

## **Chapter Three: Public Finance Zakat and Taxation in Islam**

### **Zakat:**

Zakat is a religious obligation, ordering all Muslims who meet the necessary criteria to donate a certain portion of wealth each year to charitable causes.

### **Conditions for Zakat to be obligatory on wealth:**

Zakat is obligatory if an individual possesses wealth to the value of the Nisab (minimum threshold). According to Sharia, such a person is deemed to be rich. Zakat is imposed by both the Qur'an and the Sunnah and the Prophet (peace be upon him) himself listed Zakatable items and monetary rates to be charged on each of them.

- Complete ownership
- The wealth has the ability to grow and increase
- The wealth has reached the Nisab
- A whole lunar year passes after possessing the Nisab

### **The Purpose of Zakat:**

The basic objectives of paying Zakat are

- ❖ To create balance in the society and never let a poor and needy to suffer or die
- ❖ To maintain economic balance in society so that circulation of wealth continues from rich to poor and never stays in one hand.
- ❖ To overcome poverty and other social evils from our society
- ❖ To purify our wealth as it goes into the hands of rich to poor, stabilizes economic condition of the society and ensures that each person is benefitted from the wealth.
- ❖ The rich people have to pay zakat so that differences and gap between rich and poor is reduced and this way we can guarantee human rights for all.

- ❖ The Zakat helps to shape the human character of the rich people as it saves them from greediness and selfishness and it establishes the concept of brotherhood and unity.

### **The Importance of Zakat:**

Poverty is one of the greatest drawbacks of our modern civilization. Poverty has always been widespread in the world. The Quran takes a closer look at poverty and has recommended several ways to reduce its suffering and grief in society. Charity can help remove the envy of the poor and instead cultivate a feeling of a fellowship from the recipients. Whenever possible, we are encouraged to do actions for the pleasure of Allah. There are two types of giving: one is Zakat and the other is Sadaqa. Zakat is obligatory and stands at a specific rate of 2.5% on all our properties that can be weighed, whereas Sadaqa has a wider meaning.

*The vital importance of Zakat is reflected as the law of Allah: “My mercy encompasses all things, but I will specify it for the righteous who give Zakat.” (The Quran: verses:7:156).*

- **Purification**

Zakat purifies the possessions and the spirituality of one who gives it. It creates a sense of self-discipline and shows your obedience to Allah s.w.t.

- **Become Prosperous Muslims**

By giving Zakat a person shows that he is obeying the rules set by Allah s.w.t. His obedience brings him prosperity in both this world and the hereafter.

- **Closer to Allah s.w.t**

Giving Zakat brings you closer to your God and increases your faith in Him.

- **Rewarded by Allah s.w.t**

The Prophet (pbuh) said: “Whoever gives away charity the size of a date, which is earned lawfully, since Allah only accepts the good lawful things, Allah will indeed take it with His right hand and cause it to grow for its owner, just as one of you raises up his colt, to the point that the charity will become like the size of a mountain.” [Reported by Al-Bukhari and Muslim]

- **Sins are wiped away.**

The Prophet (pbuh) said: “Giving charity wipes away sins just as water extinguishes fire.” The word charity (sadaqah) here refers to the Zakat as well as the supererogatory form of charity.

### **What is Nisab?**

Nisab is the minimum amount that a Muslim must have before being obliged to Zakat.

The Nisab was set by Prophet Muhammad (SAW) at a rate equivalent to: 87.48 grams of gold and 612.36 grams of silver.

As we no longer use silver or gold as currency, you need to find out the equivalent monetary exchange value of the rates the Prophet Muhammad (SAW) set in your local currency. You can do this by checking the market rate of gold and silver.

The two values used to calculate the Nisab threshold are **gold and silver**. In the Hanafi madhab, the value of silver is used to ascertain the nisab threshold and eligibility to pay Zakat. The other madhabs use the value of gold.

### **Which assets are subject to Zakat?**

In short, the following assets are subject to Zakat:

Items of Assets on which Zakat is payable	Nisab	Rates
Cash in hand	Value of 7.5 tolas of gold/52.5 tolas of silver	2.5%
Gold and Silver	7.5 tolas of gold/52.5 tolas of silver	2.5%

Trading Goods	7.5 tolas of gold/52.5 tolas of silver	2.5%
Domestic animals	Cows/Buffaloas (30 numbers/minimum) Goats and sheeps(40 no./ min) Camels/Horses(5 no./min)	1 of one year age in every categories
Agricultural Products	5 wasaq	1/10% and 1/5%
Products of Mines	Any amount	20%

### Recipients of Zakat

Whether it is zakat of sharia or zakat of dignity, the category of people who deserve it remains the same. The recipients of zakat are known as masaraf of zakat. Hence, masarif e zakat in english means those who should be given zakat or sadaqah in any form.

Allah has clearly mentioned the musarf e zakat and sadaqah in Quran in these words:

إِنَّمَا الصَّدَقَتُ لِلْفُقَرَاءِ وَالْمَسْكِينِ وَالْعَمِلِينَ عَلَيْهَا وَالْمَوْلَاتِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْغَارِمِينَ وَفِي سَبِيلِ اللَّهِ وَابْنِ السَّبِيلِ ۚ فَرِيضَةً مِّنَ اللَّهِ ط وَاللَّهُ عَلِيمٌ حَكِيمٌ.

**Meaning:** “Indeed sadaqah is for Fakirs, *Masakeen* and for *Amileen* (those deployed to collect zakat), those in whose hearts the inculcation of love for Islam is aimed at, and to free the captives and remove the burden of debtors and (those who toil hard) in the way of Allah and for the wayfarers. This has been prescribed by Allah. Allah, the All-Knower, the Most Wise.”(9:60)

Among the questions regarding zakat, perhaps the most common one is that how many masarif e zakat in Quran are mentioned. Hence, the above verse clearly names the eight categories of

people who are entitled to receive sadaqah and zakat. Among them, Fakirs are the foremost. To understand more, we begin by describing each of them separately:

*The alms are only for the poor or needy; and the destitute; and those employed to collect Zakat; and to attract the hearts of those who have been inclined towards Islam; and to free the captives; and for those in debt; and for Allah's Cause; and for the wayfarer, a traveler who is cut off from everything; a duty imposed by Allah. And Allah is All-Knower, All-Wise." [Al-Quran 9:60]*

According to the Holy Quran, a Muslim should give Zakat to the following types of people:

- **Fuqara':**

Translated as the 'poor' or 'needy', these people have some money, but not sufficient for their everyday needs.

- **Al-Masakin:**

Translated as the 'destitute', these are people of extreme poverty who possess no wealth at all, and are in need of asking others for food, clothing and shelter.

- **'Amil Zakat:**

These are people appointed by an Islamic Head of State or Government to collect Zakat. The authority gives them a fee for their work, which includes collecting, recording, guarding, dividing and distributing Zakat.

- **Mu'allaf:**

These are people who have just become Muslim, or those whose circumstances are so desperate they fear turning to crime if they are not helpful.

- **Ar-Riqab:**

These are slaves whose masters have agreed to set them free on a payment of a fixed amount. Zakat may be used to purchase their freedom.

- **Ibnus-Sabeel:**

Translated as the 'wayfarers', these are travellers stranded in a foreign land in need of money. These people can receive Zakat if the purpose for travelling is lawful.

- **Al Ghaarimeen:**

These are the debtors, people burdened by debts because of personal needs or social necessity. These people are given Zakat if they do not have enough money beyond their basic needs to repay debts. Help is also provided to those who may have landed themselves in debt as a result of social obligations such as supporting an orphan or renovating a school. *It is conditional that the debts were not created for any un-Islamic or sinful purpose.*

- **Fi Sabeelillah:**

These are people who are away from home in the path of Allah. Those in Jihaad, those seeking knowledge or a stranded in Hajj, may be assisted with Zakat when in need.

## **Social Impact of Zakat**

Islam concentrates on the reform of individuals, who are constituents of a society. Usually all the Islamic commands start from the individual and travels to the establishment of an ideal community of the people. It is quite a natural process of positive change. Zakat, in the same way at first builds character of an individual and then brings a lot of impacts to the society.

### **Individual Impact**

**1. Generosity:** Man is naturally greedy and his thirst for more and more material gains never satisfies. Zakat is a sort of journey from inside to the out side. He learns to come out of the race of personal interests and think for other human beings. He extends financial help to the poor and the needy. It cleanses an individual from avarice, selfishness and miserliness.

**2. Sincerity of Faith** Zakat is also called “Sadaqa” which is derived from “Sidq” which means truth. Proper calculation of assets and capital for the sake of excluding prescribed amount for the poor and the needy, is an ample proof of the individual’s sincerity of faith. It also shows his complete submission to the will of almighty Allah.

3. **Self-Purification** Zakat, on one hand, purifies the individual who gives Zakat from selfishness and indifference, while, on the other, it purifies those who receive Zakat from the feelings of hatred against the wealthy people. Thus, it creates love for others in the individual and saves him from self-indulgence and ego-centricity.

4. **Special financial Aid** Zakat is distinct in all other forms of charity in contemporary society, as it also seeks to relieve an insolvent from his unsettled debts. It also provides necessary financial aid for the wayfarer who unexpectedly faces financial risk regardless of being rich or poor.

### **Collective Impact**

As usually all the Islamic commands start from the individual and travel to the establishment of an ideal community of the people. Zakat, in the same way at first builds character of an individual and then brings a lot of impacts to the society. The collective impacts of Zakat are as follows:-

1. **Social Harmony and Justice** Zakat bridges the gulf between the haves and the have-nots. In capitalistic economies, we see that the wealth accumulates into a few hands and the condition of the poor further deteriorates. One of the purposes of Zakat is to avoid such social disparity.
2. **Social Security** Zakat functions as a social security for all. Those who have enough money today pay for what they have. If they need money tomorrow, they will get what is necessary to help them live decently.
3. **Best Check against hoarding** Zakat is not levied on the income rather on the savings and hoarded items. So the person who pays Zakat every year, prefers to invest his wealth and get it increased, lest it should dwindle year after year. In this way, the literal meaning of Zakat i.e. 'Growth' materializes.
4. **Circulation of Wealth** Zakat keeps wealth in circulation and thus it benefits the whole society. The holy Prophet (SAW) advised his companion Mua'az bin Jabal, while he was proceeding to Yaman "to teach them that Allah has made it obligatory for them to pay the Zakat from their property and it is to be taken from the wealthy among them and given to the poor"(16) Thus Zakat helps a lot in decreasing poverty.

5. . Promoting self-respect Zakat is obligatory on the wealthy people. If they pay Zakat, they are just performing their duty assigned by almighty Allah. They are not doing any favor on the poor and the destitute
6. Discouraging Beggary If everyone pays Zakat from among the haves, no poor and the unfortunate would have to resort to begging. Now-a-days, we find beggary as a menace facing many societies. Islam on one hand, ordered the affluent to care about the destitute and, on the other, prohibited the poor and the needy from stretching hands before others. Narrates Abu Huraira (RA) that the holy Prophet said:- “Whoever begs from people so as to accumulate more riches, he is asking for a live coal (fire) from Hell, so let him ask for a lot or little
7. Peace and Prosperity Zakat ensures social justice by bringing financial balance among various strata of society. It decreases the crime rate and terrorist inclinations among the society. Thus the whole society strives together and achieves development and prosperity. Equal distribution of wealth curtails the rate of unemployment and reduces chances of economic recession.

### **Public Finance**

public finance is the study of finance related to government entities. It revolves around the role of government income and expenditure in the economy. Islamic Public Finance is concerned with income and expenditure of Islamic State and with the adjustment of one to the other”

### **Meaning of Public Revenue:**

The income of the government through all sources is called public income or public revenue.

### **Sources of Revenue:**

- Zakat



- Zizya
- Kharaz
- Ganimah
- Fay
- Tax
- Custom duties

### **Tax Revenue:**

A fund raised through the various taxes is referred to as tax revenue. Taxes are compulsory contributions imposed by the government on its citizens to meet its general expenses incurred for the common good, without any corresponding benefits to the tax payer. As Taussig puts it, “the essence of a tax, as distinguished from other charges by government, is the absence of a direct quid pro quo between the tax payer and the public authority.”

### **The main characteristic features of a tax are as follows:**

1. A tax is a compulsory payment to be paid by the citizens who are liable to pay it. Hence, refusal to pay a tax is a punishable offence.
2. There is no direct, quid pro quo between the tax-payers and the public authority. In other words, the tax payer cannot claim reciprocal benefits against the taxes paid.
3. A tax is levied to meet public spending incurred by the government in the general interest of the nation. It is a payment for an indirect service to be made by the government to the community as a whole.
4. A tax is payable regularly and periodically as determined by the taxing authority.

## **Meaning of Fiscal policy**

Fiscal policy means the use of taxation and public expenditure by the government for stabilisation or growth. According to Culbarston, “By fiscal policy we refer to government actions affecting its receipts and expenditures which we ordinarily taken as measured by the government’s receipts, its surplus or deficit.” The government may offset undesirable variations in private consumption and investment by compensatory variations of public expenditures and taxes

## **Objectives of Fiscal Policy**

**: Generally following are the objectives of a fiscal policy in a developing economy:**

1. Full employment
2. Price stability
3. Accelerating the rate of economic development
4. Optimum allocation of resources
5. Equitable distribution of income and wealth
6. Economic stability

