

VAT from the Islamic Law Perspective

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Abstract

The conventional taxes are definitely based on the Conventional economic fundamentals and this fact is not necessarily consistent with the Islamic economic system fundamentals. This paper has been written with the aim at examining the challenges which have been or may have been put forward about the conventional tax system resources and especially focuses on VAT, reviewing the doubt that in Islamic finance no tax can be found on consumption and a kind of tax relief is considered for the consumption commensurate with the person's dignity even in cases like businessman's khoms, while VAT by aggregating taxes in different chains are incurred by the final consumers, and paid taxes on the previous chains can be refunded by referring to the Iranian National Tax Administration. Therefore it should be reviewed firstly, whether the claim is right? And secondly, in case of the rightness, whether it is consistent with the religious fundamentals and especially fundamentals and features of the Islamic financial duties? In fact in this paper from one side different kinds of VAT (on production, income and consumption) and their features, tax purposes and its taxation have been clarified and extracted. From the other side, the Islamic financial duties' characteristics are explored accurately. According to this paper, we can not confirm the inconsistency of VAT with the Islamic teachings, but bearing in mind that VAT is not adapted fully with the said teachings, suggestions have been provided in respect of VAT structure and rate and finally this research has concluded that VAT with a low rate is more consistent with the Islamic finance system.

Keywords: Value Added Tax, Inflation, Income Distribution

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