

Overview of Zakat Application, Taxes, Sharia Law and Undeveloped Lands in Saudi Arabia

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ABSTRACT: *This paper seeks to give a clear understanding of Zakat application, taxes, and highlights their explanation according to Sharia law. Moreover, this paper gives a comprehensive example of undeveloped lands in Riyadh city in Saudi Arabia.*

KEYWORDS: Sharia, Saudi Arabia, Taxes, Undeveloped land, Zakat

INTRODUCTION

Possessing a land with attributes for different uses give to it a better market value. For example, commercial lands are often assigned with attributes such as location on arterial intersections, as well as provided with sewer and water services. Since the planned urban service infrastructure is fixed, it is reasonable to assume that a land with any given bundle of attributes is given over periods more choices of use. If the location specific attributes for given land uses are demanded, the equilibrium attribute prices would be purely demanded. Thus, the land in zoned markets would be determining the partial of the land price function in the process of equilibrium in the land market (Wallance, 1988, p. 308.) Competitive bidding and the potential for free real estate market entrance assure that land attributes are purchased by the highest bidder, but when it comes to undeveloped (white) lands, the land market is out of evaluation. Since Real estate is the backbone of every the economy, undeveloped lands represent a bottle knot in the investment activity. Many countries are currently facing a major crisis characterized by tremendous increase in land prices, particularly the undeveloped lands referred to as the, "White lands." The major cause of this crisis is unavailability of mechanisms, regulations and institutions to prevent monopoly. This fact affects various stakeholders; businesses, citizens and even governments that feel the impact. As a result, such countries experience high cost of living, increased unemployment rate and reduced economic growth which hamper citizens from making a descent living if there is an absence of regulations or policies and procedures systems. Procedures are means of the rule of law theory; Zakat - a fees is one among procedures that could handle this situation to force lands owners to sell land at fair prices that suit the market, instead of keeping it without exploitation nor paying fees (Falcon, 2010).

However, there are fears that this will have a counteractive effect where there prices of land might rise, further aggravating the situation. The theory that has been used is that of Human Flourishing theory. This theory details the obligations of landowners to members of the society. Using this theory, applying Zakat as a tool is a way to discouraging land hoarding. Thus, landowners have to ensure that other members of the society are not suffering as a result of their

own self-interest needs. The property ownership has to ensure human flourishing. This theory states that man flourishes as a result of what he can be able to do (House, 2012). This is as opposed to what man owns. As such, ownership should not instigate suffering to other society members. This theory applies a win solution, in order to keep going economy and flourishing. Zakat is an Islamic pillar, which concern financial field, including all types of properties, social commitments, and compulsory help to needy and poor people. This issue should lead to know about Islamic law (Sharia) and zakat (compulsory alms) obligation.

Islamic law (Sharia)

It is critical to appreciate that Sharia has been adequately translated into what is commonly referred to as Islamic law (Islam, 2011). Sharia is a critical component in the Muslim's life. Strict adherence to the provisions of Sharia drives and guides the Muslim's life. On the other hand, Sharia refers essentially to the teachings and values in the Muslims' lives. Sharia includes worship, morality and behavior, including politics, social and economic matters in addition to all corners of life. According to Muslims credo, Sharia is a way that has been provided by God to guide people who accept it as a whole religious doctrine. It is essential for the Muslim to follow its tenets so as to be successful in both worldly life and the life after. Muslim scholars agree that the application of Sharia requires two angles of comprehension. These two angles of comprehension are the wholesome comprehension of the sources from which rules are derived. These sources are the Quran (the Holy Book) and the Sunnah (the Prophet Mohamed's guidelines), which are the traditions of the Prophet. The second angle of comprehension is the wholesome understanding of the reality in which these rules apply. Therefore, the application of Sharia is a reality that is variable in time and space.

Zakat (Compulsory Alms)

Under Islamic law, Zakat obligation (or compulsory alms) entails legal aspects, which are inclusive of the regulation of matters taxation. Zakat means in Arabic "growth and increase". It is referred to a significant number of times in the Holy Quran. In terms of numbers, it is isolated on a total of 32 times, 82 times and in conjunction with other columns (Zayas, 2003). Islam has five pillars of which Zakat is the third (Ansari, 2007). It is generally considered as a control measure, such as the contribution one should pay, which is equivalent to 2.5% of their assets to charity. Nonetheless, Zakat is highly rated not solely because of the aspect of money, but because of the rationale underpinnings that instigate its existence. The intentions of the Zakat should simply please God and earn reward from Him. Zakat is an ample proof of the individual's sincerity of faith (Abdullah and Suhaib, 2011, p. 87). The core rationale behind the need to pay Zakat is given that everything in the word does in fact belong to God. As such, wealth only bestowed upon us by God. Then, the society has to take care of this wealth and use it in His honor. Our possessions are purified by the mere act of taking a part of this wealth and giving it to needy people (Ahmed, 2004). In addition, giving Zakat has the effect of raising our self-esteem. This is given that we are aware of the act of humility that we have done. A reference to the Holy Quran says in verse 92 of Sourat Al-Imran: (You shall not attain righteousness until

you spend of what you love) (Ramlan, 2002). This means that man/woman will be a just servant of the God the Al-Mighty, once he/she is able and willing to share his wealth. If one does not share his wealth, he will not be able to achieve piety or righteousness, and he will not be classified as a true Muslim. People who fall into the eight groups that have been regarded as eligible to receive Zakat are those who directly benefit from those who give Zakat. "Zakat is for the poor and the needy and those who are employed to administer and collect it, and for those whose hearts are to be won over, and for the freeing of human beings from bondage, and for those who are overburdened with debts and for every struggle in God's cause, and for the wayfarers: this is a duty ordained by God, and God is the All-Knowing, the Wise" (Quran, 9:60). It ought to be comprehended that the term "needy" is to get a divergence of definitions. This term should be understood as being in reference to the category; orphans and abandoned children, widows and divorced women, prisoners and their families, unemployed and the homeless, students, disaster victims, and those who need free drugs, dignified funeral. A person has the obligation to pay Zakat if they have their independence; they are legally sound, have attained the maturity of the age of puberty, are Muslims and have ownership of property (Kaleem & Ahmed, 2010).

Difference between zakat and taxes

The pure theory of taxation lies on two subjects to which its character may be ascribed: the laws of incidence, and the principle of equal sacrifice (Edgeworth, 1897, pp. 46-70). According to the pure theory of taxation, Zakat is one of five pillars in the Islamic Sharia (religious law), it calls for mandatory payment (Senturk, 2007). A certain percentage should be taken from every kind of property and be given needy and poor to enable them meet their needs (Al-Lahim, 1995, p. 9-10). On the other hand, taxation is an obligation imposed by the government on its citizens. As opposed to Zakat, which is religious based (act of worship), tax is meant to cover government expenditure, and also serves the purpose of further social and policy of the government, while Zakat is set to cover poor and needy people, nothing goes to government. Muslims pay Zakat for the sake to gain reward from God, purify their souls, increase their wealth and to bring happiness and joy to needy people. Zakat is a strong mean of social solidarity; its goes to people how need it, not to the government. On the other hand, taxes are linguistically taken from fines and charges. It goes directly to the government, and it increases its funds.

Monopoly in the Islamic law

According to monopoly theory, monopoly is an exchange phenomenon manifested in the emergence of a monopoly price in an otherwise competitive market economy. All sellers always face demand curves and the fewness of sellers in a market does not affect its competitiveness (Salerno, 2003, p. 14). The Islamic literature in relation to monopolies has tremendous efforts, and nearly all scholars agree that monopolistic practices are prohibited. The same applies to all forms of monopolistic competition whether in prices or in goods (Islam Economy, 2010). The monopoly in all kinds of community is prohibited since it will has enormous power to raise

prices and control the supply of goods at will, and in the end, will torment people, especially the poorest and the most needy among them. Monopoly (ihtikar) in the Holy Quran comes from the word “hakara”, which means “collect and control goods” (Ibn Mandhour, 2009). Monopoly is used by scholars of Islamic jurisprudence to assert the collection and control of goods to anticipate price increasing. The process of monopolizing goods results in price increasing (Islam Economy, 2010). The Holy Quran shows only about hoarding gold and silver. However, the Prophet Mohamed mentioned many kinds of monopoly and consider them a sin, such as monopolizing the production of a certain product, whether individually or by a group, so as to control pricing, supplying and competition, or monopolizing certain trades or services, such as having the arrogation of a monopole to have the power to prevent others from providing that trade or service, or refraining from providing certain urgent and critical services, while people are badly needing them. Monopoly cannot be restrictively defined according to its number of types, but according to the case which would appear at anytime and anywhere. One of the distinctive characteristics of monopolistic competition i.e. total number of sellers is big but not qualified to perfect competition (Hasan, 2008, p. 87).

In the Islamic Sharia Banker Magazine, Dr. Zaki Badawi argued that the monopoly effects apply to the banking system. In the banking system, the monopolist will provide in the community financial strength and commercial practices. However, sometimes there are circumstances in which some Muslim group to monopolistic practices. For example, the Islamic banking system in some Muslim countries has operated a national monopoly with state protection. Such cases occur in Malaysia Islamic Bank Bhd, conducted by the state monopoly since it has been founded in 1983, until then the Malaysian government introduced two systems in 1993, which allows conventional banks to open their services without bank interest (Riba) in a way to expand the possibility for small investors to compete in the market (Islam Economy, 2010).

Concerning land monopoly, stated by Coase (1973, p. 143), let us assume that on man owns all the land in the United Kingdom and, that all land is of uniform quality. Assume also that the owner is not able to exploit the land, that land will be useless and that there are no costs charged on disposing of the land. Meanwhile, if there were number of owners and the price were competitive; the price would be equal to the amount of land in the United Kingdom. If we imagine various amounts, and discover the competitive price criterion, we can trace out the demand for British land. Although there are many opposing views, related to recently monopolistic practices, most experts argued that monopolistic practices in all its forms in the field of trade, politics financial are contrary to Islamic principles. At the time of the first Caliphs of Islam, freedom of ownership was limited by the rules of Sharia and the common interest. It was narrated that Bilal ibn al-Harith came to the Mohamed-the Messenger of God and asked him to be granted some land, and he gave him a vast piece of land. When the caliphate passed to Omar ibn Al-Khattab, he said to Bilal: "O Bilal, you asked the Messenger of God to grant you a vast piece of land, and he gave it to you, because the Messenger of God could not refuse anyone who asked him for something. But you do not have the means to make all use of what you have in your possession". He said: "Yes (that is so)". Omar said: "So keep what you are

able to make good use of, and what you cannot make all use of, give it to us so that we share it out among the Muslims". Bilal said: "By God, I will not do that, because it was given to me by the Messenger of God". Omar said: "By God, you will certainly do it". And Omar took that which Bilal was not able to make good use of and shared it out among the Muslims (As- Sallabi, 1995, p. 212).

According to the "public interest theory of government (Maloney, 2001, p. 1), this indicates that granted individual ownership is connected to the public interest. If the owner is able to look after the property and take good care of it, then no one has the right to dispute his ownership. But if he is not able to do so, then the ruler has the right to intervene and revoke it.

Undeveloped lands

The reluctance of the rich people to let go of the otherwise productive land is projected to subside once the taxes on these lands are imposed. As such, Zakat is a potent approach to solving the problem, urging white lands owners whether to develop their lands with housing facilities and exploit them or to pay Zakat – an annual fee for poor people. Such a tax should not be levied on lands that are unfit for development. The rich tend to point out that the massive amounts of lands that they own are not fit for development. Analysis should thus be made on these lands that are undeveloped.

In the case of applying Zakat on white lands, the government will have access to more funds. Supply will increase from unwanted lands that are placed in the market, which led land prices to decrease, according to the nature of the economy. Also, these can in turn be channeled to the government construction of houses for poor and needy people. There is a need for setting up a system that requires Zakat or fees to be paid on white lands. Mandatory paying of Zakat ought to be imposed on granted lands; when the land is awarded to an individual, it is his duty to ensure the development of such land. It is recommended that a formal "fatwa" (religious jurisprudential opinion) on Zakat be imposed on white lands (Gamboa, 2008). This happens to be among the most potent approaches that can be adopted to encourage the development of white lands.

Lack of land regulation (Example of Riyadh City, Saudia Arabia)

According to Falcon (2010), the "rule of law" theory is largely dependent on a uniform application of laws using a common and unbiased methodological approach. This means that the judicial process should be separated from the political process. It is highly probable that without a regulation, these prices will continue to escalate. With time, the current housing situation will be regarded as a national calamity. At the moment, steps can be undertaken to inhibit the continuation of this housing problem that has so adversely impacted citizens. The absence of regulations creates an enabling environment for monopolization of white lands. Such a situation affects the welfare of people. This is by ensuring that the housing problem will not be solved in the near future. Businesses and the government will also be adversely impacted

given the reduced access to land. Businesses will not be able to expand while a government is not in a position to meet the needs of its citizens.

Since real estate industry has become the nerve of economy in the Kingdom of Saudi Arabia, any form of change that is realized in this industry has the capacity to impact the whole economy. Given the sharp rise in prices of lands in Riyadh, some reaction has been felt by the economy. The once vibrant economy is now at the mercy of the land prices that threaten to impede on the advancements that have been made thus far. The rise in prices of lands has majorly impacted the white lands. Given the high prices being charged on these white lands, it is extremely costly to undertake the construction of affordable housing. It seems that whenever housing projects are undertaken, they are targeted for the rich. This is given the need for the developers to recoup their investments. There is a need for a regulation that curbs this trend of increasing prices.

Undeveloped land problem

Given the severe impact of escalating prices in urban land, cities, which suffer from this problem, will culminate in a slow growth of the economy. This in turn will raise the rates of unemployment of manpower and thereby increasing the poverty rates. The land problem is an instigator to other economical and social problems. If this problem is resolved, other social and economic problems will be alleviated. Otherwise, citizens will not be able to afford their own homes, businesses will not be able to expand their capabilities, and governments will not be able to meet their mandates as far as social, political and economic welfare is concerned. This then creates a stagnancy of sorts. This is where the current level of development and growth is forced to remain stagnant given the unavailability of room to grow. Thus, according to the theory of land ownership (Rothbard, 2009, p. 175), that details that uneconomic land sites would be forced into use, and land would be prevented from entering other lines of use greatly demanded by consumers, the unavailability of land for development creates a cyclic effect that leads to the deterioration of the economy in the long run. The theory of economic development is related to the fundamental conditions of development, as well the basic causes of economic growth and decline. In this consideration, Robbins stated:

“The theory of progressive impoverishment, of the increasing severity of crises, of the intensification of class war and of the final Messianic explosion in which the integument of capitalist society is disrupted and the expropriators are expropriated, is certainly, in a sense, a theory of development - even if the developments described may not necessarily be viewed as tending in an upward sense by all the parties concerned” (Robbins, 1970, p. 2).

There are many pieces of lands that have been abandoned in many cities in the world. Given the extent of white lands in some of them, there is a need for action both by government and by people. As such, it is the duty of citizens to complement the approaches in the country so that the productivity of these approaches can be highly enhanced. The society should bear the duty of addressing the problem of poverty in their midst (House, 2012). In the Kingdom of Saudi

Arabia, the government has not appreciated the need of addressing the issue of availability of useful land for such initiatives. The situation is worsened by the fact that only 30% of all Saudi Arabia nationals own homes (Central Department of Statistic and Information, 2014). This means that 70% of Saudi citizens have been unable to possess their own homes.

The issue of housing problem is one of the major problems in Saudi Arabia, specifically in Riyadh. According to the Central Department of Statistics and Information in Saudi Arabia, the total population living in Saudi Arabia is 29 millions, including 8 millions expatriates. The Saudi population annual growth rate is more than 3.5% percent. 18-20% of the Saudi population lives in Riyadh city. This city has more than 50% of its surface as unexploited lands (Gamboa, 2008). These abandoned or rather undeveloped lands are referred to as white lands. Almost 25% of the whole population of Saudi Arabia live Riyadh city. It is, as well, one of the fastest growing city in the world; 4.5% (High Commission for Development of Riyadh, 2014). In Riyadh city, private investors own many pieces of lands often well located, and keep them undeveloped for years and years. As a result, prices tend to sky rocket; comparing the house price with the land, the land by itself costs more than 60-70% of the total cost. This makes the price of affordable housing beyond the reach of the majority of people. In turn, this increases the pressure on the existing lands.

During the advent of the Arab Spring, the Saudi government granted £40bn for affordable housing. By the time, the Saudi Arabian population has been growing, which means that there is a need for additional funds to provide housing needs of such growing population. It cannot be discounted that the government has good will at heart. However, it did not adequately address the dynamics that are related with increased housing. The lack of government lands is the root of the housing problem that is currently facing the Kingdom of Saudi Arabia. Given the rate of growth of the population and the current population, the Saudi government has to build 85,000 housing units every year. This is given that the population has an annual growing rate of 2.5% (Al-Surf et al., 2013).

The land problem in Saudi Arabia, especially in Riyadh, has sparked a vicious cycle of problems within the country and is gradually threatening to cripple the national economy. Due to this serious situation, various ideas have been put forward to solve this problem. Unless steps are undertaken, the housing problem will continue to escalate gradually. With time, the prices keep escalating; this would worsen the situation more and more. There is a need for an immediate action by both the government and the relevant stakeholders. The housing situation is critical. There are a number of measures that have been proposed in the endeavor of providing solutions to this situation. One of the most potent strategies that can be used to address this issue of lack of land is the application of Zakat. Given the absence of a regulation concerning this phenomenon, this strategy would be able to solve, to some extent, housing problem in Riyadh. (Ernest & Yound, 2013, p. 4). The adopted guide on Zakat in Saudi Arabia has been based on royal decrees, ministerial decisions and the Department of Zakat and Income Tax (DZIT)

circulars that appear from time to time. In general, Zakah is an Islamic financial act of worship, which is due on the wealth kept inactive in possession for one year (Gilani, 2006, p. 19).

CONCLUSION

Saudi citizens, especially who lives in Riyadh, are not poor for the reason that they are devoid of land. The massive amounts of undeveloped lands in the cities are testament of the fact that the cities are not devoid of otherwise useful lands. Saudi citizens are regarded as poor, simply for the reason that people are unable to use the resources available to enhance their standard of living, as well as to be engaged in the development of the economy of the country in general (Bradley, 2006). It is the duty of citizens and the government to take action and implement national development strategies to make use of white lands. This is so as to improve their productivity as a means to eradicate poverty in the region. The fight against poverty in Riyadh is one of the reasons as to why there is a need for imposing Zakat on useful white lands. The focus here is on the word “useful”. The payment of Zakat will increase the cost of hoarded land. So, this increases the amount of lands that can be used in the development of housing projects for the poor people in the society.

Levying Zakat throughout the Kingdom of Saudi Arabia in an unbiased nature that holds significant benefits to the Kingdom, this is especially with regard to poor and needy people in the society. It is even plausible to introduce a rise of the tax base (2.5%) of the total assets so, as to motivate people and firms to offload land that is otherwise undeveloped. This rise can be levied on firms that have massive amounts of lands, which have not been put to use. It has to be appreciated that such a proposal has even been asserted in the Holy Quran, given that it will go a long way in dissuading people not to hoard useful lands (Hallaq & Hallaq, 2009). Allocating freedom to landowners as far as using lands is concerned as the core instigator factor that have made the current situation imminent (Bagli, 2014). This goes to the extent that there are massive amounts of white lands even in other large cities. This is exemplified in the cities of Jeddah and Riyadh (Bagli, 2014). In the event that these white lands are available for development, there will be evident expansion of these cities. It has to be understood that focus should be on the white lands located in the center of Saudi Arabia cities. The desert does not have the potential that is held with the development of these white lands (Bagli, 2014).

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