



Analysing The Application Of Syariah Principles In Malaysia's Indirect Taxation System

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Abstract

The introduction of Malaysia's Goods and Services Tax (GST) spurred a critical examination of its Syariah compatibility. The Malaysian Fatwa Committee endorsed taxation, emphasizing adherence to Syara' parameters, prompting further exploration, especially concerning indirect taxation systems aligned with Islamic jurisprudence. This paper is focuses on critically analyzing how Syariah principles are currently applied in the formulation and implementation of Malaysia's indirect tax policies and comprehensively explore the principles of indirect taxation from Syariah perspectives. This study delves into the rich heritage of Islamic economic thought. Renowned scholars such as Abu Yusuf, Al-Qardawi, and Chapra have laid down foundational principles that continue to guide contemporary fiscal policies in Islamic contexts. Employing qualitative methodology, the study conducts content analysis of secondary sources and interviews with key officials from the Malaysian National Fatwa Committee (NFC), Department of Islamic Development Malaysia (JAKIM), Ministry of Finance (MOF) and the Royal Malaysian Customs Department (CUSTOMS). The findings reveal that Islamic scholars have delineated six principles, namely: quality of tax administrations; just, honest, and lenient treatment to taxpayers; fair distribution of income; defining of tax base and rates; flexibility in tax imposition; and approach to tax equity. While the first three principals have been implemented and adhered to, the latter three have been consolidated into the second principle. By bridging historical Islamic perspectives with contemporary policy needs, this study provides guidance for crafting Shariah-compliant especially in indirect tax policies, crucial for good governance and societal well-being. It contributes to Islamic economics discourse and addresses the need for studies evaluating Malaysia's indirect taxation practices' Shariah compliance.

Key words: Indirect Taxation System, Shariah Compliance, Islamic Economics, Content Analysis, societal well-being

Abstrak

Pemberlakuan Pajak Barang dan Jasa (GST) di Malaysia telah mendorong penilaian kritis terhadap paralelismenya dengan Syariah. Komite Fatwa Malaysia mendukung penerapan perpajakan dengan menekankan kepatuhan terhadap syariah, sehingga mendorong penelitian lebih lanjut, terutama mengenai sistem pajak tidak langsung yang sejalan dengan hukum Islam.

Penelitian ini berfokus pada analisis kritis tentang bagaimana prinsip-prinsip syariah diterapkan dalam perumusan dan implementasi kebijakan pajak tidak langsung di Malaysia dan secara komprehensif mengeksplorasi prinsip-prinsip perpajakan tidak langsung dari perspektif Syariah. Penelitian ini mengeksplorasi pemikiran ekonomi Islam sebelumnya. Ulama terkenal seperti Abu Yusuf, Al-Qardawi, dan Chapra telah meletakkan landasan prinsip-prinsip yang selanjutnya menjadi pedoman kebijakan fiskal kontemporer dalam konteks Islam. Penelitian ini menerapkan metodologi kualitatif dengan melakukan analisis isi terhadap sumber sekunder dan wawancara dengan pejabat penting dari Komite Fatwa Nasional Malaysia (NFC), Departemen Pengembangan Islam Malaysia (JAKIM), Kementerian Keuangan (MOF) dan Departemen Bea Cukai Kerajaan Malaysia. (KASTAM). Temuannya menunjukkan bahwa para ulama telah mengidentifikasi enam prinsip, yaitu: kualitas administrasi perpajakan; perlakuan yang adil, jujur, dan lunak terhadap Wajib Pajak; distribusi pendapatan yang adil; penetapan dasar dan tarif pajak; fleksibilitas dalam perpajakan; dan pendekatan terhadap keadilan pajak. Ditemukan bahwa tiga prinsip pertama diterapkan dan diikuti, sedangkan tiga prinsip terakhir diintegrasikan ke dalam prinsip kedua. Dengan mengikuti dan berlandaskan perspektif Islam dan kebutuhan kebijakan masa kini, penelitian ini memberikan panduan dalam menyusun kebijakan perpajakan yang sesuai syariah, khususnya pajak tidak langsung, yang penting sebagai pedoman tata kelola pemerintahan yang baik dan kesejahteraan masyarakat. Hal ini berkontribusi terhadap wacana ekonomi Islam dan menjawab kebutuhan akan penelitian yang menilai kepatuhan syariah dalam praktik perpajakan tidak langsung di Malaysia.

Kata kunci: Sistem Perpajakan Tidak Langsung, Pematuhan Syariah, Ekonomi Islam, Analisis Kandungan, kesejahteraan masyarakat

Introduction

The introduction of Malaysia's Goods and Services Tax (GST) has catalyzed a significant examination of its compatibility with Syariah principles. The Malaysian Fatwa Committee's endorsement of taxation under Syariah parameters necessitates a detailed exploration of indirect taxation systems within the framework of Islamic jurisprudence. This paper aims to critically analyze the application of Syariah principles in Malaysia's indirect tax policies and to explore the principles of indirect taxation from a Syariah perspective.

Within the framework of the Islamic Fiscal System, the Qur'an mentions several public finance resources, including Jizyah, which allows eligible individuals to donate a portion of their wealth to the less fortunate, and Waqf, which is a non-obligatory charity. A non-Muslim living under Muslim law is subject to a tax known as jizyah (Al-Quran, At-Tawbah 9:29).

According to Shinkafi and Ali (2017), the human and social welfare, consumption, wealth spending (distribution and management), monetary policies, debts, market exchange, taxation, social security, investment and capital, business and trade, commerce and industry, law of transactions, etc. are the main considerations of Islamic economy and finance. Additionally, they view Islamic economy as:
as:
"[...] a field of knowledge that prepares the realization of human well-being through allocation and distribution of scarce resources that conform with the Islamic point of view without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances."

It is stated in verse 65:7 of the Al-Quran early on.

"Let a man of wealth spend from his wealth, and he whose provision is restricted - let him spend from what Allah has given him. Allah does not charge a soul except [according to] what He has given it. Allah will bring about, after hardship, ease."
(Al-Quran: At-Talaq 65:7)

According to Al Azraq & Ahmad (1980), Siyasa Syariah provides all of humanity with guidance, including a just and equitable way to handle wealth throughout both its acquisition and expenditure. The Quran's verse Q2:188, which is quoted below, offers a thorough and understandable explanation of this issue.

"And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful]."
(Al-Quran: Al-Baqarah 2:188).

Islamic scholars concur that managing the economy should be done in a way that gives citizens social and economic justice (Zaman, 2008). of tax matters, opposing viewpoints of government tax imposition are still being discussed (Rosman, Mohd Yusof, Abu, & Syed Abdullah, 2015). Based on the following text from the Quran, the first group believes that the conduct is Haram (forbidden):

"And O my people, give full measure and weight in justice and do not deprive the people of their due and do not commit abuse on the earth, spreading corruption."
(Al-Quran: Al-Hud 11:85).

The following hadiths and verses from the Quran recognize the imposition of additional taxes that are neither mentioned in the Quran nor followed by the Prophet Muhammad (Peace Be Upon Him):

"It was reported by Fatimah binti Qais, Prophet Muhammad (Peace Be Upon Him) said: Indeed, there is a due on property other than zakah (Narrated by Al-Tirmidhi, Hadith 659). Then Prophet Muhammad (Peace Be Upon Him) recited the following verses:"

"Righteousness is not that you turn your faces toward the east or the west, but [true] righteousness is [in] one who believes in Allah, the Last Day, the angels, the Book, and the prophets and gives wealth, in spite of love for it, to relatives, orphans, the needy, the traveler, those who ask [for help], and for freeing slaves; [and who] establishes prayer and gives zakah; [those who] fulfil their promise when they promise; and [those who] are patient in poverty and hardship and during battle. Those are the ones who have been true, and it is those who are the righteous."

(Al-Quran: Al-Baqarah 2:177)

According to Mauluddin (2015), Zakat's distribution is restricted to "asnaf," as specified in the Quran, in accordance with the opinions of Islamic scholars Yusuf Al-Qardhawi and Chapra. Taxes are levied in the interim to pay for national expenses. Al-Qardhawi lays out four requirements for a just and equitable tax that must be endorsed by all citizens. These include the following: the tax must be used as a means of generating income for the nation's wealth when no other sources are available; taxpayers must bear a just and equitable burden; the money collected must be used for the welfare of the populace rather than for immoral purposes; and, finally, permission from Islamic scholars and experts must be obtained before imposing such a tax. While Chapra lists three requirements for a just tax system: it must be levied to fund necessities in order to achieve "maqasid syariah," it must be levied at a reasonable rate so as not to burden citizens and must be applied equitably to all qualified taxpayers, and it must be used carefully.

Therefore, it is appropriate to take another look at Malaysia's indirect tax policy from the perspective of Islamic Syariah in order to achieve the state's duty to manage the nation while also ensuring the basic necessities and welfare of its residents.

Islamic economic thought has a rich heritage, with foundational principles laid down by renowned scholars such as Abu Yusuf, Al-Qardawi, and Chapra. These scholars have provided guidance that continues to influence contemporary fiscal policies in Islamic contexts. Abu Yusuf emphasized the principles of justice and fairness in taxation, while Al-Qardawi highlighted the need for ethical and moral considerations in financial matters. Chapra's contributions include the integration of socio-economic justice and the equitable distribution of wealth within the framework of Islamic economics.

The conceptual framework for this study is based on the insights provided by these scholars, integrated into a coherent model for evaluating indirect taxation systems from a Syariah perspective. The framework encompasses six principles identified by Islamic scholars which are (i) quality of tax administrations; (ii) just, honest, and lenient treatment to taxpayers; (iii) fair distribution of income; (iv) defining of tax base and rates; (v) flexibility in tax imposition; and (vi) approach to tax equity.

From the time of the Prophet Muhammad (PBUH) (Shaban, 1976) until the introduction of the Goods & Services Tax in Malaysia recently, there has been conflict over taxation issues, such as the legitimacy of the government's ability to impose taxes, the choice of which assets and activities should be taxed, at what rate, and who should pay these taxes (Rosman, Mohd Yusof, Abu, & Syed Abdullah, 2015).

The research conducted by Shinkafi & Ali (2017) revealed and validated the dedication of modern scholars on Maqasid As-Syariah, which is closely related to Islamic finance, banking, economic growth, and economics. But in the field of Islamic economics, they discovered that current scholarly works focus more on Zakat and Waqf and pay little or no attention to the broader topics of wealth creation and management, wealth consumption, socioeconomic security, and other related topics.

Rosman, Mohd Yusof, Abu, & Syed Abdullah (2015) also stressed this at the time of the Goods & Services Tax's adoption in Malaysia. In terms of domestic policy,

the Malaysian Fatwa Committee resolved in 2014 that the government may impose taxes in compliance with Syara's guidelines, provided that doing so is necessary. They suggested that more research be done on the indirect tax system and that present taxation policies that tax everyone equally without regard to wealth should also be investigated. However, the researcher did not assess the degree to which our current taxing practices adhere to the rules and principles of syariah. However, the researcher did not assess the degree to which our current taxing practices adhere to the rules and principles of syariah.

Previous research appears to concur that the need for an ideal tax system and the necessity to identify a substitute for an Islamic compliance tax system exists. However, it solely relates to Value Added Tax or Goods and Services Tax and does not provide a thorough analysis of all indirect taxes, such as excise taxes, import duties, export duties, and goods and services taxes.

According to research by Johari & Ibrahim (2010), policy reforms have placed a greater emphasis on the principles of reasonable taxes and ethical tax collection practices. They also advise following in the footsteps of previous Muslim leaders by considering the affordability and burden aspect when drafting tax laws, as they will have an impact on both taxpayers and Malaysian citizens in general.

The dispute over taxation is viewed as a siyasah syariah issue from an Islamic perspective. Siyasah Syariah refers to syariah-oriented policies that are tied to public interest, imposed by the leader in compliance with Islamic law, and vary from nation to nation (Syaltut, 2004).

Syariah literally translates to "path," "way," or "Islamic law." When taken as a whole, it refers to a strict adherence to Allah's directives, guidance, and precepts that have addressed human behavior in this world and redemption in the hereafter, as stated by Kamali (2008) and referenced by Shinkafi & Ali (2017).

In his book, Yusof (1994) discussed the experiment's prehistorical character, relevance, administrative, basic technical, and tax system difficulties from both a modern and Islamic perspective. He restates the key tenets of Adam Smith's tax system, which include: equitable benefit to the nation and taxpayers; affordability in terms of time and overall revenue; taxpayer ease of payment; and economical revenue collection.

He also considers the tax system from the viewpoints of Ibnu Khaldun, Rasulullah (PBUH), Ar-Rasyidin, Al-Qardhawi, and others. According to Johari & Ibrahim (2010), "the tax system al-kharaj evolved its own philosophy of terminology and its dynamism began with the *ijtihad* by Caliph Umar al-Khattab."

This was a system that had been preserved from earlier times by leaders of a vibrant revolution founded on Islamic ideals. This study demonstrated how, in light of policy changes, the principles of reasonable taxes and ethical tax collection practices were emphasized. They also advise following in the footsteps of previous Muslim leaders by considering the affordability and burden aspect when drafting tax laws, as they will have an impact on both taxpayers and Malaysian citizens in general.

Indirect tax research has previously focused primarily on al-kharaj (Johari & Ibrahim, 2010), al-jizyah (BBC, 2012), and Waqf, Zakat & Baitulmal (Abd Ghani & Othman, 2016). As such, policy makers in Malaysia may find it helpful to develop a specialized framework for indirect tax.

Elgaroshi & Musa (2013) examine earlier studies on tax evasion under Islamic law, the provisions of the Malaysian Income Tax Act No. 53, 1967, and any other pertinent tax evasion-related regulations. They discovered that there are several moral, practical, and legal justifications for tax avoidance. They also point out that there are similarities between Syariah and Malaysian law, and that both treat tax justice as the cornerstone of the taxpayer's ability.

They also advise using Syariah, the Islamic law, as the direct source of income tax legislation in Malaysia. To fulfill the aspirations of future generations in advance of the implementation of a completely Islamic financial system and to further enhance by including some Islamic principles that are appropriate for the characteristics of the Muslim population in Malaysia. They recommended increasing public spending in order to make income earners understand the value of paying taxes and discourage them from evading them, as they would benefit from fulfilling this obligation.

As previously stated, intermediaries are responsible for gathering indirect taxes and transferring the collected funds to the government. Nevertheless, prior research on indirect taxes has not provided a thorough analysis of all forms of indirect taxes, such as excise taxes, import duties, export duties, and goods and services taxes. Only 58 publications were found to be relevant to the topic of indirect tax when searching the Universiti Utara Malaysia Library Catalogue database. The majority of the literature is on goods and services tax or value added tax.

Yonah & Margalioth (2006) examine a few recent studies that bolster the widely held belief that to achieve social justice (equity) and economic growth (efficiency), developing nations should maintain high corporate income tax rates while substituting domestic consumption taxes, particularly value-added taxes, for trade taxes. Gemmell & Morrissey (2003) conclude that the existing evidence suggests that sales taxes are slightly more progressive or less regressive than taxes on imports. This is one of the works referenced by them to support conventional wisdom.

Another noteworthy finding is that the tax reforms based on popular wisdom would not have made the distribution and impoverished impacts of the tax structure worse. They believe that taxes on commodities that play a major role in the consumption bundles of the impoverished should be kept as low as possible, with significant implications for tax policy based on distribution and poverty.

However, research by Emran & Stiglitz (2005), who contend that the conventional wisdom was based on shaky results derived from a partial model that ignores the high existence of an informal sector in developing countries, is included in the literature criticizing the conventional wisdom as cited by Yonah & Margalioth (2006). According to the findings of a more comprehensive model, under reasonable assumptions, substituting VAT for trade taxes can lower welfare.

Furthermore, they contend that trade taxes are less susceptible to smuggling and have an obvious advantage over VAT in terms of administrative costs. They also cited research by Baunsgaard & Keen (2005) using panel data covering 111 nations over a 25-year span, from 1975 to 2000. The analysis demonstrates that because developing nations are heavily dependent on trade tax income, it is exceedingly difficult for them to replace the revenue lost because of trade liberalization with revenue from local sources.

According to Yonah & Margalioth (2006), a good tax system is one that works with the social structures in each nation as well as other unique factors that affect distribution and economic progress. Based on the literature, it appears that most people think that corporate taxes should be withheld but that consumption taxes are more efficient and redistributive than income taxes in developing nations.

To protect the welfare of Malaysians, good governance in the application of indirect tax policy is essential. According to Rosman, Mohd Yusof, Abu, and Syed Abdullah (2015), *siyasah syariah* governs the nation's tax revenue source and distribution. There are two different kinds of sources: those from *ijtihad* (*kharaj*, *'usyur*, etc.) and those from *wahyu* (*Zakat*, *jizyah*, and *waqf*). Since *syara'* constituted the basis for taxation in both the Prophet Muhammad (PBUH) and *Khulafak Arrasyidin* eras, there is no discernible distinction between them.

In the Malaysian context, the 2014 Fatwa Committee Conference decided that the government can levy taxes provided it is necessary and follows *syara'*s guidelines. According to Rosman, Mohd Yusof, Abu, and Syed Abdullah (2015), they suggested that more research be done on the indirect tax system and that existing

methods that tax everyone equally without regard to income should also be investigated.

According to Abu Yusuf Yaqub bin Ibrahim's theories, taxes should be imposed in accordance with Islamic Syariah in order to mobilize economic resources based on Islamic doctrine. Abu Yusuf advised the then-ruler to impose taxes that would benefit the state, the people, and the economy by citing passages from the Quran, the Prophet's Sunnah, and Ar-Rasyidin's practices (Azmi, 1995).

In summary, the above discussion explores the rich heritage of Islamic economic thought, highlighting foundational contributions by scholars such as Abu Yusuf, Al-Qardawi, and Chapra. These scholars laid the groundwork for contemporary fiscal policies within Islamic contexts by emphasizing principles such as justice, fairness, ethical considerations, and socio-economic justice. The review frames the study's conceptual framework in six key principles derived from Islamic scholarship: efficient tax administration, fair treatment of taxpayers, equitable income distribution, clearly defined tax bases and rates, flexibility in tax policies, and tax equity.

The review also traces the historical conflict over taxation within Islamic contexts, from the time of Prophet Muhammad (PBUH) to modern-day Malaysia's Goods & Services Tax (GST). It identifies a gap in existing literature, which often focuses narrowly on specific taxes like Zakat, Waqf, and GST, while overlooking a comprehensive Syariah-based analysis of various indirect taxes. Scholars like Shinkafi & Ali (2017) and Johari & Ibrahim (2010) emphasize the need for a Syariah-compliant tax system, particularly in areas beyond Zakat and Waqf, calling for a broader framework that addresses all forms of indirect taxation. The literature also discusses the concept of *siyasa syariah*, which refers to Syariah-oriented policies imposed by leaders in line with Islamic law, highlighting its relevance to modern tax systems.

Further, the review explores perspectives on tax evasion within Islamic law, contrasting them with conventional tax principles, and concludes with the need for good governance in implementing indirect tax policies in Malaysia. The review underscores the importance of aligning modern tax systems with Syariah principles to ensure fairness, justice, and the well-being of the Malaysian populace.

Methodology

To accomplish its goal, this study used library research in addition to document analysis and individual and group interviews. Additionally, this study included content analysis from secondary sources based on information gathered from laws, regulations, and in-depth in-person interviews with important officials.

The Ministry of Finance (MOF), the Royal Malaysian Customs Department (RMCD), the Department of Islamic Development Malaysia (JAKIM), and the Malaysian National Fatwa Committee (NFC) are the seven (7) informants that are participating in this study. The data collected and examined may help to clarify Malaysia's indirect taxation policies in relation to Syariah principles. Based on the ideas put out by eminent Islamic scholars including Abu Yusuf Yaqub bin Ibrahim, Yusuf Al-Qardawi, and M. Umer Chapra, this study will analyze and debate how Malaysia's indirect taxation procedures match with Shariah principles.

Abu Yusuf's "Kitab al-Kharaj" is a seminal text in Islamic economic thought, particularly in the context of fiscal policy and taxation. In this work, Abu Yusuf elaborates on six key principles that underpin a good tax policy from an Islamic perspective. Here is a detailed explanation of these principles based on various scholarly sources and translations of "Kitab al-Kharaj":

- i. **Justice and Fairness:** Abu Yusuf emphasizes that tax policies must be just and equitable. Taxes should be proportional to the taxpayers' ability to pay, ensuring that the burden does not disproportionately affect the poor. This principle aims to avoid oppression and to ensure that wealthier individuals contribute a fair share to the public treasury.

- ii. **Simplicity and Clarity:** The tax system should be straightforward and easy to understand. Abu Yusuf argues that complex tax regulations can lead to misunderstandings and potential evasion. A clear tax code helps in efficient tax collection and compliance.
- iii. **Certainty and Consistency:** Taxpayers should have certainty regarding the amount, timing, and method of tax payments. This reduces arbitrary tax levies and helps individuals plan their financial activities accordingly. Abu Yusuf's principle here aligns with modern taxation theories that advocate for predictability in tax obligations.
- iv. **Economic Efficiency:** Taxes should not hinder economic activities or discourage productivity. Abu Yusuf believed that taxation should support economic growth and development rather than stifle it. This involves setting tax rates that do not disincentivize investment or labor.
- v. **Equity:** This principle ensures that taxation is progressive, meaning those with higher incomes should pay more. Abu Yusuf's approach is to use tax as a tool to redistribute wealth and reduce economic disparities within society.
- vi. **Public Welfare:** The goal of taxation, according to Abu Yusuf, is to enhance public welfare. Tax revenues should be used for the common good, including funding public services and infrastructure that benefit society at large. This principle reflects the broader Islamic economic ethos of promoting social justice and communal well-being.

These principles from "Kitab al-Kharaj" reflect a comprehensive approach to fiscal policy that not only aims at efficient revenue collection but also at ensuring social justice and economic stability. Abu Yusuf's work has been extensively analyzed and translated, providing valuable insights into Islamic economic thought and its application in contemporary fiscal policies as can be referred to translations of "Taxation in Islam, Vol. III: Abu Yusuf's Kitab al-Kharaj" by A. Ben Shemesh.

The insights and recommendations provided by this research are crucial for policymakers in formulating Syariah-based indirect taxation policies in Malaysia. Emphasizing good governance and ethical considerations in tax administration can significantly improve the societal well-being and ensure the adherence to Islamic principles in financial matters.

Finding

The findings from the study are based on thematic content analysis and in-depth interviews with key informants involved in the indirect taxation system in Malaysia. The findings from this study contribute to the existing literature by providing a detailed framework for an indirect taxation system that aligns with Syariah principles. This framework builds on the foundational work of Islamic scholars such as Abu Yusuf, Al-Qardawi, and Chapra.

The principles identified in this study align with the teachings of prominent Islamic scholars, reinforcing the validity of the proposed framework. This alignment ensures that the taxation system adheres to the core values of fairness, justice, and equity, as emphasized in Islamic jurisprudence. The validation of the framework by experts in the field adds credibility and practical relevance to the study. It demonstrates that the proposed system is not only theoretically sound but also practically feasible.

The comparison with the thoughts of other Islamic scholars highlights the need for a flexible and comprehensive approach to taxation. It shows that while there are common principles, the implementation can vary based on the context and specific needs of the community.

The conceptual framework developed to evaluate the alignment of Malaysia's indirect taxation practices with Shariah principles draws on the principles set forth by prominent Islamic scholars which are Abu Yusuf, Yusuf Al-Qardawi, and Umer Chapra as shown in Table 1. This framework assesses six key dimensions: quality of tax administration, fairness, equity, flexibility, just treatment of taxpayers, and the fair distribution of income. The findings from the analysis of Malaysian indirect

taxation practices, based on interviews with key stakeholders and content analysis of relevant documents, provide a comprehensive understanding of the alignment with these principles.

Table 1: Indirect Taxation from the Perspectives of Islamic Scholars and Malaysian National Fatwa Committee (NFC)

ABU YUSUF	AL-QARDHAWI	CHAPRA	NFC
i. Quality of Tax Administrations Canons of Taxation: Fairness, Justices	Tax as a means of income for nation's wealth and there are no other sources available. Consent from Islamic Scholars and experts to be sought	Tax imposed to finance necessity needs for the sake of realizing 'Maqasid Syariah'	Government committed in applying Islamic Syariat. Government needs for financial resources. Collection of tax to fulfil requirement of 'Dharuriyat and Hajiyat'
ii. Just, honest and lenient to taxpayers	Just and fair burden among taxpayers	An affordable rate not to burden the citizens and impose equally among eligible taxpayers	Burden of tax in just and fair manner
iii. Defining tax base and tax rates			
iv. Flexibility in imposing of the			

taxes

v. Approach to the tax equity

**Canons of Taxation:
Fairness, Justices,
Equity,
Convenience, Ability
to pay**

vi. Fair distribution of income	Income collected is to be used for the wellbeing of the citizens and not for sinful use	To use the collection diligently	Tax collected to be used for people's wellbeing and not sinful use.
Canons of Taxation: Fairness, Justices			Redistribution of tax revenue in line with current and local Islamic Scholar's ijtihad.

Table 1 comparing the principles of indirect taxation from the perspectives of various Islamic scholars and Malaysian National Fatwa Committee (NFC). The table outlines key aspects related to the implementation and administration of taxes in accordance with Shariah principles. For the item 1: Quality of Tax Administrations, Abu Yusuf emphasizes the principles of fairness and justice in tax administration, suggesting that tax should be a means of income for the nation's wealth only when no other sources are available. Al-Qardhawi advocates seeking consent from Islamic scholars and experts, ensuring that tax imposition aligns with the broader objectives

of Shariah (Maqasid Syariah). Chapra focuses on the government's commitment to applying Islamic law (Shariah) and stresses the necessity for financial resources to meet essential needs (Dharuriyat and Hajiyat). NFC supports the notion that the government requires financial resources, and that tax collection should meet essential and secondary needs.

For Item 2: Just, Honest, and Lenient to Taxpayers. This principle is not explicitly detailed in the table for each scholar, but it implies that fairness, honesty, and leniency are important considerations in tax administration. Meanwhile Item 3: Defining Tax Base and Tax Rates, this aspect is not elaborated in the table, but it generally involves determining who is liable to pay taxes and at what rates, ensuring the process is just and equitable.

Furthermore, Item 4: Flexibility in Imposing Taxes, the table does not provide specific details on flexibility for each scholar, but it suggests that the ability to adapt tax policies to changing circumstances is a key consideration.

Like Item 5: Approach to Tax Equity, Canons of Taxation: Stress on fairness, justice, equity, convenience, and the ability to pay. Abu Yusuf emphasizes a just and fair burden among taxpayers, Al-Qardhawi advocates for an affordable tax rate that does not overly burden citizens and is equitably imposed among eligible taxpayers, Chapra also stresses that the tax burden should be just and fair.

The last one is Item 6: Fair Distribution of Income. Canons of Taxation again highlight the importance of fairness and justice. Abu Yusuf stipulates that income collected from taxes should be used for the well-being of the citizens and not for sinful purposes. Al-Qardhawi emphasizes diligent use of tax collections. Chapra reiterates that tax revenue should be used for the people's well-being and not for sinful purposes, with redistribution aligned with the *ijtihad* (independent reasoning) of current and local Islamic scholars.

Table 1 highlights the nuanced views of different Islamic scholars on taxation, reflecting a common commitment to fairness, justice, and the equitable treatment of taxpayers. These principles align with broader Islamic ethical guidelines and aim to ensure that taxation serves the public good without imposing undue hardship on individuals.

All scholars agree that the tax system must be fair and just. This includes the equitable distribution of tax burdens and ensuring that tax revenues are used appropriately. Al-Qardhawi's emphasis on seeking consent from Islamic scholars underscores the importance of religious legitimacy in tax matters. Chapra's focus on the diligent use of tax collections reflects a concern for accountability and transparency. The need for flexibility in tax policies is implicit, ensuring they can adapt to varying economic conditions and necessities. The goal of taxation, according to these scholars, is to enhance the well-being of the community, aligning with the Islamic principle of serving the common good.

In summary, the table provides a comprehensive overview of how indirect taxation can be aligned with Shariah principles, emphasizing fairness, justice, and the responsible use of tax revenues to support societal well-being.

The following analysis will be based on Table 2, which outlines Abu Yusuf's Principles of a Good Tax Policy in relation to Shariah Compliance, along with insights from seven informants. These informants include three from the Ministry of Finance (MOF), two from the Royal Malaysian Customs Department (RMCD), one from the Department of Islamic Development Malaysia (JAKIM), and one from the Malaysian National Fatwa Committee (NFC). Their views reflect their perspectives and agreements on the implementation of Abu Yusuf's six taxation principles within Malaysia's taxation practices

Table 2: Abu Yusuf's Principles of Good Tax Policy and Informant Insights

ITEM	MOF1	MOF2	MOF3	RMCD1	RMCD2	JAK1	NFC1
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1. Quality of Tax Administrations	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2. Just, honest, and lenient to taxpayers	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3. Defining tax base and tax rates	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4. Flexibility in imposing the taxes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5. Approach to tax equity	Yes	Yes	Yes	Yes	Yes	Yes	Yes
6. Fair distribution of income	Yes	Yes	Yes	N/A	N/A	Yes	Yes

As shown in Table 2, all entities (MOF1, MOF2, MOF3, RMCD1, RMCD2, JAK1, NFC1) have indicated "Yes" for ensuring the quality of tax administrations. This suggests a consensus among the entities that maintaining high standards in tax administration is crucial for effective tax policy implementation.

Like the first item, all entities have shown agreement by marking "Yes" for being just, honest, and lenient to taxpayers. This reflects the importance of treating taxpayers fairly and with integrity. Once again, all entities have affirmed the importance of defining tax base and tax rates by marking "Yes" for this principle. Clear definitions help in ensuring transparency and consistency in tax policies.

All entities have acknowledged the necessity of flexibility in imposing taxes. Having flexibility allows tax policies to adapt to changing economic conditions and taxpayer

needs. All entities have agreed on the significance of maintaining a fair approach to tax equity. This underscores the importance of ensuring that the tax burden is distributed equitably among taxpayers.

However, most entities (MOF1, MOF2, MOF3, JAK1, NFC1) have indicated "Yes" for fair distribution of income, while RMCD1 and RMCD2 have marked "N/A". This principle highlights the importance of considering income distribution in tax policies to promote social welfare and reduce inequality. Overall, the table reflects a strong alignment among the entities in adhering to Abu Yusuf's Principles of a Good Tax Policy with Shariah Compliance.

Based on the findings presented in the Table 2, we can simplify the key takeaways and suggest some recommendations as follows: All entities agree on the importance of maintaining high-quality tax administrations, being just, honest, and lenient to taxpayers, defining tax base and rates, and having flexibility in imposing taxes. There is a consensus on the significance of a fair approach to tax equity and the fair distribution of income, with most entities endorsing these principles.

The recommendations are as follows:

- i. Strengthen Tax Administration Quality: Emphasize the need for continuous improvement in tax administration processes to enhance efficiency, transparency, and taxpayer satisfaction.
- ii. Uphold Fairness and Integrity: Ensure that tax policies are designed and implemented in a manner that is fair, just, and transparent to build trust among taxpayers.
- iii. Clarity in Tax Base and Rates: Maintain clear and consistent definitions of tax base and rates to provide certainty for taxpayers and promote compliance.
- iv. Embrace Flexibility: Incorporate flexibility in tax policies to adapt to changing economic conditions and taxpayer circumstances while ensuring fairness and equity.

- v. Promote Tax Equity: Implement measures to ensure that the tax burden is distributed equitably among taxpayers based on their ability to pay, promoting social justice and economic stability.
- vi. Address Income Distribution: Consider income distribution in tax policy designed to promote a more equitable society and reduce disparities, fostering economic growth and social cohesion.

By following these recommendations and aligning tax policies with Abu Yusuf's Principles, stakeholders can work towards establishing a more effective and Shariah-compliant tax system that promotes economic growth, fairness, and social welfare.

Conclusion

The findings reveal that Islamic scholars have delineated six principles for Syariah-compliant taxation. The first three principles which are quality of tax administrations, just and lenient treatment of taxpayers, and fair distribution of income are well implemented and adhered to in Malaysia's current indirect tax policies. However, the latter three principles which are defining the tax base and rates, flexibility in tax imposition, and approach to tax equity are often consolidated into the principle of fair treatment of taxpayers.

The study highlights that while Malaysia's indirect tax system aligns with many Syariah principles, there are areas that require further refinement. For instance, the flexibility in tax imposition needs more explicit consideration to accommodate varying economic conditions. Moreover, a clearer definition of the tax base and rates in accordance with Syariah can enhance transparency and compliance.

The analysis using the conceptual framework indicates that Malaysia's indirect taxation practices are largely in alignment with Shariah principles, as elucidated by the scholars. However, there are areas for improvement, particularly in the segregation of revenues from non-Shariah compliant activities and ensuring comprehensive Shariah compliance in all aspects of taxation. The recommendations

provided by the stakeholders offer a pathway for enhancing the Shariah compliance of Malaysia's indirect taxation system, ensuring that it not only meets the needs of the government but also adheres to the principles of justice, equity, and social welfare as outlined by Islamic finance scholars.

Several challenges in formulating and implementing Shariah-compliant indirect tax policies were identified. These include objections from the public, technical issues, and the need for continuous engagement with stakeholders. The interviews highlighted the necessity for further research and amendments to existing laws to ensure they align with current trade environments and Shariah principles.

Recommendations from stakeholders included improving the tax base and rates, particularly by zero-rating basic items to avoid burdening the poor. Next, introducing a Budget Committee for transparency and ensuring Shariah compliance in tax policies. The third one, engaging religious officers from JAKIM in policy discussions to provide insights on Shariah compliance. Last but not list, exploring the feasibility of establishing a Shariah Advisory Committee at the Ministry of Finance to oversee the adherence of tax policies to Islamic principles.

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