		16,000	3,200
22	10,000	30,000	1,000		11,000	2,200
23	10,000	20,000	11,000		21,000	4,200
24	10,000	10,000	5,000		15,000	3,000
25	10,000	0	4,000		14,000	2,800

* If there has been zero surplus income, or if there was a loss that year, the figure will be zero.

** This year, *khums* will be payable on the amount that is above the outstanding loan balance.

*** From this year onwards, *khums* will be payable on the surplus income plus the amount of mortgage repayment that year.

In this example, we can see that the total amount of £70,000 has been deducted from the surplus income (years 1-18), and the mortgage payments for those years totalling £180,000 have also been deductible expenses, giving a total of £250,000 relief against the loan of £250,000.

EXAMPLE 2

If a person takes a 20-year mortgage of £100,000 to buy a house for his residence, his yearly repayments towards the capital loan amount will be £5,000.

END OF YEAR	MORTGAGE REPAYMENTS	OUTSTANDING LOANS	SURPLUS INCOME	CUMULATIVE SURPLUS INCOME	AMOUNT SUBJECT TO KHUMS	KHUMS PAYABLE
1	5,000	95,000	1,000	1,000	0	0
2	5,000	90,000	2,000	3,000	0	0
3	5,000	85,000	1,000	4,000	0	0
4	5,000	80,000	0*	4,000	0	0
5	5,000	75,000	3,000	7,000	0	0
6	5,000	70,000	1,000	8,000	0	0
7	5,000	65,000	2,000	10,000	0	0
8	5,000	60,000	0*	10,000	0	0
9	5,000	55,000	0*	10,000	0	0
10	5,000	50,000	3,000	13,000	0	0
11	5,000	45,000	1,000	14,000	0	0
12	5,000	40,000	1,000	15,000	0	0
13	5,000	35,000	2,000	17,000	0	0
14	5,000	30,000	1,000	18,000	0	0
15	5,000	25,000	1,000	19,000	0	0
16	5,000	20,000	0*	19,000	0	0
17	5,000	15,000	0*	19,000	4,000**	800
18	5,000	10,000	1,000		6,000	1,200
19	5,000	5,000	3,000		8,000	1,600
20	5,000	0	2,000		7,000	1,400

* If there has been zero surplus income, or if there was a loss that year, the figure will be zero.

** As there was no surplus income this year, and the cumulative surplus income was more than the outstanding loan balance, £4,000 of the mortgage repayments will be subject to *khums*.

In this example, we can see that the total amount of £19,000 has been deducted from the surplus income (years 1-17), and the mortgage repayments for those years totalling £81,000 have also been deductible expenses, giving a total of £100,000 relief against the loan of £100,000.



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