

Islamic Taxation

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The Persian word “*maliat*” comes from the root “*mal*” and is used in various meanings including reward, fine, duty, tribute, and the tax on property religiously bound. As a technical term of economics, it means an amount of money received from individuals or legal persons by the state proportionate to their wealth, profit, income, or transactions². According to some Muslim authors, Islamic taxation is so defined: “the duty determined and leveled by the Islamic legislator on individuals’ property and possessions.” Every person protected by the Islamic state or living without the domain of this protection is duty bound to pay, in cash or otherwise, this debt of his/her according to the relevant regulations as soon as they qualify for this obligation³.

Since the advent of state, statesmen needed money to run the government. This money was made in different ways. Part of it was raised by confiscating property and lending it afterwards. Private owners were forced to pay tax. Regional rulers were forced to pay tribute⁴. Taxation has been a common phenomenon the world over. Some historical documents indicate that, in ancient Greece, government was run by tariff. In ancient Persian Empire and

1. Islamic Scholar and Researcher.

2. Farhang, Manuchehr, Grand Dictionary of Economics, Alborz Pub., Tehran, 1371, first ed., vol.1, P.371.

3. Azizi, Said, “a comparison of Islamic taxation and modern taxation”, Collection of Papers for the Third Symposium for Islamic Taxes, Qom, Mofid University, 1390, first ed., p.317.

4. Principles of Islamic Economy, Pajuheshgah howzeh w daneshgah, Tehran, Samt Pub. vol.1, P.60.

Roman Empire too, various taxes were collected¹. Physiocrats were the first authors in the West who studied taxation as an independent important subject matter². In old days, taxation on agricultural production and capitation were the two more common forms of tax. In Europe, capitation was first introduced in 1471 in Briton. In 1797, income tax was legislated in Briton for the first time³.

Fourteen centuries ago, Islam approved different forms of taxes common at the time so far as they did not violate values Islam cherished. In the Islamic system of taxation, we see the following ways of money raising for state: taxing land, agricultural products, unused capital, mining, extra profit, some species of cattle, camel, and sheep as well as capitation⁴.

The differences between Islamic taxation and ordinary taxation⁵

1. Islamic tax-paying is considered as a kind of religious service unlike the ordinary tax-paying that lacks that dimension. A religious person evaluates escaping religious tax as a sin while a law-abiding person considers tax evasion as illegal only.
2. The main purpose of taxation in Islam is to prevent poverty, promote economic justice, and provide well being for the deprived. This can be understood if we focus on how the tax collected (especially *zakat* and *khoms*) should be spent according to Islam. The forms of taxation recognized in Islam do not allow taxation to be a mechanism for allocation policies or stabilization policies.
3. Tax income from agricultural production is not cash. It is collected in form of goods and distributed in the same form. Therefore, it does not affect the overall demand or bring about collateral economic bad effects such as inflation. It goes without saying that ordinary taxation such as tax on consumption (purchase or unit tax) brings about tax burden and social loss leaving adverse effects on income level, firm costs, and inflation leading to welfare reduction.
4. Classical economies resort to progressive tax increase in order to achieve

1. Pir Nia, Hussein, Maleyyeh Omumi, Tehran, Amir Kabir Pub., 1355, p.8.

2. Sanjabi, Karim, the History of Economic Views, Tehran, Tehran University Pub., vol.1, p.60-62.

3. Pir Nia, Hussein, Maleyyeh Omumi, Tehran, Amir Kabir Pub., 1355, p.32-33.

4. Farhang, Manuchehr, Grand Dictionary of Economics, Alborz Pub., Tehran, 1371, first ed., vol.1, P.371.

5. Pur Faraj, Alireza, & Samai, Habib, "The Role of Zakat as Islamic Tax in economic growth and development Compared to Common Taxation System", in Collection of Papers of the Third Symposium for Islamic Taxes, Qom, Mofid University, 1390, first ed., p.93-96.

faster adjustment of income distribution. But this method has proved ineffective because the legal provisions for progressive increase of taxes have usually been neutralized by opportunities for evading tax payment distributed unevenly among tax payers leading to great horizontal inequality. The distributive effect of Islamic taxation system seems greater than the ordinary systems despite the fact that the tax rate is uniform in the Islamic system of taxation. The reason is that the progressive increase rate is mild due to provisions for tax exempts and tax reliefs.

5. In ordinary system of taxation, it is the state that collects and spends taxes. In Islamic system, however, tax payers are allowed to personally spend the tax where it should be spent without the mediation of the government with prior permission of the Muslim ruler or Islamic Authority. Of course, when the Islamic government ordains that taxes be paid to it, then no one can spend it as they see proper.

Different kinds of Islamic Taxes

In a general division, we may divide Islamic taxes into two main groups; the immutable and the mutable. The immutable include those determined by the holy lawmaker primarily and directly. The quantity, the proportion, and the items taxable are thoroughly determined¹. This group includes the following items:

Zakat

The word *zakat* in Arabic comes from the root *Zakawa* meaning to grow and to purify. The Islamic religion pays close attention to *zakat*. In several Koran verses, *zakat* is mentioned after *salat* as two important religious services². According to the Koran and many hadiths, *zakat* is some money payable by an individual in order to purify him, help him with his deliverance, and help the needy financially. It brings about the betterment of one's livelihood, increase of wealth, and economic security in society³. There are two kinds of *zakat*; Fitr *zakat* and possession *zakat*. The former means that every individual who is not a slave or poor and is of age, of sound mental state, and sober

1. Principles of Islamic Economy, Pajuheshgah howzeh w daneshgah, Tehran, Samt Pub. vol.1, P.60.
2. Kia Alhousseini, Seyed Zyaa al Din, *Zakat in Qoran and its Estimated Function in Iran*, Dissertation for MA, Qom Mofid University, 1377, P.1.
3. Karami, Mohammad Mahdi & Purmand Mohammad, *The Jurisprudential Foundations of Islamic Economy*, Tehran, Samt Pub., 1385, p.157.

must pay around three kilograms of wheat, rice, corn, barley, raisin, or similar food staff to the needy at the nightfall of the last day of the month of Ramadan for himself and for every individual whom he has to support financially¹. The latter means a percentage of the property one has must be paid as religious tax annually². Nine kinds of property are included among what must be taxed: wheat, barley, date, raisin, caw, sheep, camel, gold, and silver³. The Koran⁴ mentions eight categories on which zakat must be spent: the needy, the poor, the taxmen, the promotion of affinity, the emancipation of slaves, the indebted, in the path of God, and those travelers who need help in order to get back home⁵.

The second immutable tax is called *khoms*. The word *khoms* literally means one fifth. This tax is so called because the rate of taxation on seven specified items is twenty percent. They are: annual surplus profit, mining, treasure, legal money mixed up with illegal, the jewelry fished from sea by diving, booty, and the price of real property bought from a Muslim by a non-Muslim. A part of the expenses of the Islamic state is covered by *khoms*⁶. Every individual in possession of these items is obliged to pay the tax with the intention to implement divine command⁷. The Koran portions out this collected tax to six shares: one share is God's, one share is Prophet's, one share is allocated for the immaculate Imam, one share goes to the orphans, one share for the poor, and the last belongs to travelers who need help in order to go back home⁸.

*Jezyah*⁹ is the third kind of taxation. It is capitation on non-Muslims living within the jurisdiction of the Islamic state that protects them or living without but under its pledge of protection. The Koran defines this kind of taxation in verse no. 29 of Sura Tawbah. It is the right of the Muslim government to level the tax on individuals or on their estates and production as the situation requires. The amount payable is negotiable. This tax is in lieu of zakat and *khoms* which non-Muslims do not pay.

1. Modarres, Mohammad Baqer, Islamic Financial System, Qom, Haq Mobin Pub., 1381, p.212.
2. Principles of Islamic Economy, Pajuheshgah howzeh w daneshgah, Tehran, Samt Pub. vol.1, P.60.
3. Ghaffari, Hadi, Early Islamic Economy, Tehran, Payam Nur University, 1386, p.72.
4. Quran, Surah Towbeh, Verse 60.
5. Lashgary, Alireza, Islamic Taxation System, Tehran, Ministry of economics and treasury, Pajuheshgah farhang w andisheh eslami, 1380, p.70.
6. Ghaffari, Hadi, Early Islamic Economy, Tehran, Payam Nur University, 1386, p.72.
7. Yusofi, Ahmad Ali, Alawi Economic System, Pajuheshgah Farhang w Andisheh eslami, 1386, p.418.
8. Karami, Mohammad Mahdi & Purmand Mohammad, The Jurisprudential Foundations of Islamic Economy, Tehran, Samt Pub., 1385, p.157.
9. Ghaffari, Hadi, Early Islamic Economy, Tehran, Payam Nur University, 1386, p.72.

*Kharaj*¹ is the fourth kind of tax that was collected from land. It constitutes a very important source of income for Islamic state throughout history. As Muslim conquests went on in early decades, the ownership of land underwent drastic changes. Four different types of land can be distinguished. In some cases, the inhabitants of a region accepted Islamic call freely and willfully. Their ownership of their property moveable or immovable was recognized. In some cases, they fought the Muslim army but were defeated. Their immovable property was confiscated. This type of land was called conquest (or *maftuhato onwatan*). Sometimes, the non-Muslim inhabitants entered into a peace agreement with the Muslim army. Their lands were called peace lands. The fourth kind of land was the one either abandoned by owners without fighting or left to the Islamic state by them or left unattended because the owners had perished. This type of land belonged to the state. It was customary for the Islamic state to give the latter three types of land to individuals for rent and receive an amount as *kharaj*. The rent due to be paid was fixed through negotiation and varied depending on the fertility and the kind and level of production expected.

Mutable taxes

Mutable taxes are those taxes the Islamic ruler decides to impose in order to meet particular expenses of the government in exceptional cases without prior legislation by divine lawmaker hence no fixed terms for them². These taxes are called state-imposed tax. They are limited and exceptional. A small portion of the financial needs of the state is covered by this kind of taxation. They are introduced as means of crises-solving by the state³. Historical instances of these taxes are the *zakat* imposed on commercial goods by the holy Prophet and some Caliphs as well as temporary taxation on horses during Imam Ali's reign⁴.

In Islamic Sharia, there are other payments obligatory or supererogatory much resembling tax but are not considered as tax because government does

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1. Rezai, Majid, the Rivaval of the System of Kharaj in Charging Private Sector to Run State Owned Corporations, the Journal for Islamic Economy, 1383, no. 15, p.85 & Ghaffari, Hadi, Early Islamic Economy, Tehran, Payam Nur University, 1386, p.72.
 2. Principles of Islamic Economy, Pajuheshgah howzeh w daneshgah, Tehran, Samt Pub. vol.1, P.60.
 3. Lashgary, Alireza, Islamic Taxation System, Tehran, Ministry of economics and treasury, Pajuheshgah farhang w andisheh eslami, 1380, p.70.
 4. Ghaffari, Hadi, Early Islamic Economy, Tehran, Payam Nur University, 1386, p.72.

not collect them or law does not make them compulsory. They, however, leave impacts similar to those taxes do. Financial fines religiously due as compensation for some sins one has committed and would like to repent from (*Kaffarat Mali*) and self-imposed obligations to give a gift or pay alms (*nudhurat*) are obligatory payments. Alms (*sadaqat*), gifts (*hibah*), souvenir (*hadyeh*), endowment (*waqf*), remission of debt, and feeding the hungry (*it'am*) are supererogatory desirable payments considered as religious service if performed with the intention to seek Divine satisfaction¹.

Classification of taxation

Taxation can be classified on two different bases. Sometimes, we classify taxes on the basis of rate and amount. Sometimes, we classify them on the basis of the items liable to taxation. From the first point of view, they can be divided into the following four groups²:

1. Fixed tax includes *zakat fitrah* and some cases of *jezyah* and *kharaj*. In all these cases, there is a fixed amount due to be paid.
2. Proportional tax is a fixed percentage of property one ought to pay. No increase or decrease of the value of the property one owns affects the rate of the tax. *Khoms* is a kind of proportional tax.
3. Progressive tax is not legislated in Islam.
4. Retrogressive tax³ is when the decrease or increase of the amount due to be paid bears a reverse relation to those of the revenue on which tax is imposed. As the revenue increases, the rate of tax decreases. An instance of this kind is seen in tax on camel, cow, and sheep in some required minimum limits (*nisab*).

Taxes legislated in Islam can be divided into six groups from the second point of view⁴.

1. Tax on revenue includes zakat on wheat, barley, date, and raisin;
2. Tax on property (wealth) includes zakat on gold and silver;

1. Principles of Islamic Economy, Pajuheshgah howzeh w daneshgah, Tehran, Samt Pub. vol.1, P.60.
 2. Farahani Fard, Saiid, Economic Policies in Islam, Tehran, Pajuheshgah farhang w andisheh eslami, 1381, p.194 & Ghaffari, Hadi, Early Islamic Economy, Tehran, Payam Nur University, 1386, p.72.
 3. Modarresi, Seyyed Mohammad Reza, an Introduction to Tax and Budget System, Tehran, Hejrat Pub., 1367, p.27.
 4. Farahani Fard, Saiid, Economic Policies in Islam, Tehran, Pajuheshgah farhang w andisheh eslami, 1381, p.194.

3. Tax on savings such as *khoms*;
4. Tax on utilization of natural resources such as *khoms* on mining, zakat on camel, cow, and sheep;
5. Capitation such as *zakat fitrah*;
6. Tax on consumption, when one consumes more than their average needs, they must pay one fifth of the price of the goods and services consumed as tax.

Conditions and characteristics of Islamic taxation¹

Islamic Sharia has considered several principles in determining the taxation system it adopts. We can highlight seven principles here.

1. The tax imposed must be proportionate to the buying power of tax payers.
2. The tax due must be precise, obvious, and fixed with the payment time exactly determined.
3. Maximum facilitation of tax payment must be planned and complications and problems leading to tax payers' discontent minimized.
4. The cost of tax collection must be minimized.
5. Tax role and function must be premeditated.
6. Tax must not leave adverse effects on economic activities for wealth production.
7. Taxation system must pursue social ends.

Effective factors in the formation of Islamic taxation system²

1. The fundamental factor shaping the Islamic system of taxation is the quest for social justice and economic balance. Islamic state must be concerned with social injustice and class discrimination.
2. Combating stagnant capital and obstacles to economic creative activity is a factor present in the Islamic taxation system. As one withdraws his capital from investment, one gathers *konz*. It is prohibited to do so and *khoms* is imposed as discouragement.
3. Utilization of natural resources such as mining, diving for voluble natural stones and treasures plays a significant role in imposition of tax.

Effects of tax payment in the Islamic system³

In a comparison of the Islamic system of taxation with other secular

1. Pir Nia, Hussein, Maleyyeh Omumi, Tehran, Amir Kabir Pub., 1355, p.32-33.
 2. Lashgary, Alireza, Islamic Taxation System, Tehran, Ministry of economics and treasury, Pajuheshgah farhang w andisheh eslami, 1380, p.70.
 3. Principles of Islamic Economy, Pajuheshgah howzeh w daneshgah, Tehran, Samt Pub. vol.1, P.60.

systems, we can highlight the features and effects of Islamic tax in overall human life conditions. In the Islamic taxation system, tax payment is initially voluntary. Historically speaking, Muslims made their obligatory payments such as *zakat* willfully, freely, and voluntarily. Through education and promotion of moral values by Imams and holy religious leaders, they are brought up in a way that an internal drive motivates them to comply with divine law. Even at the times when Islamic state was not in place hence no external force was exercised on them, still they paid the tax due religiously.

Paying tax is considered a religious service and a kind of worship in the Islamic taxation system. Most economic issues are interwoven with matters pertinent to religious service and worship. If one pays *zakat* or *khoms* without the intention to obey God, they are not clear from obligation.

Taxation in Islamic system pursues the same goals other secular systems pursue such as financing the projects and schemes governments intend to implement in rural and urban development, cultural and public education, and paying public servants' salaries etc. But Islamic taxation pursues an additional end too. Islam intends to provide an opportunity for every individual to realize sublime values in their life and to attain ethical perfection when they discharge their social duties such as tax payment. Therefore, the regulations concerning tax are so arranged that people exercise the feeling of detachment to worldly treasures. By paying *zakat* and *khoms*, they enhance these moral traits in their inner world.

In secular systems, tax is first collected by government and deposited in the treasury then spent by the governmental bodies in proper expenditures legally determined. Citizens have no direct involvement in spending. Naturally, they do not personally involve in the process of redistribution of wealth and do not directly experience the positive results of their financial contribution to the betterment of life of the lower class society. In Islamic taxation system, however, provision is made for direct and personal indolence of citizens in redistribution of wealth. Some parts of tax may be spent by individuals personally without having been first collected by the government and piled up in the treasury. Consequently, tax payers personally see where their money is spent. This helps construct a positive psychological bond between social classes. The rich get acquainted with hardship the poor undergo and the poor come to personally know their fellow benefactors. This has proved effective in controlling both the economic gap and the ensuing social clash between the upper class and the lower class.

Islamic taxation covers a broader area of social needs compared to secular systems. Material, spiritual, emotional, and psychological needs of society and individuals have been addressed in the Islamic taxation system. Non-compulsory taxes are introduced by Islam to cope with these various needs. The factual effect of these taxes surpasses those of obligatory ones. In secular systems, no such provisions are made because moral issues are not considered in tax legislations.

While secular systems spend much on collecting tax because of grand and complicated bureaucratic organizations involved, the Islamic system of taxation enjoys the advantage of simplicity and economy. Trust is a great factor here. Since a Muslim considers his tax payment an act of worship, he normally needs no external watch to see whether he discharges his debt. This decreases the cost of tax collection considerably.

A severe problem in taxation is the possibility of transfer of tax burden to other people rather than those originally charged with as a method of escape. This transfer harms social justice because it amounts to the consumers being the ultimate tax payer. This way of escaping tax is easier and more common in indirect taxes. In the Islamic taxation system, therefore, two mechanisms are deployed to block this escape; first, all taxes are direct so as to minimize the possibility of the transfer of tax burden; second, paying tax is not only a public obligation but also a religious duty. It goes without saying that a believer understands that it is impossible to cheat and deceive God.

Redistribution of wealth and the adjustment of the share of different social groups and classes from the total national income in a fairer way are two important ends in the Islamic taxation system. These goals are better achieved by people directly with the minimum intervention of the state. The Islamic system of taxation guarantees this process by allowing voluntary active involvement of citizens in tax spending and by covering the maximum possible scope of adjustment through the variety of taxes obligatory and otherwise while minimizing the costs of the entire process by excluding the state's interference. In the secular systems of taxation, however, redistribution of wealth and adjustment of share are not included in the objectives of taxation and if they are in some very rare cases, they can be carried out by the government rather than people. So, tax in Islam partly aims at treating the problem of poverty and preventing huge class gaps.

Through its positive effects on economic stabilization and growth¹, Islamic taxation system helps in better distribution of wealth. We can sum up these positive effects in the following respects:

- Just distribution of total national income

Islam pursues two aims in economics simultaneously; growth and justice. Legislation of tax laws must guarantee a fair distribution of wealth in society at the same time as it helps economic growth. Neither of these two aims is subordinate.

- Betterment of production factors

The immutable taxes which Islam imposes lead to the increase of production factors.

- Facilitating saving

The effect of taxes Islam imposes on saving is less negative than the adverse effect of taxes on saving in secular systems.

- Encouraging investment

In the Islamic taxation system, there are elements that encourage investment. We may mention some more important ones here: certain tax reliefs and exemptions in the system, mechanisms for the reduction of loss probability via comprehensive sharing, and the rate of economic profit being low.

- Labor supply

The positive effect of taxes on the optimum efficiency of the labor force plus the increase of working hours contribute to the increase of labor supply.

- Consumption equilibrium

Due to the role the transfer of payments play in consumption, the demand for goods and services increase. As the result, the increase in total demand and supply in the entire economy as a whole reaches equilibrium at a higher level.

1. Nazari, Hassan & Gilak Hakim Abadi, Mohammad Taqi, Scientific View of Islamic State's Revenue and Expenses, Tehran, Pajuheshgah howzeh w Daneshgah, 1382, p.181.