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**A REVIEW ON THE CONTRIBUTION OF ZAKAT
AS A TAXATION SYSTEM TOWARDS
ECONOMIC DEVELOPMENT POSTULATED BY
TWO CONTEMPORARY RESEARCH SCHOLARS**

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Overview

This paper is an attempt to analyze the contributions of zakat towards an economic system. Often zakat is viewed as a taxation tool that is focused on anti-poverty policies, especially during the classical Islamic civilizations. The paper reviews and discusses postulations brought by Russel Powell and his attempt to conceptualize zakat as a modern taxation system, and Monzer Kahf and his analysis of how zakat can truly impact economies in modern times. Powell has made a tremendous effort in wanting to realize zakat as a fully functioning taxation system in modern Islamic economies through implementation and its benefits. Kahf has shown his commitment to sparking the narrative that zakat on its whole, whether institutionalized in a country or not, can be a significant contributor to economic systems existing today. The proceeds of such discussions have found that zakat is not an equal substitute for modern-day taxation systems, and more importantly, it was never truly designed to solve all poverty issues in existence. There is a reconciliation that zakat plays a more important role in spirituality than it does in worldly pragmatism. Needless to say, zakat has contributed to poverty alleviation in the past, however, along with other pivotal mechanisms concurrently in place such as Awqaf (endowments) and Infaq (disbursements).

Introduction

Role Of Zakat In Economic Development: Contemporary Research Scholars Perspective: Powell (2009)

Role Of Zakat In Economic Development: Contemporary Research Scholars Perspective: Kahf (1999)

Discussion

Conclusion

Introduction

- Commandment of zakat (alms) in Islam is widely understood by the mass public as a responsibility upon every Muslim who can afford it
- The Holy Qur'an upholds zakat to a very high level of importance
- Made compulsory upon all Muslim individuals in the second year of the *Hijrah*
- Upheld at very high regard; mentioned 36 times in the Holy Qur'an
- 26 mentions in which were found together with the word *salah* (Saad and Al Foori, 2020)
- Caliph Abu Bakr al-Siddiq: Those who refuse to uphold their duties in paying their sum are against to be wage war

“Abu Huraira reported that the Messenger of Allah (may peace be upon him) sent Umar for (collecting) sadaqah (zakat), and it was said that Ibn Jamil, Khalid b. Walid and 'Abbas the uncle of the Messenger of Allah (may peace be upon him), refused (to pay it). Upon this the Messenger of Allah (may peace be upon him) said: Ibn Jamil is taking revenge but for this that he was destitute, and Allah made him rich. As regards Khalid, you are unjust to Khalid, for he reserved his armours and weapons for the sake of Allah, and as for 'Abbas, I shall be responsible for it and an equal amount along with it. And he again said: 'Umar, bear this in mind, the uncle of a person is like his father” (Sahih Muslim, Book 5)

“Jabir b. Abdullah reported the Messenger of Allah (may peace be upon him) as saying: “No owner of camels or cattle or flock of sheep or goats who does not pay his due (would be spared punishment) but would be made to sit on the Day of Resurrection on a soft sandy ground and the hoofed animals would trample him with their hoofs and gore him with their horns. And none of them on that day would be without horns, or with broken horns. We said: Messenger of Allah, but what is due on them? He said: Lending of the male (for use) and lending of the bucket (used for drawing water for them) and for mating and milking them near water and providing them as a ride for the sake of Allah. And no owner of the property who does not pay zakat (would be spared punishment) but it (his property) would turn into a bald snake and would follow its owner wherever he would go, and he would run away from it, and it would be said to him: That is your property about which you were stingy. And when he would find no other way out he would thrust his hand in its mouth, and it would gnaw it like a male camel.” (Sahih Muslim, Book 5)

Introduction

- Zakat, when comparatively discussed within conventional economic discourse, is often drawn towards its similarities with modern-day taxation systems imposed in public finance
- Theoretics in taxation: removing externalities (sin tax)
- Public sector revenue generation: through the income\ wealth\ capital gains tax implementation (Lockwood, 2017).
- Economic development and thus, poverty alleviation will require governments to generate sound fiscal revenue within the country (Kaldor, 1965).
- Kaldor (1965) also believed in the need for taxation to be imposed on agricultural productivity as well as commodities to ensure that governments have enough funds to implement their welfare policies
- the institution of zakat is viewed as a fundamental tenet for a functioning Islamic economy; spiritually and economically
- Imam Ghazali discussed extensively the importance of Zakat in public finance (Irijanto, Zaidi, Ismail & Arshad, 2015).
- Portrayal of the socio-economic justice as advocated by Shari'ah, through the equity distributions it sought to do (Bakar & Ghani, 2011).
- Expression of concerns towards the welfare of disadvantaged and marginalized Muslims (Saad & Al Foori, 2020).

ROLE OF ZAKAT IN ECONOMIC DEVELOPMENT: CONTEMPORARY RESEARCH SCHOLARS PERSPECTIVE

Powell (2009):

- Believes that many tend to turn to 20th-century economic concepts to draw their structures on taxation and wealth redistribution mechanism
- Yet, he claims these workings have been in existence long before that – even during Judaism and Christian periods.
- Often people only view religious actions such as zakat as acts which are confined to charitable ones
- In Islam, such conventions are not only a religious duty to help the poor, but throughout civilizations was in fact, heavily imposed by the state to collect such payments. It was unlike as perceived ‘aspirational,’ but a precedent of pragmatism
- Interpretation of zakat to be based on the concept of *sadaqah* – a synonym
- Reconciles such views by construing that in parallel with the *fuqaha* (Muslim jurists), *sadaqah* shall remain in its meaning as a voluntary contribution to help the needy, while *Zakat* is to be referred to as a ‘pious requirement.’
- Elaborates that jurists such as al-Ghazali interpret to consolidate the ideas – to which he understands was how the eight categorical breakdowns of the *asnafs* were given Zakat regarded as progressive taxation – through the *nisab*.
- A multi-facet system in its incidence
- Complimentary to waqf and enhancing effectiveness.
- Effectively drawing the 2 principles relating to Zakat’s legacy; 1) Progressivity and 2) Property & Social Justice.

ROLE OF ZAKAT IN ECONOMIC DEVELOPMENT: CONTEMPORARY RESEARCH SCHOLARS PERSPECTIVE

- Highlights the implications this has on countries who want to explore taxation systems to fund their public services – may be difficult given they already have burdening tax policies from VAT and such.
- Transparency and Oversight is key to implementation, instills confidence and participate in the system.
- Muslim countries today only remain as a Muslim majority and not an Islamic state – clash with secular and libertine laws in the constitution.
- Large non-Muslim population clashes with rights, making governments opt to fund NGO's for voluntary zakat systems.
- However the notion that zakat deals with real economic issues may prompt otherwise.
- 8 issues for Zakat:
 1. Notion of progressivity
 2. Beneficiaries
 3. Collection mechanism
 4. Administrators
 5. Idea of encouraging piety
 6. excise new *ijtihad*
 7. Minorities
 8. Integrational economic system

ROLE OF ZAKAT IN ECONOMIC DEVELOPMENT: CONTEMPORARY RESEARCH SCHOLARS PERSPECTIVE

Kahf (2009):

- Discusses zakat during the time of the Prophet, the *fiqhi* opinions of zakat, the way contemporary Islamic economist consider zakat and the role it has in the Islamic economy
- Reviews theoretical estimations of zakat proceeds concerning the GDP, the implementation of zakat in certain countries
- Notes that the Prophet used to send out workers to collect and distribute zakat, which was mainly surrounded by livestock and agriculture
- Contends that one Dirham was enough to sustain a family of four for a day – an approximation extended to unskilled labor in agriculture or employment in government services. Thus zakat was predominantly imposed on agricultural products, livestock, trade inventories, gold, and silver
- The fair realization that poverty continued to exist in the time of the Prophet up until the Caliph Umar bin Khattab conquered the North Arabian Peninsula
- Essential to note that irregular revenue such as war bounties was usually distributed with minimal left to keep for the treasury
- Zakat alone had not been a sufficient system to eradicate poverty at once – even in a society where very little are within poverty
- If it were not for voluntary contributions filling in the gap, the rich would have seen higher tax incidence to fund the welfare programs
- The need for Muslims to partake in activities of *awqaf* and *infaq* simultaneously – a multi-facet system

ROLE OF ZAKAT IN ECONOMIC DEVELOPMENT: CONTEMPORARY RESEARCH SCHOLARS PERSPECTIVE

- This ideology is embedded in Islam on the basis of social solidarity and mutual support, driven in the spirituality to please Allah SWT, making the able and rich morally and legally responsible for acting in what they can within the realms of helping the needy.
- Fulfillment of one's ability to meet nutritional, social, and religious requirements of his/her family, to which its excess will then be subject to zakat
- Views of the classical *fuqaha* (Muslim Jurists) did not change significantly to what it was previously because the economic structure of the economy at the time remained relatively similar to the times of the Prophet
- It was during this time where vegetables and honey were included in zakatable items due to their productivity and the establishment of categorical items according to *amwal zahirah* (apparent items) and *amwal batinah* (undisclosed items).
- the classical *fuqaha* emphasized the aspect of zakat for purity and sanctification
- He notes that Umar al-Khattab and Jaber in Yemen stressed the importance of *awqaf* and saw its expansion during their times – helping the poor and needy on a bigger scale
- Coupled with zakat and increasing productivity through economic growth, saw the eradication of poverty during those periods
- Cultivation of concepts based on *qana'ah* and self-reliance proved that many did not want to opt for zakat but chose to find a means of moving away from hardship
- fighting corruption and public sector efficiency that increased government revenues to help fund the poor
- Encouraging investments in idle assets, which in turn increases wealth which is zakatable allows for stimulation of the aggregate economy as well as the channeling of the zakat revenues to the poor.
- Zakat would come to between 2-6% of the GDP – size of *nisab* will determine how big the effect will be

Discussion

- Both of these authors have shown a significant commitment towards wanting to make zakat a relevant system according to contemporary times
- Remained within the limits of what previous modern scholars have elucidated and tried to design its relevancy from those points
- The common issues in which Kahf (1999) and Powell (2009) highlight is the aspect of *nisab* and the base of zakat.
- Much of their discussion has shown that a lot of what zakat will become today is very much dependent on what bodies, organizations, and governments choose to opt-in defining how much is the zakatable base to be deducted
- Powell (2009) has called for a review on what is considered as the *nisab* and issues that need new *ijtihad* to truly reflect living standards today
- This is very important in terms of sustaining the effectiveness of zakat as a welfare distribution system
- living standards and economic systems have changed quite drastically in comparison to previous times - basing the *nisab* on such precedence may result in an underestimation of what is considered zakatable
- Powell (2009) has written a piece of work that seems to be more aimed at how zakat can itself be implemented through a modernized taxation system
- Kahf (1999) emphasizes more on how zakat can play an exemplary role
- Key to understand that Powell at this juncture (apart from briefly explaining where zakat was mainly used in previous civilizations), seems to be more concerned about the notion of whether zakat should be voluntary or be implemented as a mandatory deduction akin to income tax

Discussion

- Attempt by Powell (2009) can be lauded in the sense that he is trying to issue a framework that can be built upon for economies to follow
- previous Islamic civilizations have worked on zakat to be collected mandatorily through the government
- at this juncture, it is also significant to concern that how zakat is operating within the country has to be rooted back to the notion of faith.
- Faith means harping on the notion that one who truly believes in the religion will pay zakat in any means regardless of whether the state will knock on his/her doors or not
- Analyzing the macroeconomic effects postulated by Kahf (1999) requires the institutions outlined by Powell (2009) – however the success of such mechanisms still rests on faith
- In the times of the Caliphs, it was faith that allowed zakat institutions to flourish more than anything, public enforcement on the process may just be merely viewed as more of an accommodative step towards easing the collections
- Kahf (1999) rightly puts; zakat is a testament of one's faith to submit to God and His commandments - zakat is not the end solution of public welfare systems or poverty eradication policies
- Poverty objectives has to be realized on the footprint of multiple other policies than become interrelated to each other (such as *awqaf*, *fai* and the likes).
- Kahf (1999) stresses that the success of the Islamic caliphs in eradicating poverty was there since *awqaf* were also at high levels in tandem with zakat collections
- The fact remains that zakat has its capability to bring ominous effects to an economy if conducted properly

Discussion

- However it is not so much of zakat itself that tries to bring about change, but perhaps the underlying notion beneath it
- It is the conceptual thought that in any economy (typically Islamic), where a system of the properly redistributed mechanism is in place, hoarding of wealth is reduced to its minimum, and welfare policies are well designed, and its effects are bound to flourish the economy.
- Kahf (1999) shows the need for economic systems to always have a focus on wanting to reduce inequality and lifting the poor from their plights – only then will economies flourish
- Kahf believes that people often misconceive that zakat can act as the main solution to poverty eradication
- Both Kahf and Powell contend that zakat provides a form of economic impetus and not as just as the basic notion of realizing every capable man's duty for the poor
- Even though Zakat on its own is not designed to abolish poverty, the idea of the 8 *asnafs* contrasts it as a welfare policies to the many others
- The fact remains is, at the very least; in any fiscal plan that would be designed can never truly sideline the poor because of zakat on its own acts as a stop-gap between the bare minimum of how much goes to the poor
- Distinctive differentials in the thoughts of Powell (2009) and Kahf (1999) is the definition of what zakat is understood to them.
- Powell (2009) seems to have entangled his understanding of zakat when he defines it through what he understands - somewhat extends that to also mean *sadaqah* based on interpretations from the text
- It does reflect a differing viewpoint from most traditional understanding
- Kahf (1999) makes it very clear that his understanding of zakat is understood as a completely separate issue from *sadaqah*

Discussion

- More often than not, the analysis that succeeds within the subject of zakat tends to witness the hefty comparison of zakat as a substitute for taxation systems in existence today – something in which Powell (2009) has done
- sole purpose of his paper was to realize zakat as a means of taxation policies that could well be achieved in several other countries
- There is every bit of zakat that makes it portray as a parallel to something such as income tax or wealth tax, the rate imposed, collection systems, and its redistributive mechanisms
- However, the Islamic principle from zakat is not entirely to see a system that perfectly redistributes wealth and thence lower inequality, because poverty persisted even in times of the Prophet SAW
- If that was the case, other public sector revenues such as *fai*, *ghannimah* would be rendered as obsolete in poverty policies
- Kahf (1999) believes that more than anything, it is the symbolic notion that zakat entails
- Message of brotherhood and social commitment as mentioned before – Powell (2009) holds similar views via his notion of pre-zakatized wealth not being the entire ownership of a given person
- Worship is not just through *salah*, but through obligating their lifestyles in different contexts to fulfill the commandments
- Although contrasting, an interesting nuance of discussion has come out of Powell (2009). He has introduced the idea of a wealth tax surrounding zakat
- Kahf (1999) had shortly touched on this in one sentence or two

Discussion

- Zucman and Saez (2019) have extensively discussed the notion of implementing a 1% tax on the wealth of the 1% of American citizens
- This concept has seen to be realized in the zakat system – any Muslim who holds wealth (separate to income) beyond the minimum amount will be subject to zakat of 2.5%, in fact being higher than the 1% which was proposed by Zucman and Saez (2019)
- Assuming the similarities of the system, an Islamic economy should greatly benefit from a zakat-based system that already focuses on deductibles on wealth assets.
- Essential to realize that these effects would only much resemble a spillover effect of zakat and not its sole purpose for implementation.
- Powell (2009) attempt to inform zakat as a substitute to a system such as income tax may not be as well received.
- Whether there exists a system of income tax or not, zakat still must persist as an institution to facilitate the worship of Muslims, as much as mosques are needed for the community to perform their *salah*
- As well as that, a well-perceived ideal in which these two scholars share, which is central to the success of zakat, is the notion of good governance and bureaucratic inefficiencies.
- Kahf (1999) highlighted the efficient operatives of administrative officials during the times of the Caliph in which allowed for their revenues to be fully maximized.
- Similarly, Powell (2009) stresses the need for governments to be transparent as well as monitor the collections and distribution of zakat funds.

Discussion

- Powell (2009) opines that trust within the system will allow for more encouragement within society to pay their zakat in institutions.
- Governments do not truly know whether an individual has paid his zakat even when he opts out of a system.
- Being a religious duty, the onus is on the individuals to pay their dues, and one cannot deny that some have gone their own way to directly give that money on their own initiative rather than through NGO's or governmental organizations.
- Perhaps in Powell's view, this is more of observed through the lens of efficiency,
- As far as Kahf (1999) or any Muslim would be concerned is the idea that anyone working on behalf of collecting the zakat funds is doing so as a responsibility imparted to look after funds which neither belongs to them and is being done so through a religious means
- This making it even more dutiful on moral grounds to stress the importance of accountability and good governance.

Conclusion

- The discussions offered by Powell (2009) and Kahf (1999) provide some very insightful thoughts on zakat and its role in Islam.
- Powell (2009) has made a tremendous effort in wanting to realize zakat as a fully functioning taxation system in modern Islamic economies through implementation and its benefits.
- Kahf (1999) has shown his commitment to sparking the narrative that zakat on its whole, whether institutionalized in a country or not, can be a significant contributor to economic systems existing today.
- the notion of zakat playing a substantial role in poverty alleviation cannot be disputed.
- However, the realization that zakat was never meant to be a wholesome policy that defeats all poverty issues need to be realized by many scholars today.
- Zakat can indeed contribute efficiently to the poor if *awqaf* and *infaq* play its equivalent role in helping to redistribute wealth.
- The fact remains that zakat remains as a symbolism towards faith beyond *salah* - and it is exactly that which is what it was sought to do.
- The effects it brings to an economy should only be seen as secondary gains from such commandments.
- Going forward, it is pertinent that scholars (especially Powell) evaluate zakat as a form of public policy along with the other aspect of revenue collecting mechanisms - namely *fai*, *ghannimah*, *ushr* and the likes.