



ZAKAT & TAX

Their Relation and Conceptual Clarification

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Abstract

The objective of this article is to provide a relational clarification analyzing the related literatures on zakat and tax. The methodology of this article is through descriptive research based on document analysis on previous articles and literatures on zakat and tax. The general finding of this writing shows that the zakat and tax issues are among the most discussed issues among the Muslim scholars as well as the economic researchers due to the purpose of zakat and tax is among the method in reducing and eliminating poverty and in improving economic development. Henceforth, this writing provides significant suggestions and strategies for the future exploration on zakat and tax.

Keywords: Zakat, Tax, Poverty, Development, Clarification and Islam.

Introduction:

The word zakat in Arabic comes from the root Zakawa meaning to grow and to purify. Zakat has literary meaning as purification (thaharah), growth (mana'), blessing (barokah), and praise (madh), in fact Zakat is a Muslim's financial obligation to pay their some net property or agricultural produces, if those properties exceed the nishab limit to certain degree which, it is paid as the part of religion obligation. As one of the Five Pillars of Islam, zakat is a religious obligation for all Muslims who meet the necessary criteria of wealth. It is not a charitable contribution, and is considered to be a tax, or obligatory alms. Zakat is based on income and the value of all of one's possessions during a lunar year. It is customarily 2.5% of a Muslim's total savings and wealth above a minimum amount. A tax (from the Latin taxo) is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state to fund various public expenditures. A failure to pay, or evasion of or resistance to taxation, is usually punishable by law. Taxes consist of direct or indirect taxes and may be paid in money or as its labour equivalent.

Conceptual Clarification:

1. Zakat

Among the obligatory religious duties Islam has much emphasized on zakat. It is a form of religious service and has a significant financial aspect too. The holy Quran pays great attention to zakat. In fact, it mentions it next to salat almost everywhere. This shows the high status of zakat in Sharia. Zakat is the sister of Salat and the Almighty Allah(SWT) has mentioned them together in His Divine Book, the holy Quran, implying that if one refrains from paying Zakat, one's performing Salat will also be null and void. The holy Prophet and His immaculate successors have spoken about zakat in a way indicating its vital role and tried to encourage believers to see it as a vital religious obligation. The holy Prophet (be peace upon Him and His Progeny) says, "The most generous person is the one who discharges the financial obligations which the Almighty Allah (SWT) has charged him with". Zakat is a fixed divine obligation and an immutable financial religious service which may be discharged only if the believers pay it with the intention to obey the divine command. If one fails to have that intention when paying his zakat, his duty remains binding.

Zakat brings about different constructive fruits. It stems from the principle of social balance. The Quran states that "...so that wealth does not remain confined to the rich alone". This principle aims to establish social justice and promote fairness in human relations. It is the basis of so many Sharia laws in the economic field. Based on this principle, the Almighty Allah(SWT) has designed that the needy receive a particular share of the wealth the rich possess, which they ought to pay them according to the pattern Sharia describes. In a saying attributed to the Almighty Allah (SWT), it is said, "Wealth belongs to me, the poor are my family, and the rich are my agents. If my agents are miserly, I shall make them taste my punishment and shall not care for them". The main purpose of zakat is to combat poverty and deprivation, and to immunize society against need and economic gulf. Zakat consists in paying a particular percentage of the wealth one possesses when it amounts to a certain level called Nisab (the specified minimum wealth upon which the liability of Zakat rises) as tax to be spent on predetermined expenditures. If this divine command is carried out fully, the expected adjustment in financial capability individuals enjoy is realized. Zakat payers have the chance of exercising moral and spiritual virtues through voluntary assistance they render to their fellow citizens. The receivers of zakat too gain an opportunity to experience moral elevation since they touch humanitarian intentions of their fellow rich citizens who extend their hand of friendship to them. What matters more in this process is the fact that payment of zakat is voluntary, done of free will, and with divine intention.

2. Tax

In economics, tax is discussed under the general topic of finance. Among different definitions proposed for "tax", I.M.F's definition is adopted in the international manual for budget classification. The definition runs as follows: "the amount of money collected by the government for public expenditures which is not refundable and compensated for". According to this definition, the three characteristic features of tax include:

1. being collected in cash;
2. being mandatory and not refundable and
3. being spent for public purposes.

Accordingly, every individual is a payer and receiver at the same time. Citizens are payers of tax in their private personal capacity. They are receivers of tax in their communal collective capacity. They receive the tax in the form of public services, materials, or

otherwise rendered by the government. It goes without saying that the state represents citizens in collecting and spending tax. This is one of the exclusive functions of the state in society next to law enforcement. Bearing in mind the important role of taxation in enabling the government to do its job and in the general administration of social life, it is of paramount importance that the policies, procedures, and regulations pertinent to taxation be planned in minute details and in an appropriate way. There is relation between taxation and payments religiously due in general and Zakat in particular. Under an Islamic state, Muslim citizens and the government enjoy reciprocal responsibilities defined in Sharia law. It is important to focus on these responsibilities so far as they relate to economic issues.

3. Are Zakat and tax identical?

To answer this question, we need to reflect again on the definitions of tax and Zakat, their constituents and differences. Some authors believe that tax is the same as Zakat. They focus on two fundamental features they both share manifesting conceptual similarity and identical utility. On the one hand, both tax and Zakat are money collected from people for especial expenditures. On the other hand, paying tax and Zakat is mandatory. Moreover, voluntary payment of the latter and the compulsory collection of the former bring about no difference so far as the ultimate purpose is concerned. Despite some remarkable features common to both tax and Zakat and a number of aspects in which they coincide in conceptual definition as well as the actual function, so it is not correct to consider them identical.

4. Dissimilarities between Zakat and Tax:

1. Zakat shall be considered properly-performed and duly accepted by the Almighty Allah (SWT) only if the performer retains the intention to gain proximity to Allah (SWT) through his performance. Tax payment, on the other hand, is a duty dischargeable under whatever circumstances.
2. Tax is payable in cash only while Zakat can be paid otherwise.
3. Tax is payable on demand.
4. Since taxation aims at meeting public needs, taxes may be spent in so many different ways for varieties of purposes. But, in the case of Zakat, both the amount to be collected and the way it is to be spent are exactly defined and unchangeable.
5. Taxpayers always consider themselves as creditors. They pay a percentage of their money to the government in return for the services it has to render. Consequently, their payment is a type of indirect investment in security and comfort for their own living conditions. But Zakat payers do not invest. They shall not consider the amount of money they pay as their possession. Rather, they think it belongs to those individuals who receive it.
6. The motivation for paying Zakat is for more sublime than that of paying tax. Consequently, Zakat payers experience a special spiritual elevation and joy taxpayer's lack.
7. The spirit of Zakat and its main objective are to combat poverty and help promote economic stability and equilibrium in society. Taxation is not foundationally so motivated. As the result of interpretational justifications or instances of mismanagement, taxes may expand in ways benefiting only taxpayers.
8. Zakat is among the permanent, fixed, and first-order obligations in Islamic Sharia. Taxation is classified in the category of second-order obligations contingent upon circumstances.
9. In the case of Zakat, the primary intention of the legislature is that people volunteer for paying with the intention to experience spiritual elevation through discharging this religious task. But in the case of tax, the primary intention of the legislature is to enable the state to collect hence the elements of compulsion.

5. Similarities between Zakat and Tax:

1. Tax and Zakat aim at checking the over accumulation of wealth privately owned on the expense of economically lower class society. The obligation to pay tax and Zakat implies the debt every individual has to the society.
2. Both tax and Zakat pursue the general interests of people in society though each one does so in a particular manner.
3. Under certain circumstances, Islamic state is allowed to collect Zakat by force. In that case, Zakat resembles tax.
4. One of the eight described expenditures of Zakat is called "in the path of Allah (SWT)". This is so widely and loosely defined that it can include every public service for which taxes are expendable.

From the above explanation, we can conclude that tax and Zakat are not interchangeable.

6. Are religiously due payments sufficient for the necessary needs of the state?

In standard circumstances, a state can be run with the money raised through payments religiously due. In Islamic economics, religious tax is not confined in Zakat. Other income sources for the state including Khoms, Kharaj, Jezyah, and the like are available that can constitute government budget. The money collected in this way is enough to meet normal needs of the state. In our discussion of Zakat, we said that the religious obligation to pay a percentage of the gold and silver one possesses applies to the cash one owns in any currency as well as all the deposits and investments. In this way, needs of contemporary states in budget can all be met. So, taxation can be done within the framework of the sharia law of Zakat. Any economic theory and method of establishment of justice in any respect would be null and void if unimplemented. Therefore, it is important to make arrangements for the implementation of the rules pertinent to economy. This can be done if the four following conditions are met:

1. Creation of the cultural grounds in society suitable for the implementation of regulations concerning taxation and tax collection. Citizens should be educated to feel obliged and willing to discharge their duty with the intention to please Allah (SWT). They should realize that paying tax contributes to the betterment of their life and love of society both in this world and in the hereafter. Clarification of the process of raising the income and spending the budget by the government is one suitable contribution to the creation of the said cultural grounds.
2. Supervision by the state over economic transactions and their registration as well as detailed information of the government about the property of individuals especially the wealthy is necessary. Electronic equipments make it easy now a days.
3. Relative flexibility in tax collection and tough supervision over its administration and expenditure.
4. Sufficient dissemination of information.

Conclusion

The spirit of Zakat and its general direction aim at the establishment of economic equilibrium and adjustment of wealth compilation in society as a means to the strengthening of social justice and the establishment of a fair order which is one of the fundamental purposes of the revelation of Holy Scriptures and appointment of prophets by Allah (SWT). Taxation will be legitimate provided that it serves these purposes. We can gather from the Koran verses and religious traditions about Zakat that it is looked at more as an income source based on cooperation rather than on transaction. By contrast, modern economists see tax in the framework of a transaction between investors and taxpayers and governments as tax collectors. It goes without saying that there is a big difference between transaction and cooperation as far as the agents' intentions are concerned. While cooperation is a behavior deeply rooted in human principles stemming from the purified divine human nature, transaction is motivated in general by self-interest. The former is equal to the spiritual perfection of human individuals. The latter merely helps sustain the material life of individuals and society. ©

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