

FATAWA TAXATION 2007

Accepting Tax and Welfare from Governments

Subject: Taking Money in Child Tax Benefits

From: through Islam on line

Sent: Thursday, March 01, 2007 1:06 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,
Dear Scholars, I live in Canada and wondering about some very basic information whether they are permitted in Islam. I'd like to know whether taking money in Child Tax Benefits and welfare is acceptable in Islam? Let me explain how child tax benefits pay to a family... Govt. receives taxes from different sources including (but not limited to) alcohol liquor businesses, casinos, and pig farms/slaughter houses. Also, Govt. charges interest/RIBA on individuals who owes Govt. taxes and haven't paid all taxes money even after tax closing date. With Tax money, Govt. makes interest/RIBA based investment because of secure nature of investment. Now, it includes haram money and interest/RIBA which Govt. does pay to people including Muslims as a Child Tax Benefits, welfare and subsidized home living. Knowing all these facts, what do you think taking this money is still acceptable in Islam (one will not die if s/he doesn't take it all)? Also, there's a pension plan called Canada Pension Plan (CPP) which invests in interest/RIBA based securities because of secure nature of investments. Is it okay to take this CPP benefits in Islam? Thanks and seeking your reply. Jazak Allah Khair.

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Ali

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1) Child benefit: Please do not make life unbearable for yourself and for us too. Once Omar was waking with another companion and some water came on them from a second floor, the companion wanted to call on the people up there to ask whether it was clean or not but Omar shut his co-walker's mouth and looked up saying "" For God, do not tell us!""

Now, the house you rent was built on interest, so is the cloth you wear and the food you eat. But the Prophet, pbuh, ate from food given to him by Jews, Christians and pagan without asking them where did they get it from, so did all the companions and all scholars and all Muslims throughout history. What kind of ""cold Taqwa"" we want to practice today? Where and how does the other party get its money from is non of our business provided two conditions are fulfilled: 1) we take it from it for a

valid legitimate reason; and, 2) we have no assured info that the thing we take itself is stolen or taken unlawfully from its owner.

Applying this rule, Taxes are of course permissible and government grants are also permissible, even taxes on interest or any other activities. Of course, you can take the child benefit as long as it is legitimate by law and you submit the appropriate true documents.

- 2) The Canada Pension Plan: If this plan is obligatory by the government or as a part of an employment contract, then its basis is the same as insurance and it works on the actuarial principles of large number and probability. This is permissible in Shari'ah (although there are some scholars who object to it) and it is none of your business what the management of the plan does or how it invests; if it invest in non-permissible thing it is their sin and their Haram not yours. I, along with many other scholars, argue that insurance is permissible. I assume the CPP is of this kind similar to the Social security in the USA.

If this plan is voluntary (like what we have in the States under the name of 401K or IRA), it becomes your responsibility to invest only in permissible equities since in this case it is your decision to manage the funds.

Wa Allahu A'lam
Wa Alhamdu li Allah Rabb al 'Alamin
Wassalam
Sincerely,
Dr. Monzer Kahf

Using Interest to Pay Taxes

Subject: Interest & Debit tax

From: Azam

Sent: Thursday, December 06, 2007 8:24 PM

Question

Prof.Dr.Monzer Kahf. Assalamu Alaikum Sheikh!

Since you told that the purpose of this debit tax is ambiguous, I asked about it from many professionals in the banking field.

As per their statements, the purposes of this tax are as follows:

- * Discourage cash withdrawal and encourage savings
- * Discourage the use of cash

In his response to this question, whether this debit tax is deductible from the interest, Sheikh Ust haz Mansoor said that:

"We, as Muslims maintain a savings account in an interest based bank under compulsion, and therefore should always try to minimize the available balance in the account. So if that debit tax deters us from withdrawing money, it may be deductible as withdrawing money is the much preferred way"

Please advise me whether his statement is acceptable or not, and explain your view with this regard.

(Please note that Usthaz Mansoor also instructed me to seek your advice with this regard)
May Allah Bless You! Wa'salam.

My Answer

Dear Br. Azam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't comment on other Ulama's opinions. If you asked him it is up to you to take his view. If he wants my view on it please ask him to write me directly. In the past he wrote to me, as attachment, in Arabic and I answered him in Arabic too.

Best Regards,

Wassalam

Monzer Kahf

From: Azam

Sent: Thursday, December 06, 2007 9:02 PM

Question

Prof. Dr. Monzer Kahf. Assalamu Alaikum Sheikh!

I personally want your Fatwa to this question. Please refer the details (Purpose of the Tax) given in my last mail and be kind enough to explain your view on it.

Please note that, though Usthaz Mansoor wishes to seek your advice, it will take lot of time to the question to be sent. Because he is not fluent in computer and if he wants to send any mails to you, someone who is fluent in Arabic typing should type his letter in Arabic and after that only it could be sent to you. Therefore it will take some times to reach you.

So please send your Fatwa to my question.

Please forgive me that, if I have mentioned anything wrong in my mails.

May Allah Bless You!

Azam

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Azam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If this tax is imposed on any withdrawal, it is then a part of the cost of having the account itself and can then be deducted from the interest that you give away to Muslim charity. But if it is on cash withdrawals to discourage the use of cash, and it is not charged for transfers and checks you write to other persons, it is in this case not a part of the cost of the account but a government penalty on using/withdrawing cash and you pay it not because you have an account but because you do not abide by the regulation of how to use it. In my opinion, in this case it is not deductible from the interest generated that must be given to Muslim charity because it is not related to the matter that cause the generation of this interest.

Wa Allahu A'alam
Wa Alhamdu Lillahi Rab al Alamin
Wassalam
Prof. Dr. Monzer Kahf

Subject: Subject: Interest & Debit tax

From: Azam

Sent: Wednesday, October 03, 2007 10:58 PM

Question

Prof. Dr. Monzer Kahf. Assalamu Alaikum Sheikh!

I'm Azam from Sri Lanka. One of my cousin brothers was trying to get the student visa to the UK. So in order to get the visa, he was asked to prove sponsorship. Since he is from an ordinary family, he borrowed some money from others and (Approx. Rs.3.5 million = US\$ 35000) deposited in his Savings account in order to fulfill the sponsorship requirement.

But unfortunately (As Almighty Allah's wish), his visa application was rejected. And he returned all the money he borrowed. Same time he received a sum of Rs.20000 as interest. Also he is charged a debit tax of Rs.5000. As instructed by the Islamic scholars, he decided to spend the interest money in prescribed ways and not to use it for his own use. He has two doubts regarding this issue:

* Can he deduct the debit tax from the interest he received?

(He suggests that the tax was charged not for his own money, so that it should be deducted)

* Can he give the interest money as charity for his relative for cleaning work of their house premises?

(That particular relative is facing with financial difficulties)

Wa'salam.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad,
wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Azam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If I understand correctly, this tax is on the interest that was generated during the period of the deposit. If this is correct, you should deduct the amount of the tax from the interest (I suppose than must have already withheld it at the source?) and give the balance to Muslim charity. You do not have to give the gross amount of the interest.

This is not like paying your taxes due on other assets, income or business out of interest.

In the latter case taxes are due on other matters not on the interest earned itself, that makes paying them out of interest benefiting you from interest, it is like taking it to

yourself . But taxes imposed on earned interest are deductible from earned interest because to you what matter is the net that comes to you, this is that is Haram and should be given to Muslim charity.

Wa Allahu A'alam
Wa Alhamdu Lillahi Rab al Alamin
Wassalam
Prof. Dr. Monzer Kahf

From: Azam
Sent: Thursday, October 04, 2007 9:47 PM

Question

Sorry for disturbing you very often. Thanks a lot for your last reply.

This question is also related to the previous one.

I think the debit tax is NOT on the generated, instead on the money we deposited.

The government considers the money we deposited as an income and charges a debit tax.

If it is so, is it allowed to deduct the tax from the interest?

In another scenario, in a conventional bank, if we withdraw more than Rs.20000 per month from our Savings account, we'll be charged a debit tax of 0.1% on the amount we withdraw. In this case, Is it allowed to deduct the debit tax from the interest generated in the particular savings account. May Allah Bless U. Wa'salam.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad,
wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Azam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

On the first question I see no problem. I will close my eyes and say: here I borrowed an amount to get the certificate that I have so much money in the bank, I then return the money to its owner, any extra (interest- tax) is interest I give to charity. That is what matters to me the details are irrelevant.

For the second question I need to know more about this withdrawal tax, this is the first time I hear about it, what does the law says about it can you please explain?

Sorry for delaying my reply, I was very much pre-occupied with a few timely issues.

Wa Allahu A'alam
Wa Alhamdu Lillahi Rab al Alamin
Wassalam
Prof. Dr. Monzer Kahf

From: Azam
Sent: Tuesday, October 16, 2007 3:00 AM

Question

Prof. Dr. Monzer Kahf. Wa'alaikum Assalam Warahmatullahi Wabarakathuhu!

Never mind the delay. Since it was the Holy month of Ramadan, i know you would have been fully occupied. However Jazakallahu Hairan for your reply.

Belated Eid Wishes for you. Thakabbalallahu Minna Waminkum. EID MUBARAK.

Let me explain that scenario again...

Say that I have a savings account in a conventional bank. And if my monthly withdrawal exceeds Rs.20000/=, I'll be charged a debit tax of 0.1% on the amount I withdrew.

So is it allowed to set off the debit tax against the interest generated in the same account?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Azam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If the reason of this tax is only for the withdrawal of funds, like a maintenance tax on withdrawal, it may be charged against interest before giving the latter away to Muslim charity. On the other hand if this tax is imposed under other assumptions such as to present extravagance or to reduce the use of cash bills (e.g., it is imposed on cash withdrawals not on checks and transfers) then it may not be deducted form. The criteria I'm applying is whether it is caused by the same reason that generates the interest or not. if it is by the same reason, it is then deductible from interest, otherwise it is not.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Are Taxes permissible in Shari'ah?

Subject: Does Islam prohibit Tax on Income?

From: Riaz through Islam on line

Sent: Tuesday, November 20, 2007 3:42 AM

Question

Salams Dear Dr.

This is Riaz from Pakistan. In our country lot of Taxes are implemented to generate the revenue for running the Government and also bettering the life of countrymen. Exemples of Taxes are;

1. Import Duty, Custom duty
2. Sales Tax (Calculating upon the Sale of Product)
3. Income Tax (Calculating upon the Income of an Individual)
4. Additional Tax (This is Tax on Tax)

And lot of other taxes that have been paid by an individual to the Provincial, District Governments.

What Islam says upon these taxes? I will thankful to you for your reply at earliest.

Riaz

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Riaz,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Your country is unfortunately ridden with financial corruption in most matters of public affairs. You cannot judge the principles of Shari'ah in relation to what goes on in your beautiful country my dear brother!

The principles about taxes is Islam requires a lot of reading and I suggest to you that you make some study on this matter, there are some of my own website, on IDB website and you will find many in libraries and specialized bookstores. But a few hints can be summarized in the following points:

1. The Shari'ah assigns certain resources, such as minerals, for the public budget so that the need for taxes is reduced.
2. If the government needs revenues for its budget and resources assigned by Shari'ah for that are not sufficient, it can impose taxes but it must observe a few important conditions that include: 1) Taxes must be just in relation to the ability to pay of the person, ability to pay is in terms of wealth and income; 2) the poor must be relieved from taxes as much as possible; 3) taxes can only be impose if approved by properly elected representatives of people; 4) government spending must be trimmed before taxes can be imposed; 5) budget expenses must take charge of the main Shari'ah consideration such as justice and caring about the poor and not favoring certain individuals, classes or regions, etc.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Permissibility of Taxes?

From: Sara

Sent: Saturday, June 30, 2007 9:48 PM

Question

Assalamoalaikum brother,

I wanted to know the shariah ruling on the taxes that the government charges its citizens?

Is it allowed or prohibited by the shariah or does it depend upon the nature of taxes. As far as i know the government charges us taxes because it provides services to us e.g. in

the construction of roads, bridges, dams, and other government services. I used to be a government employee. I used to work for Pakistan's space research department. Now as my understanding goes the government takes taxes from the people for the services that it provides them with like the service i worked for. So my salary was probably from these taxes as far as my understanding goes. I may be wrong Allah knows best. I read your fatwa on islamonline.net which says that taking of taxes in countries such as oil producing countries may not be permitted but what about third world countries such as Pakistan?

There is a philosophy that taxes are imposed upon people but how will the government and the country flourish if the government doesn't charge its citizens for the services provided to them? If taxes are not Islamic then what is the Islamic alternative? And what should the government employees do? I will be awaiting your response inshaAllah.
Sister Sara.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Sara

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is a very long subject that can't be dealt fairly in an email and I suggest that you make some readings on this issue, there are many writings. Her are a few bullet points that may help put things in perspectives:

1. The Islamic system does not look favorably at taxation and argues that the least of it the better, after all taxes are taking a part of the wealth and earning of people away from them.
2. It provides for a good chunk of the economy as public properties such as minerals and sources of energy. these would normally provide a great deal of budget revenues.
3. Why should the government poke its nose in activities that can be done, and may be much more efficiently by the private sector such as education, health communication, etc.
4. Helping the poor, and social justice can be performed may be much more efficiently through means other than putting too many resources in the hands of government.
5. Very often government spending is loaded with bureaucracy and favoritism, matters that can be minimized when many activities are left to the private sector.
6. There are functions that are wrong to be left to the private, that relate to the core of defending the society and promoting its entirety that must be undertaken by the government and if there are no sufficient revenues from public properties there must be a resort to dividing the cost of these to the society in accordance to individual abilities to pay.
7. Besides if the the society agrees to assign certain activities to the government, it has to provide for means of financing these activities, this is obvious and normal.

8. There is no relation between the source of government revenues and what the permissibility of the salaries of government employees as long as these salaries are taken in exchange of legitimate work provided by the employee.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf
