

Public finance in islam



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The objective of the study is to explain the Islamic economic in general and public finance in particular which is aligned with the development of Islamic economy in today's world. The literature in Islamic public finance is rich both in terms of coverage as well as scope of analytical content. Islamic public finance has been discussed and being practiced by the Muslim scholars ages ago. The elements in Islamic public finance can be gauged by numerous instructions in the Quran. It is heartening to note that this study is to give a clear understanding about contemporary economic works in accordance with the teaching of Islam.

A clearer comprehension on Islamic public finance definitely helps having a better view of the whole. Besides, shariah is relevant to economic policies where the economic theory can be affected by the implications of these policies. When it comes to economic policy recommended by the modern economics, we must take into account the Islamic goals. It should not conflict with the rules and objectives of shariah. Therefore, we can analyze economic problems with a fresh insight and explore solutions which are distinctively Islamic.

INTRODUCTION Public finance comprises a range of policies whose goal is to assemble resources for the public sector and to allocate them according to precedence of the state in the distribution of public sector. A course on public finance is a mixture of positive and normative. The positive analysis is directly related to the conventional approach. The normative elements are arised from the Islamic goals and objectives, responsibility of Islamic state and the Islamic behavioral norms in general.

From the conventional view, public finance is about the role of the government in economic life on the basis of market failures and the necessity to modify the distribution of income resulting from the market process. In other words, public finance also can be described as maximizing the social welfare function by the public authority. Back to the objective of the study which is focusing on public finance from the Islamic perspective. Islamic system relates to all aspects of life. In economic life, Islam seeks to organize society in such a manner that every individual is enabled to live as Allah wills to man.

There are three aims in Islamic economy which are fulfillment of the basic needs of all human beings, economic development and equalities in distribution of income and wealth. Islam does so by orienting behavior through faith and moral values as well as by providing codes of conduct, rules of transaction and institutions securing social cohesion such as the family and the state. Those objectives are directly related to the discussion of Islamic public finance. Public finance describes the budgetary sector of public policy, dealing with taxes, public expenditure and borrowing.

In the Islamic point of view, those factors cannot be avoided from being discussed as it is a possible source of revenue but the way it generates revenue must be based on Quran and Sunnah. The state in Islam is not born of the necessity to safeguard individual interests because Islam promotes the concept of equality among the humankind. Islam resorts to profit sharing as the sharing instrument of mobilizing private savings for investment in the public sector. The profit is a significant source of capital formation.

Thus, it is relevant to the capital budget which will benefit all parties. In order to implement Islamic aspects in public finance, all parties have to play their roles for example the state. Muslim community needs a ruler which is set up through mutual consultation. Quran and Sunnah state that the government has some functions that it need to carry out in order to serve all the people. Those functions are derived from Quran and sunnah by ijtiḥad which covers analogical reasoning as well as reasoning based on public interest.

Any attempt to formulate the theory of Islamic public revenue or to know the structure on this revenue depends on understanding of public revenue model that were applied on the early period Islamic civilization. During early Islamic state the major portion of state expenditure were financed meanly from tax base sources. These sources of taxes income were mostly generated from Ghanima and Jazia. Latter on during Abu bakr and Umre the imposition of kharaj and Ushr were implemented. it was because the Islamic state widen from Iraq to demashq and from khurasan to African content.

The Islamic state needed revenue for its military, and social expansion in non Arab countries so during caliph Umer the institution of Bait Al-mal were established only to save the government earrings and manage government expeditions. Ghanima, Jazia, Kharaj, Ushr and Zakat were among major source of revenue on that time.. In order to clarify the issue we need to evaluate the terms one by one: First of all, kharaj or land tax is a major source of revenue for an Islamic state. During chelahpat of Umar Ibn khatab,, the kharaj or land taxation is levied which was a good source of state revenue during Islamic chelahpat.

Umar leased conquered lands to people in return for fixed levy and it was called kharaj. And Arabs used to call land or house rent as kharaj. It was a revenue used for payment of salaries of army, children allowance for the whole Muslim nation (IRTI 1995, page 44). In order to collect kharaj revenue efficiently and equally, scholars divided kharaj base fiscal instrument into two parts which are kharaj wazifa and kharaj muqasima. kharaj wazifa was the rent imposed on lands based on the size of land and type of cultivation of farmers on the land.

The amount of kharaj wazifa is flexible and the state also take into account the potential earning of land with and its fertility, and the exact amount of tax is decide by ijtiḥad. However, kharaj muqasima is the poll tax based on crop sharing between tenant and stat; its rate is depend on the amount of harvest and the state take kharaj based on percentage of harvest. Reason behind flexible rate of kharaj is the contentious downward trend of prices of crops which prevailed during that time (IRTI 1995 page 44).

When difficulties exist in the market (the decrease and increase of price), burden of kheraj were reduced by state in order to bring equilibrium between supply and demand. Justice is one the principlpe of Shariah and the collection of kharaj taxes fulfills all condition of Shariah principle. A major Muslim scholar Abu Yusuf emphasized on the imposition of kharaj based on capacity of tenants, if the rate of kharaj is beyond the capacity of tenants, that's inequitable and injustice which contradict the shariah principles.

Abu Yusuf point out that justice in kharaj will lead to increased kharaj revenue and economic growth and the kharaj collected with injustice will

lead to recession in the economy. More interestingly, the amount of revenue from kharaj before Harun El-Rashid period was about to 200million derham. With the advice of Abu Yusuf it increased during Abasiat chelaphat to 4, 257, 000 derham. the poverty level in most of Muslim state were at minimum level and the state had enough resource to finance the public expenditure.

On that time the rate of kharaj was determined by imam in the best interest of the Muslim nation and its flexibility in determining the rate could achieve the economic goals of nation was one the best fiscal policy tool of Islamic state. Moreover, agriculture taxation was in the form of Ushr which is a great tool for governments to raise fund. During Islamic period Ushr was one of the major source of government revenue, it was collected form farmer in order to utilize for the social welfare of society.

The state uses the Ushr revenue for provision of health facilities and distribution of education to the poor. More importantly, the role of Ushr is very limited in agriculture taxation which fixed to 5% of total production of land but the potential of agricultural income might be large and the state can levy extra agriculture taxes to meet its policy requirement. Most of developing countries have majority Muslim population and their economies are based of agriculture and the states development effort is about to fail and they are more dependent on advance countries in terms of capital, technology and food.

If the government takes into account levying ushr on agriculture to finance its development projects of rural areas, certainly it helps to raise agriculture output, employment and health facilities. One of the countries that ushr was

levied on farmers is Pakistan, Let's take as example the case of Pakistan, its estimated that on the basis of 1976-77 crop production the total yield from Ushr was Rs. 1617 million which is almost twelve times larger than land revenue in four provinces of Pakistan.

Therefore, levying ushr as agricultural tax is a good tool to raise fund for the state and utilized for development of agriculture sector and eradication of poverty. Finally, another major source of government revenue is collecting Zakat and the payment of Zakat is compulsory for those who have the ability. To be said that Zakat is a religious obligation and it's paid to purify one's income and wealth. Actually the object of zakat payment is to distribute the wealth between poor and rich and alleviation of poverty in the society and zakat has its own difference and characteristics from the tax.

Primarily, 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.. Furthermore, Zakat is based on Nisab, any wealth below a limit is exempted from Zakat.

This is not true in case of many taxes in modern times. Concept of exemption is there in case of tax but it is applicable only when and where the Government or Tax authorities specifically prescribe. also Zakat is a permanent and regular system. None can change it in any way. On the

contrary, most of the taxes undergo change from time to time. There is also difference in the objective and aim between Zakat and Tax. As Allah has said, “ Take from their wealth Charity (Zakat) so that thereby you make them clean and pure and pray for them.

Your Prayer (for them) is a source of comfort for them. Allah is All hearing, All-knowing” ... (Tauba : 103) The intent of Zakat is to make wealth pure (in moral sense) and cleanse the heart of human beings from greed and hoarding. The object of Zakat is spiritual as well as economic. But the object of tax is much more mundane and worldly. Tax could never achieve the moral and spiritual objectives of Zakat in any time of history. Zakat is a compulsory payment by individual and the state is entrusted to collect it and zakat revenue is earmarked to be spent on certain ways detailed in the Quran: for the poor, the deprived, and for those who are unable to pay their debts and for destitute travelers in the path of Allah. Also, zakat should be collected from the following items: animal wealth, commercial assets, gold and silver, agricultural products, honey and animal products, mineral wealth and treasure extracted from the earth or sea, estate, factories and all other earning assets and from income of employees.

However, some assets are not subject to zakat, according to Muslim scholars they are the items which individual uses for transport, housing, instrument necessary for carry work and furniture's. For assets to be subject to zakat certain conditions must be satisfied, only those assets which are growing or which have growth potential are subject to zakat, also those assets which exceed a certain minimum can be taxed as zakat (IRTI 1995 page 390).

More importantly, in contemporary era there is no Islamic state to apply the Islamic taxation system but Muslim states finance their revenue through conventional taxes, beside that some muslim states like Malaysia, Pakistan, and Bangaladish levy Zakat taxation only and as we mentioned about the aim of zakat is different from taxaes. In case of Malaysia, there is authority of Islamic Council for each state and in total there are 14 Islamic Councils and under supervision of Islamic council, Zakat is collected by Center of Zakat Collection called PPZ.

The objectives of PPZ are To increase the collection of Zakat, To increase the amount of Zakat payers in years by years To increase the ability of professional management aligns with the current technology. To maximize the customer satisfaction through services offered and to inculcate the Islamic work environment. Types of Zakat they raise from Malayisa muslims are Zakat on Income, Zakat on Business , Zakat on Savings, Zakat on Shares, Zakat Employees Provident Fund, Zakat on Gold, Zakat on Wealth and Property, Zakat on Agricultural, Zakat on Cattle, Zakat on Buried Treasure.