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CAN ZAKAT REPLACE TAXES? : TOWARD A JUST ISLAMIC FISCAL POLICY

BISAKAH ZAKAT MENGGANTIKAN PAJAK? : MENUJU KEBIJAKAN FISKAL ISLAM YANG BERKEADILAN

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Abstract

The discussion about the need for Muslim communities in Muslim countries or those with Muslim majority populations to have an integrated instrument in the fiscal policy has recently been increasingly prominent. At least driven by two factors, internal and external. The internal factor is the fiscal policy in the form of taxes that have been implemented by the state by adopting a conventional economic system that has not created what is called social welfare in many Muslim countries. Second, along with de-globalization that has hit the world recently, especially as a result of the Covid-19 pandemic, which has reduced dependence between countries, countries have to rethink to get away from dependence on the global economic system, including how to think about policies. fiscal and monetary in accordance with each country and can survive and be useful for dealing with a similar pandemic. One of the Islamic economic instruments that has surfaced in the discussion of the fiscal system is Zakat. Zakat in many studies indicates that it can be an alternative substitute for the tax position in the state fiscal system. The purpose of this paper is to find answers to whether Zakat is able to replace the tax position in the state fiscal policy system. What is its position in economic theory and Islamic law, and how to formulate zakat as a fiscal policy instrument? This paper also includes a discussion of potential conflicts that arise when zakat is applied to replace taxes.

Keywords : Zakat, Taxes, Macroeconomics, Fiscal And Monetary Policy, Islamic Economics, Islamic Law.

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Abstrak

Diskusi mengenai perlunya komunitas Muslim di negara-negara Muslim—atau negara dengan mayoritas penduduk Muslim—memiliki instrumen terintegrasi dalam kebijakan fiskal belakangan ini semakin mengemuka. Hal ini setidaknya didorong oleh dua faktor: internal dan eksternal. Faktor internalnya adalah kebijakan fiskal berupa pajak yang diterapkan negara dengan mengadopsi sistem ekonomi konvensional, yang ternyata belum mampu mewujudkan kesejahteraan sosial di banyak negara Muslim. Faktor kedua berkaitan dengan fenomena deglobalisasi yang melanda dunia akhir-akhir ini—terutama akibat pandemi Covid-19 yang mengurangi ketergantungan antarnegara—sehingga negara-negara harus memikirkan ulang cara melepaskan diri dari ketergantungan pada sistem ekonomi global, termasuk merumuskan kebijakan fiskal dan moneter yang sesuai dengan kondisi masing-masing negara agar mampu bertahan dan bermanfaat dalam menghadapi pandemi serupa. Salah satu instrumen ekonomi Islam yang muncul dalam pembahasan sistem fiskal adalah zakat. Berbagai studi menunjukkan bahwa zakat dapat menjadi alternatif pengganti posisi pajak dalam sistem fiskal negara. Tujuan makalah ini adalah untuk menjawab apakah zakat mampu menggantikan posisi pajak dalam sistem kebijakan fiskal negara, bagaimana kedudukannya dalam teori ekonomi dan hukum Islam, serta bagaimana merumuskan zakat sebagai instrumen kebijakan fiskal. Makalah ini juga membahas potensi konflik yang mungkin timbul apabila zakat diterapkan untuk menggantikan pajak.

Kata Kunci : Zakat, Pajak, Ekonomi Makro, Kebijakan Fiskal dan Moneter, Ekonomi Islam, Hukum Islam.

1. INTRODUCTION

Since Max Weber's Thesis on Protestant Ethics and the Spirit of Capitalism (1930), the debate over whether or not economics based on the spirit or moral religion could end has raged, with numerous studies and hypotheses seeking relevance between economics, particularly economic development, and spirit or morals that are widely accepted and passed down from generation to generation in the country. For example, an Asian economic scholar studied the new Confucianism behind the thesis and developed a theoretical framework that states that the economies of most developed Asian countries, such as China, Japan, and Singapore, are based on the spirit of Confucianism(Wei-ming, 2019).

Perhaps we are unable to immediately apply religious morals to a system that affects many people's lives, such as the economy; therefore, it is necessary to develop a more broadly acceptable frame of reference. As a result, many countries are looking into old values that have fallen out of favor in society and can be incorporated into the econom (Malecca, 2021), We call these values "local wisdom." Islam has long served as an alternative for the development of a new type of global economy that emphasizes welfare distribution by completely rejecting practices that are contrary to moral ethics and social resilience, such as usury or financial transactions with no underlying transactions, uncertainty, gambling, and transactions, Which is prohibited by religion (Ekawaty, 2025).

In recent decades, the concept of Islamic economics has entered monetary policy in many countries, both Muslim and non-Muslim, as Islamic banking has gained acceptance as an alternative to the global banking system (Fahamsyah et al., 2023). The Islamic Development Bank, as an international monetary institution, has evolved into one that contributes to global development.

Zakat has long served as a source of research and thought for economists seeking to develop an alternative instrument to fill the gap in fiscal policy. As a result, this economic instrument operates on the same principles as taxation, which has long served as a tool of global fiscal policy. Because they reduce people's incomes while also serving as capital for national development and social welfare in a country.

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The Zakat instrument's main mandate as part of the Islamic economy is to establish a welfare state economic structure. The legality of this goal is outlined in Revelation and Fiqh, or Islamic law, which can then be codified into a country's positive law. Social welfare is also the reason why Zakat is regarded as an instrument of fiscal policy after tax has occupied this position for a while and there has been no significant change, especially in Muslim countries (Mustamin et al., 2025).

The second is the failure of globalization. Globalization has also shown the failure of a world monetary system institution, the IMF on its role in welfare of the poor countries in the third world (incidentally many Muslim countries) (Hoover Institution, n.d.). Statistics show that African countries and parts of Asia that receive an injection of funds from the IMF as a mandate for globalization of the world have a significant gap between the poor and the rich. And there, it hardly ever grows social welfare. The promise of globalization has failed as even these countries are unable to pay their loan principal instead of countries succeeding in entering into the welfare state entities in the world (Mendoza, 2023).

As a result, they raise taxes, which increasingly choke the people, rather than returning them to society through welfare and other economic packages. However, it is necessary to pay IMF debts.

One of the positive consequences of the COVID 19 Pandemic is that countries are rethinking how they finance their lives without the trap of globalization and the assistance of third parties. The state is now acting more locally. This includes rethinking how to make their people prosperous.

The big question now is whether Zakat can replace taxes, which have traditionally been a part of a country's fiscal policy. If we could, we would prefer not to base our response solely on religious sentiment, but how can this be determined within a defined methodological framework? Because the most common error made by Muslims in Muslim countries is their inability to translate a good concept derived from revelation to a practical, applicable level.

2. RESEARCH METHOD

This paper employs a literature study methodology as part of a descriptive analysis. The data was gathered from literatures relevant to the topic under consideration. The research variables are not standardized; instead, researchers conduct the analysis by comparing various sources of writing. Literature takes the form of books, journals, research findings, and printed and online lecture materials.

This study employs a literature-based approach, which may not accurately reflect field conditions. Because each country's needs for fiscal policy instruments may differ, even within Muslim countries.

The author's goal is only to provide a basic idea that can be used as a starting point for further discussion, as well as to open up opportunities for comprehensive research in each country using accurate primary data to explain how Zakat should be formulated in detail.

As a result, we recommend that additional research be conducted to calculate the potential of Zakat in each IOC member country, such as formulating zakat so that it can be regulated by each country's government.

3. RESULT AND DISCCUSSION

Tax vs Zakat in the historical context

History of Taxes

Taxes have a long history, including their use as a means of collecting revenue for the people. Taxes have existed since humans first organized themselves into government structures. Taxes have existed since the Greek and Roman empires, and were later adopted by the various empires, kingdoms, and ancient governments that existed in every region of the world (Kerr et al., 2025). The earliest known history of taxation dates back to ancient Egypt, during Faraoh's reign, when tax officers were known as Scribes. Scribes were tasked with collecting the family consumption tax on all commodities used by Egyptian families at the time.

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Greece levied an unregulated slave tax. Greece also imposes taxes on conquered territories, such as consumption taxes and tariffs on imported goods. Meanwhile, Rome imposed taxes, import duties, and other direct taxes. The ancient Persians imposed a land tax, with one-tenth of the harvest given to the country in kind. The majority of tax proceeds in Greek and Roman governments were used for expansion and conquest, allowing them to obtain new tax sources(Treuk & Araujo, n.d.).As the Middle Ages began, Germany and Italy imposed direct taxes: an individual tax for the poor and a tax on both net and gross wealth for the rich. Income tax is administered through self-assessment and oath.

Taken before the civil commission, and taxes on land and houses are gradually rising. The main issue with taxes during the Middle Ages was inequity in distribution and the burden of taxes, which sparked numerous rebellions(Cohn, Jr SK, 2012). For example, the American colonies' rebellion against the United Kingdom was sparked by an injustice in the amount of tax set by parliament because they did not believe they had a say in determining tax rules because they did not have representatives in parliament(Sebastian Galiani, 2018). The unfair distribution of taxes is also cited as the primary catalyst for the French Revolution.

However, it should be noted that many tax concepts were developed during this period, including the concept of income tax introduced by Great Britain (1799) and income tax or purchases by Germany (1918) and Great Britain (1940). Similarly, the method of withholding income tax collection began as a wartime innovation in France, the United States, and the United Kingdom.

At the end of the twentieth century, several important tax notes surfaced. For example, replacing a turnover tax with an income tax (A & Dušek, 2021). Also lost are some taxes, such as those levied for the privilege of doing business. The end of the twentieth century marks the beginning of the industry's digital development, which includes tax evasion issues caused by tax administration ignorance of technological developments and digital tax management.

After Adam Smith published The Wealth of Nations, taxes became a systematic and institutionalized part of state management and state policy. Adam Smith focuses on the role of taxes in the development of both developed and poor countries. The postulate is as follows (Adam Smith, 2015):

1. Every citizen must contribute to the government to the greatest extent possible in accordance with their respective capabilities, which are comparable to the income they receive under the law and the protection of the state.
2. The tax paid must ensure that there is no arbitrariness in the amount, time, and method of payment.
3. Each tax shall be collected at the time and in the manner most feasible for paying it
4. Every tax must be made in such a way that it can be issued and removed from the pockets of the people as little as possible beyond what it brings into the public treasury of the state.

History of Zakat

Zakat in Islam aligns with God's commandments to establish salah and pray zakat (Qoran 2:83). The commandment of Zakat is associated with wrong orders, implying that zakat contains social messages that accompany wrong orders as a manifestation of a relationship with God. Being a Muslim requires you to strike a balance between your relationship with God and your relationship with other people(Al-faizin, 2017).

During the prophet Muhammad's (PBUH) time, zakat was applied after moving to Medina. This means that the application of zakat is closely linked to the government. Because it was in Medina that the first Muslim government was established, with Muhammad serving as both prophet and ruler.

Zakat in Islam does not evolve like taxes; the revelation's commandment is clear that zakat is intended for the welfare of society, and zakat recipients are clearly defined in the Al-Quran and hadith (Khatimah et al., 2025).

During Muhammad's (PBUH) reign, an institution known as Baitum Maal was established, which has since become a benchmark for modern Islamic financial institutions. So, for a long time, zakat has been managed by the state, and the state is required to calculate, collect, and distribute it to those in need(Sani & Muhammad, 2022). When Islam spread to new areas, Muhammad (PBUH)

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appointed representatives of zakat collectors to collect zakat at the regional level and report to Muhammad (PBUH) at the central level.

Modern operational management has also been used, as evidenced by the distribution of the amil zakat structure, which consists of Katabah (officers who record zakat obligations), Hasabah (officers who estimate and calculate zakat), robes, attractive officers who collect zakat from muzakki, Khazanah (officers who collect and maintain assets), and Qasamah (officers who distribute zakat to mustahiq or people who are entitled to receive zakat)(Sultan & Kasim, 2021).

Key points of this section

1. Taxation and Zakat have been around for a long time, and they have always been used to support governments. The difference is that zakat is used by only one government, the Muslim government of Medina, followed by the caliph after the prophet's death, and it remains the state's official and sole levy until the end of the Islamic empire era. Meanwhile, tax is used by many major global empires.
2. like Rome and Greece, and later adopted as a global fiscal policy instrument. Taxes evolve in response to the state's development and needs at all times, whereas Zakat remains consistent because the command comes directly from God and is then applied by Muhammad (PBUH) to the present.
3. Zakat's goal has always been to improve welfare and reduce poverty, whereas tax is designed to meet the needs of the country in order to be enforced. In the beginning, taxes were used to finance expansion.
4. Since the beginning of its implementation, Zakat has been in institutions and managed by the state by forming a special financial organization called the *Baitul mall*, while Tax is only concerned about becoming an institutionalized levy after Adam Smith wrote about the wealth of the nation with his four main postulates.
5. Zakat levies are more consistent in terms of amount and distribution than taxes. Even taxation had sparked rebellions and revolutions due to the inequity in the amount of fees and distribution.

Tax vs Zakat: Increasing nation welfare

Tax on welfare improvement

The main idea of applying the tax as a fiscal policy instrument is to increase government revenue and then spend it according to the functions inherent in taxes, such as: (Lutsyk, 2025)

1. Budgetary function: the tax will be used to fund national development or other national expenditures. Its function is to keep the state's income and expenditure in balance. Tax spending in national development includes state expenditures for the development of public infrastructure, educational facilities and infrastructure, military spending for security defense, and government employee salaries. etc
2. The second is the regulatory function, in which the tax governs social and economic policies. Taxes, for example, can be used to control inflation, stimulate exports, and protect domestic goods. In addition to providing incentives for sectors that can attract investment.
3. The third function is distribution, which involves distributing the community's income and welfare from taxpayers who can afford it to those who cannot. Examples include cash assistance for the poor, assistance for small and medium-sized businesses, and natural disaster relief. Etc
4. Finally, the stability function is useful for stabilizing the state's economic condition; for example, to combat inflation, the government imposes high taxes, reducing the money supply. Similarly, when the state experiences an economic downturn, the government responds by lowering taxes, allowing the money supply to increase.

The tax spending in accordance with the functions mentioned above demonstrates that the majority of the tax benefits for the community are felt indirectly, specifically through the benefit principle. This means that it is heavily influenced by whether the government spends the tax correctly and on time. For example, government spending on public infrastructure, such as roads, should be tailored to the primary needs of community mobility. For example, a country that is supported by

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agrarian sector income should build village roads that can facilitate access to mobility of farmers in the distribution of their agricultural products from location to market, so that the impact increases their agricultural output which in turn can improve their welfare(Nasution & Wahyudi, 2017).

State spending on government employee salaries should be able to improve employee performance in a proper, effective, and efficient manner, allowing public services to run smoothly. When dealing with government bureaucracy, the public has a positive experience, and public administration matters are resolved quickly. As a result, the state moves effectively and efficiently.

In many cases, the question of whether taxes can boost economic growth is riddled with contradictions. In some cases, the application of taxes has negative consequences. Not to mention a budget deficit in which state spending is subsidized by foreign debt to fund projects that are not or are not required in the nation(Reed, 2020). Then taxes must be used to finance the repayment of state debt, limiting the portion that can be used to increase welfare, both directly and indirectly.

Another example is that higher income taxes can reduce salaries for employees who are brought home, reducing their motivation to work. High taxes also result in lower wages. As a result, the level of household expenditure in society is likely to fall, lowering aggregate demand. If the government fails to spend all of its taxes on public needs(Bartkus, 2017). However, if the government's total tax revenue remains constant, aggregate demand will be unaffected.

As a result, in our analysis of the relationship between taxes and economic growth, we will look at the level of economic growth in IOC member countries. We measure the GDP level and unemployment rate of these countries as evidence of their economic growth, and then connect them to the source of the country's income, which is used to increase the two indicators of GDP and labor absorption(Reed, 2020).

The following is a graph showing the percentage of GDP growth in member countries of the IOC (Islamic Organization Committee).

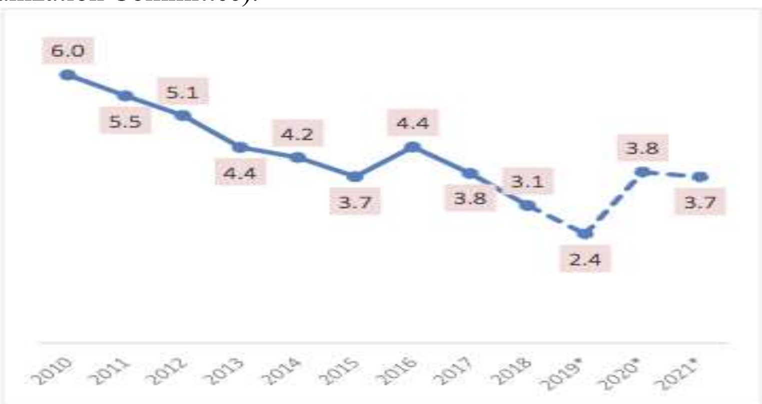

Figure 1 :GDP Growth Rates in OIC Countries(OIC, 2019)

The chart above depicts the average GDP growth in IOC countries from 2010 to 2021. Starting in 2010, GDP has consistently declined by a significant amount each year until 2015, with only a slight increase in 2016; however, it cannot return to the value it had in 2010. GDP fell to 4.4% in 2016, down from 6% in 2010. The trend then continues to decline until the end of the period. In 2018, with an average growth rate of 3.1%, OIC growth fell below the global average. Economic growth in OIC countries is expected to decline to 2.4% in 2019 and continue to remain below the world average.

Meanwhile, the relationship between the GDP growth rate and the unemployment rate can be seen in the following chart:

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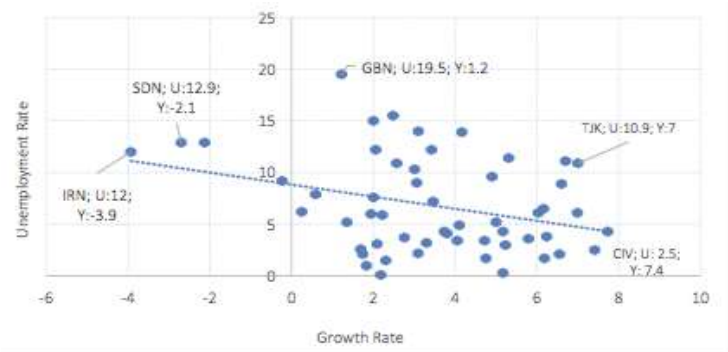

Figure 2 : Economic Growth vs Un employment in OIC countries(OIC, 2019)

Supposedly, in accordance with the general theory of development, a country with a high GDP growth rate will show a low open unemployment rate, but as seen from the graph above, countries with high GDP growth rates are actually accompanied by an increase in the number of unemployed, although some countries, such as Tajikistan (TJK), show a positive relationship, where in the data Tajikistan has an economic growth rate of 10.9 while a labor growth However, it can be concluded that rapid economic growth in several IOC countries is not associated with an increase. labor absorption.

Now let's see where the country's financial sources come from to support their economic growth:

Figure 3 : Portion of IOC state financial resources vs Developed countries(OIC, 2019)

The diagram above shows that taxes continue to play an important role in driving economic growth, but there are clear imbalances in lower and upper middle income countries, which are home to many IOC countries. State opinion in the tax sector appears to be massive, but it has no impact on significant economic growth.

Key points

Taxes serve a noble purpose in the economic development of a country. With its functions, taxes are expected to increase a country's economic growth; high economic growth is expected to open up jobs; available employment increases family income, which encourages the level of prosperity to increase on the one hand, and GDP growth on the other.

However, evidence shows that there is no relationship between tax collection, which accounts for the majority of state income, and economic growth.

Zakat on welfare improvement

Zakat has long been discussed among Muslim scholars as an Islamic redistributive instrument with great potential to support small social projects. So, by distributing state income to the household sector, small and medium-sized businesses will improve the welfare of each household, particularly in IOC member countries(Eka et al., 2022).

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Indeed, there is no official data from the IOC on the potential for zakat in these countries or its impact on economic development. Because zakat is managed by an institution other than the official government agency in charge of fiscal and monetary matters. Zakat's benefits remain local and partial.

On the one hand, extensive research and studies show that taxes have no impact on economic growth in many countries, particularly developing countries that are IOC members. Economic development success indicators such as GDP growth and unemployment reduction are not being met, despite the fact that taxes continue to be the primary source of income in these countries.

There may be numerous factors that cause theoretical imbalance with reality, involving a wide range of social and political economic disciplines. However, economic analysis concludes that policies based on conventional economic theory have failed to achieve a fair balance between capitalists and workers(Chuka enuka, 2018).

This is exacerbated by the existence of institutions such as the IMF, which is an interest-based global institution focused on wealth accumulation and redistribution that makes a large number of loans to developing countries, the majority of which are also IOC members. Instead, institutions like this can help redistribute wealth while perpetuating poverty.

Meanwhile, Islamic economic theory, which provides a concept free of interest, promotes productive efforts and capital formation(Al-jarhi, 2026). These factors increase the company's demand for labor. In microeconomic decisions involving leisure consumption options, Islamic institutions positively increase labor supply. Islamic economics provides Zakat as a tool for wealth redistribution, as well as the law of inheritance to ensure the circulation of wealth.

According to Islamic economic theory, Islam abolishes institutions such as the IMF that perpetuate income and wealth inequality in an economy, particularly institutions of interest and the freedom to design taxation policies for elite interest groups in capitalistic democracies that endanger future generations' welfare through excessive deficit financing and inflation taxes. The Islamic worldview, which includes a belief in responsibility for life after death as well as the concept of property rights, ensures that economic actors' behavior incorporates issues of ethics and equality into their economic decisions(Sholekah, n.d.).

Donor institutions, which then receive extensions from extractive institutions within the country, create exploitative practices, such as interest on capital, directly influencing the income generation process. Then, the income generated from these productive efforts is redistributed as flows within the economy by taxing the stock of wealth.

The way Zakat works in macroeconomics to increase economic growth can be described in the following cycle:

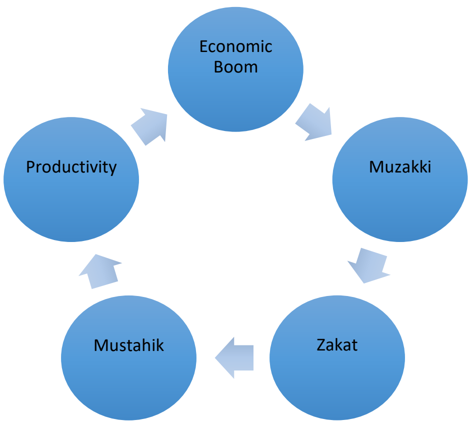

Figure 4: Zakat Cycle (Author)

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Explanation :

1. The economic boom created people who were obliged to pay Zakat (Muzakki). The emergence of Muzakki obliged the state to collect Zakat from them. The more zakat collected from Muzakki by the government, the greater the proportion of Zakat that will be distributed to Mustahik or zakat recipients.
2. Mustahik or recipients of Zakat are people who are entitled to receive zakat which is divided into eight groups, in the context of a state, these eight individuals can be translated more broadly. (will be explained in the zakat features section)
3. Mustahik from the eight groups will get capital for productive works that will increase their standard of living, which in the end they will become new taxpayers (Muzakki)

Can Zakat Replaces Tax?

To address the main questions about the topic of this paper, the authors present the characteristics of zakat and its similarities to taxes.

Zakat Characteristic	Posibilities to transform in to Tax
History	Zakat has a long history and has been used as a system for distributing wealth, similar to the current tax function.
Objectives	Zakat and tax are official government levies levied on the general public in order to increase government revenue, which ultimately aims to boost the country's economic growth and prosperity.
The recipients of Zakat are Eight Groups: 1. Poor are people who have very little property. These people have no income so they are rarely able to properly fulfill their daily needs. 2. Poor Above the needy, there are people who are called poor. They are people who have wealth but also very little. His daily income is only enough to meet food, drink and nothing more. 3. Amil They are the ones who take care of zakat from receiving zakat to distributing it to people in need. 4. Mu'allaf People who have just converted to Islam or converts to Islam are also the group entitled to receive zakat. This aims to make people more confidently believe in Islam as their religion, Allah as God and Muhammad as His messenger. 5. Riqab / Freeing Slaves In ancient times, many people were made slaves by wealthy merchants. This is, zakat is used to pay or to redeem the slaves so that they can be free. People who freed slaves were also entitled to receive zakat.	Even though the eight groups are recipients of zakat for individuals. In the context of a state it can be transformed into the development needs of the country. In accordance with the rules of Fiqh muamalah, all may come up with arguments against it. Poor and poor are mandatory, Amil is a zakat administrator, which means that the state itself can be transformed to the state's needs for routine personnel spending and the like and infrastructure development. Mu'allaf and Riqab can be transformed into social purposes. Gharim can be transformed into state debt repayment, Fisabilillah can be transformed for education and health needs As well as Ibn Sabil is the need for military spending for defense, security and food security.

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6.Gharim (People Who Have Debt) Gharim is a person who has debt. People who have debt are entitled to receive zakat. However, people who get into debt for immoral purposes such as gambling and go into debt to start a business then go bankrupt, their right to get zakat will be void. 7. Fi Sabilillah What is meant by sabilillah is anything that is intended for the benefit of Allah. For example, development of education, preaching, health, orphanages, madrasah diniyah and many more. 8. Ibn Sabil Ibn Sabil is also known as a musaffir or people who are traveling far, including workers and students in overseas lands.	
Types of Zakat	Zakat has comprehensive types ranging from personal (human) zakat and goods zakat. It can be transformed such as the use of zakat into various types. Includes Zakat Fitri which is mandatory from God and cannot be transformed into other forms. This is a social safety net in the national zakat system Other zakat such as zakat of feature assets is very possible to be transformed into tax.

Key points

Zakat appears to be a viable alternative to taxes. So, is it sufficient to meet today's challenges? Most likely, yes. Because zakat is a branch of economics that addresses human needs through social activities, its laws are constantly evolving to meet the needs of society. Zakat has scientific applications in a variety of macroeconomic studies. However, preparing for integration into the government's fiscal policy necessitates the development of infrastructure and systems, which cannot be accomplished quickly.

4. CONCLUSION

Answering the paper's main question, it appears that zakat has the potential to replace taxes in the national fiscal system. Not only is this supported by religious evidence, but also by evidence of taxes' failure to achieve their primary goal in developing countries. Zakat's presence in the national economic development system can also be scientifically justified by converting it into macroeconomic theory.

At the country level, OIC member countries must create a supportive legal and regulatory framework, as well as "proactive" policy targets for Zakat usage, access, and quality that are aligned with the dynamic needs of their real economies. At the OIC level, concerned development institutions must work closely together to support OIC member countries' efforts to investigate the relevant policy, legal, regulatory, and institutional interventions required.

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However, it is necessary to conduct a study or research into what must be prepared immediately during the replacement process. We hope that this paper serves as a foundation for future research in that area. To achieve all of this, Zakat must be gradually integrated into the country's fiscal system, replacing the current Zakt institution

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