

Taxation in Islam

The following article is based on the book Funds in the Khilafah State which is a translation of Al-Amwal fi Dowlat Al-Khilafah by Abdul-Qadeem Zalloom.¹

Allah (swt) has revealed a comprehensive economic system that details all aspects of economic life including government revenues and taxation. In origin, the permanent sources of revenue for the Bait ul-Mal (State Treasury) should be sufficient to cover the obligatory expenditure of the Islamic State. These revenues that Shar'a (Islamic Law) has defined are: Fa'i, Jizya, Kharaj, Ushur, and income from Public properties.

The financial burdens placed on modern states today are far higher than in previous times. When the Caliphate is re-established it will need to finance a huge re-development and industrial programme to reverse centuries of decline, and bring the Muslim world fully into the 21st century. Because of this, the Bait ul-Mal's permanent sources of revenue may be insufficient to cover all the needs and interests the Caliphate is obliged to spend upon. In such a situation where the Bait ul-Mal's revenues are insufficient to meet the Caliphate's budgetary requirements, the Islamic obligation transfers from the Bait ul-Mal to the Muslims as a whole. This is because Allah (swt) has obliged the Muslims to spend on these needs and interests, and their failure to spend on them will lead to the harming of Muslims. Allah (swt) obliged the State and the Ummah to remove any harm from the Muslims.

It was related on the authority of Abu Sa'id al-Khudri, (ra), that the Messenger of Allah (saw) said: "It is not allowed to do harm nor to allow being harmed." [Ibn Majah, Al-Daraqutni] Therefore, Allah (swt) has obliged the State to collect money from the Muslims in order to cover its obligatory expenditure. The State achieves this by imposing taxes upon the Muslims such that these needs and interests are met without being exceeded. These taxes should only be taken from people's surplus wealth. This wealth is what is left after someone has spent on his basic needs, and also his luxuries according to the normal standard of living.

There are six areas of expenditure the Bait ul-Mal is obliged to spend upon. If insufficient funds are available then taxes will be imposed upon the Muslims to meet the expenditure. These areas are:

1. The expenditure upon Jihad and what is necessary for it.
2. Expenditure on military industries
3. Spending on the poor, needy and wayfarers.
4. Expenses such as the salaries of soldiers, civil servants, judges, teachers and the like who provide services for the benefit of the Ummah.
5. Expenses due in the form of services and caring of the Ummah.
6. Expenditure upon emergencies like famines, earthquakes, floods and enemy attacks.

¹ <http://www.kalifaat.org/pdf/FundsIntheKhilafahState.pdf>

The expenditure upon Jihad and what is necessary for it

The Islamic State is obliged to establish powerful and highly trained armed forces. These armed forces must be prepared with the latest and most sophisticated weapons such that their quality and quantity deter, subdue and frighten the enemy. These forces will liberate our lands from occupation, terminate the influence of the Kuffar in the Muslim world, and aid the state in conveying Islam to the world. Expenditure on Jihad and what is necessary for it is one of the rights due upon the Bait ul-Mal whether there are funds in the Bait ul-Mal or not. If there are funds available, then they are spent on Jihad and its requirements. If there are no funds, then the duty of spending on Jihad, as long as Jihad is obligatory and designated, transfers from the Bait ul-Mal to the Muslims, since Jihad is obligatory upon Muslims by wealth and person. Allah (swt) says:

مُتَعَلِّمُونَ أَنْفُسَهُمْ فِي سَبِيلِ اللَّهِ ذَلِكُمْ خَيْرٌ لَكُمْ إِنْ كُنْتُمْ

“So go out, no matter whether you are lightly or heavily armed, and struggle in Allah’s way with your possessions and your persons: this is better for you, if you only knew.” [TMQ At-Tawba: 9:41]

Anas (ra) narrated that the Messenger of Allah (saw) said: “Fight the polytheists with your wealth, lives and tongues.” [Abu Dawud]

In addition, there are tens of Ayaat and Ahadith that oblige Jihad by wealth and person upon the Muslims.

In the situation where there are no funds in the Bait ul-Mal to spend on Jihad and its requirements, the State must encourage Muslims to contribute voluntarily to Jihad as the Messenger of Allah (saw) used to do. Abdur Rahman bin Khabbab as-Salmi said: “The Prophet (saw) gave a Khutbah (speech) and encouraged [people to donate] regarding the army of difficulty, so Uthman bin Affan said: ‘Upon me are 100 camels with their saddle-blankets and saddle bags.’ Then he (saw) descended the steps of the pulpit (Mimbar) and encouraged again, so Uthman said: ‘Upon me are another 100 with their saddle-blankets and saddle bags.’”[Ahmed]

Hudhayfa bin al-Yaman said: “The Prophet (saw) sent a request to Uthman seeking assistance from him for the army of difficulty, so Uthman sent to him 10,000 Dinars which were poured before him. The Prophet (saw) began turning them before him while praying for him and he (saw) said: ‘May Allah forgive you, O Uthman, for what you have made secret, what you have revealed, what you have hidden, and all that will be until the Hour comes. Uthman should not mind of any action he does after this.’”

If the voluntary contributions of the Muslims are insufficient to cover the designated Jihad, then the State will impose taxes upon Muslims up to the amount necessary and no more, to cover the expenditure. It is not allowed for the State to tax more than is required.

Expenditure on military industries

The Islamic State is obliged to establish military and other associated industries to enable the manufacturing of the latest and most sophisticated weapons and equipment for the armed forces. This is because Jihad requires an army, and the army requires weapons so that it can fight. Building highly effective and powerful weapons requires manufacturing. Therefore the military weapons industry has a close relationship with Jihad.

For the State to be in full control of her affairs, and free from the influence and control of other states, she must undertake the production and development of her own weapons especially its vital weapons. This is so that the State has the most modern and developed weapons, irrespective of how much weapons develop and advance. Also the State must have under her control all that she requires of weapons to scare every enemy whether open or hidden, according to the State's international position.

The absence of these military factories in the Ummah makes Muslims dependent upon Kafir states for armament, a matter which may make the Muslims political will and decision making subject to the will and decisions of the Kuffar. These Kafir states do not sell weapons except with conditions attached that fulfil their interests, and this would inflict the most terrible harm upon the Ummah.

Establishing of these factories is therefore obligatory upon Muslims from the texts of the Ayaat and Ahadith that oblige Jihad upon Muslims by wealth and person by the indispensable indication (Dalalat al-Iltizam). This is because Jihad depends upon weapons and weapons require industry. This is also indicated by the saying of Allah (swt):

يَعْلَمُهُمْ ۖ وَمِنْ رِبَاطِ الْخَيْلِ تُرْهِبُونَ بِهِ عَدُوَّ اللَّهِ وَعَدُوَّكُمْ وَآخَرِينَ مِنْ دُونِهِمْ لَا تَعْلَمُونَهُمُ اللَّهُمَّ اعِدُوا لَهُمْ مَا اسْتَطَعْتُمْ مِنْ قُوَّةٍ

“Prepare whatever forces you [believers] can muster, including warhorses, to frighten off Allah's enemies and yours, and warn others unknown to you but known to Allah.” [TMQ Al-Anfal: 8:60]

The preparation ordered by Allah (swt) is the preparation which achieves the terrorising of the enemies, whether they are open, hidden or potential enemies. This terror depends upon acquiring vital and developed weapons of the highest level, and acquiring of such weapons depends upon establishing factories. Therefore, this Ayah indicates the obligation upon the Ummah to establish factories by the indispensable indication (Dalalat al-Iltizam).

Moreover, the absence of these factories inflicts a terrible harm upon the Ummah, and removing harm from the Ummah is obligatory. The removal of this harm will not be achieved except by establishing military, manufacturing and other associated industries.

It is permissible for individuals within the Ummah to establish all or some of these industries to manufacture the necessary weapons. If however, they do not establish them, or they only establish some of them, then the State is obliged to build factories necessary to produce all the weapons and equipment the armed forces need.

Building these factories is one of the obligatory rights upon Bait ul-Mal, whether there are funds in it or not. If funds are present, then they are spent to build these factories. If there are no funds available then the financial obligation transfers to the Ummah. In this case the state introduces a tax in order to raise the necessary funds, irrespective of the amount.

Spending on the poor, needy and wayfarers.

This is an obligation whether there are funds in the Bait ul-Mal or not. The expenditure is from the Bait ul-Mal, when there are sufficient funds. If there are no funds in the Bait ul-Mal then the obligation transfers to the Muslims. This is because spending upon the poor, needy and wayfarers has been obliged by Allah (swt) upon the Muslims in the form of Zakat and Sadaqah.

The Messenger of Allah (saw) has narrated from his Lord: “The one who goes to sleep satisfied while he knows that his neighbour next to him is hungry does not believe in me.” [Tabarani]

Therefore, if there are funds available in the Bait ul-Mal to spend on the poor, needy and wayfarers then they are spent on them. If not, the obligation is transferred to the Muslims and the State raises taxes for this purpose such that the required amount of funding is raised.

Expenses such as the salaries of soldiers, civil servants, judges, teachers and the like who provide services for the benefit of the Ummah.

Those who provide services for the benefit of the Ummah deserve, in return for providing these services, a wage from the Bait ul-Mal. Spending on their wages is an obligation whether or not there are funds in the Bait ul-Mal. If there are funds available then they are spent upon them. If not, then the obligation is transferred to the Muslims.

This is because Allah (swt) has ordained the authority (Sultan) for the Ummah. He (swt) obliged the Ummah to appoint a Caliph whom she pledges allegiance (Bay’ah) to hear and obey according to the Book of Allah and the Sunnah of His Messenger (saw).

The Caliph undertakes this authority on the Ummah’s behalf and takes care of her affairs in accordance with the Book and Sunnah. Taking care of her affairs can only be accomplished by establishing the institutions of State, such as: judges, soldiers, teachers and civil servants. Appointing such people requires the payment of compensation and wages. Since Allah (swt) has obliged the Muslims to appoint such people, then He (swt) has also obliged them to pay their compensation and wages by indispensable indication (Dalalat al-Iltizam).

The Messenger of Allah (saw) appointed governors, employees, secretaries and assigned grants (‘Atiyyat) for them. Similarly the Caliph's after him appointed governors, officials, judges, secretaries and soldiers, and they assigned grants for them from the Bait ul-Mal.

Funding for these people is therefore taken either from the Bait ul-Mal or by imposing the required taxes on the Muslims where the Bait ul-Mal has insufficient funds for this purpose.

Expenses due in the form of services and caring of the Ummah

These expenses are spent on utilities whose existence is considered a necessity (Dharura) such that in their absence harm would result to the Ummah. These utilities could include: public roads, schools, universities, hospitals, mosques, water supplies and similar services.

The right of spending upon these matters is considered obligatory whether or not there are funds in the Bait ul-Mal. If there are funds in the Bait ul-Mal then they are used to establish these utilities. If not, then the obligation to spend upon them is transferred to the Muslims. This is because spending upon them is obligatory upon Muslims, since failure to establish them will result in harm to the Ummah. Harm must be removed both by the State and the Ummah due to the saying of the Prophet (saw): “It is not allowed to do harm nor to allow being harmed,” and his (saw) saying: “Whoever harms (others) then Allah will harm him, and whoever overburdens them Allah will overburden him.”[Hakim]. However, if the absence of services offered by the State does not harm the Ummah, then it is not obliged to provide them. An example is the opening of a second road or refurbishing it when there is another suitable road available that can meet people’s needs, or building a school, university or hospital when there are others available, or widening streets that don’t necessarily need to be widened. Another example is the establishment of projects where failure to do so does not result in harm to the Ummah, like mining nickel or building a shipyard to build commercial ships. The State undertakes all these matters only when there are surplus funds in the Bait ul-Mal. If there are no funds in the Bait ul-Mal, then the State does not undertake them nor is it permitted to impose taxes for them. This is because Muslims are not harmed by their absence, therefore establishing them is not obligatory. This is in contrast to the expenditure on services and utilities where the failure to spend on them results in harm to the Ummah. If there are funds in the Bait ul-Mal, they are spent upon establishing and providing the necessary utilities, if not, the State imposes taxes to raise the necessary amount provide these utilities.

Expenditure upon emergencies like famines, earthquakes, floods and enemy attacks

The right of spending on these matters is not linked to the presence of funds in the Bait ul-Mal. Such spending is obligatory irrespective of whether there are funds in the Bait ul-Mal or not. If there are funds in the Bait ul-Mal, then they must be spent immediately whenever these emergencies occur. If there are no funds, then it becomes obligatory upon the Muslims, and the funds have to be collected from them immediately and without delay.

If harm is feared due to any delay, then the State borrows the amount necessary to spend upon these emergencies and then pays back what it borrowed from the money it collected from the Muslims.

The evidence for obliging this upon Muslims is the Hadith: “The one who goes to sleep satisfied while he knows that his neighbour next to him is hungry does not believe in me,” and the Hadith: “Any community, whosoever they are, if a person among them became hungry,

they will be removed from the protection of Allah the Blessed, the Supreme.” [Ahmed] This is in relation to famine. As for earthquakes and floods, the evidence for obliging Muslims to spend upon these natural disasters is the obligation of saving the unfortunate ones and removing harm from the Muslims. These are the interests that Muslims are obliged to spend upon when there are no funds in the Bait ul-Mal, and for which the State has to impose taxes upon Muslims when the permanent sources of revenues of the Bait ul-Mal and the revenues from the protected public properties (Hima), are insufficient.

Wealth Tax

Taxes are levied on the wealth of the Muslims which is in excess of their basic needs and their luxuries according to normal standards of living. Taxes are only collected from those who have surplus wealth and nothing is taken from those who have no surplus wealth. This is because the Messenger of Allah (saw) said: “The best Sadaqah is that given out of richness.” The richness here means what the person can afford after satisfying his needs.

It was narrated from Jabir that the Messenger of Allah (saw) said: “Start with yourself when giving Sadaqah. If there remains any excess, then to your family. If there remains any excess, then to your relatives. If there remains any excess, then do like this, give those in front of you and those to your right and those to your left.” [Muslim].kHe (saw) deferred the obligation of spending upon anyone else until after spending upon oneself. Taxes are similar to this are as they are like financial maintenance and Sadaqah.Allah (saw) says:

أَإِذَا يُنْفِقُونَ قُلِ الْعَفْوَ وَيَسْأَلُونَكَ مَ “They ask you what they should give: say, ‘Give what you can spare.’” [TMQ Al-Baqarah 2:219]. In other words, spending which causes no hardship and which is extra to one’s needs. There is no concept of income tax in Islam as we find in western capitalist countries. Taxes are only levied on excess wealth and not on income. The State is also not allowed to impose indirect taxes such as sales taxes on goods and services. Nor can it impose taxes in the form of court fees, fees on petitions forwarded to the State, sale or registration of land, buildings or measurements or other types of taxes other than those in the shar’iah. This is because imposing oppressive or illegal taxation is one of the prohibited injustices about which the Messenger of Allah (saw) said: “He who imposes maks (custom duty) would not enter paradise.” [Ad-Darimi, Ahmed and Abu ‘Ubayd]

In western capitalist countries their taxation penalises the poor and vulnerable in society. Clever accounting and offshore Swiss bank accounts ensure the rich in western societies can avoid paying the majority of taxes altogether. In the UK for example, the Queen is one of the richest people in Britain yet she pays no income tax, whereas a poor single mother or an old age pensioner must pay income tax. With regressive taxes like the sales taxes on goods and services these hurt the poor more than the rich since the tax rates are the same for both. Unfortunately, the Muslim governments today see adopting the western capitalist system as the only way to achieve economic progress. We therefore find the same oppressive taxation introduced into Muslim countries such as the General Sales Tax (GST) in Pakistan. This is not to mention the endemic corruption where tax revenues are diverted from the State Treasury into the personal bank accounts of the rulers and other government officials.

Taxes in Islam are only collected to raise the amount necessary to cover the deficit in the obligatory expenditure of the Bait ul-Mal. When imposing taxation, no consideration is given to the notion of preventing the increase of wealth, or preventing richness or increasing the revenues of the Bait ul-Mal. Consideration is only given to fulfilling the required expenditure on the obligatory needs and interests on the State.

If any taxes are taken over and above the obligatory expenditure then this is considered a mazlama (injustice). The Court of Unjust Acts (mahkamat ul-mazalim) has the power to investigate any excessive taxation. If after the court's investigation the tax or tax-rate is deemed to indeed be a mazlama then the court can oblige the State to abolish or lower the tax and return any excess money to the Muslims. Therefore, the shar'iah has resolved the problem of financing the expenditure on the Ummah's needs and interests in a 21st century Caliphate.

Islamic Tax?

Islam has a completely different perspective on the economy and tax as the Islamic basis is different to that of capitalism. Fundamentally taxation in Islam and under the khilafah puts the emphasis of taxation on wealth rather than income. The Islamic taxation system does not tax income, but taxes wealth. This means that the average person will be left with more disposable income and will be liable for tax on whatever wealth is left at the end of the year. This will have a significant effect on the economy. If we take figures from the British economy, and incorporate them in an Islamic model we can demonstrate the effect of this. In 2007 the average UK salary is £23,244, and the tax burden on this salary is 34% (income tax and National insurance together), which is just under £8000. This alongside indirect taxation (that is taxation on spending rather than income) as well as council tax, road tax, sales tax and so forth mean that the real tax burden falls at closer to the 40-50% mark. This means that the average person in this country is losing between £10,000-12,000 to taxation.

In Islam although simplified, the wealth tax falls at 2.5%. This means that the within one year, the average person can save at is at least £10,000. This means that the average person will have an extra £700 to spend each month as he will not be taxed on his income. Taking into account that the total UK workforce is approx 31 million this means that the extra money flowing around the economy would be £240 billion, if the income was not taxed. Therefore two or three people could easily enter into a business contract to supply some of the demand in the economy for consumer or manufactured goods thereby creating more employment in the economy. The net effect of this is that it will increase demand for goods and services right across the economy which will generate an increase in trade and in turn an increase in wealth for businesses. The main revenues of the khilafah are:

1. The different types of public property revenues
2. The properties of Zakat
3. Booties (Fai'),
4. Land Tax (Kharaj)
5. Head Tax (Jizya)

The different types of public property revenues

Islam funds the basic needs of its entire population by designating any utility regarded as indispensable for the community, such that its absence would require people to search far and wide for it, i.e. the asset is difficult to find and make use of as it requires refining, as a public property. This means the utilities would be publicly owned and the revenue generated would be administered for the benefit of all citizens. This is derived from the hadith of the Prophet ﷺ "Muslims are partners in three things: in water, pastures and fire".

Although the hadith mentioned just three things we can utilize qiyas (analogy) and extend the evidence to cover all instances of indispensable community utilities. Thus water sources, forests of firewood, pastures for livestock and the like are all public utilities as well as oil fields, electricity plants, seas, lakes, public canals, gulfs, straits, dams etc. The Khilafah will impose an admin charge on the people which will be revenue for the state. It will also export oil to nations abroad which will bring in huge amounts of wealth to the states treasury. In 2006 81 million barrels of oil were produced a day 45% of this was from the Muslim world that's nearly 38 million barrels a day, at current oil prices \$80 a barrel (12th Oct 2007) that's income of \$3 billion a day!

The properties of Zakat

Zakat, the alms is a wealth tax liable on 2.5% of people wealth held for a year. The Zakat properties are kept in a special place in the Bait ul-Mal (state Treasury) and they are not spent except for the eight categories mentioned in the Qur'an. But the Khalifah is allowed to spend them, according to his opinion and Ijtihad, for whom he sees fit of the eight categories. This tax is a wealth distribution tax which is re-distributed to the poor, the needy, those with debts and for the dawah amongst other categories.

Booties (Fai')

This is the wealth that will come under the jurisdiction of the khilafah via the integration of the Muslim world. Islam obliges the Muslims to live under the khilafah which is the political structure of the Islam. The net result of this is the khilafah's economy will continually be integrating other economies as they come under its jurisdiction.

Land Tax (Kharaj)

The Kharaj is a levy imposed on land; it's a type of land tax. The tax is calculated according to the quality of the land and the possible production worth. This will change the landscape of the Muslim world as much of the productive land remains unused today or in the hands of land owners who inherited vast amounts of land by the departing colonialists. This tax will be coupled with a number of other policies; the khilafah will initiate an agricultural revolution by providing grants, cheap rental of land to all its citizens to ensure its agricultural policy is met. Those landowners whose land remains unused for 3 years will have their land confiscated.

Head Tax (Jizya)

The jizya tax is applied to all mature, male dhimmi (non-Muslim citizens) who have the means to pay it. Women and children are exempt as are the poor who have no livelihood.

The jizya is applied according to the prosperity of the dhimmi. In the time of ‘Umar ibn al-Khattab رضي الله عنه he established three different bands of jizya depending on the prosperity of the person.