

# Introduction

[Economics](#), [Tax](#)



INTRODUCTION To date, zakat is not a new thing in our daily life especially for muslims. Zakat is well known since thousand years back ago from the teaching of prophet Ismail, followed by Prophet Ishaq, Yaakob and Isa A. S. as mention in the Quran. Besides that, Allah also revealed the obligation of the Jews to pay zakat from Surah al-Baqarah verse 83. Under the reign of Prophet Muhammad S. A. W, zakat was become fard to all muslims in the second year after Hijrah. Prophet Muhammad S. A. W had used a comprehensive legal framework in order to implement it practically. The zakat workers used to be sent out to collect and to distribute the zakat by Prophet Muhammad S. A. W. In Malaysia, the implementation of zakat is practically the same as what had been done by Prophet Muhammad S. A. W. Generally, every state in Malaysia has its own zakat institution and has its own duty regulations. However, the effectiveness of the duties is based on several factors namely expansion of new resources for zakat, the collection of zakat from tangible and intangible properties, systematic zakat management, efficient zakat distribution and the thoroughness of implementation of Islamic rules. Nowadays, nevertheless, the payment of zakat has become issue to the payers. Basically, the payers in Malaysia have an obligation to pay zakat as well as income tax. Although the zakat payers may receive deduction of tax payment due to zakat amount, there are some thought that their obligation to pay is on income tax while zakat in only a voluntary form to the individual. As a result, some of them refuse to pay zakat regardless of their religion rules. In a nutshell, the issue would rise widely among Muslims in the next incoming years. The factor might be the Muslims themselves lack of knowledge on Islamic teaching and also they

unaware on the cause and effect of neglecting the obligation. Thus, this will comprehensively discuss on this issue, the overview of zakat and tax as well as their importance. REFERENCE 1. Mek Wok Mahmud, Sayed Sikandar Shah Haneef (2008). Debatable Issues In Fiqh Al-Zakat: A Jurisprudential Appraisal. [http://myais.fsktm.um.edu.my/8074/1/Debatable\\_issues\\_in\\_Fiqh\\_al-Zakat.pdf](http://myais.fsktm.um.edu.my/8074/1/Debatable_issues_in_Fiqh_al-Zakat.pdf) 2. Azman Ab Rahman, Mohammad Haji Alias, Syed Mohd Najib Syed Omar (2012). Zakat institution in Malaysia: Problems and Issues. <http://www.gjat.my/gjat062012/gjat1220120201.pdf> 3. History of zakat. Date of retrieval april 21, 2013, <http://www.nzf.org.uk/Knowledge/HistoryOfZakat>

Overview of Zakat " Take from their wealth a portion for charity, in order to clean them thereby, and sanctify them." Literal Meaning, zakat means grow (in goodness) or 'increase', 'purifying' or 'making pure'. So the act of giving zakat means purifying one's wealth to gain Allah's blessing to make it grow in goodness. In general, zakat is transferring ownership of an amount of material wealth specified by the Lawgiver to a poor Muslim who is neither Hashimi nor their client, without material benefit returning to the giver in any way, for the sake of Allah Most High. In more detail, It is a condition that there is a transferring of ownership. (Simply put: your zakat has to be given). As such, it is not valid to forgive a debt someone owes you as zakat. Zakat has to be given to the poor and needy. It is not valid to give zakat for projects, mosques, and virtuous activity, unless the zakat itself will be given to the poor and needy. Zakat must be given to a Muslim. Unlike charity, it is not valid to give zakat to a non-Muslim. Zakat cannot normally be given to Hashimis (those from the family of the Prophet (Allah bless him and give him peace)). The giver cannot materially benefit from giving their zakat. As such,

one cannot give zakat to ones parents, children, or spouse, because benefits between these people are shared. The Zakat is a form of giving to those who are less fortunate. It is obligatory upon all Muslims to give 2.5 % of wealth and assets each year (in excess of what is required) to the poor. This is done before the beginning of the month of Muharram, the first of New Year. Giving the Zakat is considered an act of worship because it is a form of offering thanks to God for the means of material well-being one has acquired. A certain fixed proportion of the wealth and of the each and every kind of the property liable to Zakat of a Muslim to be paid yearly for the benefit of the poor in the Muslim community. The payment of Zakat is obligatory as it is one of the five pillars of Islam. Zakat is the major economic means for establishing social justice and leading the Muslim society to prosperity and security. Paying zakat is Fard (compulsory). The Qur'an says that only those who pay zakat are in the "brotherhood of faith". The Holy Qur'an also says that Zakat purifies assets and creates virtue: Take, [O, Muhammad], from their wealth a charity by which you purify them and cause them increase, and invoke [Allah's blessings] upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing. (9: 103) Zakat is a 2.5% levy on most valuables and savings held for a full year if their total value is more than a basic minimum known as nisab. At present nisab is \$1,050 or an equivalent amount of any other currency. Cash money in your bank and building society accounts, and the release value of bonds, securities and shares in any form are zakatable if they are purchased as an investment. Zakat is distributed among 8 asnaf (categories) of people, namely: " Zakat is for the poor, and the needy and those who are employed

to administer and collect it, and the new converts, and for those who are in bondage, and in debt and service of the cause of Allah, and for the wayfarers, a duty ordained by Allah, and Allah is the All-Knowing, the Wise".

(9: 60) 1. Fakir - One who has neither material possessions nor means of livelihood. 2. Miskin - One with insufficient means of livelihood to meet basic needs. 3. Amil - One who is appointed to collect zakat. 4. Muallaf - One who converts to Islam. 5. Riqab - One who wants to free himself from bondage or the shackles of slavery. (In Singapore, zakat due to this category of recipients is spent on those who need help to pursue education or to improve their standard of living). 6. Gharmin - One who is in debt (money borrowed to meet basic, halal expenditure). 7. Fisabilillah - One who fights for the cause of Allah. 8. Ibnus Sabil - One who is stranded in journey. Tax

Overview: Benjamin Franklin once said, " Nothing is certain but death and taxes." Tax comes from the Latin word Taxo, which means " Rate".

Investopedia defines tax as, " An involuntary fee levied on corporations or individuals that is enforced by a level of government in order to finance government activities. " Tax is a charge which is imposed by the government to its citizen to transfer involuntarily a portion of their income to support the operations of the government. These monetary transfers are a must for a citizen and failure to pay is punishable by law. Though, one should keep in mind that not all transfers are recognized as tax and therefore are not binding upon citizens to pay them. For example, University tuition fees, fines, utilities and services provided by Governments and confiscation of Wealth. Therefore, it is immensely vital for the citizens and businesses to understand what exactly constitutes tax, its types and whether they are supposed to pay

them in the first place. We shall discuss some points to briefly look at the overview of Tax in the following paragraphs. Let's first look at the reason and logic behind the government's imposition of taxes. Money collected by the government is utilized in macro and micro activities of a State. It collects money to carry out the enforcement of law and order, protection and building of public properties like roads and parks; and the operation of the government itself. It also uses taxes to fund welfare and public services. Services such as healthcare, education, pensions for the elderly, public transportation and unemployment benefits. Governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population. Historically, the nobility were supported by taxes on the poor; modern social security systems are intended to support the poor, the disabled, or the retired by taxes on those who are still working. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy, or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive. We have so far looked at the purpose behind the imposition of tax by the Government. Now let's look further into the kinds of taxes and the entities who are eligible for it. The parties who pay tax or on whom the tax is levied is known as taxpayers. Taxpayers can be divided into two categories, Businesses and Individuals. Taxes paid by the Individual

1. Income tax: Income taxes are the charges that are imposed on working individuals on their earnings.
2. Property tax: These are paid by

anyone who owns property such as land, a home or commercial real estate. These taxes are often collected by the state and county to help fund their budgets. While income taxes are subject to deductions or credits, these taxes are often fairly rigid.

3. Consumption Tax: Consumption tax is imposed on expenditure for various products and services. Usually the money spent on buying or using these goods and services, serves as the basis of these tax.

Taxes paid by the Business

1. Corporate taxes: Corporate tax are the taxes levied on businesses and corporation. These include income, capital, net worth, or other taxes imposed on the government. Rates of tax and the taxable base for corporations may differ from those for individuals or other taxable persons.

2. Payroll Taxes: There are two major types of payroll tax — one which is deducted from the salaries by the employers. This is known as withholding tax, pay-as-you-go tax, and pay-as-you-earn tax. A second tax is levied on the funds owned by the employers and is taken for employing the workers.

3. Capital Gains Taxes: A capital gains tax is a tax on capital gains, the profit realized on the sale of a non-inventory asset that was purchased at a cost amount that was lower than the amount realized on the sale. The most common capital gains are realized from the sale of stocks, bonds, precious metals and property. Not all countries implement a capital gains tax and most have different rates of taxation for individuals and corporations.

4. Sales tax Sales tax are taxes paid by the retailers on the sale of goods and services. It is collected by the retailer and passed on to the state. The tax rate is based on percentage of sales of good and services, it is set by the state.

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Zakat vs Tax : Economic Growth

Zakat is the most ideal Islamic tax system. The objective is mainly for spiritual purpose of which to purify of wealth and to show our gratitude to Allah. In the same time, it is also benefiting the economy whether for the society or the country. In contra, tax is only an obligation made by human for the sake of worldly matters only. Tax will never achieve the moral and spiritual objectives of zakat in any time. Even in the economic growth, zakat shows many positive impacts compare to tax. It can be explained as mention below.

Zakat significant for economic growth

1. Act as an indicator of economic growth

Generally, economic growth will be measured by a number of indicators and zakat is one of them. This can be meant that when people pay zakat, the level of economic growth higher and if no people pay zakat, the economic growth level is lower. How it works is by looking back that the king of economy is the aggregate demand, if people are giving zakat, those who are previously cannot afford to consume now be able to spent and be part of consumer which increase the consumption which is also the element of aggregate demand and that eventually boost aggregate demand and trigger the economic growth. So, by paying zakat, it helps the poor and needy to achieve sustainable development. Despite of that, it bridging up the gap between them and the riches.- 2. Play the role of poverty elimination tool

We may think that zakat act as a financial support only to those people who need it. Actually, it will gradually eliminate the poverty. Methods to tackle poverty depend on type of resources and entitlements/rights that being possessed by a household. Based on a research, the effectiveness of



zakat to tackle poverty also depend on the size of GDP and the number of poor. The usage of zakat to reduce poverty is less effective for countries with low GDP (one of indicator for economic growth) per capita and large number of poor. However, it is mentioned in Al-Quran that the alleviation of poverty through the assistance for the poor and the needy need to be stressed and given priority.

3. Contribute in reduction of unemployment Zakat results in increasing the overall savings and income level of those needy. Likewise, their consumption level also increases and that will increase production volume of numerous economic activities. That indicates more labor is needed and thus the recruitment of workers reduce the unemployment rate.
4. Reduce recession Zakat system also decreases the probability of recession in the economy. As zakat is a system of equal distribution of wealth that must be done by every affordable Muslim to needy for achievement of socioeconomic justice. Taxes have negative relationship with the economic growth From some study, they found that taxes have a negative effect on economic growth. Among the taxes, corporate income taxes are the most harmful, followed by personal income taxes, consumption taxes and property taxes.
1. Productivity declines The higher the tax rate, the lower the productive activity. It is because, people choose to work less and engage with activities that minimize their tax burden. The declining in productivity will affect economic growth negatively as lower value of goods and service produced. That will give impact on customer's satisfactions which eventually lead to lower demand of products or services.
2. Reduce production There are also taxes imposed on the factors of production such as capital and labour. They are shareholder tax and corporate tax which eventually to

reduce the incentives to invest and build new capital. As a result, the business will have only few productive workers and correspondingly lower wages. The misconception about zakat As a Muslim, we got five pillars of Islam that we need to follow and understand. Zakat was included in one of the pillars of Islam so by right as a Muslim, it is an obligation that we cannot avoid it no matter what happen but for sure there are some exceptions for those who cannot afford to accommodate it. For some people that said zakat as determined by Sharia'ah is a voluntary obligation unlike tax imposed by government in which is compulsory obligation are absolutely wrong. The reason why this matter has become an issue because when a Muslim did not do the obligation of paying zakat, there will be no punishment or fine given by the government or the authority meanwhile when someone did not pay a tax, authority will come and punish them for not paying their tax to the government. As a Muslim we should know that if we abide the zakat payment, there will be consequence waiting for us in the hereafter although there is no consequence in this life. The people that bring this matter forward might be non-Muslim. They clearly do not understand the concept of zakat. They thought that the concept of zakat and tax is two identical concepts with different name. Basically, this two concept are almost the same however if we do some researches about it, zakat and tax are different. Zakat is one of the Shari'ah meanwhile tax is a form of Ijtihad only. Supposedly, zakat is imposed to Muslims only and Muslims do not have any obligation in paying tax. Rasulullah said " There is no obligatory in wealth except zakat". Ibn Majah, no 1779 Tax is only imposed to the non-Muslim who live under Islam rule. Once a country is following Sharia law, non-

Muslims are given the choice between becoming Muslim or becoming a dhimmi. Dhimmi are allowed to practice their non-Muslim religion if they pay the jizya (a tax). If they convert to Islam, they no longer have to pay the jizya. This obviously creates a practical incentive to convert. Even nowadays in Malaysia for example, the concept of jizya (a tax) is still practice but there is some modification of it. Malaysia government imposed tax to its entire people even Muslims or non-Muslims. So as a Muslim, we must put the zakat as the priority after the tax because zakat is an Ibadah (act of worship) which Allah has made compulsory on human being, to express gratitude to Him and to obtain His nearness (Taqwa). Tax is not the same thing as Zakat. Tax is a social obligation without having special sense of gratitude to Allah or to obtain nearness to Allah while Zakat is essentially a matter between Allah and His servants, but tax has been primarily a matter between citizens and the state authorities. Conclusion The objective of the payment of Zakat is the pleasure of Almighty Allah through financial assistance of the poor and needy whereas the objective of tax is to meet the development and non-development expenditures of the society, as a whole. Zakat is imposed on all types of goods even animals, gold and silver etc. held by the individual, whereas tax is imposed only on the income earned by various sources. The payment of Zakat is a religious duty whereas the payment of tax is a national duty. Besides, zakat is imposed only on the Muslim members of the society whereas tax is imposed on all the citizens in proportion to their ability to pay. Zakat is a compulsory payment which is not remitted by anyone whereas tax though compulsory payment, yet is remittable by the Govt. In case of Zakat, the rates of Zakat payment are fixed by the Holy Quran and

cannot be changed by anyone whereas, in case of tax, the rates can be changed by the govt. from time to time. Zakat can be paid individually whereas tax is collected only by the Govt. Zakat creates the feelings of being a member of Muslim society irrespective to regional limits whereas tax creates the feelings of being a member of just single society. Thus Zakat creates universal feelings while tax creates native feelings.

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