

Editorial

Like every developing phenomenon, the concept of taxation has undergone evolution and change of sense by the pass of time. Different thoughts, beliefs, and trends are expressed by this term. The meaning of this term varies accordingly.

Although the meanings of the term “tax” vary from time to time, there are common elements all these meanings share in. we can, therefore, say that the word “tax” is vague. It needs to be defined and explained exactly. This paper tries to elucidate this word as a term used in economics and in Islamic culture. Different things denoted by this term will be discussed. We shall not elaborate on how Islamic taxation system is established on the basis of Islamic teachings. Rather, we shall focus on the historical development of the senses of this term.

The General Meaning of the Term “Tax”

In lexicography, the Persian word “*maliat*” which is used as a synonym to tax comes from the root “*mal*” and can be used in six different senses; reward, *zakat*¹, raising herds of sheep, tribute, fine imposed on criminals for offences they commit, and finally, the amount of money paid to states by citizens to enable them to run the country².

In modern economics, the term “tax” means an amount of money(or valuable goods equally worth) citizens of a country pay to the state according to law in order to enable the government to run the country, i.e.

1. Zakat in Arabic means a duty on one’s property and possession one religiously ought to pay.
2. Moin Dictionary of Persian Language.

provide goods and necessary public services, establish security, provide for national defense as well as construction and development¹.

Taxation is a phenomenon of very long history. It dates back to the first government or social administration organization that emerged. There hardly has been any state that has not received some sort of tax from people or from tribes defeated in a war². The differences between governments in this regard are only in ways of taxation, its type, and amount.

Historically speaking, ancient states such as Athens in the West and the Chaldean state of Babylon in the East of Mesopotamia made special laws and regulations for taxation while in many parts of the ancient world it has been left to kings and emperors to define the amount and other characteristics of what their appointed local rulers have had to pay to them as tribute in return for their appointment as absolute rulers in different regions³.

The appointed ruler would force his subjects- members of a tribe, a clan, or inhabitants of a region, a town, a province etc- to pay as much to him as would suffice for paying his due to the central government, running his own government, and depositing for his personal benefit. This tax as heavy as it might have been was received in different forms. Sometimes, it was money and, sometimes, it was goods and services. It was, sometimes, leveled on each family within his domain of rule or on each individual. Refraining from tax payment was never tolerated. The maxim saying "pay your tax or get beheaded" shows how taxation worked. It was sufficiently frightening to prevent everybody from escaping tax payment. This way of financing the state continued throughout the Islamic period and was exercised by the Umayyad and Abbasid empires as well as King Nader of Iran and his successors. Nader gathered the legendary treasure of his known as Nader's *Kalat* mostly in this way⁴.

Another difference between taxation now and taxation in the past is that now taxation partially aims at development of the country and is seen as

1. Montazerzohur, Mahmud, Micro and Macro Economics.

2. Refer to Albert Mauler's History, vol.1-2.

3. Refer to The Structure of State in Iran, vol.2, P.99.

4. To get a glimpse of the tyranny and oppression kings exercised in Iran against their subjects when imposing taxes, it is good to focus on the following historical fact: "having conquered the eastern parts of Iran such as Gorgan and Mazenderan, the founder of Ghajar dynasty Aqa Mohamad Khan ordered that everybody must shave or pay a particular tax for growing beard. It was just because he was sterile and could not grow beard.

public revenue while it was only a source of personal income for the ruler in the past. The money collected by the ruler in the past was spent in financing the palace, running the life of princes and their progeny, as well as enhancing seraglios. In many cases, the wage of the troop was not paid from tax but from loot.

The historical fact of despotic rulers' approach to tax in Iran has left two very significant effects. One, the general public sees taxation as a means for plunder. Consequently, it is difficult for the general mentality of people to see taxation as an indispensable means of running public life and financing national development plans. Naturally, people are reluctant to pay tax. The second effect is theoretical. Some scholars discussing taxation have, under the influence of the said mentality, concluded on the basis of some hadiths prohibiting receipt of more than one tenth for *zakat*, that taxation in general is religiously banned. They hold that Shiite Sharia rejects taxation as a primary consideration¹. The problem with this conclusion is that the prohibition of the receipt of more than ten percent in different hadiths is only an attempt at controlling the extravagant expenses of despots and has nothing to do with the monetary mechanisms of taxation.

In the modern age, states approach taxation very differently from the past. Present governments- the Islamic Republic of Iran included- see taxation as a pillar of public life, national development, and protection of nation. Taxation follows strict laws and regulations concerning how to acquire and how to spend. Monetary policies define taxation systems. Tax is indispensable for the progress and development. Taxation is a controlling mechanism in economic management. Some advanced nations provide up to 98 percent of the public revenue by taxation. People in these countries pay tax voluntarily and take governments accountable accordingly.

Kinds of Taxes

Tax is divisible into different kinds from different viewpoints. We shall mention three divisions here from three angles.

1. Primary consideration as opposed to secondary consideration (onwan) refers to the normal circumstances under which some action or entity is judged in jurisprudence. Secondary consideration refers to non normal or exceptional circumstances under which an act or entity is judged about. For example, it is prohibited to drink wine as a primary consideration. But if a thirsty person finds nothing to drink except wine, he is allowed to do so should he fear on his life because of thirst as a secondary consideration.

1. Direct/Indirect Tax

Tax is collected from especial goods. Depending on how tax is collected from these goods, it can be divided into direct and indirect tax.

a) Direct Tax

Direct tax is the tax leveled on individuals or institutions proportionate to their wealth and collected directly by government agents. Examples of this kind of tax are: the amount of money the state deducts from its employees' wages and salaries upon payment, and the amount of money the state directly takes from families or individuals living in a particular place. When this tax is proportionate to payers' income or wealth excluding citizens of low economic class, then it greatly contributes to social justice.

b) Indirect Tax

Indirect tax is the tax collected from payers in a way that the payer can manage to transfer its burden to others unnoticed. The direct payer of the tax turns out to be a mere medium as the result. It can take several forms. Real payers of the tax usually remain ignorant of the fact that they bear the burden. Duty on imported or exported goods at customs is indirect tax because the payer adds to the price in order to cover for the tax. Tax on selling is another example of indirect tax. When government levels a particular tax on merchandise, its price is automatically increased. The final consumer is the real tax payer rather than the nominal payer. The poorer class bears the tax burden far more than the rich do because they are of equal status to the rich so far as paying the tax is concerned while they are not equal so far as buying power is concerned.

2. Proportional Tax

From this angle, tax can be divided into three kinds; *tasaodi*, *tanazoli*, and *ta'adoli*. *Tasaodi* tax means a system in which more tax is collected from payers of higher income. The more one earns, the more tax he pays. The rich pay far more than the poor do. *Tanazolyi* tax is the system in which the more one earns the less tax one pays. The rich pay less than the poor do. This kind of tax can be direct or indirect. Despite the beautiful disguise, it pressurizes lower classes of society heavily. *Ta'adoli* tax is the system in which different economic classes pay equal taxes. It is not a fair system because the burden on the poor is far heavier than on the rich.

3. The Subject of Tax

The different items on which tax is leveled form another angle for division of tax. The previous axes of divisions can be applied to all kinds in this division too. From this angle, different kinds of taxes can be discerned.

a) Capitation Tax

In some countries, every citizen has to pay a fixed amount as tax. A citizen can pay money or its equivalent of goods and services.

b) Import Tax

Countries that allow the private sector to engage in foreign trade receive a percentage of the transaction value as tax. This is a mechanism to control export and import in order to implement policies on domestic production and consumption. Enhancement of domestic quality production, optimization, price adjustment, and market balance are among the main factors considered when determining duty.

c) Poll Tax

This is a kind of capitation tax. The purpose of this tax is to enhance the economic involvement of people who are active in the political arena. All those who enjoy the right to vote in national general or local elections are charged in some countries with the task of paying a minimal tax.

d) Inheritance Tax

Anybody inheriting from a dead person is taxed in some systems on what they as heirs receive. The rationale behind this taxation is the fact that the heirs receive the wealth without any especial investment, work, or effort on their part. It is quite easy to collect this tax.

e) Occupation Tax

In some taxation systems, every occupation is taken to be a source of public revenue irrespective of the side effects or collateral damage they may have on society or individuals. These systems allow all sorts of occupations which people opt for ignoring moral considerations. Prostitution, sex centers, gambling clubs, and drink shops are taxed on this ground. In some societies, the government finds this a profiting source of revenue hence their facilitation of the development of these centers. During the monarchy, Iranian governments adopted this policy.

f) Sales Tax

The direction of consumption in society is controlled and corrected by imposing tax on sales. This is a direct tax on the selling of particular products or services the state means to control. Tax on tobacco or beverage and other luxury items are examples of this kind of tax.

g) Value-Added Tax

In some countries, the profit people make out of distribution or production of merchandise is taxed.

h) Universal Tax

In the socialist states like the Soviet Union and its allies, the state buys the goods and services from people and forbids the private sector from doing so. Then, the goods and services are sold back to people with a higher price. This difference of value is a universal tax everybody has to pay.

i) Social Service Tax

In some countries, a tax is introduced in return for the social security service plans and programs which the government implements.

j) Corporate Tax

Since corporations enjoy independent legal personality and identity, a part of the profit they make go to the corporation itself rather than the share holders. This profit is taxed.

k) Pension Tax

In some countries, the state guarantees that every working individual be insured against retirement in old age. The government imposes a tax in return for this guarantee.

l) Estate and Property Tax***m) Wealth Tax***

This is a tax some states impose on a certain amount of possession. It is collected from individuals evenly.

There are other types of tax which are less common and important we refrain from prolonging with mentioning them here.

Tax and Social Justice

Modern states undertake various responsibilities in order to bring about

economic balance. They control economic markets, fix and control prices, supervise the distribution of wealth through wage payment, income, and valuable goods. Taxation is a very important means they deploy in order to implement their policies. Economic balance and social justice are intimately connected to taxation policies and plans. Governments administer economic currents and solve economic problems adjusting income and wealth through taxation. This enables them to prevent corruption and stagnation in economy.

Among different types of taxes, direct taxation can help prevent too much wealth accumulation and wide economic gap between classes enhancing economic growth because direct tax is determined in proportion to the income of tax payers and cannot be transferred to others. Progressive taxes best contribute to these ideals providing the state with their financial needs and enabling them to establish justice. This kind of tax leads to the reduction of public demand and price adjustment as the result. Through progressive taxation, direct or indirect, the general income is reduced. This affects less demand. When demand is decreased, the prices drop, assuming that other factors are fixed.

Tax in Islamic Jurisprudence

Contrary to the well-known view, Islam does not confine taxes to *Zakat*, *Khoms*, *Kharaj*, and religiously obligatory payments. Islamic system of taxation is global and for all the ages. It has a structure and plan pattern that facilitates the administration of the Islamic state. Islamic taxation system is based on laws and regulations. Some of these laws are stated expressively in Islamic texts and some are derivable from them through rational investigation according to the methodology established in the science of *Osul*. In pre-modern times, states were charged with far less responsibilities. Therefore, they could function properly with the financing provided by the fixed taxes stated in Islamic jurisprudence. In the modern era, however, it is impossible to run the state with those sources alone since the responsibilities of the state are now so vast, far more complicated, and costly. No Islamic government even in oil rich nations can run the country and stand up to its commitments with those sources alone.

It is also notable that, in Islam, taxpaying is considered as a religious service. Believers pay tax with the same intention with which they pray and pay alms since they think of enabling the government to run the country as a religious duty of theirs. They consider tax evasion not only illegal but also sinful.

Taxes Islam recognizes may be divided into two major categories:

1- independent and fixed taxes; and 2- flexible taxes. The first group of taxes includes *zakat*, *kharaj*, *jezyah*, and *khoms* which are stated in the Koran and sayings of the holy Prophet. These are fixed taxes that everybody has to pay irrespective of the time and location where they live. A characteristic feature of this kind of tax is that it is predetermined how the money collected should be spent. Nothing can be added to these taxes or reduced from them. The second category includes all cases where the Islamic state needs to impose a tax to meet some needs that emerge as the result of the advancement and complication of life giving rise to new responsibilities on the part of the government. For example, governments ought to provide for defense, public health, public education, and public facilities. They have to formulate taxes to meet these needs. This must be done in a way that does not entail any harm to the fixed taxes. These taxes are flexible and it is thoroughly legitimate to impose them according to general principles of Islamic jurisprudence. Nevertheless, since these taxes are indispensable to Islamic state, they are considered as first-order Sharia laws. It is necessary to mention four important points here.

1. Taxation as First-Order Law

Contrary to the widely held view that says taxation is religiously permissible because it is indispensable for running the Islamic state, it can be said that taxation is one of first-order laws of Sharia. Since the sovereignty of Faqih and the obligation to establish Islamic state in order to implement Islamic laws are religious duties of the first-order in the Sharia, so too is any measure necessary for achieving that end and protecting the Islamic state. Among ordinary requirements of protecting the state is taxation. Hence, taxation can be said to be an obligation of the first-order. Islamic state essays nation's needs in different time spans and legislates for appropriate taxes that can meet them. Imam Khomeini refers to this point in his message to the nation through the Guardian Council saying, "Protecting the Islamic Republic of Iran at present time when we see it being under attack from every direction is rationally and religiously mandatory and no other recalcitrant obligation can withstand it."

2. Representation and Delegation

Elections provide an opportunity for people to select their representatives

in legislative and executive branches of the state and to authorize them to act on their behalf in running the state. Tax legislation is thus people's decision to spend from their cash for their need in lieu of spending the natural wealth and resources that belong also to the coming generations. This process is carried out under the supreme supervision of a just faqih who knows the requirements of the time and by experts who plan and implement according to the interests of nation. Consequently, imposition of tax by delegated representative of people authorized to do so will be considered in accordance with first-order laws of Sharia.

3. Modern State

States were charged with far more limited tasks and responsibilities in the past compared to modern states. The concept "state" differs now from that in pre-modern era. Their main responsibilities were confined in defense and establishment of order. Such duties did not need heavy budget to be discharged. At the same time, their expenditure on the comfort of kings and monarchs and their families and relatives exceeded their expense on defense and law enforcement. However, their legitimate duties were far less than present states' are.

Modern state is a political set up responsible for all public needs of society. It ought to administer a great and vast bureaucracy in charge of cultural, economic, judicial, legislative, security, and military tasks. It is beyond the scope of this paper to explain all the responsibilities of modern state. It suffices to note that if a state fails to provide for the public needs of people or solve problems faced by people in providing these needs, it will collapse. These needs include food, education, health, job, defense, security, development, communication, and public relations. Modern states usually consider these items as vital and charge the government with the task of their administration. Hardly do governments permit the private sector to undertake responsibility in this regard.

It goes without saying that the state needs huge financial resources in order to discharge these tasks. Fixed taxes such as khoms and zakat are not sufficient. Islamic state has to introduce suitable taxes to meet this need.

We should emphasize here that the spirit of Islamic Sharia and the general direction of Islamic law being justice require that net profit be taxed so that the wealthier pay more than the poorer.

The religious authority Islamic state enjoys allows the government to set conditions on its providing facility. For example, the state may decree that citizens are permitted to benefit from public services provided that they pay their taxes. This would be an instance of Ju'alah. As the result, the government can refrain from offering any service to those who break the law by evading tax. Accordingly, taxation will become one of first-order Sharia laws. This is, of course, a lengthy subject matter we cannot fully exhaust here.