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Scholar Dispute

Translated Article[†]

MODERN APPROACHES TO STUDYING THE ISLAMIC TAXATION IN THE RUSSIAN MARKET OF MUSLIM GOODS



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Abstract

Importance The article addresses *Zakat* as the most important Islamic tax.

Objectives The research investigates the main works on *Zakat* to set further vectors of respective research.

Methods The comparative analysis of relevant works revealed many serious mistakes in the calculation of the Islamic tax, however, certain aspects (history, world practice, etc.) are disclosed quite adequately.

Results The findings demonstrate that it is necessary to create a method to calculate *Zakat* for legal entities.

Conclusions and Relevance Updating these issues may not only satisfy needs and questions of commercial organizations' leaders operating in the market of Muslim goods, but also help improve the social status of the society as a whole.

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Contemporary economists, more often than not, tend to explore possible methods for eliminating the social inequality. In this respect, economic growth becomes the issue of secondary importance. According to statistics, some advanced economies have seen the 60-percent growth in the wealthiest population (1 percent) for the recent one hundred years. Seven largest and advanced economies and seven emerging economies have the Gini index of 0.71 and 0.8 respectively [1]. O.S. Sukharev, a Russian scholar, suggests creating support system for the poor population, as an initial solution, so to improve its welfare. However, the poor population's income should outperform that of the wealthy population, since

the perceptions of poverty are difficult to neglect in comparison with the highest income level¹.

According to some economists, the poor population support systems may be implemented through *Zakat*, one of the fundamental principles in Islam. *Zakat* is an obligatory contribution to certain social layers individuals must make when they reach a stipulated level of wealth (*Nisab*). This problem grows even more important as the market of Muslim goods² [2] and Islamic finance expands in Russia [3–5].

[†]For the source article, please refer to: Шовхалов Ш.А. Современные подходы к исследованию исламского налогообложения на отечественном рынке мусульманских товаров. Финансы и кредит. 2017. Т. 23. Вып. 19. С. 1144–1152. URL: <https://doi.org/10.24891/fc.23.19.1144>

¹ Sukharev O.S. [Methodological principles of institutional analysis: The old and new schools and mainstream]. *Finansovaya analitika: problemy i resheniya* = *Financial Analytics: Science and Experience*, 2013, no. 41, pp. 7–24. (In Russ.)

² Shovkhalov Sh.A., Petrova A.T. [The market of Muslim goods: Essence and Features]. *Fundamental'nye issledovaniya* = *Fundamental Research*, 2015, no. 6-1, pp. 207–210. (In Russ.)

The Islamic law sets forth about six principles governing the origination of the *Zakat* obligation. In this research, I focus on the most relevant to the Russian market.

1. A person should be a Muslim.

People, other than Muslims, are not subject to *Zakat*. This clause is applicable in case of a joint venture (a joint-stock company, limited liability company, etc.). Assessing the amount of *Zakat*, entities should take the property owned by a Muslim as the taxable base (stocks, shares in the authorized capital, etc.).

2. A person shall possess a certain amount of *Nisab* for over one lunar year (354/355 days).

Nisab is the value or quantity of the property that entails *Zakat* in case of its growth. According to the Shafi'i madhhab (school of law), the first date of profit-making operations is taken to assess *Zakat*, notwithstanding whether the property meets the *Nisab* criteria or not as at the given moment. For example, a sole proprietor assumes its business operations on January 1. He had five pairs of shoes to sell for RUB 10,000, i.e. below the *Nisab* level. However, if the property reaches the *Nisab* level in 354 days, starting from January 1, the sole proprietor must pay 2.5 percent on the value of all the goods. If an individual possesses 40 grams of gold as of January 1, but the gold possessions reach 85 gram only on June 1, that is, it exceeds *Nisab*, the individual is to pay 2.5 percent on 85 grams of gold in 354 days, starting from June 1, rather than January 1 (2.125 grams in monetary terms).

3. The property shall be obtained in the Shariah-permitted manner.

A legal entity accrues the income item *Interests Receivable*. This amount is not subject to *Zakat*, but shall be distributed to the poor population [6].

Thus, settling the key concepts of this subject area, I analyze proceedings by the Russian researches into Islamic taxes. They can be conditionally divided into proceedings by religious personalities [7, 8] and academic researches. The latter become the focal point of this research. These are:

- monograph, *An Islamic Economic Model and Modern Times*, by R.I. Bekkin (2010) [9];

- paper, *Zakat: A Practical Guidance for Calculation, Payment and Distribution of Zakat*, by M.E. Kalimullina, R.I. Bekkin (2009) [10];

- paper, *Calculation of Zakat in Russia Based on Balance Sheet*, by G.Kh. Koveshnikova, Sh.M. Abubekеров (2008) [11];

- handbook, *Taxes and Taxation in Islamic Economies*, by I.Yu. Zobova (2008)³.

It is noticeable that all the above papers were published within 2008 through 2010. I should also spotlight such authors as R.Yu. Pochekaev [12], N.A. L'vova and N.V. Pokrovskaya⁴.

In his monograph, *An Islamic Economic Model and Modern Times*, R.I. Bekkin scrutinizes the way *Zakat* is implemented, starting from the caliphate time and onward, in Yemen, Saudi Arabia, Pakistan, Libya, Sudan and Malaysia. The monograph was released in 2010 forerun by Bekkin's other proceedings [13–15]. In those proceedings, Bekkin articulated original ideas of *Zakat*. However, *An Islamic Economic Model and Modern Times*, represents an amplified and extended overview. I draw upon it in this research. The author reviews the *Zakat* practice in Russia and points out some issues relative to the subject:

- nonexistent culture of *Zakat*;
- prevailing public unawareness of *Zakat*;
- confusion of *Zakat* and alms;
- nonexistent centralized procedure for charging *Zakat*.

R.I. Bekkin notes that the collection and distribution of *Zakat* do not entail any amendments to the effective legislation, being an indisputable merit in comparison with other aspects of the Islamic economy. He also refers to the Republic of Karelia that successfully enforces the *Zakat* practices. However, he predicts the promising future for various charitable foundations. Despite an apparent excellence of the monograph, R.I. Bekkin fails to address the *Zakat* assessment method.

³ Zobova I.Yu. *Nalogi i nalogoblozhenie v stranakh s Islamskoi ekonomikoi* [Taxes and Taxation in Islamic Economies]. Kazan, TGGPU Publ., 2008, 148 p.

⁴ L'vova N.A., Pokrovskaya N.V. [Special features of Islamic taxation in the modern financial system]. *Finansy i kredit = Finance and Credit*, 2015, no. 8, pp. 31–40. (In Russ.)

In her paper, *Taxes and Taxation in Islamic Economies* (2008), I.Yu. Zobova, in fact, echoes the main conclusions made by R.I. Bekkin, without offering any new ideas.

The handbook, *Zakat: A Practical Guidance* (2009), became widespread owing to the renowned authors (M.E. Kallimulina, R.I. Bekkin). The authors approached the issue through the lens of classical proceedings on the Islamic law, i.e. the substance of *Zakat* as per the Koran and hadiths, its assessment and payment. They also express their ideas on the practical use of *Zakat* in Russia and some other countries. The first two chapters contain some aspects, which diverge with the Islamic law (*Table 1*).

The handbook does not provide any comprehensive technique for legal entities to assess *Zakat*.

In my opinion, the paper, *Calculation of Zakat in Russia Based on Balance Sheet* (2008), by G.Kh. Koveshnikova and Sh.M. Abubekeroev became a real methodological breakthrough. Despite many attainments, I still have to note some discrepancies with the Islamic law (*Table 2*).

Basically, G.Kh. Koveshnikova and Sh. M. Abubekeroev give a detailed view of balance sheet items in Russia collating them with *Zakat*. However, I highlight the most important aspects of the paper, besides the above ones:

- it lacks the *Zakat* assessment technique for legal entities, offering just several formulas;

- balance sheet underwent significant modifications after 2011 as accounting practices developed in Russia. Thus, the information got outdated to a certain extent.

A special mention shall be made concerning the article by N.A. L'vova and N.V. Pokrovskaya. Unlike the previous researches, they raise the question of a missing assessment technique, but still give way to some inaccuracies (*Table 3*).

Notwithstanding apparent omissions, N.A. L'vova and N.V. Pokrovskaya return to the importance of Islamic taxes, stating that respective studies might provide rather valuable findings to subsequently eliminate the economic disparity as mentioned in the opening idea of this research.

Hence, the above proceedings and their scholarly approaches may be classified into historical (for example, proceedings by R.I. Bekkin) and methodological (for example, proceedings by M.E. Kalimullina, G.Kh. Koveshnikov). In my opinion, the first group of proceedings makes rather uncontroversial conclusions, while significant fallacies were traced in the second one (*Tables 1, 2 and 3*) with respect to the Islamic tax assessment. They fail to present a comprehensive technique for legal entities to assess the tax. This fact shall motivate scholars for further researches, considering a growth in the Muslim population [16] and the market of Muslim goods and Islamic finance [17, 18].

Table 1
Discrepancies between the paper, *Zakat: A Practical Guidance*, and Islamic law

Page	Zakat: A Practical Guidance	Islamic law
62	An individual must pay Zakat on the leased-out property	Zakat is not charged on the leased-out property, but Zakat applies to rental payments
62	As pronounced by the Shafi'i school of law, rental payments are not subject to Zakat	According to the Shafi'i school of law, rental payments are subject to Zakat
63	In selling a farm, Zakat shall be paid on cereal crops, 5 percent or 10 percent	In selling cereal crops, the Zakat rate is 2.5 percent
63	If land is privately used, Zakat is not charged	According to the Shafi'i school of law, Zakat arises when crops exceed 653 kg
63	Horses are subject to 2.5 percent Zakat	In selling horses, Zakat rate is 2.5 percent. In breeding horses, Zakat is not charged, according to the Shafi'i school of law
64	100 percent Zakat is charged on interests gained, prohibited pool of funds, bonds held for sale and dividends from prohibited business activities	Zakat is not charged on such items, but income shall be distributed to social needs
64	Excess private property is subject to Zakat	Private property is not subject to Zakat, unless it is offered for sale
65	Zakat is charged on expensive work of art and jewelry	Zakat is not charged on such items, unless they are sold
71	If an individual does not possess any residential property, he/she is Zakat-exempt	If the property of an individual reaches the level of Nisab, it is subject to Zakat, notwithstanding the availability of a residential property

Source: Authoring

Table 2
Discrepancies between the paper, *Calculation of Zakat in Russia Based on Balance Sheet*, and Islamic law

Page	Calculation of Zakat in Russia Based on Balance Sheet	Islamic law
24	The authors attribute activities for dissemination of knowledge and profitable projects to the concept of expenses in the way of Allah	Publication of books, construction of schools, projects, etc. may not be financed with Zakat contributions, according to the majority of law experts
33, 89, 90	Honey is subject to 10-percent Zakat rate	According to four schools of law, Zakat is not charged on honey, unless honey is sold. According to the Hanafi and Hanbali madhhabs, Zakat is paid when honey proceeds from territories within the <i>ushr</i> * jurisdictions, but it is irrelevant to Russia
33	Zakat is advisable to pay in Ramadan	It is true from religious perspectives, but it is methodologically preferable to pay Zakat in the end of a lunar year, starting from the moment a person arrives at Nisab or starts business activities. It mitigates assessment errors
34	Zakat is charged on various categories of the property subject to Zakat, even if the timing parameter differs	A lunar year is determined for each item of property (gold, grains, unless they are goods of the same entity). According to some papers, experts in the Islamic law unanimously agree with it

Note. * Tarmakhomed S. *Sushchestvuet li nisab v otnoshenii meda?* [Is any Nisab level established for honey?]. URL: <http://askimam.ru/fatwa/zakayat-i-sadaka/sushchestvuet-li-nisab-v-otnoshenii-meda> (In Russ.)

** Vakhitov M. *Nekotorye voprosy po zakyatu* [Some aspect of Zakat]. URL: http://islameconomy.ru/articles/stati-po-fikkhu/nekotorye_voprosy_po_zakyatu_3 (In Russ.)

Source: Authoring

Table 3**Discrepancies between the paper, *Specifics of Islamic Taxes under Modern Financial System*, and Islamic law**

Page	Specifics of Islamic Taxes under Modern Financial System	Islamic law
34	The value of leased-out real estate is subject to Zakat	Zakat is not charged on the leased-out property, but it applies to rental payment from such property
34	Zakat is charged on the value of available horses, motor vehicles, other than for constant use	Zakat is charged on such assets only if they are sold
34	Bank interests are subject to Zakat	Zakat is not charged on interests at all, but this income shall be contributed to social needs
34	The value of other jewelry is subject to Zakat	Gemstones, metals, other than gold and silver, are not subject to Zakat
38	The taxable income was very difficult to determine	Books on Islamic law provide affluent examples and rules for Zakat assessment. Difficulties were certainly possible when new economic realities appeared, but the issues were address as they arose

Source: Authoring

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Conflict-of-interest notification

I, the author of this article, bindingly and explicitly declare of the partial and total lack of actual or potential conflict of interest with any other third party whatsoever, which may arise as a result of the publication of this article. This statement relates to the study, data collection and interpretation, writing and preparation of the article, and the decision to submit the manuscript for publication.