



The Implications of Islamic Public Finance in Indonesia: Integrating Zakat and Taxes for Public Welfare

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ABSTRACT

Public finance from an Islamic perspective is based on the purpose of Muslim life and the urgency of the role of the state in Islamic society. Indonesia as a country with a majority Muslim population has a role to manage public finance fairly and equitably. The source of state revenue is obtained from taxes, but in terms of Islamic public finance, people also should pay zakat. This study discusses the implementation of zakat and taxes as public finance in Indonesia, using descriptive qualitative methods with literature study analysis. In practice, zakat and tax have a relationship for public welfare but differ in terms of distribution. The distribution of zakat funds for the benefit of Muslims is a sign of gratitude to Allah. While the use of taxes to finance the general expenses of the state.

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INTRODUCTION

The potential wealth owned by the region can be used as a source of income if it is managed properly in accordance with the applicable mechanism. The state has an obligation to ensure that the wheels of the economy run optimally. The existence of micro and macro activities causes the state to need a certain amount of funds that can be obtained through the public financial system.

The definition of public finance is about wealth or property rights managed by the government for the benefit of the people. Public finance is a part of economics that studies government financial activities, which includes all government agencies and other public authority holders (Huda & Muti, 2011). The economic development of a country in the modern era is inseparable from public finance. The size of the country will affect the need for large funds as well. The revenue obtained by the state needs to be properly allocated for the public interest (Zunaidi, 2021).

Public finance cannot be separated from the reality of the role of the state and government in every public policy discussion. Public finance in an Islamic perspective has an approach based on the overall purpose of every Muslim's life and the urgency of the state's role in Islamic society. The Islamic approach to public finance is an important subject that is undergoing development (Jaelani, 2018)

The state has an important role in economic life. This role is manifested in two main things, namely the authority of the state to control economic resources and the right to collect public revenue to be then spent. The subject of state finance studies is centered on the role of the government from the fiscal side. The fiscal side includes where the source of financing for government activities is obtained from and what the funds are used for (Huda & Muti, 2011).

Based on an Islamic perspective, wealth management as public finance has the goal of meeting common needs and realizing a social order that creates community welfare (*mashlahah al-ummah*). This welfare goal cannot be realized without the harmonization of people's lives, especially in the economic field regulated by a government institution. The maintenance of the principles of public interest and the encouragement of balance must always be the primary concern of institutions and society (Jaelani, 2018).

The main source of state revenue and expenditure in the beginning of Islam was zakat. Caliph Abu Bakr As-Siddiq issued a harsh policy to fight and eradicate apostates because they no longer pay zakat. During the time of the Rasulullah SAW. and Khulafaur Rashidin, zakat was mandatory for Muslims, while taxes were for non-Muslims. In its development, taxes are also applied to Muslims on wealth that is outside the types of assets that have been determined to be issued zakat. Taxes that were previously voluntary turned into payments set by the state and regulated through the Law (Sudarmaji, 2021).

The sources of income during the time of Rasulullah SAW. can be classified into three major groups, namely from Muslims, income from non-Muslims and other sources of income. The receipts from Muslims are *kharaj* (land tax), *zakat*, *ushr* (import fee), *zakat fitrah*, *waqf*, *infak* and *shadaqah*, *amwal fadhhal* (property of Muslims who die without heirs, or comes from the belongings of a Muslim who leaves his country), *nawib* (a fairly large amount of taxes imposed by Muslims in order to cover state expenses during the emergency, This happened during the Tabuk), *khumus* or *rikaz* treasure finds in the pre-Islamic period. The income of non-Muslims, namely *jizyah*, *kharaj*, and *ushr* (Hasan, 2018).

Other sources of revenue are *ghanimah*, *fa'i*, ransom money for prisoners of war, *kaffarah* or fines, gifts, and loans from Muslims and non-Muslims. The application of *zakat*, *kharaj*, and *jizyah* also has a policy that is in accordance with the teachings of Islam, both found in the Quran Hadith. So, the order to pay the tax is a religious act according to the Islamic view (Hasan, 2018).

Zakat and tax study by Haskar (2020), discusses that the purpose of tax and zakat is the same, as a source of funds for the welfare of the community. Taxes are basically used to finance activities in the field and development sector. The distribution of zakat to *mustahik*, especially

the poor and poor, is expected to support economic life so that it can help national economic development. Supported by opinion Muhtadi, Abidin, & A'yun (2021), zakat is a manifestation of faith in Allah SWT and concern for others in terms of solving socio-economic problems such as income gaps.

The article by Mujaddid & Ramadan (2019) discusses the public's interest in paying taxes and zakat. There is a gap perception between the government and the community as taxpayers. The government relies heavily on taxes as the main source of state revenue. But on the other hand, people often feel reluctant to pay taxes, because they have the perception that there are violations in the institutional tax system. In contrast to the willingness of the community to pay zakat, which is actually done more voluntarily. In fact, even though the tax benefits still have a contribution to the individual even though they are not always felt directly.

According by Zaimsyah (2018), taxes and zakat have an impact on improving the economy and alleviating poverty in the country. There needs to be strong integration in the application of taxes and zakat for economic development. However, there is still a difference between zakat and tax. The legal basis of zakat is sourced from religion, while taxes are from the state. As a Muslim, he has an obligation to pay zakat, while as a citizen, he also has an obligation to pay taxes.

Therefore, zakat and taxes are part of public financial instruments. Because it is obtained and distributed for the benefit of society. However, in its application, there are clearly differences. The author will discuss it in this study

METHOD

This research uses a descriptive qualitative method. The data sources in this study were obtained through literature studies, which included scientific articles, books, as well as news or reports from related agencies. The literature study was chosen because the focus of the research is to explore and understand the concept, implementation, and dynamics of the implementation of zakat and taxes in Indonesia based on relevant reference sources. Descriptive analysis allows researchers to describe, describe, and explain the phenomenon of the implementation of zakat and taxes in depth without using statistical calculations.

A qualitative approach with descriptive analysis is considered appropriate because the main purpose of this research is not to measure, but to understand. This paper is expected to be able to provide a comprehensive overview of how zakat and taxes are implemented in Indonesia, and the extent to which they can play a role in supporting the social and economic development of the society.

RESULTS AND DISCUSSION

The Correlation between Zakat and Tax in an Islamic Perspective

The correlation between zakat and taxes began from the beginning of the development of Islam. It happened when Muslim forces had just conquered Iraq. Umar r.a., on the advice of his assistants, decided not to distribute the spoils of war, including the land of the former conquered territory. The lands seized by the forces of war were determined to belong to the local population. As a result, residents in the Iraqi region are obliged to pay taxes (kharaj), even though the owners have embraced the teachings of Islam. This is probably the beginning of the enactment of taxes for Muslims outside of zakat (Haskar, 2020).

The taxes cannot replace the position of zakat and cannot be considered as zakat. In essence, the proceeds from the tax are allocated to finance general expenditure and to realize some of the economic, social, political and other goals that the state wants to achieve. Meanwhile, zakat is a certain obligation that Allah SWT obliges for the property of Muslims which is intended for those in the Qur'an as a sign of gratitude for Allah's favor and to get closer to Him, as well as to cleanse themselves and their property. So taxes cannot abort the obligation of zakat for a Muslim (Qardhawi, 1988).

According to Manan (1997) there is a difference in the value of tax collection and zakat, zakat can be linked to three tax norms, namely:

Comment [D1]: explain the data sources, data types and data collection methods

Comment [D2]: This section has not been explained in the Discussion.

For improvement:

- (1) make brief explanation in the Discussion
- (2) use real data from authoritative sources that show the role of the two sources of financing in economic and social development, along with their differences

a) Norms of Equations

Citizens must contribute to support the government, proportional to the income they earn. This is true in the modern system of taxation which determines the collection of taxes based on a person's income. On the other hand, zakat is collected at a uniform rate based on the percentage of nisab, which guarantees the same sacrifice, besides that zakat cannot be used by the state as it pleases.

b) Norms of Certainty

The taxes that a person must pay is certain and cannot be set in an arbitrary way. The timing of payment, the amount to be paid, must be clear and real to the taxpayer and other people. The taxpayer must know the amount he has to pay so that he can adjust his expenses to his income. Regarding the certainty of zakat, there is no comparison because the main provisions are determined definitively and unchangeably based on the provisions of Illahi.

c) Norma of Convenience

Taxes are planned in such a way that only the few people who take and get rid of the people's office are as few as possible, in addition to those which they put into the state treasury. The provisions on the collection of zakat must also be made as simple as possible so that no special knowledge is required to know it, and therefore the cost must be economical.

Taxes are the largest source of revenue for the State. In the midst of the strengthening of the role of taxes as state revenue, at the same time there is also the awareness of the people to pay zakat and the role of zakat as a means to overcome economic and social problems (Haskar, 2020).

Taxes have a very important role in the life of the state, especially in the implementation of development because taxes are a source of state revenue to finance all expenditures including development expenses. Based on the above, taxes have several functions according to (Turmudi, 2015):

a) Budgeting Function

Tax allocation to finance state expenditures. In carrying out routine state tasks and carrying out development, the state needs money. This fee can be obtained from tax revenue. The allocation for development financing, money is spent from government savings, namely domestic revenue minus routine expenses. This government savings from year to year must be increased according to the increasing needs of development financing and this is especially expected from the tax sector.

b) Regulating Function

The government can regulate economic growth through tax policies. With the function of regulating, taxes as a tool to achieve goals. For example, in the context of investment, both domestically and abroad, various kinds of tax relief facilities are provided. To protect domestic production, the government sets high exices on foreign products.

c) Stability Function

Through taxes, the government has the funds to carry out policies related to price stability so that inflation can be controlled. This can be done, among others, by regulating the circulation of money in the community, collecting taxes, and using taxes effectively and efficiently.

d) Redistribution Function

The tax revenue that has been collected by the state will be used to finance all public interests, including to finance development so that it can open up job opportunities, which will ultimately be able to increase people's income.

Although taxes and zakat have a relationship for public welfare, according to Haskar (2020) in practice, there are differences in several scopes.

Table 1. The Differences between Zakat and Tax

| Scope | Zakat | Tax |
|---------------|------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Subject | Mandatory for muslim | It is mandatory for the community regardless of religion, caste, and others |
| Nominal | The source and amount are determined by the Qur'an and the Sunnah, cannot be changed by anyone | The source and nominal of taxes can be changed from time to time according to the government's needs |
| Use of Funds | Use of zakat funds stated in the Qur'an and hadith, no one has the right to change them | The use of taxes can be adjusted according to government needs |
| Beneficiaries | Giving zakat to those in need, there are 8 groups of mustahik. | Taxes benefit both the rich and the poor. |
| Purpose | As a distribution of wealth and preventing the accumulation of wealth | Have the main objective of obtaining state revenue |

Implementation of Zakat and Taxes in Indonesia

The government is responsible for the collection of zakat and the administration and supervision of zakat (Hasan, 2018). Zakat regulations in Indonesia are contained in Law No. 23 of 2011. In an effort to achieve the goal of zakat management, the National Amil Zakat Agency (BAZNAS) was formed based in the national capital, provincial BAZNAS, and district/city BAZNAS. BAZNAS is a non-structural government institution that is independent and responsible to the President through the Minister. BAZNAS is an institution authorized to carry out the task of managing zakat nationally.

In addition to government institutions, the community can form an Amil Zakat Institution (LAZ) to assist BAZNAS in the implementation of the collection, distribution, and utilization of zakat. The government approves the LAZ. After sharia and financial audits, LAZs must submit monthly reports to BAZNAS on implementing zakat collection, distribution, and utilization. According to Islamic law, mustahiks must receive their share of zakat. Equality, justice, and territoriality are considered when allocating resources according to the priority scale.

Meanwhile, the tax applied in Indonesia must be based on the law (Kurniawati, 2009). The following is the tax system that applies in Indonesia (Ferieka, 2016):

1. Self Assessment System
The activities of calculating, depositing and reporting the taxes owed are carried out by taxpayers, both entities and individuals. The role of the fiscal authorities as supervisors and law enforcers
2. Official Assessment System
In this system, the fiscal authorities have the authority to determine the amount of tax to taxpayers. Tax debts will arise after the issuance of a tax determination letter by the fiscal authorities
3. Withholding System
In this system, a third party (not the fiscal authorities and taxpayers) has the authority to determine the amount of tax that must be paid.

Zakat and tax can play a role in supporting the social and economic development of the society. Supported by opinion Mubtadi, Abidin, & A'yun (2021), zakat is a manifestation of faith in Allah SWT and concern for others in terms of solving socio-economic problems such as income gaps. This can be realized if the distribution of zakat is carried out effectively. The following is a report on poverty alleviation from BAZNAS on the island of Java by province:

Table 2. Poverty Alleviation Figures based on Zakat Management Institutions

| No | BAZNAS | Mustahik Relieved from Poverty | Poverty Alleviation (HoH) | Pengentasan Kemiskinan (people) |
|----|--------------------|--------------------------------|---------------------------|---------------------------------|
| 1 | BAZNAS Banten | 20% | 612 | 2.006 |
| 2 | BAZNAS DKI Jakarta | 63% | 8.969 | 29.383 |
| 3 | BAZNAS Jawa Barat | 55% | 1.354 | 4.435 |
| 4 | BAZNAS Jawa Tengah | 33% | 2.599 | 8.514 |
| 5 | BAZNAS Yogyakarta | 10% | 39 | 128 |
| 6 | BAZNAS Jawa Timur | 18% | 699 | 2.289 |

Source: BAZNAS RI (2024)

Taxes as the main source of state revenue are allocated to finance various social programs such as education, health and infrastructure development. These programs are tax objectives to improve the quality of life of the community (R. A. Huda, Puspita, Hasanah, & Malik, 2024). The following is a summary of tax expenditure estimates published by the Ministry of Finance (Kemenkeu):

Table 3. Tax Expenditure Report (trillion rupiah)

| Subject | 2020 | 2021 | 2022 | 2023 |
|------------------------------|-------|-------|-------|-------|
| Improving Community Welfare | 122,5 | 162,2 | 163,8 | 169,1 |
| Developing MSMEs | 57,6 | 73,5 | 81,6 | 85,4 |
| Supporting Business Sector | 34,8 | 42,1 | 47,6 | 46,8 |
| Increase investment activity | 31,2 | 36,8 | 48,1 | 61,2 |
| Total | 246,1 | 314,6 | 362,5 | 399,9 |

Source: KEMENKEU RI (2023)

Based on these two data, it can be seen that the difference in the allocation of zakat and tax funds can be seen. Although the two public financial instruments have the same goals for the welfare of the community, there are still differences in their implementation. The allocation of zakat is limited to the mustahik category and its orientation is non-profitable. Meanwhile, taxes, because they are a source of state financing, still have a profit orientation such as allocations in the business and investment sectors.

Muslims in Indonesia who have paid zakat are indeed exposed to double expenses, in addition to paying taxes they also pay zakat from the income they earn. On August 23, 2010, the government has issued Government Regulation No. 60 of 2010 which states that zakat and/or other religious donations that are mandatory can be deducted from gross income. Until now, there is still a debate among Indonesian Islamic jurists regarding the equation of paying taxes as zakat payments (Hasan, 2018).

Synergy of taxes and zakat is needed. For example, there is a collaboration between the BAZNAS program as the official body of national zakat and the government through the directorate of taxation. Counseling programs, promotions, information in the media, for example, collaboration between BAZNAS and the Directorate of Taxation in increasing the target of zakat or tax revenues must be carried out. Thus, the benefits of increasing zakat and tax revenues can be maximized so that it has a positive impact on poverty alleviation programs (Hasan, 2018).

CONSLUSION

The state has an important role in economic. This role is manifested in two main things, namely the authority of the state to control economic resources and have the right to collect public revenue to be spent later. Zakat and taxes are part of public financial instruments. Because it is obtained and distributed for the benefit for society.

Zakat is a certain obligation that Allah SWT obliges for the property of Muslims which is intended for those mentioned in the Qur'an, the poor, and other mustahiq as a sign of gratitude for Allah's favor. Meanwhile, taxes are a source of state revenue to finance all expenses including development expenses. The proceeds from the tax are allocated to finance public expenditures on the one hand and to realize some of the economic, social, political and other goals that the state wants to achieve.

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