

# Zakat and Taxation: A Shariah Perspective on Their Functions and Implications

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## ABSTRACT

Zakat and taxation are fundamental financial mechanisms that contribute to economic stability and social welfare. While taxation is a mandatory contribution imposed by governments to fund public expenditures, zakat is an obligatory almsgiving system in Islam aimed at wealth redistribution and poverty alleviation. This paper explores the conceptual framework, principles, and objectives of zakat and taxation from a Shariah perspective by conducting a comprehensive review of existing literature. The research method involves a qualitative analysis of previous studies, scholarly articles, and Islamic jurisprudence (fiqh) on zakat, as well as economic and policy-oriented literature on taxation systems. By synthesizing insights from both religious and secular perspectives, the study compares the roles of zakat and taxation in promoting social justice, wealth redistribution, and economic stability. This paper also provides insights into how zakat and taxation can complement each other in fostering economic development while adhering to Islamic principles. The findings suggest that a well-integrated system of zakat and taxation could enhance fiscal efficiency and social justice in Muslim-majority countries.

**Keywords:** Zakat, Taxation, Islamic Finance, Wealth Redistribution, Shariah-Based Principles

## INTRODUCTION

Generally, zakat and taxation are two different financial system that are considered as vital elements in an Islamic fiscal system. Both systems are imbued with the elements of obligation and compulsion (Al-Qaradawi, 1999), however they are distinct in their purpose, application, and perspective in concept of shariah Islam. Muslims have to understand and appreciate the concepts of zakat and taxation so that they can enhance the awareness among community and to ensures compliance to these systems. The word 'zakat', derived from the Arabic root word 'zaka', is one of the Five Pillars of Islam and a mandatory act of worship to Allah SWT. Basically, zakat is a portion of a man's wealth which is designed for the poor (Sayyid Sabiq, 1991), meaning that it is form of almsgiving that aim to redistribute wealth in society in order to promote equity and help those in need. It can be seen as a purification of wealth and a mean to express gratitude to Allah SWT as the Giver of Rizq. In the perspective of Shariah, zakat is not merely a financial obligation but also a spiritual duty that emphasize on social justice and economic prosperity as zakat is paid from those who have surplus, to the poor and needy. From Islamic law, taxation can be defined as 'dharibah', which is a medium for fulfilling the needs of the state and society in order to facilitate common collective needs. Hence, taxes are financial obligations that are imposed by governments to funds public expenditures such as infrastructure, defence, and social services in the country. The government collects taxes because it is considered as a formal juridical basis in accordance with the rules or norms that applied in a country (Fauziah Aqmarina, 2020). It aims to sustain state functions rather than individual redistribution as the axiom role of taxation is to finance public goods and services that will benefit society as a whole. According to Shariah, state has the authority to levy taxes if they are just, which is necessary for public welfare and will not cause burdensome to Muslim taxpayer. Technically, taxes can be a common benefit only if they facilitate society towards the equitable justice and prosperity. This indicates that taxation is

permissible in shariah Islam if it complements zakat and would not lead to double taxation or exploitation for the taxpayer. Within the implementation of zakat and taxation systems in the country, certain Muslims may be facing difficulties to fulfilling both duties. This arises from the intersection of religious and state-imposed fiscal responsibilities. For those Muslims who is living under countries that enforcing both systems, they can be exposed to significant financial strain issue, especially those with middle level income or small business owners who might have no excess in wealth after meeting their basic needs for living. So, this could result double financial burden to them if they have to fulfil both the zakat and tax obligations.

Furthermore, with the same target which is to promote wealth redistribution and public welfare, if zakat and taxation being implemented simultaneously, individuals may feel their contribution through taxation is already achieving the societal objectives of zakat. As a result, this could lead to confusion among them, and they will be reluctant to pay both zakat and tax. Hence, the level of compliance to zakat will be reduced if individuals perceive paying tax is a replacement rather than a complement to zakat. The objective of this paper is to analyse how the implementation of zakat and taxation align or diverge under the shariah principles. It aims to assess how both can contribute to the overall societal justice without causing overburden to the taxpayers. Next, the significance of this paper is to educate and gives understanding to Muslim people regarding their dual obligations, which is to pay both zakat and tax. Moreover, this research paper also provides insights into how the Islamic principles can align with modern fiscal policies to promotes socio-economic justices in Muslim society.

## LITERATURE REVIEW

### **Zakat and Taxation: A Conceptual Comparison**

Zakat and tax can be similar as both involve the collection from individuals' wealth for social purposes and are obligations upon Muslim as zakat is an obligation stated in religious of Islam and tax as a command by government (Indra, 2016). Despite these similarities, there are also significant comparison that should be examine thoughtfully on how zakat and tax function as mechanism for wealth management. Zakat has several meanings such as blessing, growth, development, purity and neatness (Fuadah et al., 2014). Sabahaddin Zaim (1989) in his journal defined Zakat as a compulsory charge on Muslim individuals' wealth who financially well-off to give the portion for proper recipients who is poor and needy. Meanwhile according to Oxford Advanced Learner's Dictionary of Current English (1989), tax is defined as means of burden, estimation, charges and imposition. Tax also defined by Mikesell (2003) as an amount of money to be paid compulsorily regulate by government, calculated based on the value of a taxable base.

Zakat and taxation have their objectives and purposes, respectively. Zakat aims to benefit both payers and recipients by increasing the payers' religious merits and blessings and to brings recipients emotional comfort and hope, while improving their financial situation (Nur Barizah, 2015). On the other hand, the government impose taxes to redistribute labour, reduce inequality and check the consumption of goods that are harmful (Hanson, 1977). Furthermore, another comparison between zakat and tax is the source of regulation. Zakat specifically mentioned in Al-Quran, formulated details through As-Sunnah, and applying method Ijma' and Qiyas for new rules and regulations. Tax is determined by the government of the time and place (Bakar, 2015).

There are several chargeability requirements of zakat and tax. In zakat, the wealth must be owned for a period of one year or it is called as Haul and the wealth should be above the Nisab or can be referred as the minimum amount of wealth subjected to zakat. In contrast, the chargeable requirement in tax is using the concept of exemption and the concept of yearly assessment. The charges rate impose for individual for zakat and tax is also differ as zakat rate and distribution are specified while tax rate and method of spending is relatively chargeable (Bakar, 2015). As highlighted by Bakar (2015), in enhancing the level of understanding and acknowledgement among the Muslim, it is important to describe and elaborate the conceptual comparison between zakat and tax. Therefore, while zakat and tax share common goals of wealth distribution, they differ significantly in aspects such as definition, objectives, sources of regulation, chargeability requirements and charge rates (Bakar, 2015). The table below summarizes zakat and tax from the aspects of definition, objective, source of regulation and chargeability.

Table 1: Summary of Zakat and Tax: Definition, Objective, Source of Regulation and Rate

Zakat	Aspect	Taxation
A compulsory charge on Muslim wealth for the benefit of the poor and needy	<b>Definition</b>	A compulsory payment regulated by the government, based on a taxable base
Religious obligation to purify wealth, bring blessings, and support the poor	<b>Objective</b>	Reduce inequality, regulate labour, and limit harmful goods consumption
Derived from the Quran, As- Sunnah, Ijma,' and Qiyas	<b>Source of Regulation</b>	Determined by government laws and policies
Requires ownership of wealth for one year (Haul) and above Nisab (minimum threshold).	<b>Chargeability</b>	Based on yearly assessments and exemptions defined by government.
Fixed rate and distribution specified in Islamic law	<b>Rate of Charges</b>	Tax rates vary and depend on government policies.

### Benefits of Zakat and Taxation

As one of the five pillars of Islam, Zakat is a wealth redistribution mechanism to promote social justice and help eliminate economic and social disparities, which is consistent with the objectives of Maqasid Shariah (Gueydi, 2022; Putra et al., 2023, as cited in Pratama et al., 2024). Zakat, unlike income tax, is imposed on surplus savings left over after necessary expenditures, using a flat rate to ensure fairness based on individual financial considerations (Gueydi, 2022). Beyond its economic impact, Zakat is also spiritually significant. It purifies the payer and their wealth (Al Qaradaoui, 2006, as cited in Gueydi, 2022) and cultivate virtues like generosity and the spirit of cleanliness (Darvina et al., 2020). Since the Nisab, or threshold for Zakat eligibility, is not calibrated in monetary terms, it serves as a buffer against the distortionary effects of inflation, leading to just determination of liability (Gueydi, 2022). According to Aneeq et al. (2020) as cited in Pratama et al. (2024), Zakat also plays role to mitigate poverty and economic inequality which can support their sustainable and inclusive economic growth. If managed professionally, Zakat funds can be allocated to targeted economic support of Mustahik, strengthen the national economy, fund humanitarian and social welfare (Darvina et al., 2020; Pratama et al., 2024).

In contrast, taxation is an important instrument for governments to raise public financing on the grounds of administrative viability as well as equity and efficiency in resource allocation (Burgess and Stem, 1933, as cited in Amirthalingam, 2020). Taxes also serve to finance investment in social and public goods such as infrastructure, public facilities, education, and public health which may have a positive impact on economic growth (Koch et al., 2005, as cited in Amirthalingam, 2020; Darvina et al., 2020). In terms of society, taxes play an important role in decreasing social economic inequality (Aneeq et al., 2020, as cited in Pratama et al., 2024). On the other hand, they contribute to the correction of market imperfections and adjust income or wealth distribution toward fair outcomes (Bird and Zolt, 2005, as cited in Amirthalingam, 2020). Taxation has been the backbone of adequate revenue generation and public interest initiatives in developing countries (Teera and Hudson, 2004, as cited in Amirthalingam, 2020; Darvina et al., 2020). Taxes, in contrast, are imposed and also utilized based on government-determined needs without any stipulations by religion, giving them a broader social purpose (Darvina et al., 2020).

To summarize, although zakat and taxation both serve societal and economic purposes, they operate through different frameworks. Meanwhile, taxes are designed to serve more pragmatic purposes like funding public services, and supporting government objectives, whereas Zakat has spiritual manifestations and promotes a fairer distribution of wealth. This balances out in welfare and economic stability. The table below summarizes zakat and tax by focusing on their purpose, spiritual, basis imposition, threshold, economic impact and fund allocation.

Table 2: Benefit of Zakat and Tax in their purpose, basis and fund allocation

Zakat	Aspect	Taxation
Zakat promotes social justice and reduces economic disparities per Maqasid Shariah	<b>Purpose</b>	Taxes fund public needs through equitable resource allocation
Zakat purifies wealth, encouraging generosity and cleanliness	<b>Religious/Spiritual</b>	Taxes serve broader social purposes without religious obligations
Zakat is charged on surplus savings using a flat rate, ensuring fairness	<b>Basis of Imposition</b>	Taxes finance public goods and foster economic growth
Zakat's threshold (Nisab) adjusts for inflation to ensure fairness	<b>Threshold</b>	Taxes have variable thresholds tied to monetary values and regulations
Zakat alleviates poverty and fosters inclusive growth	<b>Economic Impact</b>	Taxes reduce inequality and correct market imbalances
Zakat supports Mustahik (the poor, the needy, worker in Zakat collection and distribution, reverts to Islam, freeing slaves, debtors, deeds accomplished in the cause of Allah and the wayfarer or travelers) and social welfare	<b>Allocation of Funds</b>	Taxes fund public infrastructure and essential services

### Impact of Zakat and Taxation

Based on the article “A Comparative Study of Zakah and Modern Taxation” by Abu Bakar and Abdul Rahman (2007), there are three main impacts which are Legal Impacts, Economic and Social Impacts, and Ethical and Spiritual Impacts. Firstly, is the legal impact, the comparison between taxation and zakat demonstrates primary differences within authority. Moreover, zakat evasion is ethically and Islamically unacceptable, as it is against Allah's order, and it is prohibited in Islam (al-Qaradawi, 1999). On the contrary, in taxation, tax planning or tax avoidance is allowed, where individuals can utilise legal gaps to decrease their liability, provided that they comply with the rules stated by the government. On the other hand, zakat is where evasion weakens the religious responsibility and society value. Next is economics impact where zakat plays a crucial part in wealth distribution, making sure that poor in society get basic necessities (Sabiq, 1991). For tax, the fund received can be used to increase the economic well-being of the citizens by focusing on the income of the government officers. However, the correct enforcement of zakat can lessen reliance upon government welfare (Sadeq, 1992). Lastly is ethical impact, zakat offers a serious spiritual benefit that is unavailable in taxation, as defined by Al-Ghazali (1983). Zakat must be done sincerely and secretly, reflecting self-effacement and a sense of spiritual obligation (Al-Ghazali, 1997). Conversely, taxation does not include the same spiritual or ethical element. Taxpayers are often unsure, finding ways to reduce their liability, and could overlook their contribution as an act of faith or worship (Majeed, 1993). Table below summarizes the impact of zakat and tax.

Table 3: Impact of Zakat and Tax on the three main dimensions

Impact	Zakat	Taxation
<b>Legal Impact</b>	Divine obligation in Islam which has religious meaning and society value; avoidance weakens the religiously.	Within the conventional legal system, enabling actions such as tax avoidance that comply with the law.
<b>Economic &amp; Social</b>	An efficient mechanism for sharing wealth and reducing poverty, ensures basic living standards.	Important for financial support to public services but may discourage work, savings, and enterprise.

<b>Ethical &amp; Spiritual</b>	Encouraging ethical and inner growth, encourages voluntary follow-based faith in religion.	Taxation is inadequate for spiritual aspects, operating as everyday responsibility, determined by legal adherence.
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## METHODOLOGY

This study employs a qualitative literature review methodology to explore the roles and implications of zakat and taxation from a Shariah perspective. The objective is to examine Zakat and Tax purpose, benefits and impacts associated with their coexistence within modern financial systems. The methodology involves the following steps:

### Literature Selection

A systematic search was conducted using academic databases such as JSTOR, Google Scholar, and Scopus. Keywords such as "zakat," "Islamic taxation," "Shariah and taxation," "zakat vs. tax," and "Islamic fiscal policy" were used to identify relevant scholarly articles, books, and conference papers published in the last five years. This timeframe was chosen to capture the most recent developments and scholarly discussions on the subject. However, older article is also included in the paper as it discusses the Islamic prominent scholars' opinion on Zakat and Tax. They are still relevant and applicable even until now, as they are the main resources for the current Muslim scholars.

### Inclusion Criteria

The literature included in this review was selected based on its relevance to the core themes of zakat and taxation from a Shariah perspective. Priority was given to studies that provided empirical data, theoretical frameworks, or comprehensive reviews of how zakat functions within modern economic systems. Articles discussing the comparative roles of zakat and taxation, their implications for wealth distribution, and their influence on economic impacts were emphasized. Peer-reviewed journal articles, recognized industry reports, and policy documents were considered to ensure credibility and depth. This study employs the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework to guide the review process, ensuring a rigorous and transparent approach in analyzing the existing literature on zakat and taxation from a Shariah perspective. The PRISMA framework, traditionally used in systematic reviews and meta-analyses, was adapted to focus on the collection and synthesis of zakat and taxation studies, scholarly articles, and Islamic legal texts. It provides a structured methodology for identifying, screening, and selecting the literature that meets predefined inclusion criteria, ensuring that only the most relevant and high-quality zakat and taxation sources are analyzed for the purpose of the study.

### Synthesis of Findings

The insights gained from the literature review were synthesized to provide a holistic view of zakat and taxation within a Shariah framework. Opportunities and challenges were discussed in relation to broader economic and social contexts, highlighting their impact on fiscal policy, wealth distribution, and socio-economic development. The findings contribute to ongoing debates on the integration of Islamic financial principles within contemporary taxation systems and offer insights into policy recommendations for enhancing the effectiveness of zakat and tax structures.

## DISCUSSION

### Zakat And Taxation: An extended Conceptual Comparison and Distinction

The first discussion is the extended explanation on the definition of zakat and taxation. Zakat can be referred to as purity and blessings while taxation can be described as a burden and imposition. Purity in zakat means that by paying it, the individual's heart and soul became clean and can cleanse their wealth. This is mentioned by Allah in Surah At-Taubah, verse 103, 'Take, [O, Muhammad], from their wealth a charity by which you purify them, cause them increase, and invoke [Allah 's blessings] upon them'. In contrast, taxation is viewed as a burden



because taxpayer needs to spend their time and money to be complied with their federal tax obligations (Internal Revenue Service, 2016). Furthermore, taxation as imposition refers to the obligation of individuals to pay it in order to raise revenue for government expenditures and for public purposes such as administrative cost, national defence and provision of state services (Hanson, 1977).

The distinction between zakat and tax in their requirements of chargeability are needed for further discussion. As mentioned in the literature review before, zakat becomes chargeable when an individual's wealth is above Nisab and is completely owned for one year period (haul). However, in the case of assets such as agricultural product will be charge upon harvested. This is mentioned by Al-Quran in Surah Al-An'am, verse 114, 'Eat of their fruits when they come to fruition and pay His due on the day of harvesting'. This explains that agriculture produce is zakatable on the day they are harvested. In contrast, taxation chargeability is based on the concept of exemptions and yearly assessment. This can be seen as in Malaysia, The Inland Revenue Board of Malaysia (IRBM) stated that the individuals who earn an employment income more than RM37,333 on a yearly basis and has a Monthly tax Deduction (MTD) is eligible to pay tax and individuals with business income are liable to tax on any gains or profits derived from business, trade, vocation or profession. Eligibility includes exemptions such as compensation for loss of employment, pensions for retirees, and profits from limited liability partnerships (PricewaterhouseCoopers, 2024).

As mentioned in the literature review, zakat rate and distribution are specified while tax rate is relatively chargeable. Zakat rates are fixed at 2.5%, 5%, 7.5%, 10% and 20% on the individual's wealth, including income or assets, respectively (Ahmad, 1989). The 2.5% zakat rate on earnings is supported by evidence from a hadith narrated by Ibn Majah (1791): 'Ibn 'Umar and 'Aishah that the Prophet PBUH used to take from every twenty dinars or more, half a dinar, and from forty dinars, one dinar'. The rates 5%, 7.5% and 10% apply to agriculture assets such as paddy, barley, wheat, depending on the method of irrigation either by using rainwater only, modern irrigation only, or both. The 20% zakat rate is imposed on the valuable finds or treasure trove (Ahmad, 1989).

In contrast, tax rates are variable and determined by government policies, economic conditions, and income levels. Taxation is distinct from zakat rate which is fixed in religious texts as tax rates can be adjusted and subjected to the authorities' discretion. This flexibility can show the advantage and disadvantage to the government or the individual. The advantage is where it allows taxation to address diverse economic needs while the disadvantage is where it may lead to inconsistencies in application on certain country (Cushing-Daniels & Zedlewski, 2016). Table 4 below summarizes the conceptual comparison and distinction of Zakat and Taxation.

Table 4: Summary of Zakat And Taxation: An extended Conceptual Comparison and Distinction

Zakat	Aspect	Taxation
Refers to purity and blessings, cleansing wealth and soul	<b>Definition</b>	Viewed as a burden and imposition to raise government revenue
Imposed on wealth above Nisab, owned for one year (haul), or at harvest for agricultural produce	<b>Chargeability</b>	Based on yearly assessment; individuals earning above RM37,333 or with taxable business income must pay
Fixed rates: 2.5%, 5%, 7.5%, 10%, and 20%, depending on wealth type	<b>Rate of charges</b>	Variable rates based on government policies, economic conditions, and income levels
Fixed and unchangeable as per religious teachings.	<b>Flexibility</b>	Adjustable and subject to government discretion.

### Benefits of Zakat and Taxation in Resource Allocation

While zakat and taxation have different components, both are crucial moral obligations that bring about societal and economic development. The current paper has highlighted that zakat is a unique combination of spiritual and social goals, transcending its pure economic aspect. It encourages people to see their wealth in terms of how

they can help others, fostering a sense of community accountability. This not only redistributes wealth but also uplifts the giver and the receiver spiritually. The idea of zakat as a purifying force of wealth exemplifies this and encourages trust and integrity in financial dealings. This aligns with Al Qardawi (2006), as cited in Gueydi (2022), who emphasized its importance in nurturing kindness and fostering moral refinement. Taxation, on the other hand, is a fiscal tool for nation-building, crucial for funding public services, including education and healthcare, which are essential for societal progress. Where zakat is socially directed and localized, oriented around specific community needs, taxes are macroeconomic in scope, addressing broader national priorities. Taxes facilitate redistributive effects and public investments in social goods. Such a pragmatic approach to resource distribution can bridge socioeconomic divides and compensate for flaws in market mechanisms. This perspective aligns with Bird and Zolt (2005), as cited in Amirthalingam (2020), who highlighted the role of taxation in promoting equity and correcting societal imbalances.

It is also essential to recognize that zakat is a spiritual obligation with well-defined rules rooted in religious principles, whereas taxation is a more flexible phenomenon, adapting to the changing needs of a government. This flexibility allows taxation to address modern concerns such as climate change, digitalization, and urbanization. By its nature, zakat is limited to certain groups of eligible recipients (Mustahik) and may not sufficiently address broader national priorities, thus necessitating its complementarity with taxation in a holistic economic framework. The current paper is in the opinion that, these systems create a sound and inclusive financial model. Taxation ensures that public goods are provided under the rule of law, while zakat directly addresses poverty alleviation and supports underprivileged communities. These dual approaches can enrich national economies while promoting a culture of compassion and fairness. Professional management of zakat funds, as proposed by Darvina et al. (2020), can enhance its impact, particularly when utilized alongside taxes for national development.

It should be noted that zakat and taxation should not be compared as substitutes but rather viewed as complementary systems. For instance, several organizations in Malaysia have implemented effective zakat distribution programs to support eligible recipients. Lembaga Tabung Haji (TH) conducts various Corporate Social Responsibility (CSR) Zakat Programs, including the Ehsan Programme, which provides financial assistance to asnaf groups during Ramadan; the Iqra' Programme, which supports asnaf students pursuing higher education; and the Ikhtiar Programme, which aids asnaf entrepreneurs in improving their socio-economic status. Similarly, Maybank Islamic Berhad (MIB) collaborates with Lembaga Zakat Selangor (LZS) on initiatives such as entrepreneurial programs, educational support, and healthcare assistance for asnaf communities. The efficiency of zakat collection and distribution is also noteworthy. For example, in a study conducted by Ahmad and Ma'in (2015), they describe how LZS has become a leading example in zakat collection, with LZS receiving zakat collections amounting to RM13.8 million in 1991 to RM336.8 million in 2010. Although there were some technical inefficiencies, the study showed that LZS was able to achieve maximum allocative and cost efficiencies, pointing to the effective use of all the resources. Integrating the spiritual and economic foundations of zakat with the technical efficiencies of taxation leverages the best of both systems for governments and societies, creating a balanced ecosystem for equity, sustainability, and growth.

### **The Different Impacts of Zakat and Taxation in Legal, Economic and Spiritual Aspects**

Zakat and tax both are financial obligations, therefore, there are differences in legal, economic and spiritual. Zakat is a mandatory form of contribution in Islam, where it is intended to redistribute wealth within the society. In contrast, taxation is a mechanism adopted by governments to fund public services. The legal framework of zakat and taxation are different. Zakat, a divine obligation in Islam which has religious meaning and society value. During the Caliphate of Abu Bakr, strict action was conducted against Muslim that declined to pay zakat by enforcing a military action (Al-Qaradawi, 1999). These actions focus on the mutual obligations and moral essential in zakat. In contrast, taxation performs within the conventional legal system. Therefore, it has enabling actions such as tax planning and avoidance that comply with the law (Zaim, 1989). In Malaysia they offer a unique mechanism that helps to reduce the financial burden on Muslim that must pay both zakat and taxes which are incentives that zakat payers can claim to tax rebates (Nur Barizah, Abdul Rahim, 2007).

In Islamic economics, zakat provides an efficient mechanism for sharing wealth and reducing poverty. It ensures basic living standards for all societies and makes a strong social security system (Miah, 1992). Based on the

practice of Caliph Umar ibn Abdul Aziz, zakat is possible to remove poverty if it carried out properly (Sayyid Sabiq, 1991). In contrast, taxation is important for financial support to public services, however, it may have a harmful impact on economic activities. As an example, Ibn Khaldun (Islahi, 2015) and Hanson (1977) argued that too much tax can discourage work, savings, and enterprise which lead to decreased productivity and economic growth. Furthermore, the tax burden commonly shifts to consumers by means of price changes, while zakat stays to direct obligation of the payer. Zakat also encourages ethical and spiritual impacts. Al-Ghazali (1983) explained zakat as a test of faith to Allah, highlighting humbleness, kindness, and prioritizing for people underprivileged. It indicates the Quranic principle that wealth is a responsibility from Allah which to be used for His pleasure and the betterment of society (Abdalati, 1980). On the other hand, taxation is inadequate for spiritual aspects, operating as everyday responsibility. Taxpayers are determined by legal adherence instead of ethical responsibilities. Therefore, zakat and taxation both engage contribution without direct returns, zakat encourages voluntary follow-based faith in religion, leading to a more holistic approach to wealth distribution and social welfare (Hannan, n.d.). In conclusion, zakat highlights individual responsibility, inner growth, and economic justice, while taxation often struggles with compliance and uncertainty. In Malaysia, promoting zakat rebates can balance responsibility and advocate for social justice. Therefore, a system that combines fair taxation and effective distribution of zakat can reduce poverty in society.

### **Implementation of Zakat and Taxation as a Dual Fiscal Policy**

Zakat is divided into two main categories which are zakat on wealth (zakat al-mal) and zakat on self (zakat al-fitr). Zakat on self is known as a zakat of the body, is paid in the month of Ramadhan before the Eid Mubarak (1 Syawal). Nevertheless, zakat on wealth is payable by a payer at any time of the year after holding the wealth for 12 months (haul). The zakatable wealth should exceed the exemption limit (Nisab) and at only the rate of 2.5%. Zakat on wealth consist of zakat on business, zakat on saving, zakat on income, zakat on gold and silver, zakat on trading, zakat on agriculture, zakat on investment as well as zakat on Employee Provident Fund (EPF) saving (Muharman et al., 2011). However, zakat on wealth will only be imposed to qualified Muslims who have excess after fulfilling their basic needs (Ahmad et al., 2015). In Malaysia, there are few zakat institutions that has operating in all 14 states, for instances Pusat Pungutan Zakat Wilayah Persekutuan, Lembaga Zakat Selangor, Jabatan Zakat Negeri Kedah, Pusat Kutipan Zakat Pahang, and others. All of these institutions are responsible for conducting, collecting, and distributing of zakat in a manner described by the Shariah (Norul Akma Mansor et al., 2019). The recipients of zakat, also known as asnaf consists of eight categories. They are the poor, the needy, worker in Zakat collection and distribution, reverts to Islam, freeing slaves, debtors, deeds accomplished in the cause of Allah and the wayfarer or travelers (Al-Quran Chapter 9: 60).

At the same time, in Malaysia, the law governing income taxation is the Income Tax Act 1967 while the Inland Revenue Board of Malaysia (IRBM) is one of the main agencies that responsible for collecting revenue for the Ministry of Finance (MOF). According to Abu Bakar and Abdul Rahman (2007), three objectives for the imposition of taxes which are: (i) to check the consumption of commodities regarded as harmful, at least if consumed to excess, (ii) to redistribute labour, for example to encourage labour to move from employments in one industry to other types of industry, and (iii) to reduce inequality of incomes. The types of taxes are classified into direct taxes and indirect taxes. Direct taxes include income tax (individuals, companies, petroleum, withholding, cooperative and others) and other direct taxes (stamp duty, RPGT, Labuan business activity tax and others). Indirect taxes include export duty, import duty, excise duty, GST and others (Norul Akma Mansor et al., 2019). In general, there are two categories of individual taxpayers in Malaysia, those who are salaried taxpayer and those who have business income. Taxpayer who earns salary need to fill up form BE and submit their return by 30 April every year, while those with business income need to submit form B before 30 June every year (Fatt & Khin, 2011).

As Muslim required to pay both income taxes (if achieves certain level of income) and zakat (if meets Nisab and haul requirements), Malaysian government has introduced tax rebates for taxpayers who pay zakat in order to reduce their financial burden. The rebate for zakat fitrah or other Islamic religious dues is stated under Section 6A (3) of the Income Tax Act (ITA) 1967 (Muaz, 2018). Zakat payments that are entitled for the zakat rebate are zakat fitrah, business zakat, zakat gold and silver, zakat of income, zakat of the Employees Provident Fund, zakat of agriculture and zakat of livestock. We believe that this initiative taken by government is to helps Muslims in fulfilling both obligations without feels overburden as the zakat rebates will reduce their income tax



payable. Therefore, Muslim taxpayers are advised to make use of the zakat rebates wisely so that we can avoid the feeling of double payment as zakat contributions will offset the tax liabilities, thus aligning our spiritual duties with state laws.

The collection of zakat is not limited for individual zakat payers as it has been broadened to institutional zakat payers like companies or corporations. For an individual taxpayer, zakat is given according to the actual amount expended as tax rebates, subject to the maximum tax imposed. In contrary, for corporations that pay business zakat, the amount of rebates is only restricted to 2.5% of the aggregate income in accordance with Section 44 (11A) of the Income Tax Act (ITA) 1967 (Akhyar et al., 2009). For business corporations in Malaysia, they are subjected to corporate tax rate between 20% and 24% in a year of assessment depending on the level of chargeable income. SMEs with a paid up capital less than RM2.5million and annual gross income does not exceed RM50million will enjoy tax rate 20% on the first RM600,000 of chargeable income, and any above that will be imposed with tax rate 24%. (ITA, 1967) In addition, for those employees who make deduction for monthly zakat payment through their salary income, will be exempted from paying schedular tax deduction (STD), provided if the contribution towards zakat is equivalent or higher than the amount of STD. But, in case of the contribution towards zakat is lower than the amount of STD, they are just required to pay for the difference. So, this will encourage Muslims to contribute to zakat regularly as they have privilege to this exemption. Employees can also better allocate their income towards fulfilling zakat obligation while reducing tax liability, thus they will be able to create financial incentives in order to pay zakat regularly.

## CONCLUSION

In conclusion, the analysis of zakat and taxation reveals both similarities and differences in their functions and implications within society. While both serve as mechanisms for wealth redistribution, zakat operates within a religious framework aimed at purifying wealth and fostering social justice, while taxation is a fiscal instrument designed to fund public services and infrastructure. The implications of these systems are profound, as they shape societal norms, address economic inequalities, and reflect the values and priorities of the governing structures. This paper has successfully fulfilled its aims of comparing zakat and taxation, exploring their benefits, impacts, and implementation. Zakat, a spiritual obligation in Islam, focuses on wealth purification and social responsibility, promoting economic justice and community well-being. Taxation, in contrast, acts as flexible fiscal tool for the financing public services and addressing national priorities. These systems complement each other to strike a balance for societal and economic development. In Malaysia, initiatives like zakat rebates under the Income Tax Act 1967 alleviate the financial burden on Muslim taxpayers, ensuring they fulfill both spiritual and legal obligations. These steps demonstrate how zakat can be aligned with a nation's financial policies as a tool to reduce poverty and achieve equality. Ultimately, zakat and taxation should not be viewed as substitutes but as complementary mechanisms that, when combined, create a more inclusive, equitable and sustainable financial system. The core principles of spirituality and the dual utility of governance can be synergized to create a conducive environment in Malaysia for achieving fairness and development in society.

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