Intellectual Discourse

Special Issue on

**The 15th International Conference on
Islamic Economics and Finance (ICIEF 2024):
Driving the Agenda
for a Sustainable Humane Economy**

Intellectual Discourse

Volume 34   Special Issue   2026

Intellectual Discourse
Volume 34, Special Issue on
The 15ᵗʰ International Conference on
Islamic Economics and Finance (ICIEF 2024):
Driving the Agenda for a Sustainable Humane Economy

Contents

Transliteration Table: Consonants

Arabic	Roman		Arabic	Roman
ب	b		ط	ṭ
ت	t		ظ	ẓ
ث	th		ع	ʿ
ج	j		غ	gh
ح	ḥ		ف	f
خ	kh		ق	q
د	d		ك	k
ذ	dh		ل	l
ر	r		م	m
ز	z		ن	n
س	s		ه	h
ش	sh		و	w
ص	ṣ		ء	ʾ
ض	ḍ		ي	y

Transliteration Table: Vowels and Diphthongs

Arabic	Roman		Arabic	Roman
◌َ	a		◌َا، ◌َى	an
◌ُ	u		◌ُّو	un
◌ِ	i		◌ِّي	in
◌َا، ◌َٰ، ◌َى،	ā		◌َوْ	aw
◌ُو	ū		◌َيْ	ay
◌ِي	ī		◌ُّو	uww, ū (in final position)
			◌ِّي	iyy, ī (in final position)

Source: ROTAS Transliteration Kit: http://rotas.iium.edu.my

Zakāt, a 'Use it or Distribute it Tax' on Wealth

Salman Syed Ali[*]

Abstract: *Zakāt* has a worship dimension (a pillar of Islam) and a rights dimension (a right of the poor ordained by Allah). We focus on the economic dimension only by asking: how is *zakāt* different from both the capital income tax and the wealth tax? Economists discuss whether a capital income tax is optimal for welfare or a wealth tax is better. Traditional literature argued that the two are equivalent if the tax on wealth is set equal to the capitalised value of the tax on capital income. However, Guvenen et al. (2019, 2023) have forcefully shown that this equivalence holds only if the rate of return on capital is equal across individuals. When rates of return on investment are heterogeneous across individuals, the two tax systems have opposite implications for efficiency and inequality. A capital income tax burdens the more productive capital, whereas a wealth tax—by taxing all wealth holders—not only increases the tax base but reduces the wealth of low-productivity individuals. If the productivity differences are persistent, then the wealth of low-productivity individuals will be gradually pruned. In this sense, a wealth tax creates a use-it-or-leave-it effect. How is *zakāt* different from both taxes and what are its efficiency and distributional implications? We bring in some key macro-features of *zakāt* which is a tax on idle wealth, not on deployed (or employed) wealth. Aimed at promoting wealth circulation and helping the poor, *zakāt* helps address the wealth gap and income inequality in a different way than what is possible by either the capital income tax or the wealth tax. It has a much stronger "use-it-or-lose-it" effect than a wealth tax.

Keywords: *Zakāt*, capital income tax, wealth tax, productivity, wealth circulation.

*Lead Research Economist/Academic Coordinator, Islamic Development Bank. Email: SSyedAli@isdb.org

Abstrak: Zakāt mempunyai dimensi ibadah (salah satu rukun Islam) dan dimensi hak (hak orang miskin). Kami memfokuskan hanya pada dimensi ekonominya dengan persoalan: bagaimanakah zakāt berbeza dengan kedua-dua cukai pendapatan modal dan cukai kekayaan? Ahli ekonomi membahaskan sama ada cukai pendapatan modal atau cukai kekayaan adalah lebih baik. Literatur tradisional berhujah bahawa kedua-duanya adalah setara jika cukai ke atas kekayaan ditetapkan sama dengan nilai terkapital bagi cukai ke atas pendapatan modal. Namun, Guvenen et al. (2019, 2023) telah menunjukkan bahawa kesetaraan ini hanya wajar jika kadar pulangan modal adalah sama bagi semua individu. Apabila kadar pulangan pelaburan berbeza-beza dalam kalangan individu, kedua-dua sistem cukai ini mempunyai implikasi yang bertentangan dari segi kecekapan dan ketidaksamaan. Cukai pendapatan modal membebankan modal yang lebih produktif, manakala cukai kekayaan dengan mengenakan cukai ke atas semua pemegang kekayaan bukan sahaja meningkatkan asas cukai, malah mengurangkan kekayaan golongan yang berproduktiviti rendah. Jika perbezaan produktiviti ini berterusan, maka kekayaan golongan berproduktiviti rendah akan beransur-ansur terpangkas. Dalam erti kata lain, cukai kekayaan mencipta kesan "guna-atau-tinggalkan." Bagaimana zakāt berbeza dengan kedua-dua cukai ini dan apakah implikasi kecekapan dan agihannya? Kami menyelidik beberapa ciri makro utama zakāt, iaitu ia merupakan cukai ke atas harta yang statik, bukan ke atas harta yang digunakan (atau diambil faedah). Ini memberikan implikasi yang lebih kuat untuk penggunaan modal yang cekap serta pengurangan dalam ketidaksamaan pendapatan dan kekayaan. Zakāt bertujuan untuk menggalakkan pengaliran kekayaan dan membantu golongan miskin. Justeru, ia membantu menangani jurang kekayaan dan ketidaksamaan pendapatan dengan cara yang berbeza daripada yang mampu dilakukan sama ada oleh cukai pendapatan modal atau cukai kekayaan. Ia mempunyai kesan "guna-atau-hilangkan" yang jauh lebih kuat berbanding cukai kekayaan.

Kata kunci: Zakāt, cukai pendapatan modal, cukai kekayaan, produktiviti, pengaliran kekayaan.

Introduction

Zakāt has a worship dimension and a right of the poor dimension. Al-Qardawi (2002 writing on *zakāt* states that "it is not a mere charity left to the righteousness of individuals as part of their good deeds. … *zakāt* is a right to the poor in the wealth of the rich, a right decided by the true Owner of wealth, God and imposed on those who have been given control of that wealth by Him" (p. 29) These aspects give a prominent role to *zakāt* for improved wealth and income redistribution, its enhanced utilisation and circulation, increased social cohesion, and social responsibility for a safety net.

However, the question remains on how *zakāt*, which is a kind of tax on wealth, can achieve this differently from the other taxes on wealth, and income from wealth. Specifically, how is *zakāt* different from wealth tax and capital income tax (i.e., tax on the income generated from wealth)? What are the efficiency and distributional differences of *zakāt* as a tax, aside from its different motivation drivers of religion, social cohesion, and an act of worship? We think these questions have not been adequately addressed in the literature so far.

There is indeed a large body of general literature on *zakāt*, written from a religious point of view showing its importance for it being the third and the middle pillar of Islam that comes after *shahādah* and *ṣalāt*, and before *ṣawm* and *ḥajj* and constitutes an act of obligatory worship and a method of cleansing the wealth. Similarly, there is also a large body of literature from the *fiqh* (legal) point of view, both in the past and in the present, discussing the principles of calculation and distribution of *zakāt*.[1] Compared to this, a smaller but growing body of literature exists on the economic perspective of *zakāt* addressing its implications on the distribution of income and wealth, social protection, macroeconomic stability, and motivation to work.

There exists yet a smaller body of research that compares zakāt and other taxes elaborating their differences (see, for example, Abu Bakar, 2015; Pahala, 2016). However, these works mostly highlight the religious aspect of *zakāt* that differentiates it from other taxes. They

---

[1] All classical fiqh books have dedicated chapters on *zakāt*. Al-Qardawi's book *fiqh al-zakah* is an example in modern fiqh literature discussing the issues of *zakāt* for the present period.

perform a comparison of *zakāt* with income tax while in essence *zakāt* is a wealth tax. In contrast, AlMatar, (2015) has evaluated whether *zakāt* or taxation is a proper tool for achieving social justice and redistribution of wealth and points out their limitations.

Norulazidah, P.H. Omar Ali & Gareth D. Myles (2010) focused on the capital accumulation role of zakāt. They showed in a dynamic model with many periods and overlapping generations that *zakāt*, even when it is voluntary, can have a positive impact on economic growth. This impact would be high when people derive happiness (warm glow) from the act of paying compared to when people pay in adherence to social custom to avoid the social stigma of non-payment. However, as one can see, they achieve this result by putting the act of *zakāt* in the utility function, not by the distribution of wealth that *zakāt* creates.

Zakāt's role in discouraging the hoarding of wealth and motivating rational investors to circulate their wealth by putting it to use is also well known (see for example, Mahomed, Z. (2017)[2] and many others). The principle that wealth should not remain concentrated among the rich only is explicitly mentioned in Quran, 59:7. We think this is the economic differentiating factor of *zakāt* from an ordinary wealth tax in its efficiency and wealth distribution, which this article will show in the following sections.

It would also be appropriate to see what conventional economists have shown regarding differences among various wealth-related taxes so that we can see the differentiating aspects of *zakāt*. Ari (2021) introduces the concept of "rate-equivalent" wealth or capital income tax and discusses the differences between capital income tax and wealth tax from their economic effects, administrability and avoidance opportunities, and constitutionality in the context of a tax reform proposals in the USA.

Adam & Miller (2021) build the economic arguments for and against wealth tax. They ask why the same wealth is to be taxed each year, when it is in effect penalising the savers. It would have been better to tax the

---

[2] See for example, Mahomed, Z. (2017, p.377) who writes "The nominal negative rate of return on idle wealth by zakāt is expected to motivate the rational investor to circulate his wealth in risk-sharing projects commensurate to his risk profile, goading further economic activity."

'income from wealth.' However, they also point out that if holding on to wealth is creating externalities, then a wealth tax is justified. They then conclude that to the extent other taxes remain imperfect, it is beneficial to add a wealth tax for diversification and to avoid any one tax becoming very high.

Spencer & Waldenström (2023) describe several conceptual reasons for the existence of wealth tax. They argue that the main rationale for a wealth tax is to address the incompleteness of the tax code. As capital income tax is levied on the realised income, rich people often defer the income and keep it in unrealised capital gains that can increase and perpetuate enormous wealth inequality. However, there are also disadvantages to the imposition of wealth tax, firstly "a wealth tax fails to address inequality among taxpayers with the same wealth but different capital incomes." Secondly, a wealth tax can create liquidity constraints for the payer who has high wealth but low income and liquidity which is often the case for startups. Hence, it is not conducive to growth.

Guvenen et al. (2019, 2023) ask this question: how does wealth taxation differ from capital income taxation? They show that if rates of returns on capital are heterogeneous across individuals, then wealth taxation and capital income taxation have opposite implications both for efficiency and equality. A capital income tax burdens the more productive users of capital, whereas under a wealth tax, people with similar wealth pay the same tax which shifts the burden toward less productive users of wealth. If the productivity differences continue for long, then the wealth of low-productive users will gradually reduce. Thus, a wealth tax works to create a use-the-wealth or leave-it effect, increasing the aggregate productivity and output.

We build on this argument and show how *zakāt* is different from a simple wealth tax and how it enhances further the efficiency and distributional impact.

Zakāt Model

Let us use the same notations and explanations that are developed in Guvenen et al. (2019, 2023) to compare taxes and apply them to explain the nature and role of zakāt. Let denote wealth of individual , and rate of return on wealth.

Capital Income Tax is defined as a tax on income earned on capital, wealth is not directly taxed. The after-tax wealth of an individual under this system is given as follows:

$$a_i^1 = a_i + (1 - \tau_k)ra_i \qquad \text{eq-1}$$

Where, τ_k is the capital income tax rate.

Wealth Tax, on the other hand, is applied to total wealth as well as the income earned from wealth. The after-tax wealth of an individual i under a wealth tax system is given as follows:

$$a_i^1 = (1 - \tau_a)a_i + (1 - \tau_a)ra_i \qquad \text{eq-2}$$

Where, τ_a is tax rate.

From a macroeconomic perspective, *zakāt* is a tax on idle wealth not simply on any wealth or income.[3] After-*zakāt* wealth of an individual i is given as follows:

$$a_i^1 = (1 - \tau_z)a_i^{nd} + a_i^d + (1 - \tau_z)ra_i^d \qquad \text{eq-3}$$

Where $a_i = a_i^d + a_i^{nd}$;

τ_z is zakāt rate, a_i is total wealth before zakāt, a_i^d is capital deployed for production, a_i^{nd} is non-deployed capital that is the idle wealth, and a_i^1 is after tax or after zakāt wealth.

A thing to note in eq-3 that differentiates it from wealth tax (eq-2) is that *zakāt* is not levied on the wealth deployed in productive economic activity. Once the *nisāb* (minimum wealth threshold) is reached and a year passes with an individual's wealth remaining above that minimum, then all his/her wealth having the potential to grow is subject to *zakāt* except that which is already been deployed for production or that are personal consumption assets. That is why τ_z is appearing in the first and third terms in equation 3.[4] Here, the returns on assets are net returns

---

[3] However, there are details to it at sectorial, and microeconomic levels in which we do not want to indulge and confine ourselves to macro level view.

[4] There can be further details on how to assess zakāt on the returns from assets (the third term in equation 3). Here, the returns on assets are net returns after deducting all costs, capital consumption allowance, etc. Hence the net earnings

after deducting all costs, capital consumption allowance, etc. Hence the net earnings become part of the yet undeployed wealth.

Thus, *zakāt* combines the features of capital income tax and wealth tax. Similar to a capital income tax, *zakāt* applies on capital income, but in contrast, it does not exclude all wealth from tax. Similar to a wealth tax it taxes wealth, but only the idle wealth, excluding the wealth that is productively deployed.

Features of Zakāt and its Comparison with Other Forms of Taxes

Table 1 below shows the implications of *zakāt* in various scenarios. We explain this with static examples. Suppose there are two individuals Ms. F and Mr. M in the economy. Both with a wealth of $1000 each. The government is not attempting to collect a targeted amount of revenue, but the policy is to use a uniform tax rate, enforce compliance and use the collected revenue for transfer to the poor. We will apply *zakāt*, a capital income tax, and a wealth tax all at the rate of 2.5% to see the effects on tax revenue, efficiency, income, and wealth inequality.[5]

A target revenue goal vs the 'right of the poor' thesis

Before proceeding to the analysis, an important thing to note is that *zakāt* is not a tax to raise some required amount of revenue to meet some general expenditures of the government. A revenue target results in a change in tax rates when the tax base changes. For example, if the target is to raise $50 in tax, then the application of capital income tax will result in Mr. M being taxed $50 out of his capital return of $200 (a tax rate of 50/200 = 25%) and no tax on Ms. F because she does not have any income from capital. The same target revenue of $50, if generated by levying a wealth tax, will result in a uniform tax rate of 50/2200 = 2.27% on both M and F as the total wealth base is $2200. In contrast, *zakāt* is the poor's right in the wealth of the rich as a defined proportion. The *zakāt* rate is well-defined, and the scope of the levy is largely known. Hence, we can discuss the implications of *zakāt*, when its rate is fixed at 2.5%, rather than what should be its optimal rate in any given circumstance.

---

become part of the yet undeployed wealth which is zakātable.

[5] The rate of 2.5% is chosen for analysis because this is the religiously prescribed rate of zakāt on most wealth forms.

Analysis and comparison of zakāt vs other

Zakāt, Example 1: Suppose both F and M face the same rate of return (20%) if they invest their wealth. However, M deploys his entire wealth in production, but F simply holds on to her wealth idle. The implications of this for F and M under a *zakāt* at 2.5% are shown in the first two columns of Table 1. It shows the impact on their pre-tax income, tax liability, wealth, and wealth inequality. Ms. F earns zero as capital income while Mr. M earns $200. *Zakāt* liability of F is $25 ($1000 x 0.025) but *zakāt* liability of M is $5 ($200 x 0.025), total *zakāt* collection is $30. Ms. F ends up paying $25 on wealth while her income is zero, thus earning a -2.5% return due to undeployed capital. The After-tax (or after-*zakāt*) rate of return for Mr. M is 19.5%. The wealth of F is now ($1000-$25) = $975 and that of M is ($1000 + 195) = $1195. The wealth ratio $\frac{W_M}{W_F} = \frac{1195}{975} = 1.23$. Thus, wealth distribution has become unequal from the initial equality. It is a change for the betterment that idle wealth holder's wealth has decreased by *zakāt* while the wealth of its active user/deployer has increased.

   Zakāt, Example 2: Now to see the impact of a change in deployment, keep the initial wealth of each individual ($1000) and their available rates of return (20%) the same as in the earlier example. The only difference is that both Ms. F and Mr. M deploy half of their capital and keep the other half idle. (Columns 3 and 4 of table 1 show this case). As a result, pre-tax earnings of both M and F become $100 each, tax liability is $15 each, total *zakāt* collection is $30, and after-tax rate of return becomes ((100-15)/1000) x 100 = 8.5% each. The wealth of each becomes ($1000 + $85) = $1085. The wealth ratio $\frac{W_M}{W_F} = \frac{1085}{1085}$ remains unchanged from its initial ratio of 1.

   Zakāt, Example 3: We want to see the impact of differential rates of return faced by the two individuals. All being the same, suppose that rate of return on assets faced by Ms. F is 1% and that faced by Mr. M is 20%. This is shown in columns 5 and 6 of Table 1. Now the pre-tax income of F is $5 and that of M is $100. Using equation 3 again, the tax (*zakāt*) liability of F is $12.62 and that of M is $15, making total *zakāt* collection reduced to $27.62 from the previous $30. The after-tax rate of return becomes -0.76% for F, and 8.5% for M. After-tax wealth ratio

is now 1.09, showing a very slight increase in wealth inequality owing to the rate of return differential.

Table 1

	Zakāt, Example 1		Zakāt, Example 2		Zakāt, Example 3	
	Zakāt		Zakāt		Zakāt	
	Ms. F	Mr. M	Ms. F	Mr. M	Ms. F	Mr. M
Wealth	$1000	$1000	$1000	$1000	$1000	$1000
Allocation of wealth	$a_i^d = 0$ $a_i^{nd} = 1000$	$a_i^d = 1000$ $a_i^{nd} = 0$	$a_i^d = 500$ $a_i^{nd} = 500$	$a_i^d = 500$ $a_i^{nd} = 500$	$a_i^d = 500$ $a_i^{nd} = 500$	$a_i^d = 500$ $a_i^{nd} = 500$
Return on capital	$r_M = 20\%$	$r_F = 20\%$	$r_F = 20\%$	$r_M = 20\%$	$r_F = 1\%$	$r_M = 20\%$
Pre-tax income ra_i^d	$0	$200	$100	$100	$5	$100
Tax rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Tax liability (use eq 3)	$25	$5	$15	$15	$12.62	$15
After-tax rate of return	$\dfrac{(0-25)}{1000}$ $= -2.5\%$	$\dfrac{(200-5)}{1000}$ $= 19.5\%$	$\dfrac{(100-15)}{1000}$ $= 8.5\%$	$\dfrac{(100-15)}{1000}$ $= 8.5\%$	$\dfrac{(5-12.62)}{1000}$ $= -0.76\%$	$\dfrac{(100-15)}{1000}$ $= 8.5\%$
New Wealth	$975	$1195	$1085	$1085	$992.38	$1085
After-tax wealth ratio	$\dfrac{W_M}{W_F} = \dfrac{1195}{975} = 1.23$		$\dfrac{W_M}{W_F} = \dfrac{1085}{1085} = 1$		$\dfrac{W_M}{W_F} = \dfrac{1085}{992.38} = 1.09$	
Zakāt revenue	$30		$30		$27.62	

Now, compare the same with a capital income tax, and a wealth tax (shown in Table 2). In both these taxes, the allocation of wealth in productive and idle state does not matter. In case of capital income tax, it is only the rate of return differential across individuals that can generate different tax liabilities. In the case of wealth tax, all kinds of wealth are taxed without differentiating actively deployed or idle wealth.

Comparing capital income tax with wealth tax, one can note that the wealth tax broadens the tax base in two ways, and hence, it is able to collect more revenue. First, wealth tax inducts more people into the tax net. Second, it covers the entire wealth stock, thus able to generate more revenue.

Under our construction of a uniform 2.5% capital income tax, the after-tax rate of return of capital is 0% for Ms. F and 19.5% for Mr. M (i.e., ($200 - $5)/$1000 = 0.195 or 19.5%). While the application of

Table 2

	Capital Income Tax		Wealth Tax		*Zakāt*	
Return on capital	$r_F = 0\%$	$r_M = 20\%$	$r_F = 0\%$	$r_M = 20\%$	$r_F = 0\%$	$r_M = 20\%$
Wealth	$1000	$1000	$1000	$1000	$1000	$1000
Allocation of wealth					$a_i^d = 500$ $a_i^{nd} = 500$	$a_i^d = 500$ $a_i^{nd} = 500$
Pre-tax income	$0	$200	$0	$200	$0	$100
Tax rate	2.5%	2.5%	2.5%	2.5%		
Tax liability	$0	$5	$25	$30	$12.5	$15
After-tax rate of return	0%	$\dfrac{(200-5)}{1000}$ $= 19.5\%$	$\dfrac{(0-25)}{1000}$ $= -2.5\%$	$\dfrac{(200-30)}{1000}$ $= 17\%$	$\dfrac{(0-12.5)}{1000}$ $= -1.25\%$	$\dfrac{(100-15)}{1000}$ $= 8.5\%$
New Wealth	$1000	$1195	$975	$1170	$987.5	$1085
After-tax wealth ratio	$\dfrac{W_M}{W_F} = \dfrac{1195}{1000} = 1.195$		$\dfrac{W_M}{W_F} = \dfrac{1170}{975} = 1.2$		$\dfrac{W_M}{W_F} = \dfrac{1085}{987.5} = 1.099$	
Tax Collection	$5		$55		$27.5	

wealth tax with same rate will make return on capital -2.5% for Ms. F, and 17% for Mr. M. Now, Ms. F has to pay $25 in taxes due to her wealth but her income in $0 making ($0 - $25)/$1000 a net reduction in her wealth by 2.5%. Also, note that the dispersion of after-tax returns between Ms. F and Mr. M remains the same under the two tax systems. This is in contrast to *zakat,* where the dispersion in after-tax returns also depend on the portion of deployed wealth. This is also in contrast to the case when a targeted amount of tax is to be raised, and a change in tax base changes the taxation rate.

Wealth inequality increases as evident by after-tax wealth ratio $\dfrac{W_M}{W_F}$ that increases from 1.195 to 1.2 when we shift from capital income tax to wealth tax.

Coming back to comparing wealth tax with *zakāt*. If every individual's wealth is fully deployed, then each one's taxing method becomes exactly as capital income tax under *zakāt*. Hence, after-tax wealth ratio is $\dfrac{W_M}{W_F} = 1.195$. If everyone's wealth remains idle and completely undeployed, then opportunity of earning a rate of return is forgone. Wealth is reduced by the rate of *zakāt*, and after-tax wealth ratio becomes 1. In an intermediate case where half of the wealth – 500

out of $1000 – is deployed and the other half remains idle, the after-tax wealth ratio becomes 1.09.

Tax Equivalences

One can also find a wealth tax rate at which wealth tax and *zakāt* yield same final wealth, but this equivalence is possible only when all individuals are facing the same rate of returns on their wealth. The tax equivalence rate can be found by equating in eq 2 with wealth in eq 3.

Equivalence of *zakāt* and wealth tax in their effect on wealth is achieved when

$$\tau_a = \frac{(\tau_z + r)a_i^{nd}}{(1 + r)(a_i^d + a_i^{nd})}$$

Since τ_z = 0.025, therefore equivalent τ_a (i.e., wealth tax equivalent of *zakāt* for similar effect on after tax wealth) is:

$$\tau_a = \frac{(0.025 + r)a_i^{nd}}{(1 + r)(a_i^d + a_i^{nd})}$$

Conclusion and Further Discussion

In Guvenen et al. (2019), it is shown that capital income tax and wealth tax are not equivalent if the rates of returns on capital across individuals are not same. The capital income tax is shown to be inefficient in the sense that it ends up taxing productive assets at a higher rate compared to lesser productive assets,[6] while efficiency demands the reverse to encourage productive use of assets. It is shown that a wealth tax fares better.

We show that while wealth tax is good to tackle inequality, *zakāt* is even better in discouraging inefficiency by taxing idle wealth (surplus wealth) and taxing uniformly the returns from capital (capital income). This effectively discourages unproductive use of wealth and improves wealth distribution by bringing it into the active use.

---

[6] For example, if the target is set to raise $50 in taxes, then under capital income tax Ms. F is exempted because she does not have any income from capital. The burden of the targeted tax revenue of $50 falls entirely on Mr. M.

The above were only static examples. In a dynamic setting with time and several periods, the impact of *zakāt* can be more significant. If the rates of return on assets remain persistently different across individuals or if the allocation of wealth between idle and active use remains persistently constant, then *zakāt* can have a very big effect on moderating the wealth and income inequalities. By repeated and gradual moving of the idle wealth in each period to its active use, either by inducing the original owner of wealth to productively invest it or by transferring wealth to the poor for consumption, *zakāt* makes the wealth to come into economic circulation. Here, the wealth not only becomes subjected to economic and production risk factors to earn a return but also contributes to increasing aggregate demand; thus creating opportunities, livelihood and earnings for larger set of population. This has much larger welfare implications and corrections for large inequalities of income and wealth.

Drastic redistributions of wealth are not generally accepted in society. Wealth tax imposes tax on all wealth which may be difficult to impose. Moreover, a slight change in the wealth tax rate can considerably change the tax burden. Alternative approach of *zakāt* is more practical. It imposes tax only on idle wealth at a very small but consistent rate that is not changeable, thus creating an acceptability as well as avoiding rent seeking negotiations with people and power groups.

Therefore, *zakāt* has strong use-it-or-leave-it effect on wealth, have welfare improving properties, and is implementable.

References

Abu Bakar, N. B. (2015). Zakāt and Taxation: A Conceptual Comparison. *Tafhim: IKIM Journal of Islam and the Contemporary World*, *2*(3). https://doi.org/10.56389/tafhim.vol2no3.5

Ahmed, Z. (1981). "Zakāt and Economic Wellbeing", *Islamic Studies,* Vol. 20, No. 1 (Spring 1981), pp. 23-45.

Adam, S., & Miller, H. (2021). The economic arguments for and against a wealth tax. *Fiscal Studies*, *42*(3-4), 457-483.

AlMatar, F. (2015). Zakāt vs taxation: the issue of social justice and redistribution of wealth. *European Journal of Business, Economics and Accountancy*, *3*(3), 119-129. http://www.idpublications.org/wp-content/

uploads/2015/03/ZAKĀT-VS.-TAXATION-THE-ISSUE-OF-SOCIAL-JUSTICE-AND-REDISTRIBUTION-OF-WEALTH.pdf

Al-Qardawi, Y., (1999). *Fiqh al zakah*: A comparative study of zakah, regulations and philosophy in the light of Qur'an and sunnah.

Ari, G. (2021). Comparing Capital Income and Wealth Taxes, 48 Pepp. L. Rev. 875 (2021) Available at: https://digitalcommons.pepperdine.edu/plr/vol48/iss4/1 My source, SSRN https://ssrn.com/abstract=3917113

Bastani, S. & Waldenström, D. (2023). Taxing the wealthy: the choice between wealth and capital income taxation, *Oxford Review of Economic Policy*, Volume 39, Issue 3, Autumn 2023, Pages 604–616, https://doi.org/10.1093/oxrep/grad030

Gerritsen, A., Jacobs, B., Rusu, A., & Spiritus, K. (2022), 'Optimal Taxation of Capital Income with Heterogeneous Rates of Return', Working Paper, Erasmus University Rotterdam.

Guvenen, F., Kambourov, G., Kuruscu, B., Ocampo-Diaz, S. & Chen, D. (2023). Use It or Lose It: Efficiency and Redistributional Effects of Wealth Taxation, *The Quarterly Journal of Economics*, Volume 138, Issue 2, May 2023, Pages 835–894, https://doi.org/10.1093/qje/qjac047

Guvenen, F., Kambourov, G., Kuruscu, B., Ocampo-Diaz, S. & Chen, D. (2019) "Use It or Lose It: Efficiency Gains from Wealth Taxation." *NBER*. Last modified September 16, 2019. DOI 10.3386/w26284. https://www.nber.org/papers/w26284.

Mahomed, Z. (2017). Zakāt in Islamic Wealth Management, In Mohamed Ariff and Shamsher Mohamed (Eds.), *Islamic Wealth Management - Theory and Practices* (pp. 363-380). United Kingdom: Edward Elgar Publication.

Norulazidah, D. H, Omar Ali, P. H. & Myles, G. D. (2010). "The Consequences of Zakāt for Capital Accumulation," *Journal of Public Economic Theory*, Association for Public Economic Theory, vol. 12(4), pages 837-856, August.

Pahala, I. (2016). Zakāt is more significant than tax. *Review of Integrative Business and Economics Research*, 5(2), 286-294.

Appendix

The implication of change in the proportion of deployed to idle wealth on the future wealth can be seen in a simulation by clicking the following link.
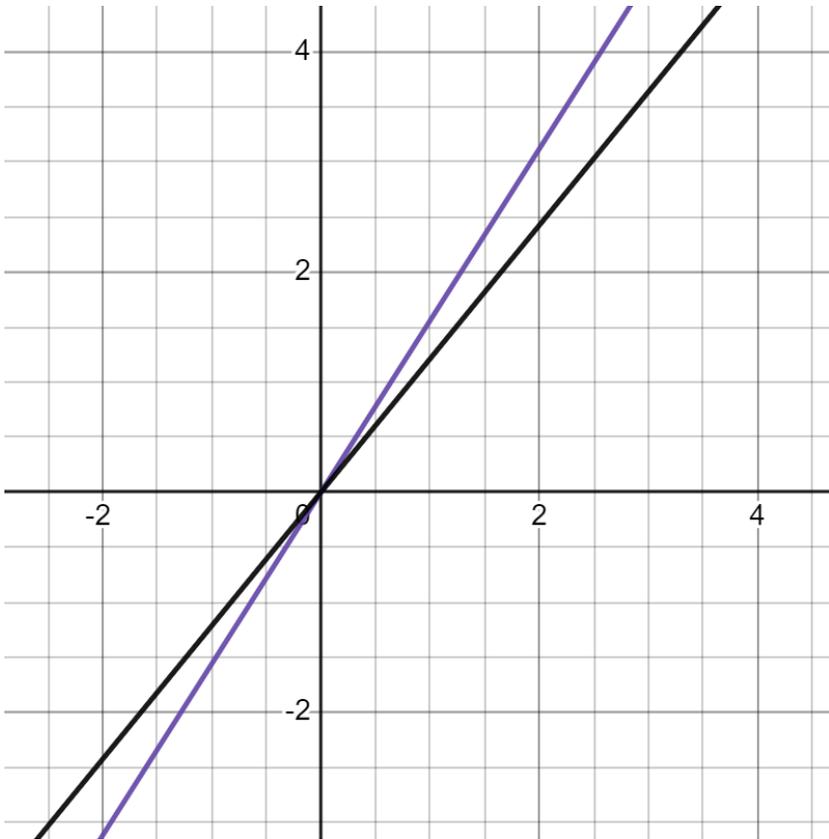
https://www.desmos.com/calculator/53x0fwnddx

Here the model is expressed in an alternative form where total wealth is specified in terms of a fraction of deployed wealth.

$$a_i = \beta a_i + (1 - \beta)a_i$$

Where β is the proportion of deployed in productive activities. So, $\beta = \frac{a_i^d}{a_i}$, and $a_i^{nd} = (1 - \beta)a_i$.

Wealth after *zakāt* is expressed as

$$a_i^1 = \left(1 - \tau_z (1 - \beta)\right) a_i + (1 - \tau_z) r\beta a_i \quad \text{eq-4}$$

GUIDELINES FOR AUTHORS

Intellectual Discourse is an academic, refereed journal, published twice a year. Four types of contributions are considered for publication in this journal: major articles reporting findings of original research; review articles synthesising important deliberations related to disciplines within the domain of Islamic sciences; short research notes or communications, containing original ideas or discussions on vital issues of contemporary concern, and book reviews; and brief reader comments, or statements of divergent viewpoints.

To submit manuscript, go to http://www.iium.edu.my/intdiscourse

The manuscript submitted to Intellectual Discourse should not have been published elsewhere, and should not be under consideration by other publications. This must be stated in the covering letter.

1. Original research and review articles should be 5,000-8,000 words while research notes 3,000-4,000 words, accompanied by an abstract of 100-150 words. Book review should be 1,000-1,500 words.

2. Manuscripts should be double-spaced with a 1-inch (2.5 cm) margins. Use 12-point Times New Roman font.

3. Manuscripts should adhere to the *American Psychological Association* (APA) style, latest edition.

4. The title should be as concise as possible and should appear on a separate sheet together with name(s) of the author(s), affiliation(s), and the complete postal address of the institute(s).

5. A short running title of not more than 40 characters should also be included.

6. Headings and sub-headings of different sections should be clearly indicated.

7. References should be alphabetically ordered. Some examples are given below:

Book
In-text citations:
Al-Faruqi & al-Faruqi (1986)

Reference:
Al-Faruqi, I. R., & al-Faruqi, L. L. (1986). *The cultural atlas of Islam*. New York: Macmillan Publishing Company.

Chapter in a Book
In-text:
Alias (2009)

Reference:
Alias, A. (2009). Human nature. In N. M. Noor (Ed.), *Human nature from an Islamic perspective: A guide to teaching and learning* (pp.79-117). Kuala Lumpur: IIUM Press.

Journal Article
In-text:
Chapra (2002)

Reference:
Chapra, M. U. (2002). Islam and the international debt problem. *Journal of Islamic Studies, 10*, 214-232.

The Qur'ān
In-text:
(i) direct quotation, write as 30:36
(ii) indirect quotation, write as Qur'ān, 30:36

Reference:
The glorious Qur'ān. Translation and commentary by A. Yusuf Ali (1977). US: American Trust Publications.

Ḥadīth
In-text:
(i) Al-Bukhārī, 88:204 (where 88 is the book number, 204 is the ḥadīth number)
(ii) Ibn Hanbal, vol. 1, p. 1

Reference:
(i) Al-Bukhārī, M. (1981). *Ṣaḥīḥ al-Bukhārī*. Beirut: Dār al-Fikr.
(ii) Ibn Ḥanbal, A. (1982). *Musnad Aḥmad Ibn Ḥanbal*. Istanbul: Cagri Yayinlari.

The Bible
In-text:
Matthew 12:31-32

Reference:
The new Oxford annonated Bible. (2007). Oxford: Oxford University Press.

Transliteration of Arabic words should follow the style indicated in ROTAS Transliteration Kit as detailed on its website (http://rotas.iium.edu.my/?Table_of_ Transliteration), which is a slight modification of ALA-LC (Library of Congress and the American Library Association) transliteration scheme. Transliteration of Persian, Urdu, Turkish and other scripts should follow ALA-LC scheme.

Opinions expressed in the journal are solely those of the authors and do not necessarily reflect the views of the editors, or the publisher. Material published in the *Intellectual Discourse* is copyrighted in its favour. As such, no part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, or any information retrieval system, without permission in writing from the publisher.

In This Issue