

# Fair Income Distribution in Islamic Economics: Wealth Taxes in Turkey in Theory and in Practice

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## Abstract

Islamic economy holds various features in its body. It is possible that one of the most important features is to provide a fair income distribution. Income distribution has a capacity to create indignation in society when income distribution is not formed as fair. Hence, income is not distributed as fair generally in primary income distribution. The government has to interfere in market to provide justice in secondary income distribution. One of the tools in intervention is tax. However, when collecting taxes, Islamic economy displays sensitivity to labor. In turkey, wealth taxes are applied for the revenues earned without labor. In other words, the sensitivity to labor in Islamic economy finds its place as theoretical in Turkish tax system. In this study, it is revealed the similarities of wealth taxes and fair income distribution which is one of features of Islamic economy as theoretical. And, it is exhibited as hypothesis of the study that wealth taxes and Islamic economy show similarities; but, it is not reached these similarities in practice.

**Keywords:** Islamic economy, income distribution, wealth taxes.

## 1. Introduction

Capitalist economies cause people to face the phenomenon called poverty frequently due to crisis they cause. These crisis force people to search for new systems and a lot of thoughts related to economic systems have been revealed. However, to realize a fair income distribution becomes a prominent subject. As a result of these searches, Islamic economics comes into prominence as an alternative method.

Islamic economics has lots of features and principles taking its source from Koran. It can be said that the most important feature of these principles is to provide fair income distribution. Hence, with a fair income distribution, economic and fiscal order can be reached and social indignation can end. In the first part, these subjects are explained theoretically.

The tools used in Islam to provide fair income distribution are zakat and alms. It is a generally adoption that zakat and alms are collected from the people having good economic conditions. Nevertheless, there is no such a mechanism in Turkey because economic and fiscal structures are secular. But in this system, wealth taxes are collected from the income earned without labor. In other words, as is the example that law system is affected by social values it is in, Turkish Fiscal System collects taxes from the units having good economic conditions theoretically by affecting from social values belonging to the society constituting the system. Likewise, in article 2 of 1982 Turkish Constitution Act, it is emphasized that Turkey is a social state. A social state uses the incomes that it obtains by producing public goods and services. Theoretically, it can be said that wealth taxes have a feature like this. Within this scope, wealth taxes are explained theoretically in the following part.

Because wealth taxes have a low share of tax incomes, it is not applied as it is explained in theory. The assessments concerning this are explained in the fourth part and within the scope of features related to Islamic Economics, the suggestions about how wealth taxes are applied are explained in last part.

### *1.1. Islamic Economics and its Features*

When command, prohibition and advices related to economy coming from verses and hadiths included in Islam and benefited from fiqh, the theoretical aspect of Islamic Economics are revealed. From this perspective, Islamic Economics can be defined as the face of Islam directed to economy. <sup>[1]</sup>

Muslims state that they have to deal with the applications which Islam sees as unethical. At the same time, Muslims are proud of Islamic achievements and they desire that these achievements play a role in their lives even a little bit. These two thoughts are not in compliance always. As a result of this, a serious problem arises because Islamic Economics shows that the compliance that Muslims show to capitalist economy and

their Islamic identities conflicted with each other permanently. That's why; one of the effects of Islamic Economics is to arise a conflict between homo economicus and homo Islamicus. <sup>[2]</sup> Hence, there are a lot of differences between these two individual identities.

**Table 1: The Differences between Homo Economicus and Homo Islamicus**

	<b>Homo Economicus</b>	<b>Homo Islamicus</b>
<b>World/After-life</b>	An approach thinking just World life	An approach thinking both World-life and after-life
<b>Material/Meaning</b>	Materiality is in the foreground	Both material and meaning together
<b>Moral Value</b>	Deprivation of moral value	Moral and spiritual values are available
<b>Selfishness/Altruism</b>	Selfishness comes into question	Both selfishness and altruism come into question
<b>Interest</b>	Wealth based on individual	Wealth based on society
<b>Social Perspective</b>	The decisions not considered society	The decisions considering the society
<b>Expenditure</b>	Unlimited expenditure	Expenditure not resulting in waste and not included stinginess
<b>Stinginess/Generosity</b>	Stinginess comes into question	Generosity comes into question
<b>Consumption</b>	Unlimited consumption	Consumption equal to necessities
<b>Production</b>	Production providing profit	Not producing in the areas Islam bans
<b>Manner Related to</b>	Production/consumption not considering	Production/consumption considering

<b>Environment</b>	environment	environment
<b>The Factor of Confidence</b>	Behaviors not giving confidence and not placing reliance	Behaviors giving confidence and placing reliance
<b>The Factor of Rationality</b>	Not considering external World fort ha activities marginal benefit exceeds marginal cost	Considering external World fort ha activities marginal benefit exceeds marginal cost

Source: <sup>[3]</sup>

When examined Table-1, Islamic individuals are more humanitarian compared to this negative personality features which modern capitalism arises. The main reason of this originates from the features Islam has. In this context, the economic features of Islam can be described as follows <sup>[4]</sup>:

- Allah (C.C.) is the owner and the creator of prosperity and the people are representatives of Allah. However, people pursue prosperity and use it like guardianship coming from Allah.
- Working is a divine duty. Social justice is a result of productive labor and equality of opportunity means that everyone uses his/her abilities in the job and everyone reaps reward in remuneration for endeavors he or she shows in the job.
- Justice and equality notions in Islam defend that people should have equality of opportunity. But this event does not mean equality in poverty or equality in prosperity.
- The scope of economic intervention is large and this intervention can include state interventions in lots of areas economic activities realize.
- There cannot be any reason to pay interest.

These features of Islamic Economics are dependent upon principles of Islam. These principles are as follows <sup>[5]</sup>:

- **Tawhid and Brotherhood Principle:** This principle forms a link between the duty to humanity and the duty to Allah. In practice, it depends on equality and cooperation.
- **Working and Productivity Principle:** This principle states that the wage of an individual has to be proportional to the quality and amount of labor he or she uses.

- **Distributional Equality:** These principal states that main items of national income and transfer payments used for the aim of redistribution of income are as follows: zakat, sadaqah, ghanimah, fai, fidth, kharaj and ushr.

When examined these features of Islamic Economics rising as an alternative to capitalist system which most of the resources belong to certain individuals or groups, it can be said that the real aim of Islamic Economics is to distribute income fairly. Hence, tawhid among people, justice and equality principles related to working conditions, providing redistribution of income to society through various taxes are proofs to provide a fair income distribution.

Main targets of economic policy have to be towards providing a fair income distribution and extending wealth and ownership. In realizing these targets, firstly, huge ownerships are removed. Capitalist economic system encourages productiveness and entrepreneurship in narrow dimensions instead of encouragement of growing. By this way, the transformation of economic power into political power by growing is prevented. Prosperity is a social event. In the availability of social demand, prosperities can be arisen through individual abilities. Hence, the main point is to share the prosperity with society. From this perspective, economic refreshment occurs as a duty of society instead of a certain group. In economic refreshment, social justice is used as a financing. <sup>[6]</sup> And tax system functions as an equilibrium factor among targets of economic efficiency, ability to pay, social aids taken and reaching social targets. <sup>[7]</sup> In this context, it can be made the following inferences concerning Islamic Economics:

- Islamic Economics rises as a reaction to injustice of capitalism.
- Capitalism prevents the transformation of economic power into political power; so, political power is gathered in a certain point. However, Islamic Economics has a potential to spread political power in various groups of society.
- Islamic Economics is based on society; not based on individual.
- That Islamic Economics uses social justice as a financing tool to provide a fair income distribution means that Islamic Economics can reach fair income distribution to collect taxes from wealth.

## **2. Wealth Taxes in Turkey: Theory and Practice**

Wealth taxes can be divided into two sections: Taxes collected from wealth (estate tax, motor vehicles tax) and taxes collected from wealth transfer (inheritance and transfer tax). <sup>[8]</sup> 1319 numbered Estate Tax Act which is one of the wealth taxes is divided into two parts: building tax and land tax. It does not matter which material is used, fixed construction on earth and water and building adjunct written in tax procedure act are

formed the object of building tax. <sup>[9]</sup> Land and parcels included in Turkey border are formed the object of land tax. <sup>[9]</sup>

The object of motor vehicles tax can be described as follows <sup>[10]</sup>:

- Vehicles registered and enrolled to traffic division and offices according to highway traffic act,
- Planes and helicopters recorded and enrolled to general directorate of transport, maritime affairs and communication.

Inheriting the assets of an individual to inheritor with the demise of the individual and taxing gratuitous good inheritances inter vivos are formed the object of inheritance and transfer tax <sup>[11]</sup>.

**Table 2: The Share of Tax Incomes Collected from Wealth Tax in GDP**

	1965	1980	1990	2000	2007	2009	2011	2012	2013	2014
<b>Turkey</b>	1.1	0.7	0.3	0.8	0.9	0.9	1.1	1.2	1.4	1.4
<b>OECD-average</b>	1.9	1.5	1.8	1.8	1.8	1.7	1.8	1.8	1.9	1.9

**Source:** <sup>[12]</sup> (Accessed: 10.05.2017).

The share of wealth tax income in GDP is quite low. Hence, when examined table-2, the lowest level is in the term which the obstacles are completely removed shortly after Berlin Wall is demolished. And this corresponds to a term which neo-liberal economic policies make themselves apparent completely. The lowest rate corresponds to 2013 and 2014. And these terms come after global financial crisis. After this crisis, that the countries follow more nationalist economic policies and that Turkey has similar policies can be reasons of the increase in share of wealth tax. In addition, because these values are under OECD average, it can be said that the collection of wealth taxes is inefficient.

**Table 3: The Share of Total Tax Incomes Collected From Wealth Taxes in total Tax Incomes**

	1965	1980	1990	2000	2007	2009	2011	2012	2013	2014
<b>Turkey</b>	10.5	5.4	2.3	3.2	3.8	3.6	4.2	4.2	4.6	4.9
<b>OECD-average</b>	7.9	5.3	5.7	5.5	5.6	5.5	5.5	5.5	5.6	5.6

**Source:** <sup>[13]</sup> (Accessed: 10.05.2017)

When examined table-3, the share of tax incomes collected from wealth tax can be accepted as quite high until 1990. Moreover, the share of wealth taxes is higher than OECD-average until 1990. Nevertheless, although the share of wealth taxes in total taxes shows an increase in 1990, it corresponds to half of the value in 1965.

The considering subject is that the values converge to OECD-average. However, even though the amount of wealth tax converges to OECD-average, they become under the average. And this indicates that when the event in 1965 and OECD-average is taken into consideration, there is inefficiency.

### 3. Fair Income Distribution and Wealth Taxes: Adaptation and Maladaptation to Islamic Economics

All materials individuals own are called as wealth. <sup>[14]</sup> The higher real wealth is, the higher the consumption expenditures are and thereby increasing demanded for goods and services. <sup>[15]</sup> For this reason, increasing wealth occurs as an important factor in terms of economic recovery. However, balanced distribution of wealth through transfer payments has an importance in terms of economy. To realize such kind of aim, tax incomes collected from wealth taxes should provide a fair income distribution. Likewise, Islamic Economics reveals an effective approach theoretically for this.

Theoretically, the following objects concerning wealth taxes are considered:

- Building tax which is one of the elements of estate tax is applied as 2 ‰ and as 1 ‰ for dwellings. In metropolitan municipality borders and municipal adjacent areas, building tax is 4 ‰ and 2 ‰ for dwellings. <sup>[19]</sup> The rate of land tax is 1 ‰ for lands and 3 ‰ for parcels. These rates are 2 ‰ for lands and 6 ‰ for parcels in metropolitan municipality borders and municipal adjacent areas. <sup>[16]</sup>
- In all tariffs related to motor vehicles tax rates, tax amount is determined as fixed and as the age of vehicles increases the tax that must be paid decreases and as engine capacity increases, the tax that must be paid increases. <sup>[17]</sup>
- Inheritance and transfer tax changes according to inheritance type and the person inheritance is applied and this tax is a progressive tax. <sup>[18]</sup>

**Table 4: The Rates of Inheritance and Transfer Tax**

Tax Base	Tax Rate (%)	
	In Descending Cases	In Donations, Mother, Father, Partner, Child/Other Persons

For the first	210.000 TL	1	5 / 10
For the following	500.000 TL	3	7,5 / 15
For the following	1.110.000 TL	5	10 / 20
For the following	2.000.000 TL	7	12,5 / 25
For the part of tax base exceeding	3.820.000 TL	10	15 / 30

**Source:** <sup>[19]</sup> (Accessed: 10.05.2017)

Primarily, the similar subject between Islamic Economics and Turkish Fiscal System is to collect taxes for the amounts exceeding certain rates. In other words, wealth factor occurs as a phenomenon that can be taxed. Hence, an equilibrium ought to be formed between an individual not having vehicles, house or an economic value inherited and an individual having these. This equilibrium is dependent on equality factor which is a common value of Islamic Economics and Turkish Fiscal System. However, justice phenomenon cannot be ignored. In terms of justice phenomenon, when examined the amount of wealth taxes collected, it is seen that these amounts stay low compared to other countries. Moreover, the amount of wealth taxes in total tax income stays so low that can be ignored. That's why Islamic Economics and Turkish Fiscal System are in a maladaptation for this subject. And that wealth taxes stay low has a potential to play a confusing role for the phenomenon of justice in society. In addition to this, one of the most important factors in Islam is justice. When this situation is adopted to economy, it occurs as fair income distribution. And when fair income distribution is targeted, wealth taxes should be collected more than that of now. By this way, it is possible to make a fair income distribution as a transfer payment to the poor in society. In other words, because there is availability of wealth taxes, Islamic Economics and Turkish Fiscal System show similarity to each other; but in terms of collection of wealth taxes, there is no adaptation between Islamic Economics and Turkish Fiscal System.

#### **4. Conclusion**

In Islamic Economics, it is desired to provide a fair income distribution with the taxes like zakat, fith and so on. The reason of this is that the capital is clustered in narrower places when fair income distribution is not provided and Islam is against of this. This situation occurs as a general aim in capitalist economic systems.



Therefore, in capitalist economic systems, crises occur periodically. Islamic Economics presents a solution opportunity to these crises through a system originated from Islam. One of the solution opportunities is wealth taxes. Because the ones who have wealth exceeding country average demand more goods and services, they are able to have most of the world resources. When looked at scarcity law, wealth owners who consume more goods and services can cause the poor to demand less goods and services. Hence, this situation cannot be associated with justice and equality. When examined Turkish Tax System, various taxes for wealth factors are revealed. This event adapts to Islamic Economics. Nevertheless, that the taxes are collected at a quite low level in practice indicates a maladaptation between Islamic Economics and Turkish Tax System. It cannot be undoubtedly expected that Turkey applying a secular fiscal system passes to an Islamic Economy. However, in a society that its values associate with Islamic Economics, wealth taxes should be collected more than that of now and by this way, it can be possible to reach the factor of efficiency. To materialize this situation, the followings should be realized:

- The amounts related to inheritance and transfer tax should be increased,
- The amounts of motor vehicles tax are increased and for this, more taxes should be collected from the vehicles without looking engine capacity and engine power are high or low,
- The rates related to estate tax should be regulated fairer in terms of the ones who do not have the factors such as building, land, and dwelling and for this, if necessary, the rates of estate tax ought to be increased at an important rate.

If these suggestions are realized, the approach Islamic Economics has can be included in Turkish Fiscal System and by this way, fairer and equitable income distribution can be provided without destroying the secular structure.

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