

Zakat versus Income tax – the real beneficiaries

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Abstract — This paper is intended to illustrate the aids that these two forms of imposing have over the citizens of the country and comes to show which of these forms of taxation directly benefit citizens of the country. The research starts from the history of those two forms of imposing and is emphasizing the possibility of a combined these two forms of taxation, taking on attributions from both Zakat, as well as from the Income Tax. From this regard, the work paper starts by presenting the history of Zakat and Income tax, considering that it is necessary to know, especially for Zakat, how these forms of taxation have emerged, have developed and the importance they now have in the whole society (individual, business, state). The investigation continues to present the similarities and differences between Zakat and Income tax, and how these two really give a benefit to individuals. The author comes up with a unique opinion to combine the characteristics of the two forms of imposing, in the realm of redirecting in a concrete way and with priority the public funds collected from the income tax to the persons and then to the businesses which face difficulty.

Index Terms — Zakat, Income Tax, Corporate Tax, Public Revenue, Individual Benefit, Double Taxation, Public Finance.

1 INTRODUCTION – MANDATORY CONTRIBUTIONS TO HELP THE SOCIETY

Since the earliest times the citizens of each state have contributed to the formation of the resources necessary for their social protection. One of the attributions of each state is to ensure that every citizen benefits of social protection and a decent living conditions regardless of how he or she participates in the formation of public financial resources. The research has revealed that, from the very incipient state's form, when people were set up in groups of families or clans, tribes around a temple, there was a use for a contribution with a certain amount of money from their earnings [1]. These contributions were used by the heads of these social groups to provide protection, food and care in the event of illness. These incipient forms of imposing originated for the first time in the Middle East, Ancient Egypt, Ancient Greece, and the Roman Empire, and then expanded into Asia, Europe and the United States. Nowadays all states require individuals and businesses to participate in the state's financial resources, with a share of their earnings (or wealth), which may follow different criteria, depending on their earning size and source, and their residence status. Resources collected as a taxation form participate completing financial public funds which are used to cover state's public expenditure related to the provision of public goods and services/utilities (for all citizens).

2 LITERATURE REVIEW

2.1 History of Zakat

Zakat imply growth and purification in the same time. *Zakat* mean that a portion of your stable wealth is designated for the poor or needy, and this part of wealth needs to be given, in order to purify your prosperity. This is a practice for all Muslims around the world, and this because *zakat* is one of the most important

pillars of Islam [There are five *pillars* in Islam: 1. Trusting and understanding the word of the Shahadah – There is no god but Allah, and Mohammed is the final messenger; 2. Pray five time a day; 3. *Zakat* – charity or alms-giving; 4. Fasting during the holy month – *Ramadan*; 5. A pilgrimage to Mecca]. It is mandatory for every Muslim who is financially stable, and have a certain stable and untouched wealth over a lunar year, to pay *zakat* to the poor and needy. *Zakat* is an act of worship which every Muslim should perform to help the underprivileged Muslims [2].

The *Zakat* finds its origin in Allah's words, written in the *Al-Quran*, verse 103, in the 9th chapter: ... *from their wealth a charity by which you purify them and cause them increase..... And Allah is Hearing and Knowing* [3]. The aims and objective of *zakat* is to ensure psychological growth in the soul of the poor or needy, and material growth in the wealth of those which record a sustainable financial position [4]. Nowadays, *Zakat* it is mutual understand as a religious obligation on any kind on wealth (manly like cash, gold, grain, tangible or financial assets, living assets....) derived from sources or activities where labors are involved which includes professional fees, labor compensation, salaries, wages, bonuses, grants, gifts, dividend income and the like [5].

2.2 History of Income Tax

From the very incipient state's form, when people were set up in groups of families or clans, tribes around a temple, there was a use for a contribution with a certain amount of money from their earnings (and not from assets). The temple was the first place where people prayed, and it was used also as the judgment room and the jury for the members of these groups or clans [1]. The earliest known tax records, dating from approximately six thousand years B.C., are in the form of clay tablets found in the ancient city-state of Lagash in modern day Iraq [7]. The early taxation appears also in ancient Greeks, Egyptians and Romans, Chinese and English society. The first form of income tax appears for the first time in ancient Egypt, and the form of income tax that we know today (on individual earnings) was accepted in 1799, in United Kingdom [7]. In the present time income tax represents a source of public revenue

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in majority counties of the world (there are still countries which are not imposing individual earnings – e.g. GCC countries). Therefore, taxation has emerged as a necessity to supplement state expenditures, initiated for the defense and protection of its citizens, and later to support the economic and social development too.

3 RESEARCH ANALYZE – BENEFICIAL OF ZAKAT VERSUS BENEFICIAL OF INCOME TAX

The research conducted starts by presenting the differences between Zakat and Income tax, from all aspects, including quotas and their way of implementations, GCC, Europe and USA. From this perspective, the workpaper used international statistical database and information provided by public authorities, on their website, together with other representative public sources.

3.1. Differences between Zakat and Income Tax

After studying many public information about Zakat and the Income Tax, the research has managed to highlight significant differences (table no.1.) between these two forms of contributions to the social balance and help of the people which are facing financial and social difficulty. The main difference is that *zakat* is a *mandatory* alms-giving or a form of charity to people in need, due to Muslim, during one complete lunar year, which succeed to record an untouched minimum level of wealth. At the opposite site, *Income Tax* is a *mandatory contribution* to the state budget to complete its public expenditures. *Zakat* is paid only by Muslims based on their wealth, and *Income Tax* is paid by all members of the society if they are recording any kind of earnings. *Zakat* has distinct and direct destination, to help poor people or those in need, instead *Income Tax* just contribute direct to the public revenue budget. After the collection of the Income Tax to the state budget (local or regional, depend on the country legislation), the money is redistributed back to the society, considering its primary public needs. *Zakat* is like a tax which is paid if over a lunar year there is an untouched minimum amount of wealth, while *Income Tax* is paid monthly based on individual income earned. More than all collection settlement, there another important distinguish aspect – *Zakat* can be paid in any other Muslim countries, but *Income Tax* should be paid only in that country in which the individual has his fiscal residency.

Research observed that both of them, *Zakat* and *Income Tax* are settled, generally as a quota. Nevertheless, there are many discrepancies between these two-mandatory duties. And all of them are important, so research find very difficult to classify them. However, mainly are following:

The Zakats' quota is fixed and applied on a minimum amount of wealth over a lunar year (there is a limit over which *Zakat* must be paid). *This quota or calculation is the same* for all individuals which are Muslim, wherever they are around the world. *Zakat* must be paid on wealth coming from any financial income (cash, wage, salary, investments...), crops, living assets (cow, sheep, camel), gold or silver. *This quota, 2.5% is fixed*, settled as per Sha-

ri'ah Law. Though, even if it is not specified as a quota for living assets (sheep, cows and camels) the percentage is still respected – e.g. for 40 sheep, the *Zakat* is 1, or for 30 cows the *Zakat* is a cow which entered a second year; for 5 camels the *Zakat* is 1 sheep... so on so far till 26 camels, where *Zakat* is 1 camel which entered second year. If the wealth consists in gold or silver, the *Zakat* is 2.5% of this wealth, paid in local currency. If the wealth consists of crops (specified above), then the *Zakat* is due if the wealth exceed 847 kg. Compare with agricultural income subject of Income Tax, for *Zakat* eligibility, an additional important aspect for the wealth coming from agriculture, is that these assets must be a result of natural growth using natural water from the natural water from the ground or rain, without using an irrigation system. Meaning the wealth is *halal* – without any hurm, according with Shariah' law [8].

Income Tax has a *differentiated quota*, depending on size and income category. The percentage or the amount can be subject of change, depend on the country financial laws, its economic policy or international treaties to which the country is a part of. Also, the percentage is different from one country to another, if you are a resident of country A and made your earnings from country B, you may face different *Income Tax* quotas, and if there are no international double taxation agreements between these two countries, you may face double taxation (nowadays almost all the countries in the world signed international agreements to avoid international double taxation [9]). *Income tax* is due if an individual earn revenue from: wage, salary, self-employment earnings, rental, individual property rights, any kind of investments (interests, dividends, securities trade), pension (over a certain limit), gambling, real estate transfer (conducted as a business), agricultural revenue (usually, any earnings which come from agriculture activities – fishing, growing and harvesting of plants, animals and birds – in a proprietorship form), any public remunerations, royalties, and income from independent activities. *The quota* has a different approach from one country to another, and can be: fix (e.g. 16% Romania), gradual (e.g. France, between 14% and 45% depend on the amount of income), or a combination between these two. In calculation of *Income Tax*, usually from the gross earning there are many deductions (depend on the country) related but not limited to: insurance paid, social mandatory contributions paid, personal deductions for dependents.

Table no.1: Differences between Zakat and Income Tax

Zakat	Income Tax
What it is	
alms-giving / charity	a mandatory financial charge
Who is paying	
Muslims, Individuals, based on a certain minimum amount of yearly wealth	All members (religions), individuals, of the country, based on their monthly income/earnings.
source / origin / generating fact	
Religion Religious duty – mandatory according with Islamic Law (Shari'ah), the 3 rd Pillar.	Law Public duty – mandatory according with the finance governmental laws (taxes being legislated within public budget law and other dedicated laws for taxation)

Way of settlement	
Settlement is as per Holy Quran, and cannot be change.	Settlement is as per financial legislation from every country, and is subject to be change according with annual public budget foreseen or with other international agreements signed.
Goal/ Purpose	
Helping the people in needy and purification of wealth.	Creating public revenue from public expenditure for all members of the country.
Final beneficiary	
Certain categories of people (www.quranreading.com): The poor; The needy; The collectors; The new converts; To free slaves; To help someone pay debt; In cause of Allah; and, For travelers. Zakat can't be given to those which are in blood relation (parents, children, siblings), and spouse. You cannot give Zakat for someone you are responsible for.	There is no specific beneficiary. The revenue from tax collection become depersonalized, and returns to the economy, without any consideration as from whom and how has contributed to the formation of public budgetary resources. Redistribution is based on public needs and priorities.
How is paid / collected	
Individually – direct to the final beneficiary or to specific institutions with attributions in the collection and redirection of Zakat to one of the eight categories of possible beneficiaries.	Employer calculates and deducts from the gross salary the amount of the income tax, which is paid on the budget of the state, on behalf of the employee. If the individual generates earnings from its business or other sources than salary, then, he is making the income tax payment individually, direct to the budget of state.
Quotas	
Fix quotas on wealth, without no change. Quota is applied on financial assets or other certain assets (wheat, barley, dates, grapes, gold, silver, sheep, cow and camel) and depend on the value of this kind of wealth. Same quota regardless of the country where it is paid or due.	Differentiated quotas depending on size and income category. The percentage or the amount is subject of change, depend on the country financial laws, its economic policy or international treaties to which the country is a part of. Different quota depend on each country taxation system , however can be similar quotas if there are some taxation agreement in place.
Due time	
Yearly (applied to unused wealth for one year, which reach a minimum specified amount).	Monthly (applied on any type of individual income earned – some exceptions related to a minimum amount or pensions, or income from social security...).
Territoriality	
Any countries where Muslim lives (and met one of those 8 categories specified above).	Only to the state where the income is generated, and where the individual has his fiscal residency.

3.2. Possible similarities between Zakat and Income Tax

It is true there are more differences than similarities between those two types of imposing. However, the research success to find a few similarities (table no.2). One of them is that, in both cases, this mandatory imposing is supported only by individuals. The second one, even the terms are different, beyond, the real base on taxation is the same: wealth (in forms of cash, financial assets, living assets). Zakat is set as an Income Tax. A certain quota, 2.5%, it is applied on the amount of yearly wealth, if this one exceeds one certain amount. The same case is with an Income Tax, generally, a quota (gradually depend on the level of income) is applied too. The only difference here is that Zakat determined and paid annually, while Income tax is calculated and paid monthly. Both forms of taxation meant to help to raise the level of social and economic well-being.

Table no.2: Similarities between Zakat an Income Tax

Zakat	Income Tax
How much? quota	
There is a Quota Quota is fixed: 2.5% applied on wealth (for living assets the calculations and payment is in living animals)	There is a Quota Quota varies depend on each country tax legislation. The amount can be: Fix quota; Fix amount; Gradual quota; or, Gradual quota + fix amount...
Who is paying	
Individuals	Individuals
The imposing base	
Individual Wealth	Individual Wealth (all types of earnings: professional fees, labor compensation, salaries, wages, bonuses, grants, gifts, financial and living assets)

3.3. Real benefits of these two types of imposing

The research finds out that Zakat has as main beneficial part the purification of own wealth and helping the people in needy, and purification of wealth. There can be three benefits of Zakat: **Supports in Building the Society** – help the people who are less fortunate. Zakat comes to help reduce social disparities, the differentiate of society between those who have money and those who are unable to create or multiply them. Therefore, those who have managed to overcome a certain social condition and accumulate wealth will contributes to improving the living standards of those in difficulty; **Facilitate Flow of Money** – Zakat helps to circulate money in society by the fact that part of the money, instead of being kept as savings, they are redistributed to society through charity, and they are used for consumption, and consumption leads to the increasing the productivity, which finally will create a plus economic value; **Grows a Civic Sense of Giving** –Zakat also gives and teaches the message of sacrifice, civic sense and giving. Wealth is perhaps one of the major elements which people love the most. But the people is better to understand that

the real wealth is their soul and their faith. Therefore, when a person gives from his or her wealth, it means that he or she have a have truly a strong religious belief, more than their personal liking and they are willing to sacrifice the thing they love for it.

Income Tax has its beneficial too (first two may be called similar with Zakat): **Help reduce social disparities and solve exceptional social helpless** – help the people who are less fortunate and people in need as a result of economic, political, and social changes (including natural disasters). Income Tax comes to help the reduction of social disparities, in this sense the government assists people with social problems, through social security allowances, but at the same time from public funds, the government is also meant to help people who are temporarily in difficulty as a result of natural disasters, economic reorganizations, social and political; **Facilitate Flow of Money** – The same as Zakat, Income Tax helps to circulate money in society; **Influence the economic process** - Income Tax embraces economic and social actions, demographic phenomena, in the direction indicated by public authorities, in order to harmonize general and individual interests. Income Tax through differentiated rates and fiscal facilities/incentives can act as a government leverage in stimulating and developing certain economic sectors in dedicated industries or regions – e.g. the reduction of Income tax quota in certain economic sectors can lead to the creation of jobs, implicitly to the reduction of unemployment [10]; **Help in generating public revenue** – contributes to the formation of public financial funds. The revenue from tax collection become depersonalized, and returns to the economy, without any consideration as from whom and how has contributed to the formation of public budgetary resources. Redistribution is based on prioritized public needs.

There is one crucial difference between benefits of Zakat or benefits of Income Tax: **real beneficiaries**. Is the money collected from the Income Tax or Zakat, totally redirected to equilibrate the balance of social welfare? Is the money directed to those in difficulty? Following research, and keeping into consideration that Zakat is one of the most important Pillar in Islam, we believe that Zakat really goes to the one of 8 specified categories of people (table no.1). For Income Tax, it is very difficult to give a clear answer, because the revenue from tax collection participate to the public financial funds of the state, and then they become depersonalized (being distributed between state budget, local budget, regional budget, or other territorial-administrative budgets by case), later being redirected to society. Likewise, in many countries the way that person is registered as socially assisted is questionable, and priorities are not quite “priorities”.

3.4. Possible mix between Zakat and Income Tax?

As the research specified earlier, *Zakat* is paid only by Muslims, and *Income Tax* is paid by all members of the society if they are recording earnings, and in specific countries as GCC members, there is no Income Tax imposed. However, *what is happening if a Muslim person is living in a non-Muslim country where the legislation imposes that all residents of that country which are earning any kind of revenue/benefit to pay Income Tax? Zakat and Income Tax*

should be paid by the same individual, from the same wealth/earning? The answer, from the reality is: *Yes*. Nevertheless, we should not forget that, Zakat is an obligation that arises from religion and faith, and it is paid based on the one lunar yearly wealth (untouched wealth over one lunar year) and should be paid with priority, before Income Tax. Contrariwise, Income Tax, generally, is paid monthly. In other words, for question in case, *yes, Zakat and Income tax should be paid too*. Zakat will be paid because is a religious duty, and Income Tax will be paid because it is a legal, governmental duty. *Is this a double taxation?* If it is a non-Muslim country, the answer is: No. But, can be this treated as an internal double taxation if it happened in a Muslim country? In general, (e.g. GCC countries) there is no Income Tax, because this tax is applied on individual earnings, and Zakat is mandatory paid by individuals.

As long Zakat and Income Tax have one purpose in common – to restore balance and social well-being – can they be combine or mixed, in one tax? The answer come from practice: *Yes*. E.g: In the present time, in Romania, according to the Tax Code (tax law), there is the possibility that part of the income tax (2%), based on the request of each employee, to be redirected to charity institutions, to orphanage homes or to other institutions whose object of activity is helping the poor.

This type of practices (like Romania’s example) can represent *a combined form between Zakat and Income Tax*. This mix between these two duties, Zakat and Income Tax, it can definitely lead to: 1. Direct a portion (percentage) of your wealth to those in need (could be considered one of Zakat’s purposes); 2. Give the rest of the percentage to the state, to help meet the needs of society (could be considered one of Income Tax’s purposes); and, 3. Avoid of a self-sacrifice of double local taxation as a consequence of respecting religious and legal duty in same time.

4 FINDINGS AND CONCLUSIONS

Both form of imposing is meant to help restore social balance. The final purpose is similar, but the origin and destination of each are different. Zakat is a duty which comes from religion and is based on the belief that by helping those in difficulty, people purify their own wealth and soul. Zakat directly helps people in need, being directly given to helpless people. Income tax is a governmental mandatory participation due by each individual in the formation of the public financial resources, necessary to cover the public expenditures, with the functioning of the state, with the fulfillment of its functions, including the insurance of the economic and social well-being of each individual. Income Tax helps indirectly people who face financial and social needs. But what happens when Zakat cannot cover and cannot help the financial and social needs of all individuals which are facing financial difficulties. In this case, the state for its citizens should intervene. And in most cases, it really does. The resources from which the state contributes and complements the coverage of these social needs is formed also from taxes and taxes, and Income Tax is one of them.

The research concludes that both forms of duties have brought and brings benefits to the society. Zakat supports in

building the society, by helping the people who are less fortunate; it facilitates the flow of money into economy; and, it grows a civic sense of giving. Income Tax is meant to help reducing social disparities and solve exceptional social helplessness; facilitate Flow of Money, same as Zakat; it influences the economic process by embraces economic and social actions, demographic phenomena, in the direction indicated by public authorities, in order to harmonize general and individual interests; and, it helps in generating public revenue contributing to the formation of public financial funds.

The work paper found out that real and direct and real beneficiaries of these imposing are different. Zakat goes direct to the poor people or in need. Meanwhile, the revenue from Income Tax collection participate to the public financial funds of the state, and then they become depersonalized, and later being redirected to society. However, the research comes to show that these two-different direct imposing type can be combined. The regions duty can be combined with government mandatory obligations, in order to for the direct restoration of socio-economic balance.

This mix between these two duties, Zakat and Income Tax, it can definitely lead to: 1. Direct a portion (percentage) of your wealth to those in need (could be considered one of Zakat's purposes); 2. Give the rest of the percentage to the state, to help meet the needs of society (could be considered one of Income Tax's purposes); and, 3. Avoid of a self-sacrifice of double local taxation as a consequence of respecting religious and legal duty in same time. These hybrid form of individual direct taxation can boost civic responsibility and in the same time, knowing that part of the individual income goes directly to those who are facing social needs can contribute to the reduction of evasion of Income Tax (by declaring an income / salary lower than the real one).

As a conclusion, both Zakat and the Income tax help the society, direct and indirect. At the entire society is the beneficiary. All these direct pecuniary payments, no matter how they are made, and based on which law are done, are meant to help social equilibrium and equity distribution of income to all members of society. If the two of them, faith and civility, can be combined, the whole society would have to win.

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