T.R.
ISTANBUL SABAHATTIN ZAIM UNIVERSITY
GRADUATE EDUCATION INSTITUTE
DEPARTMENT OF ISLAMIC ECONOMICS AND FINANCE

PUBLIC REVENUES FROM THE PERSPECTIVE OF ISLAMIC ECONOMICS: AN EMPIRICAL STUDY ON BUDGETARY IMPACTS OF ZAKAT POTENTIAL AND PROPOSED TAX REFORMS IN TÜRKİYE

Ph.D. DISSERTATION

Safa YILDIRAN

Istanbul
July, 2025

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Safa YILDIRAN

Supervisor
Prof. Dr. Monzer KAHF

Istanbul
July, 2025

This study has been approved in partial fulfillment of the requirements for Ph.D. Degree in Islamic Economics and Finance.

Supervisor Prof. Dr. Monzer KAHF

Member of jury Assoc. Prof. Dr. Zeyneb Hafsa ORHAN

Member of jury Prof. Dr. Mehmet ADAK

Member of jury Prof. Dr. Saim KAYADİBİ

Member of jury Asst. Prof. Dr. Mohammad Ghaıth MAHAINI

Approval by

Prof. Dr. Erhan İÇENER

Director, Graduate Education Institute

DECLARATION OF SCIENTIFIC ETHICS AND ORIGINALITY

This is to certify that this PhD dissertation titled "Public Revenues from the Perspective of Islamic Economics: An Empirical Study on Budgetary Impacts of Zakat Potential and Proposed Tax Reforms in Türkiye" is my own work and I have acted according to scientific ethics and academic rules while producing it. I have collected and used all information and data according to scientific ethics and guidelines on thesis writing of Sabahattin Zaim University. I have fully referenced, in both the text and bibliography, all direct and indirect quotations and all sources I have used in this work.

Safa YILDIRAN

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In the name of Allah, the Most Gracious, the Most Merciful. All praises belong solely to Allah, the Almighty, Who granted us life, sustenance, and guidance, and made us among those who seek knowledge and truth. Surely to Allah we belong and to Him we will all return. May peace and blessings be upon our beloved Prophet Muhammad ﷺ, who is the last of the Prophets, and was sent as a mercy to all the universes.

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ABSTRACT

PUBLIC REVENUES FROM THE PERSPECTIVE OF ISLAMIC ECONOMICS: AN EMPIRICAL STUDY ON BUDGETARY IMPACTS OF ZAKAT POTENTIAL AND PROPOSED TAX REFORMS IN TÜRKİYE

Safa YILDIRAN

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Contemporary societies have witnessed an expanding role of the state across social, economic, and political spheres. Given these extended responsibilities, modern states are justified in taking necessary steps to finance their functions. In this regard, this thesis assesses Türkiye's public revenue system from the perspective of Islamic economics to explore how Islamic public finance theory envisions transformations in the prevalent public revenue composition. Based on the assessment, two sets of reforms are proposed. The first reform set introduces new public revenues from state-owned or controlled properties, particularly minerals, and semi-public revenues from zakat on business assets, earned incomes, and financial wealth. The second reform set reconsiders consumption and personal income taxes in light of taxation principles derived from classical and contemporary Islamic public finance literature. Using quantitative methods and primarily micro-level datasets, the study estimates overall zakat revenues between 560.76 and 709.09 billion ₺, representing 3.74% to 4.72% of GDP in 2022. When the nature of the levy on minerals is considered as khums, total additional public and semi-public revenues could reach 958.29 billion ₺, 29.50% of the public budgets. In contrast, proposed measures relating to consumption and personal income taxes are projected to reduce public revenues by 921.10 billion ₺, equivalent to 27.93% of the central government and local administration budgets.

Keywords: Public Revenues, Islamic Public Finance Theory, Zakat Potential, Taxation, Türkiye.

ÖZET

İSLAM İKTİSADI PERSPEKTİFİNDEN KAMU GELİRLERİ: TÜRKİYE'DE ZEKAT POTANSİYELİNİN VE ÖNERİLEN VERGİ REFORMLARININ BÜTÇEYE ETKİLERİNE DAİR AMPİRİK BİR ÇALIŞMA

Safa YILDIRAN

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Modern toplumlar, devletin sosyal, ekonomik ve siyasal alanlardaki rolünün giderek genişlediğine tanıklık ederken, devletlerin kamu hizmetlerini finanse etmek amacıyla gerekli mali önlemleri almaları meşru görülmektedir. Bu bağlamda, bu tez Türkiye'nin kamu gelir yapısını İslam iktisadı perspektifinden değerlendirerek, İslam kamu maliyesi teorisinin mevcut gelir kompozisyonuna yönelik öngördüğü dönüşümleri analiz etmektedir. Değerlendirme sonucunda iki reform seti önerilmiştir. İlk reform seti, devlet mülkiyetinde veya tasarrufunda bulunan varlıklardan, özellikle madenlerden elde edilecek yeni kamu gelirleri ile şirket varlıkları, gelirler ve finansal servet üzerinden tahsil edilecek zekattan oluşan yarı kamu gelirlerini kapsamaktadır. İkinci reform seti ise mevcut kamu gelir kaynaklarından tüketim ve kişisel gelir vergilerini, İslam kamu maliyesi literatürüne dayanan vergilendirme ilkeleri ışığında yeniden ele almaktadır. Nicel yöntemler ve temelde mikro veri setleri kullanılarak yapılan tahminlere göre, 2022 yılında Türkiye'nin toplam zekat potansiyeli 560,76-709,09 milyar ₺ (GSYH'nin %3,74-%4,72'si) aralığındadır. Madenler humusa tabi olduğunda ise, ek kamu/yarı kamu gelirleri toplamda 958,29 milyar ₺'ye (kamu bütçesinin %29,50'sine) ulaşmaktadır. Buna karşılık, tüketim ve gelir vergilerine ilişkin önerilen düzenlemeler nedeniyle 921,10 milyar ₺ (kamu bütçesinin %27,93'ü) kamu geliri kaybı öngörülmektedir.

Anahtar kelimeler: Kamu Gelirleri, İslam Kamu Maliyesi Teorisi, Zekat Potansiyeli, Vergilendirme, Türkiye.

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ABBREVIATIONS

AAOIFI: Accounting and Auditing Organization for Islamic Financial Institutions.

ASR: Accrued State's Right

BAT: Banks Association of Türkiye

CAS: Company Account Statistics

CBRT: Central Bank of the Republic of Türkiye

COICOP: Statistical Classification of Economic Activities in the European Community

CPS: Crop Production Statistics

CTL: Corporate Tax Law

DGNP: Directorate General of National Property

ECT: Environmental Cleaning Tax

ESI: Economic State Institutions

ETİ MADEN: Eti Mining Operations General Directorate

EÜAŞ: Electricity Generation Corporation

FA: Financial Accounts

GDP: Gross Domestic Product

GNP: Gross National Product

GWD: Global Wealth Data Book

HBRA: High Board of Religious Affairs of Türkiye

HBS: Household Budget Statistics

HMB: Ministry of Treasury and Finance

IGT: Inheritance and Gift Tax

IIFA: International Islamic Fiqh Academy

ILCS: Income and Living Conditions Survey

IRTI: Islamic Research and Training Institute

ITL: Income Tax Law

LSE: London Stock Exchange

MAPEG: General Directorate of Mining and Petroleum Affairs

MPS: Mineral Production Statistics

MSMEs: Micro, Small, and Medium-sized Enterprises

MVT: Motor Vehicle Tax

NACE: Classification of Individual Consumption According to Purpose

OIC: Organization of the Islamic Cooperation

PBAT: Participation Banks Association of Türkiye

PEE: Public Economic Enterprises

PEO: Public Economic Organizations

PRA: Presidency of Revenue Administration

PSR: Payable State's Right

SANZAF: South African National Zakat Fund

SBB: Presidency of Strategy and Budget

SCT: Special Consumption Tax

TCA: Turkish Court of Accounts

TCTS: Turkish Customs Tariff Schedule

TKİ: General Directorate of Turkish Coal Enterprises

TPAO: Turkish Petroleum Corporation

TTK: General Directorate of Turkish Hard Coal Authority

TurkStat: The Turkish Statistical Institute

TWF: Türkiye Wealth Fund

UK: United Kingdom

VAT: Value-added Tax

VHT: Valuable Housing Tax

CHAPTER I

INTRODUCTION

Contemporary societies have experienced a growing presence of the state in the social, economic, political, and other spheres of life, especially after the Industrial Revolution and the formation of nation-states. This phenomenon has implications for the increasing roles and extended responsibilities of modern states, which are directly undertaken by them or assigned by their citizens. In return, states are entitled to take the necessary measures to finance these roles and responsibilities. These developments have been reflected in the indicators that imply the magnitude of the public sector in the economy. For instance, the average ratio of government expenditures to the gross domestic product (GDP) has significantly increased from 9.5 to 32.5 since the beginning of the twentieth century for the sample of 29 countries with available data (IMF, 2022a). For the same countries, the average share of government revenues in their respective GDPs has reached 29.8%, while it was 9.0% in the 1900s (IMF, 2022b). A similar trend applies to the Republic of Türkiye and its predecessor, the Ottomans. While the percentages of public revenues and expenditures in the total domestic revenues were between 11% and 14% during 1887-1913, according to the calculations of Eldem (1994: 169–170), public revenues and expenditures correspond to 21% and 23% of the GDP on average between 2006-2023 in Türkiye.

The public sector's high involvement in the economy implies that the impact of public expenditure and revenue structure on the actors and sectors can be significant. Therefore, this situation brings along many debates on how public revenues and expenditures should be. In the context of the Republic of Türkiye, the answers given to the questions about the public finance structure and the subsequent reforms and amendments have been shaped by various factors and different interest groups. The authorities sometimes reformed the public finance system to meet the need for immediate revenues during war times or post-war periods. The complicated structure of Turkish public finance due to the wartime amendments was also exposed to new reforms aiming for a more straightforward system (Bulutoğlu & Thirsk, 1999: 361). The concerns about attracting foreign capital to Türkiye led to modifications, especially in tax structure, when the competition between countries for capital has been

accelerated by increasing globalization (Çalcalı, 2012: 59–60). Complaints and protests by the taxpayers, such as farmer protests at the beginning of 1980, caused the prevention or repeal of change attempts (Bulutoğlu & Thirsk, 1999: 373). Last but not least, the ideological and political inclination of the ruling governments can be listed as one of the drivers of reforms (Sakınç, 2016: 15–16).

The role of theories, laws, and institutions that originated in Western countries in shaping the public finance system in Türkiye cannot be denied. For instance, the general sales tax (umumi istihlak vergisi), the first systematic transaction tax in Türkiye introduced to compensate for the fiscal gap that emerged after the repeal of ashar (âşâr), was inspired by the systems in Germany and France (Mutlu, 2009: 81–82). Fritz Neumark, a German economist, and the tax system that the Federal Republic of Germany previously used were dominant determinants in the tax reforms of Türkiye starting from the 1950s (Bulutoğlu & Thirsk, 1999: 364). In addition, economic crises, as one of the main reasons for tax reforms in Türkiye, were highly related to the tone of foreign aid (Ibid: 367). This phenomenon may imply interference by international institutions through aid conditions.

In contrast to the significant influence of systems in Western countries on Turkish public finance, we argue that Türkiye has not been able to benefit from the scholarly and practical heritage of Islamic public finance, even with its religious, historical, and cultural ties. This heritage manifests itself in different literature branches related to public finance and taxation law, such as kharaj, amwal, al-ahkam al-sultaniyyah, siyasatnamah, and other books or legal codes since the 8th century. These literature branches are valuable in terms of both quantity and quality. For instance, Erkal (2009) notes 21 treatises titled "Kitab al-Haraj" and three treatises named "Kitab al-Amwal" written between the 8th and the 14th centuries. In addition to rulings and theoretical frameworks, these classical treatise provides practical aspects of public finance in states of their times.

Contemporary literature on Islamic public finance, which is inspired by classical treatises, continues to contribute to the discussions within the framework of the principles and provisions of Islamic public finance, considering the changing circumstances. Even these studies suggest reforming the current public finance structures and tax systems based on principles and perspectives in the classical literature (Ahmed, Iqbal, & Khan, 1983; Chapra, 1979; Chaudhry, 1992; Kahf, 1987a).

Similarly, some studies examine and analyze Türkiye's current public finance structure from an Islamic public finance perspective (Aslan, 2021; Eskicioğlu, 2007; Yağmur, 2021). Notwithstanding these contemporary studies, omitting the Islamic public finance theory in designing the public revenue and expenditure systems may be caused by various reasons, depending on ideological, juridical, institutional, etc., matters. Apart from these, the absence of studies that estimate the possible impacts of suggested reforms on public revenues may impede the embracement of Islamic public finance reform since decision-makers want to anticipate what the proposed amendments in the public finance structure will bring.

1.1. Research Problem and Questions

Based on the considerations above, this thesis focuses on the public revenue system in Türkiye from the perspective of Islamic economics to understand how classical and contemporary Islamic public finance theory envisions transformations in the current revenue structure and the possible effects of these transformations on the public budget. In other words, the thesis approaches the issue from juridical and budgetary aspects, being aware of the fact that any public revenue system also has political, administrative, technological, criminal, and other dimensions. The juridical aspect refers to the analysis of the current structure and components of the Turkish public revenue system in comparison with the rulings, principles, and policies in Islamic public finance theory. The budgetary aspect of the thesis corresponds to the estimation of the impact of the reform proposals, arising from the analysis of the legal dimension, on Turkish public revenue items. In other words, this aspect focuses on the potential revenue generation from the proposed new public and semi-public revenue sources and the changing proceeds due to the restructured or annulled revenue items.

The thesis, which deals with juridical and budgetary aspects of the Turkish public revenue system, aims to answer the following main research questions:

1. What is the degree of connection between Islamic public finance rulings, principles, and practices and the present Turkish public revenue structure?
2. What are the potential reforms and amendments in the Turkish public revenue system intended to increase the level of connection?
3. What are the potential budgetary impacts of the suggested reforms for Türkiye?

Each main research question requires answering a set of associated questions. Concerning the first research question, we may list the following subquestions: What are the roles and responsibilities of a state from the perspective of Islamic economics? What are the revenue sources in Islamic public finance theory that fund the roles and responsibilities of states? How is taxation, as a public revenue source, qualified in the classical and contemporary literature on Islamic public finance? Answers to these and similar questions help us understand the rulings, principles, practices, and views regarding the revenue system in Islamic public finance, which will constitute a base for the first research question. Another set of associated questions concerning the first research question of the study focuses on the prevalent public revenue structure, especially the tax system, in Türkiye. How have the public revenues and tax system evolved in the current situation? What are the main components of public revenue and their subjects, characteristics, and shares in total public revenues?

The findings obtained within the framework of the first research question and associated ones facilitate exploring the degree of dis/misconnection between the prevalent Turkish public revenue system and the scholarly or practical heritage of Islamic public finance. In fact, these observations reveal possible reforms through which the connection of the Turkish public revenue structure with the Islamic public finance theory can be restored, which constitutes the second research question of the thesis. The thesis's last research question concerns the potential budgetary impacts of the suggested reforms for Türkiye, including tax and non-tax revenues, by estimating the potential revenue generation from the proposed new public and semi-public revenue sources and the changing proceeds due to the restructured or annulled revenue items.

1.2. Research Methodology

Each research question, along with the associated subquestions, requires various methodologies to come up with the answers. The first set of subquestions under the first research question, which is about Islamic public finance and taxation law, is planned to be answered through critical analysis and synthesis of classical and contemporary literature on Islamic public finance. The literature comprises not only rulings and principles but also practices depending on changing circumstances. In this regard, we approach classical and contemporary literature, embracing the rulings and

principles while maintaining a critical stance on their implementation (Tabakoğlu, 2016a: 7). In addition, classical literature deserves to be prioritized over contemporary literature while examining the components and principles of Islamic public finance and taxation law. The reason for such precedence is that the classical treaties written by Muslim scholars in the early periods constitute the most authentic contributions compared to the ones written in the later periods because Muslims were dominant in terms of military, law, economy, science, culture, and social life during the former periods (Orman, 2016: 298–299). However, the role of contemporary literature in exploring how the rulings and principles of Islamic public finance can be implemented in contemporary contexts cannot be underestimated.

The second set of questions associated with the first research question primarily depends on the doctrinal (legal) research on Turkish legislation. In this regard, we have first identified relevant legal sources, composed of the constitution, laws, presidential decrees, presidential decisions, presidential circular letters, directives, regulations, and communiques, and then systematically analyzed them to draw conclusions concerning the characteristics of public revenue sources in Türkiye. The reason for adopting this methodology is to figure out the most up-to-date information regarding the details of the Turkish public revenue system. Currently, there are almost 30 laws concerning taxation, the most prominent public revenue source of the Turkish public finance system, either directly or indirectly (Vergi Müfettişleri Derneği, 2024). The rulings in the laws are generally elaborated through directives, regulations, and communiques issued by the related public administrations. In addition to the Turkish legislation on public revenues, the study utilizes the literature on Turkish public finance and taxation. Regarding the inquiries for statistical accounting-related information about the Turkish public finance and tax system, we have refered to the official data sources, such as the Ministry of Treasury and Finance (HMB), the Presidency of Strategy and Budget (SBB), the Presidency of Revenue Administration (PRA), and the Turkish Statistical Institute (TurkStat).

In the scope of the third research question, the study adopts quantitative methodology to estimate the possible impacts of the suggested reforms on the budget structure of Türkiye, primarily using micro datasets. The study prioritizes micro datasets, as they provide an ideal basis for reliable estimations, especially for zakat proceeds as semi-public revenues, due to the conditions regarding the zakat payers, their intentions, and

assets owned, which have implications on the scope of zakatable assets, including receivables, and deductible items, such as debts, living expenses, and costs. However, no single micro dataset encompassing all kinds of zakatable assets is available in Türkiye. Therefore, the study resorts to various data sets at the individual, household, company, product, or income and wealth group levels. Differences in the data structures, as well as the varying natures of the proposed reforms, necessitate different quantitative methods for calculating their incidence on the budget, as elaborated on in Chapter 5. For instance, the potential contribution of minerals to the public budget is estimated based on annual production volume and price data at the product level, while zakat on business assets is calculated considering balance sheet records for each company. Zakat potential due on earned income is estimated using the household-level micro dataset, which provides both yearly revenues and expenditures. On the other hand, the potential zakat obligation arising from the financial wealth of individuals is computed through a quantitative method resting on wealth distribution indicators. In the context of assessing the selected tax types from the perspective of Islamic economics, the consumption tax burden across income groups is measured by allocating the total proceeds from each consumption tax to the household groups based on the share of their spending in the corresponding expenditure category, subject to that tax. In a similar vein, the average non-taxed personal income for wage-earners is estimated, referring to the relevant tax expenditure statistics. The datasets and quantitative methods briefly mentioned above are presented in detail in Chapter 5, along with the underlying justifications for their selection.

1.3. Importance and Originality

This thesis is not the first study that investigates a country's public revenue structure from the perspective of Islamic public finance. Also, it is fair to say that estimating the impacts of public finance or tax reforms on the public budget is not new for Türkiye or other developed and developing countries. The thesis's importance or originality arises from estimating the budgetary implications of the reforms proposed from the perspective of Islamic public finance, primarily using micro datasets.

As noted above and detailedly reviewed in Chapter 2.2, contemporary literature on Islamic public finance is not entirely lacking in studies that address the current public finance structures and tax systems, including the specific country cases, based on

principles and perspectives in Islamic public finance theory. However, they either do not provide the budgetary implications of the reforms they suggest or are confined to the zakat potential estimations only. However, budget revenues in Islamic public finance theory are not limited to zakat, as discussed in Chapter 3. In other words, including zakat in the public budgets of Muslim-majority countries is insufficient to reform the public revenue structure within the framework of Islamic public finance. The other revenue sources, especially taxes, should be cautiously examined based on the rulings and principles asserted in the classical and contemporary Islamic public finance literature in order to present an inclusive reform proposal. In addition, zakat potential estimations in general or specific to particular zakatable assets, which are carried out in most studies, primarily rest on macro data (Demir and Cevahir, 2021; Gümüş et al., 2019; Hassan et al., 2024; Kahf, 1987b; Shaikh, 2016; Shirazi and Amin, 2009; Shirazi, 2006, 2014; Tabakoğlu and Turan, 2017). This aspect of concerned studies inevitably results in ignoring the most rulings related to the zakatable items and zakat payers.

To the best of our knowledge, no study has yet been conducted for Türkiye or any other Muslim-majority country that comprehensively examines public revenue items within the framework of Islamic public finance theory and estimates the budgetary impact of the proposed reforms in this context. Also, the last comprehensive study calculating the zakat potential in Türkiye, partially using micro datasets, is outdated (Özek et al., 1987b). In addressing these research gaps, this study is expected to be an original contribution to the literature by estimating the zakat potential in Türkiye for the year 2022, primarily using micro-level data, and calculating the budgetary implications of the reforms envisaged by Islamic public finance theory on selected tax types and natural resources under the state's rule and disposal. Furthermore, the discussions in the sections devoted to the methods concerning the comparative merits of available alternative data sources are believed to provide valuable insights for future research. Ultimately, we suppose that the study can alleviate one of the reasons for the omission of both classical and contemporary Islamic public finance literature while constructing a public revenue system in the way of developing an ideal public finance structure aligned with the rulings, principles, and practices of Islamic public finance.

1.4. Limitations

This thesis is not free from limitations and shortcomings. First, the scope of this thesis is limited to the legal and budgetary dimensions of the public revenue structure and revenues. Therefore, the economic, political, social, administrative, behavioral, and spiritual dimensions of public finance have not been adequately covered. For instance, zakat is considered a semi-public revenue earmarked to particular beneficiaries stipulated in the Holy Qur'an. However, it cannot be degraded into a public revenue source since it contains ontological, spiritual, and social aspects beyond its contribution to the public budget. Additionally, the empirical part of the thesis is confined to transformations in budget resources and revenues. Thus, the impacts of such transformations on other economic indicators, such as welfare, wealth/income inequality, poverty, saving, private and public investment, consumption, GDP, inflation, and unemployment, are not sufficiently addressed in the thesis.

Secondly, excluding the expenditure side of the public budget from the thesis scope is another significant deficiency. We acknowledge that the sources of budget revenues are inherently important, but how these revenues are utilized is just as significant. As a matter of fact, most classical revenue sources in Islamic public finance are contingent upon the rulings and principles determining how these revenues should be disposed of. This aspect of Islamic public finance theory attaches high importance to the expenditure side of the budget.

The first and second groups of limitations are mainly related to the thesis coverage, which should be somehow restricted to make the research feasible. Considering the classical approach to budgeting practices, which prioritizes revenues over expenditures, we view the revenue side of the budget as a plausible starting point. In addition, it is undeniable that the theoretical examination of classical public revenue sources, discussion on their relevance today, derivation of taxation principles from the classical and contemporary literature, assessment of modern revenue items from the perspective of Islamic public finance, identification of possible issues that need to be reformed, and estimations budgetary implications of these reforms require a comprehensive study. Thus, including other dimensions, especially the economic and social consequences of the reforms above the preceding points, would extend the scope beyond the limits of a thesis study.

Thirdly, estimating the potential revenue generation of the proposed new revenue sources, especially zakatable items, necessitates micro-level data because of the conditions related to zakatable items and zakat payers. As elaborated in Chapter 5, micro data is not provided at the taxpayer or asset level for each item of wealth and income subject to zakat. This constraint does not enable us to precisely and accurately control the conditions concerning zakat payers. In such cases, the quantitative methods involve simplifying assumptions according to the extent of the data. Assumptions are expounded transparently and clearly in the sections dedicated to the methodology. At this stage, we contend ourselves to note that the assumptions are determined not to cause overestimation of the zakat proceeds.

Last but not least, the study adopts a static analysis in the empirical part. In other words, estimation concerning the budgetary impacts of the proposed reform is carried out, ignoring the behavioral response of relevant economic agents, such as households and corporations. Thus, the dynamic nature of behaviors when confronted with reforms and amendments in the public revenue composition of Türkiye is not considered.

1.5. The Design of the Research

The thesis chapters, following the introduction, are structured as follows. Chapter 2 surveys the classical and contemporary literature relevant to the thesis subject and presents it in two separate sections. The first section focuses on classical treaties on what is now termed Islamic public finance and reviews selected treatises from the kharaj and amwal literature branches. The second section examines contemporary studies addressing public revenue sources and fiscal systems from the perspective of Islamic economics. Chapter 3 discusses the public revenue sources in Islamic public finance theory, particularly emphasizing the relevance of classical revenues today and the legitimacy of taxation. Chapter 4 presents the prevailing public revenue system and its components in Türkiye, providing their historical background. Chapter 5 outlines the estimation methods of the potential proceeds of the proposed new public and semi-public revenue sources and the changing proceeds due to the restructured or annulled revenue items for the Turkish budget. Chapter 6 presents the findings regarding potential proceeds of the proposed new public and semi-public revenue sources and the changing proceeds due to the restructured or annulled revenue items

for the Turkish budget after the assessment of the selected Turkish public revenue sources based on the theoretical foundations introduced in Chapter 3 and the quantitative methods described in Chapter 5. Lastly, Chapter 7 presents the concluding remarks and policy suggestions.

CHAPTER II

LITERATURE REVIEW

This chapter reviews the classical and contemporary literature relevant to the thesis subject and presents it in two separate sections. The first section focuses on classical treaties on what is now termed Islamic public finance and reviews selected treatises from the kharaj and amwal literature branches. The second section examines contemporary studies addressing public revenue sources and fiscal systems from the perspective of Islamic economics. Within contemporary literature, particular emphasis is placed on the studies examining and evaluating modern states' public revenue structures based on the Islamic public finance theory. In addition, we would also prefer to cover the body of research conducted in a theoretical and historical manner. Although these studies rarely discuss the implications of the theories constructed or the historical practices referred to in contemporary fiscal systems, especially for specific country cases, they may offer valuable insights while interpreting the contemporary application in the public finance domain from the standpoint of Islamic economics. It is crucial to acknowledge that we mainly pay attention to the parts concerning public revenue sources in comprehensive studies, which encompass other dimensions of public finance, such as expenditures, administration, fiscal policy, etc., without overlooking the critical connections between them.

2.1. Classical Literature

The thesis approaches the Turkish public revenue system from juridical and budgetary aspects. As outlined in Chapter 1, the juridical aspect refers to the analysis of the current structure and components of the Turkish public revenue system in relation to the rulings, principles, and policies in Islamic public finance theory. In this regard, classical literature—comprising treatises on public finance and taxation law written particularly between the 8th and 15th centuries, in which the Islamic legal system developed—is essential for understanding the relevant rulings, principles, and practices. These treatises are also crucial for grounding the perspective of Islamic economics, as they represent the most authentic contributions compared to works from later periods. This distinction arises from the fact that Muslims were dominant in terms of military, law, economy, science, culture, and social life during this earlier era

(Orman, 2016: 298–299). Given the importance, this section is devoted to exploring the relevant classical literature branches and reviewing a selected bibliography.

The rulings in the Holy Qur'an and the Sunnah of the Prophet Muhammad ﷺ concerning financial matters, coupled with the new challenges faced by the expanding Islamic state through conquests, can be regarded as the primary factors that prompted the development of writings on public finance and taxation, making the first concrete exhibition of Muslim economic thought (Islahi, 2005a: 61). These writings manifest themselves in different literature branches, such as kharaj, amwal, al-ahkam al-sultaniyyah, siyasatnamah, and other specialized works since the 8th century. Notably, Orman (2016: 289) considers the literature of kharaj, amwal, al-ahkam al-sultaniyyah, and hisbah to be the fundamental source for more focused studies on the conceptual dimension of economic law, public finance, and fiscal policy. These literature branches are valuable in terms of both quantity and quality. For instance, Erkal (2009) notes 21 treatises titled "Kitab al-Kharaj" and three treatises named "Kitab al-Amwal" written between the 8th and the 15th centuries. In addition to providing rulings and theoretical frameworks, these classical treatises offer practical insights into the public finance systems of their respective periods.

While this thesis primarily focuses on treatises written before the 16th century due to the considerations outlined earlier, it also draws on works from later centuries in relevant branches of literature. It is important to note that after the 15th century, the number of books on taxation and public finance declined, their scope narrowed, and they became increasingly focused on specific issues (Islahi, 2009: 141). Islahi argues that scholars predominantly sought solutions in earlier works by the 16th century, when a new problem arose, rather than providing independent answers according to their judicial opinions (ijtihad). He states that this phenomenon is particularly evident in the kharaj literature of the period, exemplified by Ibn Nujaim's (d. 1563) Risalah fi al-Kharaj (Ibid: 149-150).

By the 17th century, Islahi observes a significant decline in the overall number of works addressing socio-economic issues. Although some sources have yet to be discovered, he attributes this decline to the political and military stagnation of the period, which was accompanied by intellectual inertia (Islahi, 2011a: 49). Under the heading of the economics of taxation, Islahi touches upon the works of Qoji Beg (d. 1650), Katib Chalabi (d. 1657), Naima (d. 1716), and al-Ramli (d. 1669), who offer

solutions to the budget deficits and degeneration in the 17th century (Ibid: 69-72). However, these works could not be included in the classical books on public finance and taxation, as they lack original and detailed discussion on these subjects.

When we come to the 18th century, it is seen that Abd al-Wahhab (d. 1792), considered the Saudi state's first financial administrator, did not give much space to his economic thoughts in his works. Instead, his views on economic issues can be inferred from the policies he implemented to address the economic problems of the period (Islahi, 2011b: 28–32). A similar remark applies to Shehu Uthman dan Fodio (d. 1817), whose works contain more discussion on the responsibilities of the state and public finance but are scattered across multiple texts. Furthermore, dan Fodio adopted the models of the time of the Rightly Guided Caliphs (ra) in the context of public finance (Ibid: 42-46). Thus, we have not identified any novel views, approaches, or practices attributed to dan Fodio beyond what is documented in the early books of kharaj and amwal. Consequently, these two scholars and their treatises are not included in the list of classical treatises related to public finance and taxation shown in Table 2.1 because of the preceding remarks.

On the other hand, the 18th-century Indian scholar and reformer al-Dihlawi's (d. 1762) ideas on public finance are more explicitly reflected in his writings compared to the aforementioned 18th-century scholars (Ibid: 79-89). In this regard, his works Hujjat-Allah al-Balighah and al-Budur al-Bazighah stand out. However, as these books are not dedicated specifically to taxation or public finance and allocate only a small portion of their content to these subjects, they are also excluded from Table 2.1.

Islahi (2009: 150), a pioneer in the analysis of post-15th-century Islamic economic thought, acknowledges that he was unable to examine works written in languages other than Arabic and access the Ottoman archives. He also highlights the scarcity of English and Arabic sources on Ottoman economic thought. These limitations largely apply to this thesis due to time and resource constraints. However, with the support of contemporary studies, we have included two works on public finance written by a Turkish scholar or government official in the 16th and 19th centuries in Table 2.1 (Akgündüz, 1992a; Sûdî, 2008).

The list of classical writings on public finance and taxation derived from the aforementioned literature branches is chronologically presented in Table 2.1 based on

the preceding analysis. Grounded on the secondary literature on Muslim economic thought, we have identified at least 12 surviving books and tracts classified under the kharaj literature, written before the 20th century. The number of surviving treatises in the amwal literature amounts to at least seven for the same period. Additionally, four treatises from al-ahkam al-sultaniyyah literature and three from siyasatnamah literature are included in the list, considering their content is adequately related to themes of public finance and taxation.

Table 2.1: The Chronological List of Classical Treatises Related to Islamic Public Finance and Taxation

Literature	Treatise	Author	Year of Death
Kharaj	Kitab al-Kharaj	Abu Yusuf	798
Kharaj	Kitab al-Kharaj	Yahya b. Adam	818
Amwal	Kitab al-Amwal	Abu Ubaid al-Kasım b. Sallam	838
Amwal	Kitab al-Amwal	Ibn Zencuye	865
Kharaj	Kitab al-Kharaj wa San'at al-Kitabah	Qudamah b. Ca'far	948
Amwal	Kitab al-Amwal	Ahmed b. Nasr al-Dawudi	1011
al-Ahkam al-Sultaniyyah	al-Ahkam al-Sultaniyyah wa al-Wilayat al-Diniyyah	al-Mawardi	1058
al-Ahkam al-Sultaniyyah	al-Ahkam al-Sultaniyyah	Abu Ya'la al-Farra	1066
Siyasatnamah	Siyasatnamah	Nizam al-Mulk	1092
Siyasatnamah	al-Tibr al-Masbuk fi Nasihat al-Muluk	al-Ghazzali	1111
Siyasatnamah	Siraj al-Muluk	Ibn Randaqah al-Turtushi	1126
Kharaj	Kitab al-Minhac fi 'Ilm Kharaj Mısr	Abu al-Hasan Makhzumi al-Qurashi	1189
al-Ahkam al-Sultaniyyah	al-Siyasah al-Shariah	Abu al-Abbas Taqi al-Din Ibn Taymiyyah	1328
Amwal	al-Amwal al-Mushtarakah		
Kharaj	al-Istikhraj li Ahkam al-Kharaj	Abu al-Farac Ibn Racab	1393
al-Ahkam al-Sultaniyyah	Suluk al-Muluk	Al-Khunji al-Isfahani	1521
Amwal	Tahrir al-Maqal fi ma Yahull wa Yahrum min Bayt al-Mal	Abu Bakr Muhammad al-Balatunusi	1530

Kharaj	Risalah fi al-Kharaj al-Tuhfah al-Mardiyah fi al-Aradi al-Misriyah Mas'alat al-Jabayat wa al-Ratibat wa al-Mu'sharat al-Diwaniyah	Zayn al-Din bin Ibrahim Ibn Nujaim	1563
Amwal	Risalah fi Amwal Bayt al-Mal wa Aqsamiha wa Ahkamiha wa Masarifiha	Bursevi Dede Söngi Efendi	1567
Kharaj	Risalah fi Akham al-Ushur wa al-Kharaj	Abu al-Abbas Hamawi	1687
Kharaj	al-Risalah al-Kharajiyyah	Mirza Abdullah Efendi	1718
Kharaj	al-Minhac fi Bayani Akham al-Ushur wa al-Kharaj	Abdullah b. Ahmad al-Rabiki	1746
Kharaj	al-Ritaj	Abdal Aziz b. Muhammad al-Rahbi	1770
Amwal	Defter-i Muqtasid	Sulaiman Sudi Efendi	1896

Source: Akgündüz, 1992a; El-Ashker & Wilson, 2006; Islahi, 2005a, 2009; Kallek, 2018a; Orman, 2016

* Books that can be classified under al-siyasah al-shariah are listed along with al-ahkam al-sultaniyyah for simplicity and due to the similar contents of the two branches of literature. Furthermore, it is worth noting that the list is not exhaustive. It does not include Shi'ite contributions to the same literature branches. Also, counting on more books from literature branches other than kharaj and amwal is possible.

Among the treatises listed in Table 2.1, those classified under the kharaj and amwal literature groups have the most relevant content for the subject of this thesis. Orman (2016: 288) notes that both groups of studies address similar topics, suggesting that the latter can be incorporated into the former. However, considering the differences in the titles, he opts to keep them under separate categories. In other respects, Kallek (2018a: 13) acknowledges that both titles broadly refer to taxation or state revenues. However, he points out that the amwal literature differs from the kharaj literature by comprising hidden (batin) zakatable assets, such as gold and silver.

When we ignore the variations in the focus of each book in these two literature groups, it can be said that they generally encompass subjects such as revenue sources and expense items of the state, taxation law, budget administration, tax collection practices, and tax officials, ownership status of the land, and its relation with how the conquests took place, ghanimah, iqta and ihya institutions, law and administration of natural resources, the authority, and responsibilities of the head of state, and public investments.

Al-ahkam al-sultaniyyah, al-siyasah al-shariah, or siyasatnamah literature covers broader themes such as fiscal policies, employment, distribution, markets, state intervention, various occupational groups, security, government structure, public law, etc. (Orman, 2016: 282). Among these, the al-ahkam al-sultaniyyah literature mainly emphasizes the legal aspects of these issues (Ibid: 283). Nevertheless, the chapters on taxation and treasury in these books are valuable for the subject and perspective of the thesis (Islahi, 2005a: 62). On the other hand, we can conclude that the works within siyasatnamah literature mainly convey general advice in the form of counseling without going into technical details.

2.1.1. Review of Selected Bibliography

The rest of this section reviews the selected classical treatises from the kharaj and amwal literature branches. Each treatise is summarized individually in separate subsections. Given the thesis's focus on public revenues, other dimensions of public finance, such as expenditures, administration, fiscal policy, etc., are not extensively addressed. Instead, the content regarding the public revenue sources is brought to the forefront in the reviews, aligning with the central theme of the thesis.

2.1.1.1. Abu Yusuf's Kitab al-Kharaj

Kitab al-Kharaj, authored by Abu Yusuf (d. 798), is one of the surviving and pioneering works in the literature of kharaj, though it is not the earliest. Abu Yusuf states that he wrote this treatise at the request of the caliph of the period, Harun al-Rashid (d. 809), who wanted a reference source on the collection of kharaj, ushr, zakat, and jizyah and relevant issues (Ebu Yusuf, 2019: 25). Based on this statement of Abu Yusuf, Kallek (2018a: 74) argues that the caliph sought to codify tax law. As noted by Kallek, the parts regarding state revenues dominate the book of Abu Yusuf (Ibid: 74). These include ghanimah and one-fifth (khums) of ghanimah, fai', kharaj, issues related to land tenure and taxation in regions like Sawad, Damascus, Jazira, and Iraq, as well as ushr, zakat, jizyah, and Islamic tithe on the trade goods (ushur). In regard to taxation, Abu Yusuf's approach has several prominent concerns and principles. First, he suggests considering the taxpayer's ability to pay as well as the productive and revenue-generating capacity of lands while imposing levies. This is evident in his proposals, such as exempting the destitute reliant on charity, the blind without

profession, the cripplingly sick, paralyzed, and those who are incapable of working from jizyah as long as they do not own property or assets (Ebu Yusuf, 2019: 195–196). He also recommends replacing the fixed tax system (kharaj muwazzaf) with a proportional system (kharaj muqasamah) in this regard (Ibid: 88). Secondly, Abu Yusuf seeks to strike a balance between state revenues and productive capacity, reporting the practices of early caliphs. For example, he refers to Caliph Umar (ra), who sent officers to Sawad lands to understand how to adjust kharaj without putting landowners out of business (Ibid: 140). He also quotes Umar b. Abd al-Aziz's (d. 720) instruction to his governor: "…do not impose taxes on developed land that will cause it to be ruined. Likewise, do not tax ruined land until it has been reconstructed…" (Ibid: 142). Lastly, some of Abu Yusuf's suggestions can be viewed as tax exemptions designed to incentivize private enterprises, as noted by Kallek (2018a: 82–88). These include exempting agricultural output below five wasq (a volume measure in agriculture) from zakat, applying ushr instead of kharaj on lands revived through a grant (iqta) or revival (ihya) at significant expense, and favoring kharaj muqasamah over kharaj muwazzaf. In conclusion, Abu Yusuf's work regularly emphasizes preventing idle resources, protecting and increasing treasury revenues, and improving public welfare. This is particularly evident in his discussions on iqta, ihya, public investments, and taxation.

2.1.1.2. Yahya b. Adam's Kitab al-Kharaj

Kitab al-Kharaj, authored by Yahya b. Adam (d. 818), is another prominent contribution to the literature of kharaj in the 8th century. Compared to his predecessor, Abu Yusuf, who provided practical solutions to contemporary issues raised by the caliph, Yahya b. Adam's treatise is notable in terms of narrations from the Prophet ﷺ, Companions (ra), and the Successors (Tabi'un) (ra) (Kallek, 2018a: 105). As summarized by Eskicioğlu, the translator of the book from Arabic to Turkish, it covers state finance, the use of public goods such as land, water, wells, and rivers, units of measurement and weighing, zakat, one-fifth (khums) of ghanimah, jizyah, and kharaj with their reasons, obligants, and rates, as well as, the rights and duties of Muslims and non-Muslims (Yahya b. Adem, 2018: 10). When examining Yahya b. Adam’s approach to taxation, two key aspects come into prominence. First, he demonstrates a taxpayer-favorable perspective by considering the needs and debts in taxation. For

example, Yahya b. Adam utters that the trader's belongings, such as camels, cows, sheep, slaves, etc., should be exempted from the ushur base. He also recognizes the declarations of both Muslim and non-Muslim traders and allows the deduction of their debts from the tax base. Furthermore, he requires a nisab (richness threshold for zakat) of five wasq for each partner, even when total agricultural production exceeds this threshold, and opposes the Malikites' view that combines wheat and barley while calculating zakat (Kallek, 2018a: 113–115). When questioned about cases where the residents of the Sawad were unable to pay taxes, he replied that the amount of tax could be reduced but firmly added that the tax could not be increased even if they reached a capacity to pay more (Yahya b. Adem, 2018: 31). The second notable aspect regarding taxation in his treatise is detailed narrations addressing the financial obligations of non-Muslim subjects of the Islamic state (dhimmi) and non-Muslim foreigners (harbi). For instance, he specifies how the time spent by harbi merchants within the Islamic state affects their liability for ushur and jizyah (Ibid: 171).

2.1.1.3. Abu Ubaid's Kitab al-Amwal

The following classical treatise to highlight is Abu Ubaid's (d. 838) Kitab al-Amwal, written in the 9th century. As its title suggests, this book belongs to the amwal literature, although its scope parallels the preceding books of kharaj to a large extent. Kallek (2018a: 120) introduces this work similarly to Kitab al-Kharaj of Yahya b. Adam, due to their shared characteristics in terms of rich narrations, absence of technical and administrative aspects, and the purpose of writing. At this point, it is worth noting that the parts devoted to the zakat on hidden (batin) assets, such as gold, silver, and jewelry, support the main distinction between the kharaj and amwal literature groups asserted by Kallek (Ebû Ubeyd, 2016: 397–428; Kallek, 2018a: 13). Abu Ubaid (2016: 19–23) begins his treatise with a section on the mutual rights and responsibilities of rulers and ruled. He then proceeds to properties at the disposal of the head of the state, which include fai', one-fifth (khums) of ghanimah, and zakat/sadaqah (Ibid: 23-34). According to this framework, the whole book is dedicated to the definitions, scopes, obligators, rates, beneficiaries, and other aspects of these revenue sources or properties under the control of the state, grounded in extensive narrations and reports from the early practices. The detailed sections on the distribution of fai' (Ibid: 227-284), ghanimah (Ibid: 319-337), and zakat proceeds (503-558)

distinguish this work from earlier kharaj literature. The presentation of the narration and reports in Abu Ubaid's Kitab al-Amwal is quite systematic compared to other treatises. Abu Ubaid first presents a set of carefully selected narrations along with their chains of narrators and texts in every section. The sections end with a summary of the narrations he reported, his views on the disputed issues, and supporting evidence. Among the narrations and views of Abu Ubaid on taxation, he highlights an analogy made by Iraqi scholars between zakat and Islamic tithe on trade goods (ushur) in terms of nisab. This analogy draws on the fact that Caliph Umar (ra) mentioned both financial obligations together, even though he did not specify any exemption limit for the ushur (Ibid: 492-493). This analogy resembles the contemporary perspectives on taxation principles derived from zakat rulings. Abu Ubaid attaches high importance to public interest and welfare in various contexts throughout the book, as Kallek (2018a: 125) rightly points out. In this context, one striking example is his report on Caliph Umar's (ra) decision to halve the 10% ushur on trade goods only for olive oil and wheat to incentivize the foreign merchants and ensure a steady supply to Madina (Ebû Ubeyd, 2016: 491). This practice underscores the importance of considering public interest in taxation policies.

2.1.1.4. Qudamah b. Ca'far's Kitab al-Kharaj

Kitab al-Kharaj wa San’at al-Kitabah, written by Qudamah b. Ca'far (d. 948), is another contribution to the literature of kharaj from the 10th century. Compared to the earlier works, it has a broader scope covering conquests, politics, geography, taxation, and bureaucracy, as indicated by a subheading of the book's Turkish translation. More specifically, it addresses a diverse range of subjects, such as the councils of the state organization, the geographical structure and characteristics of the world and the Islamic state, tax revenue statistics, roads, distances, and postal ranges in the Islamic world, sources of state income, iqta, ihya, land ownership, water rights, conquests, people's needs, caliphate, the ruler's morality, and virtues. Emphasizing the experience of Qudamah b. Ca'far, as a state official and clerk, Kallek (2018a: 136–137) positions the book as a kind of vocational training manual. This aspect is particularly evident in the detailed description of state councils and samples of appointment letters (Kudâme b. Cafer, 2018: 205–223). It is noteworthy that in addition to commonly discussed revenue sources─kharaj, zakat, jizyah, khums, and Islamic tithe on trade goods

(ushur)—he also mentions, albeit in a very short form, sources such as found and stolen goods, and the estates of runaway slaves and those who died without heirs (Ibid: 200). One of the unique feature of the book is the statistic data on state revenues from various regions, presented both in cash and kind, along with the detailed account of state expenditures, particularly in the border regions (Ibid: 152-163).

2.1.1.5. Ibn Taymiyyah's al-Siyasah al-Shariah

Ibn Taymiyyah's (d. 1328) tract "al-Siyasah al-Shariah fi Islahi al-Rai wa al-Raiyyah," written in the early 14th century, provides some insights regarding the state revenues, despite its primary relevance to Islamic political thought. Ibn Taymiyyah (2021: 15) declares that the tract was prepared at the request of one of the administrators of his time. The work has a broader scope than the books of kharaj and amwal, addressing subjects related to state administration, criminal law, financial matters, and Islamic family law. Ibn Taymiyyah considers both administration and properties to be a form of trust (Ibid: 17). In the context of properties, he primarily focuses on allocating and utilizing properties belonging to the state treasury. He emphasizes that the head of state acts as a custodian, protector, and trustee of state properties that are classified into ghanimah, zakat/sadaqah, and fai', with notable stress on the last one (Ibid: 46-47). While discussing the origin and meaning of the word "fai'," he describes it as properties returned to Muslims to serve their intended purpose—assisting people in worshipping Allah (Ibid: 56). He further classifies state properties in terms of legitimacy. He identifies khums, zakat, and fai' as revenues to which the head of state is entitled by the Qur'an, Sunnah, and consensus (ijma). In contrast, he deems revenues derived from taxes, the imposition of which is not permissible by consensus (Ibid: 58).

2.1.1.6. Dede Cöngi Efendi's Risalah fi Amwal Bayt al-Mal

A 16th-century tract, "Risalah fi Amwal Bayt al-Mal wa Aqsamiha wa Ahkamiha wa Masarifiha," authored by Bursevi Dede Cöngi Efendi, a scholar (mudarris) and legal expert (mufti) in Ottoman law, deserves to be mentioned, considering its importance to understand the Ottoman fiscal system (Akgündüz, 1992a: 216). Written in Arabic and dedicated to Şehzade Mustafa, the son of Sultan Suleiman the Magnificent, the tract's title stands for the sources of income of the treasury (bayt al-mal), its types, and the heads of expenditures. At the outset, Dede Cöngi states that the tract covers the

types of property belonging to the treasury (bayt al-mal), i.e., the income sources, heads of expenditures, the disposition of the rulers and sultans over these properties, and whether this results in ownership, the importance of financial matters for the sultanate and similar issues (Ibid: 217). In line with the content outlined by the author, the tract is primarily devoted to the treasury's revenue sources, which are divided into four parts, along with their corresponding expenditures: zakat/sadaqah, kharaj, ghanimah, and abandoned goods (Ibid: 218-231). Each category is further broken down into sub-income items and types. This systematic and detailed classification of budget items distinguishes the tract from earlier works on public finance. Emphasizing the fact that caliphs and sultans possess only custodial and discretionary rights over treasury properties rather than ownership, Dede Cöngi seems to aim to reveal the legitimate bases behind the sultans' assignments and appropriation of movable and immovable property belonging to the treasury, which particularly relates to the manorial or fief (timar) and tax-farming (iltizam) systems and irsadi awqaf—foundations established by allocating the benefit of land whose bare ownership belongs to the state to charity (Ibid: 217).

2.2. Contemporary Literature

This section examines contemporary studies that address public revenue sources and fiscal systems from the perspective of Islamic economics. The historical coverage of this literature review starts from the earlier years of the twentieth century, despite the fact that the number of studies in the first half of the twentieth century is considerably limited (Aghnides, 1916; Hamidullah, 1950; Sıddıkî, 1972).[1] The independence gained by the Muslim-majority nation-states against the colonialist and imperialist powers, which intensified in the 1940s, marked a pivotal period that stimulated intellectual endeavors in economic, political, administrative, and many other aspects of state and society to address the challenges of the nascent countries. At this turning point, the public finance discipline constituted one of the prominent focal points of Muslim economists and thinkers. To put it more precisely, we observe that the literature on Islamic public finance and associated research areas, such as state theory and fiscal

[1] S. A. Siddiqi's book Public Finance in Islam was first published in 1948 and dedicated to Pakistan on its establishment.

policy, has gained more momentum since the 1970s (Islahi, 2005b; Khan, 1992; M. N. Siddiqi, 1980; Zaman, 2008).

It is fair to say that most contemporary studies on Islamic public finance are descriptive and historical (M. N. Siddiqi, 1980: 211). These studies offer valuable insights into both the juridical and practical aspects of Islamic public finance (Azmi, 1998; Erkal, 2009; Mannan, 1980; Sıddıkî, 1972; Tabakoğlu, 2016a; Tuğ, 1961; Yeniçeri, 1984). Nevertheless, it is possible to come across discussions on contemporary fiscal systems and public revenues in general without going through a country case despite their descriptive approach (Ahmad, 1989; Dökmen & Yeşilyurt, 2016; F. R. Faridi, 1983; Fazlur Rahman Faridi, 1980; Hamidullah, 2007; Hasanuzzaman, 1993; Iqbal & Khan, 2004; Kahf, 1983, 1987a; Qureshi, 1978; Salama, 1983; Yağmur, 2021). Those aiming to investigate specific country cases from the perspective of Islamic public finance theory take two distinct stances towards the contemporary sources of public finance. On the one hand, very few criticize modern public revenues, particularly taxes, which comprise a significant part of the total public revenues today (Awad, 2000; Eskicioğlu, 1996b, 2007). In contrast, other country-specific studies generally adopt a more affirmative approach to contemporary tax structures (Chaudhry, 1992; Hamdi & Widiastuti, 2021; Mayer, 1986; Salama, 1982). It is worth noting that this latter stance is present in the descriptive studies that deal with modern public revenue systems in general terms.

In the context of public revenues, the contemporary literature presents divergent approaches and ideas, some of which either require or exclude one another. For instance, those who conceive of the state's roles and responsibilities in a broader sense, encompassing welfare and developmental functions, are inclined to adopt a more affirmative stance toward modern public revenues, particularly taxation (Chaudhry, 1992; Fazlur Rahman Faridi, 1980; Iqbal & Khan, 2004; M. N. Siddiqi, 1992). Conversely, when the state's functions are viewed more narrowly, the emphasis on the need for taxation diminishes significantly (Dökmen & Yeşilyurt, 2016; Eskicioğlu, 1996b, 2007; Es-Sadr, 1980; Kahf, 1983, 1987a; Yağmur, 2021). Moreover, the studies focusing on fiscal policy tools and goals attach high importance to taxation, often deeming it essential, compared to works that rarely address fiscal policy (F. R. Faridi, 1983; Fazlur Rahman Faridi, 1980; Salama, 1982, 1983). The search for supplementary resources for the public, other than traditional public revenues, is also

notable in the studies that presume a low potential for traditional public revenues in contemporary contexts compared to public expenditures (Iqbal & Khan, 2004). There is no doubt that those studies held a view of the expanded state's roles and functions. Furthermore, some studies argue that the subjects and rates of zakat may be modified depending on the changing circumstances and give a broader interpretation of the prescribed zakat beneficiaries (Hamidullah, 2007; Mannan, 1980). We contend that such arguments often stem from positioning zakat as the primary and sole public revenue source, apart from misinterpreting the silence of the Holy Qur'an on the subjects and rates of zakat. Lastly, the underestimation of Islamic law and legal principles concerning the public finance sphere leads some writers to incorporate modern public revenue structures to a large extent (Ahmad, 1989; Qureshi, 1978). These varied approaches and ideas are highlighted to show the divergences and their underlying rationales in contemporary literature, while the points of agreement in contemporary literature, which outweigh the areas of dispute, are covered in Chapter 3.

2.2.1. Review of Selected Bibliography

The selected bibliography, which constitutes the basis for the preceding analysis, is presented in the subsequent part of this section. Each study is summarized individually in a separate paragraph. Given the focus of this thesis on public revenues, other dimensions of public finance, such as expenditures, administration, fiscal policy, etc., are not extensively addressed. Instead, the content regarding the public revenue sources is brought to the forefront in the summaries, aligning with the central theme of the thesis.

Mohammedan Theories of Finance with an Introduction to Mohammedan Law and a Bibliography, a doctoral thesis written by Nicholas P. Aghnides at Columbia University in 1916, is regarded as the first systematic study in the scope of the contemporary literature on Islamic public finance theory. Many subsequent works in the early literature on public finance cite this seminal work. Aghnides (1916) primarily concerns the originality of the financial theories in Islamic law. To address this question, the first part is devoted to the methodology of Islamic law (usul al-fiqh), which underpins the rulings and practices in the financial domain. This approach enables him to explore the extent of foreign influences on the Islamic financial theory

(Ibid: 6). In the second part, he elaborates on public revenue sources in a descriptive, juridical, and historical manner. These include zakat, kharaj, jizyah, spoils of war (ghanimah), taxes on minerals and treasure troves, and levies on non-Muslim merchants, alongside their collection and expenditure methods.

Muhammad Hamidullah is widely recognized as one of the pioneering figures in contemporary Islamic economic literature. As compiled by Islahi (2015: 20–22), he has writings on the Islamic economic system, property rights, Islamic insurance, as well as public finance, budgeting, zakat, and taxation in English, French, Arabic, Persian, and Urdu, which were published between the 1930s and the 1990s. When his studies on public finance are examined with a special focus on public revenues, the following views of Hamidullah come into prominence. First, Hamidullah (1950) states that zakat itself constitutes the whole taxation system of an Islamic state, serving as the sole tax under normal circumstances. He does, however, acknowledge the permissibility of additional levies in extreme cases. Nonetheless, Hamidullah opposes the same subject being taxed by zakat and additional levies. He supports the taxation system solely based on zakat, emphasizing that zakat and sadaqah were the only state revenue sources at the time of the Prophet ﷺ (Hamidullah, 1955). Consistent with this perspective, Hamidullah assigns the discretionary power to the state to decide on zakat rates. At this point, he refers to the fact that the holy Qur'an is silent on this issue, and Caliph Umar (ra) changed the rates imposed on goods traded by foreign merchants (Hamidullah, 2007).

S. A. Siddiqi (1972), in his book "Public Finance in Islam," which was first published in 1948 and dedicated to Pakistan upon its establishment, examines state revenues and expenditures in an Islamic state from a historical point of view. In his Introduction to the book, Siddiqi (1972: 1) acknowledges that his book is primarily grounded in the PhD dissertation of Aghnides. The book's first part focuses on state revenues, beginning with a classification of the subjects living within an Islamic state, which Siddiqi considers essential to understanding the nature of financial obligations (Ibid: 11-17). The subsequent chapters in the first part separately explain zakat, kharaj, public lands, custom duties, jizyah, ghanimah (spoils of war), tax on minerals, obligatory contributions or taxes, and other various revenue sources, such as treasure trove, heirless inheritance, and awqaf (foundations). Siddiqi argues that obligatory contributions to the state or taxes imposed by the state are not rules but rather

exceptions (Ibid: 140). The state, he contends, may resort to such sources only when it cannot raise sufficient funds from other means to meet its needs (Ibid: 142-147). The second part deals with the expenditures, treasury, and budget structure of an Islamic state.

Tuğ (1961) wrote a pioneering study in Turkish[2] on the emergence of taxation law in Islam based on primary resources. His study investigates the historical development of rulings and the institution of zakat, which he identifies as the foundational tax system in Islam, by dividing the historical process into two periods, Mecca and Medina (Ibid: 185). According to him, financial liabilities in the Mecca period were framed as voluntary acts of financial sacrifice, favor, or charity in obedience to Allah's command (Ibid: 184). On the other hand, he states that these liabilities comprised the meaning of state tax, which is obligatory and collected by the officials in a coercive manner through three phases in the Medina period while retaining their previous characteristics (Ibid: 186-187). This study was later expanded into a doctoral dissertation in 1962 and subsequently published as a book in 1963. In addition to the historical narrative covered in the article, the dissertation and book delve further into the classification of taxes in terms of the religious affiliation of the taxpayers (Muslims and non-Muslims) and expound on their kinds, subject matters, bases, schedules, collection periods, as well as the tax organization (Tuğ, 1963).

In addition to the books and articles dedicated to Islamic public finance, the comprehensive studies on the Islamic economic theory and system often include chapters on fiscal theory and policy. For instance, Mannan (1980: 422), in the chapter on fiscal policy and budgeting in Islam within his book "Islamic Economics: Theory and Practice,"[3] points out the fact that the Qur'an is the only holy book that explicitly

[2] Zaim's survey (1980) reveals that only 4% of the books on economics published in Turkish between 1923 and 1960 were related to Islamic economics. Furthermore, he estimated that 17% of the Turkish literature on Islamic economics and finance during the republic era of Türkiye up to 1976 focused on public finance, primarily within the context of economic policy.

[3] The first edition of the book was published in English in 1970. The Turkish translation was first made in 1972 based on this edition. In 1980, the fourth edition of the Turkish translation was released.

prescribes rulings about the state expenditures through its designation of the beneficiaries of zakat proceeds. He claims that the Islamic public finance system is flexible, and the zakatable items and rates can be subject to adjustments considering the socioeconomic conditions since the Qur'an remains silent on these specific details (Ibid: 425). According to him, the public revenue system must observe and help the poor (Ibid: 426). Consequently, he critiques indirect taxes, asserting that they contradict the principle of protecting the poor, as such taxes are imposed on essential goods and services (Ibid: 437). In addition, Mannan advocates developmental budgeting over a balanced budget, contending that budgeting in Islam is not restricted by revenue that is assumed to determine the amount available to spend (Ibid: 438).

The article "Islamic Tax System" (İslam Vergi Nizamı), authored by Ahmet Tabakoğlu in 1976, constitutes one of the earliest studies on taxation from the perspective of Islamic economics in Turkish. An updated and improved version of the article (Tabakoğlu, 1976) was later incorporated as a chapter on public finance in the book "Introduction to Islamic Economics" (İslâm İktisadına Giriş). Tabakoğlu (2016a: 355) states that taxation in Islam is expressed with the concepts of zakat and sadaqah. His approach to taxation rarely addresses the state's role and responsibilities for providing public goods and services due to the context in which he examines taxes. He views taxes as mechanisms for social solidarity and assistance (Ibid: 359). According to him, tax revenues are meant to meet the needs of the poor, and the basis of taxation is the notion of 'afv (the excess or surplus beyond needs) (Ibid: 357). Moreover, Tabakoğlu attaches high importance to the nisab and investigates the historical variations in the equivalence between the nisab levels across various zakatable items (Ibid: 359-369). He advocates for reevaluating nisab thresholds in light of contemporary considerations, such as hunger and poverty lines, income distribution, and purchasing power.

Qureshi's (1978) book, initially drafted in 1958 but finalized in 1978, explores the fiscal system of Islam, especially the land tenure structure, from a jurisprudential and historical point of view. He primarily attempts to prove that no definitive Islamic law governs taxation and land tenure by referring to authentic historical documents and data (Ibid: 1). Building on this contention, he concludes that there is ample scope for taxation and land law reforms in Muslim-majority countries. He believes that the historical analysis in his book, tracing the evolution of taxation and land tenure systems

throughout Islamic history, equips policymakers and scholars to respond to opposing views against reforms, which raise concerns linked to Islamic teachings.

The First International Conference on Islamic Economics held at Makkah under the auspices of King Abdulaziz University in 1976 was considered the seminal academic gathering that brought together Muslim economists and Shari'ah scholars. One of the conference sessions was dedicated to zakat and fiscal policy. In this session, Faridi (1980) presented a paper addressing the position of zakat in an Islamic fiscal system and its possible impacts on budget revenue stability, savings and investment, public expenditure, rates of return on savings, and willingness to work. He considers zakat the "leading sector" in an Islamic state's revenue and expenditure system, though he rejects restricting fiscal management solely to zakat (Ibid: 119). According to Faridi, securing the minimum means of subsistence for everyone and productive utilization of resources toward social welfare constitute the objectives of Islamic fiscal policy (Ibid: 120-121). Faridi argues that Islamic states can introduce additional taxes to finance their overhead and developmental expenses, provided these levies adhere to principles derived from rulings of zakat, such as nisab, deductible costs, and illegality of multiple taxation (Ibid: 121). Based on these principles, he deems income tax, inheritance, and capital taxes permissible for an Islamic state (Ibid: 122).

Salama's (1982) study on the fiscal analysis of zakat in Saudi Arabia (1961-1977), presented in the seminar on Monetary and Fiscal Economics of Islam in 1978, offers a theoretical explanation for the characteristics of zakat using contemporary fiscal terminology. Within this theoretical framework, he examines the historical evolution of zakat legislation in Saudi Arabia and assesses the current legislation with regard to zakat rulings adopted and revenues generated. Salama justifies the additional levies other than zakat in an Islamic state by referring to the call for spending in the way of Allah in the Holy Qur'an, which he assigns the state the authority to impose levies when its citizens are reluctant to fulfill this call adequately (Ibid: 346). He suggests considering the legitimacy of additional levies from the perspective of their roles to curb inflation, avoid stagnation, enhance economic growth, and correct inequalities apart from budgetary concerns (Ibid: 347). According to him, imposing taxes is necessary for an Islamic state to achieve these objectives (Ibid: 347). Salama also emphasizes that an optimal tax system should be fair, economical, efficient, and convenient, as articulated in the contemporary public finance literature (Ibid: 348).

The second seminar on Monetary and Fiscal Economics of Islam, held in 1981, also featured studies addressing the fiscal system and policies from the perspective of Islamic economics. Among these, Faridi's (1983) paper attempts to develop a theory of fiscal policy for an Islamic state. The focal point of the paper is the elements and means of fiscal policy to tackle the core economic problems, namely, source allocation, distribution, stabilization, and economic growth in a three-sector model framework of an Islamic economy. Faridi begins by discussing the legitimacy of taxation, the leading fiscal policy instrument in contemporary literature, and the constraints on taxation. He refutes the arguments claiming that a fiscal system involving levies other than zakat is unjustified based on the sanctity of private property, asserting that the functions of an Islamic state necessitate the use of fiscal policy tools (Ibid: 24). According to him, an Islamic state may have to impose taxes to fulfill their functions and goals, such as alleviating the poverty. Furthermore, particular occasional consequences caused by zakat, such as resource allocation contrary to socioeconomic objectives, may need to be rectified by additional levies (Ibid: 25). Faridi positions Islamic taxation as a complementary policy to zakat and proposes specific constraints on its application (Ibid: 27-28). He argues that taxes must finance the "resource gap" that zakat and sadaqah alone cannot cover. Additionally, the tax system must address the "objective gaps," which refer to the same ultimate objectives of Zakat that cannot be fully realized without additional levies.

Another paper presented in the second seminar on Monetary and Fiscal Economics of Islam in 1981, authored by Salama (1983: 87), argues that the objectives of fiscal policy in an Islamic state may align with those of a secular state, but the former does not rule out the welfare in the hereafter, thus the moral values. Within this framework, he approaches fiscal objectives, namely resource allocation, economic stabilization, growth/development, and income distribution, from the perspective of Islamic economics. Salama analyses kharaj in terms of fiscal principles, such as equity, efficiency, convenience, and revenue generation, proposing that such analysis can serve as a guide for imposing levies in Islamic states (Ibid: 93). For instance, varying rates of kharaj based on proximity to markets exemplify the vertical equity in Islamic levies, according to Salama (Ibid: 93). Additionally, Salama contends that taxation does not pose significant challenges for the contemporary Muslim-majority countries. He deems all modern taxes consistent with Islamic rulings when appropriately

structured (Ibid: 98). Regarding the required characteristics of the tax system, he emphasizes the following points: disincentivizing unnecessary and luxury consumption, promoting capital formation, imposing lower corporate taxes on entities that contribute to economic growth more, maintaining a moderate income tax schedule to avoid hindering economic activity, ensuring compliance with equity and ability to pay principles, and incorporating in-built flexibility (Ibid: 99).

The third relevant paper from the second seminar on the Monetary and Fiscal Economics of Islam in 1981, authored by Kahf (1983), focuses specifically on the taxation policy in an Islamic economy. He starts the discussion by defining the role of an Islamic state in comparison with the capitalist, socialist, and welfare states by referring to the contemporary views in the Islamic economics literature, which consider the Islamic state responsible for the development, economic equilibrium, or welfare (Ibid: 114-123). Regarding the welfare state concept, he distinguishes subsistence and desired welfare. According to Kahf, the Islamic state is obligated to secure sufficient resources to fulfill the requirements of subsistence welfare, such as clothing, food, and shelter. However, he conditions the state's responsibility for attaining the desired welfare level with available resources (Ibid: 125–126). After defining the characteristics of the Islamic state and its priorities, Kahf deals with the taxation policy in two dimensions: conditions for and principles of additional levies. He argues that additional levies should not be imposed unless there are necessities justifying taxes, such as security, maintaining subsistence level for all, and improving production capacity, when they cannot be financed through alternative sources, e.g., kharaj, jizyah, the revenue of public enterprises, equity finance, etc. (Ibid: 127-134). In other words, Kahf positions taxes as a last resort. With respect to taxation principles, he identifies richness and excess as the key criteria for determining taxability (Ibid: 134). In addition, he emphasizes horizontal equality in distributing the tax burden without ignoring its final incidence (Ibid: 135).

The book "Iqtisaduna" (Our Economics) by Baqr al-Sadr is another comprehensive study of the Islamic economic system with a particular chapter on public finance. Although the chapter mainly focuses on the responsibilities of an Islamic state, it provides some insights about the sources to fund these responsibilities. Al-Sadr (1980: 683–710) assigns two central roles to an Islamic state: social security and social balance. The concept of social security encompasses both the vital needs, which are to

be met by other members of the society as a collective obligation (fard al-kifayah) based on the brotherhood principle, and other needs that will enable them to reach the average subsistence level in society (Ibid: 683-686). Al-Sadr thinks that the states may employ coercive measures to ensure the fulfillment of this collective obligation (Ibid: 684). Considering the link between this obligation and the brotherhood principle in Islam, he further argues that individuals are unlikely to perceive their contributions merely as a tax on income increases (Ibid: 686). In the context of social balance, which refers to achieving equality in terms of subsistence rather than income, he identifies three powers granted to the state (Ibid: 694). These include permanent obligatory taxes (zakat), state ownership (public sector), and jurisdictional authority by Islamic law (Ibid: 697).

Erkal's PhD dissertation, completed in 1981 under the supervision of Salih Tuğ and whose revised version covering subsequent developments in the literature was published as a book in 2009, is considered a continuation of his supervisor's seminal thesis in 1962 (E. S. Kaya, 2020: 417–418). Erkal (2009: 45–46) acknowledges the same historical development processes of taxation law in Islam as outlined by Tuğ (1961: 186–187) and adopts the same periodization and classification of financial liabilities. The originality and contribution of Erkal's study lie in its expanded scope, which includes the periods of the Rightly Guided Caliphs and the Umayyad dynasty. His findings indicate that both the Caliphs and the Umayyad rulers implemented zakat rulings as practiced by the Prophet ﷺ, adhering to Shari'ah principles (Erkal, 2009: 256).

Another PhD dissertation under the supervision of Salih Tuğ, written by Celal Yeniçeri in 1983, focuses on the emergence of state budget law and related institutions in Islam (Akyüz, 2022: 335). This dissertation, which was subsequently published as a book titled "The State Budget in Islam" (İslâm'da Devlet Bütçesi) in 1984, provides a comprehensive description of the public budget in an Islamic state in terms of fiscal organization, civil servants, fiscal councils, treasury operations, public revenue resources, budgetary principles, public expenditures, and budget audit from a historical and legal perspective (Yeniçeri, 1984). Covering the period between the Prophet ﷺ until the end of the Abbasid dynasty, the study argues that the treasury (bayt al-mal) was institutionalized by the Prophet ﷺ and continuously evolved in line with the needs of the later periods (Ibid: 425). Regarding budget revenue sources, Yeniçeri elaborates

on rulings about the financial liabilities of Muslims and non-Muslims, emphasizing that the budget mainly relies on taxes (Ibid: 175-192). Drawing on verse 177 of Surah Baqarah[4], which mentions spending on relatives, orphans, the needy, the wayfarer, those who ask, and the liberation of slaves together with zakat and relevant ahadith of the Prophet ﷺ, he concludes that additional taxes may be imposed, provided that they are limited to extraordinary circumstances (Ibid: 192).

Mayer (1986) assesses the changes in Pakistan's tax system following the enactment of a zakat law in the 1980s, which placed the collection and disbursement of zakat and 'ushr under state control. She first introduces the controversies surrounding the regulation of zakat under state control within Pakistan's Islamization program and elaborates on the characteristics of the enacted zakat statute (Ibid: 59-65). Mayer examines the statute's impacts on Pakistan's tax system, which heavily depends on indirect and regressive taxes due to technological deficiencies, a predominantly cash-based informal economy, and widespread tax evasion, as she describes (Ibid: 66-67). She observes that the government of Pakistan appears inclined to adopt the flat tax schedule in the other areas, as stipulated in zakat rulings (Ibid: 67). She argues that the imposition of zakat on the companies and associations reflects an intention to depersonalize zakat, treating its proceeds as a measure to improve public revenues and strengthen Pakistan's social security system (Ibid: 68). Additionally, Mayer notes that the zakat statute led to the repeal of the ordinary land revenue tax on the lands subjected to 'ushr (Ibid: 74).

Kahf (1987a: 2) underscores the significance of the practices at the time of the Prophet ﷺ and the Rightly Guided Caliphs (ra) as foundational references while formulating theories on contemporary economic and financial issues. Building on this reasoning, he examines the public revenues in both periods and extends his analysis to the early

[4] The full verse is as follows: "Righteousness is not whether you turn your faces to the East or to the West; but righteous is he who believes in Allah and the Last Day and the Prophets; and gives his wealth for the love of Allah to relatives, orphans and the needy, and the wayfarer, and those who ask, and for (the liberation of) slaves; and establish the Prayer and pay the Zakat; and those who keep their pledges when they make them, and show patience in hardship and adversity, and the time of distress. Such are the true believers; and such are the God-fearing" (Özek, Uzunoğlu, Topuzoğlu, & Maksudoğlu, 2018: 26).

post-Caliphate era to derive principles and insights for modern Islamic public finance systems. Kahf identifies three key implications of early practices for the contemporary context. First, Kahf highlights that the vast sources assigned to public ownership, such as unproductive lands, minerals, and other energy sources, can generate significant non-tax public revenues and provide a wide array of policy tools (Ibid: 28-29). Secondly, he discusses the legitimacy of taxation, emphasizing its conditionality and principles, which were previously elaborated in Kahf (1983). According to Kahf, taxes should only be imposed as a last resort when the necessities cannot be met with other revenue sources. He argues that it is not allowed to be used merely to transfer private savings to the public or curb demand and inflation (Ibid: 31-33). Finally, he concludes that the private sector can play a role in financing public expenditures through partnerships, voluntary or compulsory interest-free lending, and voluntary contributions in the form of donations (Ibid: 34-35).

Awad (2000: 77)[5] begins by observing that the initial step taken by the Muslim-majority countries in fiscal matters from the perspective of Islamic economics was the introduction of zakat to their fiscal system by assigning the role of its collection and disbursement to the state. However, he argues that the consequences of this step and the subsequent adjustment of the tax structures accordingly have not been duly addressed. According to Awad, the actions in this regard have been limited to removing direct taxes overlapping with the zakat base or allowing deductions of zakat payments from tax obligations (Ibid: 78). He positions zakat as the core of the fiscal system and suggests a zakat-based tax structure supplemented by other taxes to ensure that the functions and objectives of zakat are achieved, such as transfers from the rich to the poor and its stabilizing and expansionary roles (Ibid: 82). Considering the level of public expenditures and their composition in the contemporary Muslim-majority countries and the fact that double taxation is not permitted, Awad maintains that the treasury should be reinforced with the other revenue sources (Ibid: 83-84). At this point, he prioritizes the revenue items of early Islamic states, such as kharaj, jizyah, khums, and ushur (Islamic tithe on trade goods). He deems taxes the last resort after exhausting other sources, including profits of state enterprises, equity financing, borrowing, donations, etc., unless the ummah decides otherwise (Ibid: 85).

[5] The book's first edition covering Awad's work was released in 1989.

Furthermore, he asserts that taxes conflicting with principles of zakat, such as regressive and indirect taxes or those discouraging investment, must be gradually phased out (Ibid: 86). He remarks that Islamic states can resort to direct taxes on idle assets (developmental), windfall profits (equity-oriented) and income progressively (stability-oriented), alongside indirect taxes on luxury and harmful consumption (Ibid: 87). The study ends with the case study of Sudan's Zakat and Taxation Act enacted in 1984 and its evaluation from the theoretical framework proposed by Awad (Ibid: 88-91).

Ahmad's (1989) working paper on public finance in Islam presents the fiscal system at the time of the Prophet ﷺ and the Rightly Guided Caliphs (ra) in terms of revenue sources, expenditures, budgetary policies, and operational issues. He argues that the teaching of Islam and the early practices indicate an open-ended and flexible fiscal structure. However, Ahmad highlights that while today's public revenue system is expected to differ from those of early periods substantially, it must ensure the principles of equity and justice (Ibid: 12). Adopting a socioeconomic objectives-oriented approach to public finance, he priorities the characteristics of the socioeconomic order in Islamic economics when proposing an ideal fiscal structure for the contemporary states (Ibid: 2-8). Lastly, he explores the implications of the Islamic public finance system on key economic objectives, including distribution, allocation, growth, and stability (Ibid: 19-27).

The first structured attempt to address the teaching of public finance from an Islamic economics perspective was made by Siddiqi (1992), accompanied by contributions from a group of scholars who commented on it. Designed as a teaching guide for university courses on public finance, the paper avoids delving deeply into every subject. It has separate sections on the functions of an Islamic state, public revenues, taxes, and zakat, which are particularly relevant to this thesis. Siddiqi believes that the theory of state and government is imperative for any study on public finance and policy (Ibid: 7). He categorizes the functions of an Islamic state into three in terms of sources from which the roles are deduced: (1) Qur'an and Sunnah, (2) Ijtihad, including analogical reasoning (qiyas) and public interest/welfare (maslahah), and (3) assignment of people (Ibid: 8-9). He justifies the third category by invoking the principle of shura (mutual consultation board) in Islam (Ibid: 11). According to Siddiqi, the concept of fard al-kifayah (socially obligatory duties) covers most public

goods, making the state ultimately responsible for these duties (Ibid: 10). He points out two primary sources of public revenues, which are public properties and withdrawals from the private sector that can be in the form of tax, borrowing, equity-sharing, and so on (Ibid: 28-30). Considering raising public expenditures and the state's authority to impose additional levies, Siddiqi supposes that taxation is expected to be the primary public revenue source for a modern Islamic state (Ibid: 30-31). While he rarely asserts his view regarding the permissibility of specific contemporary taxes, he evaluates tax types based on cost-benefit analysis and their roles in fulfilling the fiscal functions of an Islamic state (Ibid: 35-45).

Chaudry's (1992) book comparatively presents the objectives, principles, and tax types in the Islamic public finance system and modern states. Although he barely refers to the classical and contemporary studies on Islamic public finance and justifications of his ideas based on the Qur'an and Sunnah are not well structured and detailed, its novelty lies in the attempt to evaluate Pakistan's tax system from the perspective of Islamic economics. Chaudry argues that taxes are inevitable for states, considering their ubiquity throughout history and expanded roles and responsibilities of states, especially after the Industrial Revolution (Ibid: 110-111). According to him, the only way to have a state without taxes would be for citizens to voluntarily surrender their surplus income to the state after meeting their needs, referencing verse 219 of the Surah Baqarah[6]. He argues that the ideal tax system integrates Islamic taxes, such as zakat and ushr, with modern taxes, such as income, wealth, and sales taxes (Ibid: 195). His evaluation of Pakistan's tax structure of the day does not envisage drastic changes in the prevailing system. Instead, he recommends selective adjustments, such as tax exemptions introduced for necessities and income or wealth below thresholds determined by the country's per capita income, more comprehensive inclusion of zakat compared to existing practice, and limiting the share of indirect taxes in total tax revenues to 25% at most. Beyond these measures, he acknowledges all modern taxes,

[6] The full verse is as follows: "They ask you about drinking and gambling. Say: 'There is great harm in both, although there is some benefit for men, but their sin is greater than their benefit.' And they ask you what they should spend; say: 'What is superfluous.' Thus Allah makes plain to you His revelations, so that you may ponder" (Özek et al., 2018: 33)

including income, wealth, sales, expenditure, excise, inheritance and transfer taxes, and customs duties (Ibid: 195-209).

Hasanuzzaman (1993: 23) argues that the institution of infaq in the Holy Qur'an (sadaqah as it is expressed in the Sunnah) possesses an obligatory nature, similar to prayers and zakat, but without stipulated subjects, rates, exemption limits, and penalties for non-fulfillment. He illustrates how infaq/sadaqah, as a separate obligation from zakat, was practiced during the time of the Prophet ﷺ for various purposes and within different scopes (Ibid: 24-25). Although the Prophet did not precisely regulate it, Hasanuzzaman asserts that neither the Holy Qur'an nor the Sunnah restricts the state's regulatory authority in the context of infaq/sadaqah (Ibid: 26). Based on this premise, he suggests institutionalizing infaq/sadaqah as a form of indirect taxes today, bearing in mind the fact that it is an obligation imposed on everyone, irrespective of their financial situation (Ibid: 27). In the overall structure of the public revenues, he also mentions public properties as the primary source of income, direct taxes as a means to ensure distributive justice, and zakat as a tool to offset the regressive effects of the indirect taxes (Ibid: 27-29).

Azmi's PhD dissertation, completed in 1998 under the supervision of Abul Azim Islahi, aims to reveal the evolution of the Islamic public finance theory during the first five centuries of Islam. Azmi's (1998) study primarily draws on classical literature branches, such as kharaj, amwal, and al-ahkam al-sultaniyyah, which cover the subjects of the state treasury, budget revenues and expenditures, taxation, and fiscal management. He states that public finance in the early periods of Islam was not purely an issue of budgetary operation but was deeply rooted in Islamic guidance and ethical and social principles (Ibid: 35). After discussing the roles and functions of an Islamic state, he classifies public revenues as semi-state (ghanimah and zakat) and full-state (fai') revenues (Ibid: 157-158). Regarding taxes beyond the classical revenue sources, he notes that early writers on public finance did not address borrowing and additional levies, likely owing to the abundance of classical revenues at their time (Ibid: 147). In this context, Azmi concludes that additional taxes are legitimized by underlying needs to be financed with their proceeds when the other sources are insufficient, mainly referring to Ibn Hazm (d. 1064), Imam Ghazzali (d. 1111), al-Juwayni (d. 1085), and Ibn Taymiyyah (Ibid: 152). Although the classical literature on fiscal systems does not approach the subject matter as systematically as modern studies do today, Azmi

deduces conditions and principles of taxation based on classical treatises and practices of caliphs, particularly concerning zakat and kharaj. His main finding is that the early Islamic fiscal system adhered to principles such as nisab (richness), nama (actual or discretionary capacity to grow), the degree of labor involvement in wealth creation, certainty in tax base and rates, equity, flexibility, convenience, efficiency (being economical), avoidance of double taxation and productivity (Ibid: 181-194).

The occasional paper on public finance by Iqbal and Khan (2004), published by the Islamic Research and Training Institute (IRTI), stands out for its discussions on the relevance of the classical public revenue sources today and the innovative interest-free financing methods for contemporary Islamic states. The authors argue that determining the right size of the public sector—closely tied to the functions of the state—must be the starting point for financing public expenditures (Ibid: 6). They highlight debates on the state's role, particularly between classical and contemporary scholars, and characterize the Islamic state as a welfare state fulfilling vicegerency and agency roles (Ibid: 14). However, they deem listing the state's functions and roles or specifying their size infeasible and unconceivable because of their dependence on circumstances and revenues (Ibid: 20). Regarding ghanimah and fai', Iqbal and Khan assert that their rulings were context-specific, established in an era when non-Muslims would confiscate the possessions of their opponents. Thus, they argue that ghanimah and fai' are suspended when Islamic states are involved in an agreement that protects the opponents' properties (Ibid: 30-31). Similarly, they argue that jizyah is currently inapplicable due to the existence of organized, professional armies (Ibid: 31). However, they do not claim that ghanimah, fai', or jizyah are abrogated, considering the supremacy of the authority assigned by the Holy Qur'an and the possibility of conditions changing in the future. Keeping in mind the limited capacity of some traditional sources in generating revenues and the suspension of others, they propose an alternative public revenue structure for modern Islamic states. These include zakat, voluntary contributions, income from minerals, seigniorage, taxes, user charges, and fees. Additionally, they advocate innovative interest-free financing methods such as build-operate-transfer models, sukuk, and borrowing as a last resort (Ibid: 36).

Eskicioğlu (2007: 8) critiques modern tax systems, asserting that they reflect a fundamental misunderstanding of the concept of taxation. He challenges the interrelation between the state's responsibilities and its right to impose financial

obligations on its citizens (Ibid: 239). According to Eskicioğlu, an Islamic state cannot charge fees and levy taxes in exchange for public services rendered because it is obligated to carry out specific roles and services without any compensation (Ibid: 323). He redefines taxes as the state's share in production, considering its contribution to production processes (Ibid: 320-321). Consequently, he argues that only production and trade goods should be subjected to the tax (Ibid: 288). In this regard, he bases his arguments on two conditions for zakatable items: nama and being other than essential needs (al-hajjah al-asliyyah) (Ibid: 289-290). Using this framework, he criticizes all modern taxes, including wealth, income, sales, inheritance and transfer taxes, and customs duties, and suggests repealing them (Ibid: 371). Although he does not explicitly propose alternatives to these abolished taxes, the general structure of the study implies the adoption of a comprehensive zakat system, covering both the classical and contemporary zakatable items. This implication aligns with his earlier work, where he clearly states that the zakat constitutes the tax system in Islam (Eskicioğlu, 1996b: 464).

Gökmen and Yeşilyurt (2016) compare the Islamic public finance system with the contemporary public finance structures within the context of religion and economics. The study mainly refers to the historical and theoretical contemporary literature on Islamic public finance. Based on a rudimentary comparison of public finance goals, instruments, expenditures, and budget structures, they identify several key differences between the two systems. They conclude that the Islamic public finance system is characterized by a tax system based on religious affiliation; pre-determined and fixed rates, the principle of allocation in public expenditures; budget preparation driven by revenue rather than expenditure; and a prioritization of fairness in income distribution over other public finance objectives (Ibid: 345). Acknowledging Islam's relevance across all times and the permissibility of imposing temporary additional financial liabilities under certain conditions, Gökmen and Yeşilyurt state that taxation must have a place from an Islamic perspective (Ibid: 337).

Yağmur (2021) approaches the budget revenues and expenditures in an Islamic public finance system from a theoretical, legislative, and historical perspective. He categorizes revenue sources as periodic and non-periodic rather than classifying them based on the religious affiliation of the obligated, which is commonly adopted in previous studies. According to Yağmur, the financial liabilities prescribed in Islamic

law, such as zakat, kharaj, and jizyah, cannot be equated with modern taxes despite the structural similarities (Ibid: 10). He argues that taxes in the contemporary contexts correspond to extraordinary taxes in Islamic public finance, which are permitted only when existing revenues are insufficient to cover essential state expenditures (Ibid: 12). Yağmur further deduces that taxes should be introduced as a last resort after exhausting other options, such as advancing zakat collections, seeking voluntary contributions, and borrowing. Under normal circumstances, he envisions that budget revenues derived from non-tax sources, particularly the vast resources under public ownership in Islamic public finance theory, would suffice to meet public needs (Ibid: 107-108). Finally, he emphasizes that taxes must be conditioned by time and need and imposed exclusively on the wealthy (Ibid: 14-15).

Hamdi and Widiastuti (2021) evaluate the public revenue components in Indonesia from the perspective of Islamic public finance theory. Their analysis draws primarily on the books of Abu Ubaid and al-Dawudi (d. 1011), pioneers in the literature of amwal. After comparing the classical public revenue sources in the early periods of Islam and Indonesia's contemporary public revenue items, they deduce that the two fiscal systems exhibit significant compatibility (Ibid: 138-144). They establish confusing parallels by linking fai'/kharaj, ushur, and jizyah with land/building tax, customs duties, and visa requirements, respectively. It is worth noting that they recognize the differences in their structures and rates (Ibid: 145).

CHAPTER III

ISLAMIC PUBLIC REVENUE SYSTEM

This chapter examines the public revenue sources in Islamic public finance theory, with a particular emphasis on the discussion on the legitimacy of taxation and its associated conditions and principles. It adopts a theoretical and historical framework due to the absence of a comprehensive implementation of Islamic public finance in contemporary states. Nevertheless, it discusses the relevance of classical revenue sources today and the possible channels through which they contribute to budgets. We can say that this chapter provides foundational elements for constructing an Islamic economics perspective on public finance, together with the classical and contemporary literature presented in Chapter 2. Overall, the chapter serves as a vital step in assessing public revenue sources in Türkiye from the lens of Islamic economics undertaken in Chapter 6.

3.1. Foundations of Islamic Public Finance Theory

The public finance discipline is primarily concerned with financial instruments and their employment to carry out the duties of the state and other public institutions (Edizdoğan, Çetinkaya, & Gümüş, 2021: 4). While the state represents the central administration, composed of the presidency and ministries with their related and affiliated institutions, as well as regulatory and supervisory institutions, the public sphere also comprises the local administrations and social security institutions (Mutluer, Öner, & Kesik, 2016: 36). The state and other public institutions provide public goods and services in accordance with the roles and responsibilities assigned to them. However, it is hard to assert that the provision of public goods and services is monopolized by the state and public organizations. As a matter of fact, the liberal standpoint classifies public needs and services into purely public and semi-public categories. While the former points out services, such as justice, internal and external security, the latter corresponds to education, health, infrastructure, etc. (Ibid: 14).

Apart from the public sector, people, either individually or collectively, through nonprofit organizations, participate in meeting some of these needs depending on the circumstances (Rose-Ackerman, 1996). We may even observe a crowding-out effect

in the realm of social welfare expenditures. For instance, the increased public transfers to people in need in the United States of America during the Great Depression in the 1930s resulted in a decline in private charity (Roberts, 1984). These considerations bring us to the point that providing public goods and services is not confined to the state and other public institutions. Thus, public finance has a broader scope beyond the state organ, especially concerning expenditures on public goods and services.

The fact that public finance goes beyond the state regarding the provision of public goods and services is considerably valid for the history and theory of Islamic public finance. This feature of Islamic public finance stems from the Muslims' well-established obligations and duties, whose objectives coincide with the roles and responsibilities of the state to a large extent. Leaving the detailed analysis of the role and responsibilities of the state to a subsection on taxation in this chapter, we want first to highlight the zakat obligations on Muslims, which are earmarked for specific categories stipulated in the Qur'an. As stated in verse 60 of Surah al-Tawbah[7], the beneficiaries of zakat, especially the poor and needy, are also prominent recipients of public transfers in contemporary states. Indeed, zakat was collected by the Islamic states in history and is still compulsorily collected and disbursed through state-led processes in very few Muslim-majority countries, such as Kuwait and Saudi Arabia (Hammad, 2022: 19). In addition, some countries, like Jordan, Indonesia, and Bangladesh, offer incentives by deducting zakat payments from the tax payables or bases (Ibid: 22). However, it is crucial to note that eligible Muslims are obliged to pay zakat even though their states do not regulate or intervene in zakat collection processes, constituting one of the distinguishing characteristics of zakat over taxes.

Regarding obligations on Muslims whose benefits match the objectives of the states' roles and responsibilities, the concept of socially obligatory duties (fardh al-kifayah) becomes prominent. The scope of socially obligatory duty (fardh al-kifayah) in Islam is quite extensive. All deeds that benefit Muslims or remove harm from them are considered in the scope of fardh al-kifayah, provided that they are obliged to only those

[7] The full verse is as follows: "Alms are only for the poor and needy, and those who collect them and for those whose hearts are to be reconciled, and for the ransom of captives and debtors and for the way of Allah and for (the hospitality of) the wayfarers. This is an obligatory duty from Allah, and Allah is Knowing, Wise" (Özek et al., 2018: 195).

eligible to carry out them, and responsibility for other Muslims ends when they are once fulfilled (Buğda, 2023: 10). Both Imam Ghazzali and Shatibi (d. 1388) define fardh al-kifayah as the duties without which society survives (Ibid: 9). Thus, it is also associated with the concept of al-masalih al-mursalah (considerations of public interest) (Ibid: 14-16). As noted by Islahi (2005a: 66), Imam Ghazzali considers even the development of the economy to be one of the socially obligatory duties. The preceding points concerning the scope of socially obligatory duties show their remarkable similarity in nature and objectives to the roles and responsibilities assumed by states. Islahi also highlights this similarity by stating that the state's role is typically recognized in situations involving socially obligatory duties, referring to Mawardi (d. 1058) (Ibid: 64).

We observe that the foundational principles of an Islamic society, such as brotherhood, solidarity, cooperation, altruism, and voluntarism, are tightly related to socially obligatory duties (fardh al-kifayah). These duties require awareness of societal necessities, which can only be possible if the bond of brotherhood is strong between people. Considering the collective nature of the socially obligatory duties concerning all eligible Muslims, they can only be fulfilled through solidarity and cooperation. These responsibilities, which by their very nature require caring for others and being cared for by others, i.e., altruism, are voluntarily carried out to a large extent, especially in cases in which states are not involved. In this regard, awqaf, sadaqah, infaq, and other channels of voluntary contributions to societal needs can be deemed as the practical implications of the fardh al-kifayah and the abovementioned foundational principles of an Islamic society. However, it is essential to note that liabilities on Muslims' property other than zakat ensure that socially obligatory duties are adequately performed. These include the free donation of the usufructs of productive capital, such as domestic utensils and animals, the collective obligation to pay the blood money compensation, obligatory safeguarding of the relatives, accommodating passengers and guests, etc. (Yeniçeri, 2008; Zarqa, 1995). Dawudi also lists the responsibilities of liberating Muslim captives in exchange for ransom, meeting the needs of people and beggars who cannot fulfill their necessities, and distributing part of the harvest as charity among the obligations of Muslims other than zakat (Kallek, 2018a: 175). These obligations seem notable in ensuring and supporting fulfillment of responsibilities within the scope of socially obligatory duties (fardh al-kifayah).

The socially obligatory duties and foundational principles of brotherhood, solidarity, cooperation, altruism, and voluntarism, along with their practical implications and the liabilities on Muslims' property other than zakat, are expected to have consequences in the presence of the state in the economic and public finance sphere. These consequences emerge depending on the people's individual and collective efforts to fulfill socially obligatory duties, which are aligned with the many roles and responsibilities of the state, as noted above. In this sense, al-Dihlawi argues that most people's financial needs do not place significant demands on the government in a pure Muslim society, emphasizing its altruistic and voluntaristic characteristics. According to him, much of the work would be carried out voluntarily, resulting in a reduced need for government officials compared to a society involving people from other religions. Al-Dihlawi concludes that a pure Muslim society needs fewer public revenue sources than mixed Muslim states based on his aforementioned considerations (Islahi, 2011b: 80–85). In addition, the prevalence and effectiveness of awqaf in meeting social needs may lead to a decrease in the burden on the state and other public institutions. Concordantly, Ibn Nujaim states that the kharaj obligation of the awqaf can be forgiven when their fields of activity correspond to one of the state's expenditure items (Islahi, 2009: 149).

The above considerations exhibit the dimensions of Islamic public finance theory that reach beyond the state and public institutions based on zakat and socially obligatory duties (fardh al-kifayah) as well as associated principles and institutions. However, the implications of the fardh al-kifayah concept extend further than this observation. It also poses a basis for taxation. More precisely, the state can force its citizens when the societal needs in the scope of socially obligatory duties are not adequately met. This understanding mainly emerges from the fact that Muslim authors have separated the source of public needs from those of individuals, recognizing the state as a transcendent collective sovereignty above individuals (Kallek, 2018a: 6).

In the context of the nexus between taxes and socially obligatory duties, Ibn Taymiyyah advocates for mutual assistance among people in meeting basic needs such as food, clothing, and shelter. He also emphasizes the responsibility of the head of state to ensure these needs are met and the state's authority to oblige people to provide this assistance (Azmi, 1998: 151). Al-Sadr (1980: 683–710) assigns two central roles to an Islamic state: social security and social balance. The concept of social security

encompasses both the vital needs, which are to be met by other members of the society as a collective obligation (fardh al-kifayah) based on the brotherhood principle, and other needs that will enable them to reach the average subsistence level in society (Ibid: 683-686). Al-Sadr thinks that the states may employ coercive measures to ensure the fulfillment of this collective obligation (Ibid: 684). Kahf (1987a: 33) asserts that the principle of mutual solidarity within the Muslim community can serve as a robust foundation for justifying the imposition of taxes when introduced by referring to the practices of the Prophet ﷺ regarding blood money and ransom in Madinah. Tabakoğlu (2016a: 359) views taxes as mechanisms for social solidarity and assistance. Salama (1982: 346) justifies the additional levies other than zakat in an Islamic state by referring to the call for spending in the way of Allah in the Holy Qur'an, in which he assigns the state the authority to impose levies when its citizens are reluctant to fulfill this call adequately. Iqbal and Khan (2004: 40) argue that redistributive measures elucidated by Zarqa (1995), some of which we consider within the scope of socially obligatory duties, are not operational in contemporary Muslim societies due to the loss of moral integrity. Thus, they emphasize the need for taxation to support the redistributive mechanism. Hasannuzzaman (1993: 23) suggests institutionalizing infaq/sadaqah as a form of indirect taxes today, emphasizing that the institution of infaq in the Holy Qur'an (sadaqah as it is expressed in the Sunnah) possesses an obligatory nature separate from zakat and without stipulated subjects, rates, exemption limits, and penalties for non-fulfillment. It is fair to say that all these approaches to taxation in the literature of Islamic public finance originate from either the socially obligatory duties or principles and institutions tightly associated with these duties.

3.2. Public Revenues from the Perspective of Islamic Economics

Although socially obligatory duties can provide a basis for taxes, as discussed in the previous section, it is crucial to note that taxation is neither the only nor the most preferred and prioritized way to ensure their fulfillment. In addition, some duties in this context, such as security and justice, are necessarily and inevitably the state's responsibility. Therefore, regardless of the contribution of the people to these duties, the state, in any case, needs sources of revenue to realize such responsibilities. At this point, many questions arise regarding other sources of public revenue, including taxes, their nature, the conditions under which they can be utilized, historical practices, and

the opportunities they offer today. Thus, the subsequent parts of this section elaborate on the public revenue sources listed below:

1. Properties under the State's Ownership or Rule and Disposal
2. Classical Public Revenues: Ghanimah, Kharaj, and Jizyah
3. Zakat
4. Public Enterprises
5. Voluntary Contributions
6. Miscellaneous Revenues
7. Taxes

The above list of public revenue sources has been formed based on classical and contemporary literature. Although it can also consist of deficit and equity financing instruments, the focal point of the thesis is the sources other than these. Despite the great potential of equity financing instruments in an Islamic economy and the cruciality of deficit financing in contemporary fiscal structures, we opt to exclude them from the scope of the thesis for various reasons. First, they are not considered ordinary and permanent public revenues because of their characteristics, mainly stemming from the underlying contracts. The sources raised through borrowing or forced borrowing cannot be deemed revenue since they demand repayment, which is generally settled from the other revenue sources, primarily taxes. Second, they have a circumstantial and case-specific nature. Most equity financing instruments cannot be applied to all investments and expenditures. Last but not least, both deficit and equity finance require a comprehensive analysis considering the periodic needs of government spending and the appropriateness of alternative instruments, which exceeds the scope of this thesis.

3.2.1. Properties under the State's Ownership or Rule and Disposal

3.2.1.1. Types of Properties

Islamic law literature categorizes properties in terms of their ownership status, and Islamic economics theory mainly rests on this framework formed by scholars of Islamic law. Although there are variations in categorizations, we follow the precise and detailed classification constituted by Günay (1997) after extensive research on all property types addressed in Islamic law literature. According to him, properties by ownership status are composed of five groups: free (mubah), state, public, awqaf, and

private properties (Ibid: 27). Since the first three property types are either under the state's ownership or rule and disposal and thus directly related to the public finance because of the reasons detailed below, this subsection focuses on them rather than the categories of awqaf and private properties.

Before elaborating on the characteristics of free (mubah), public, and state properties and their link to ownership or rule and disposal of the state, it would be convenient to compare them with an emphasis on their distinguishing aspects. As acknowledged by Günay, all these property categories can be included in the general framework of public goods. In fact, the terms public (ammah) or joint good are used to refer to all properties in the public interest, including state property, in classical Islamic law treatises (Ibid: 76). This is also valid for free (mubah) properties. However, public property stands for the things left to the active/direct and free use of the general public or the inhabitants of a particular area (Ibid: 104). While it is distinguished from state property by being freely exploited, its active and direct usage by the public differentiates it from free (mubah) property.

a) Free (Mubah) Properties

Free (mubah) properties cover items permissible to acquire and own. The concept of mubah comes from this permissibility. They are not owned by the state or individuals, i.e., accessible to and mutually benefited by all (Ibid: 29). The scope of free (mubah) properties is mainly determined by the hadith of the Prophet ﷺ stating that "The Muslims are partners in three things: water, pasture, and fire, and their price is unlawful."[8] People have the right to acquire (ihraz) and own these properties by respecting the required conditions specified in Islamic jurisprudence. However, the state has the authority to regulate acquisition forms (Ibid: 30-31).

Free (mubah) properties can be further divided into movable and immovable free (mubah) properties. The movable free (mubah) properties mainly include water, pasture, and fire, as stated in the relevant hadith above, although they are not limited to them. For instance, prey animals, trees in large forests and ownerless lands, apparent

[8] Sunan Ibn Majah 2472, Chapter 16: The Muslims Are Partners In Three Things, Book 16: The Chapters on Pawning. Retrieved from https://sunnah.com/ibnmajah:2472.

(zahir) and liquid minerals, etc., are deemed among the free (mubah) properties (Ibid: 28-39). El-Ashker and Wilson (2006: 58) argue that these properties are determined based on their essentiality for society, and states can determine their scope by considering the prevailing circumstances and public interest.[9]

At this point, it is crucial to note that these goods cannot be treated as free (mubah) goods in absolute terms. It is necessary to pay attention to several aspects affecting ownership status (Günay, 1997: 31). For instance, water can be subject to private ownership when duly acquired. While the watercourse of large and common rivers is a public good, the water flowing in them is a free (mubah) good (Ibid: 30-33). Therefore, water, which is categorically a free (mubah) property, can be transformed into private or public goods depending on such aspects. This consideration is valid for the other movable free (mubah) properties, such as pasture and fire.

In the context of subcategories of free (mubah) properties, dead (mawat) lands are considered the most characteristic form of immovable free (mubah) properties (Ibid: 39). The dead (mawat) lands have three main characteristics: idle, ownerless, and potentially useful. In order to classify a land under the category of dead (mawat) lands, it must not be currently used for agriculture, settlement, or production, which makes it idle. Secondly, it should be neither a public good nor privately owned, which makes it ownerless. Lastly, it ought to be of a utilizable nature when labor is expended, which makes it potentially useful (Aktan, 2000: 7). In brief, privately owned lands, public lands with adjacent areas, land belonging to state and awqaf, residential neighborhoods and their adjacent areas, and lands currently subjected to a grant (iqta) or revival (ihya) cannot be considered in the group of dead (mawat) lands (Ibid: 8).

Günay (1997: 53) proposes to attribute dead (mawat) lands to a separate property category other than free (mubah), state, and public properties. By definition, dead (mawat) lands are ownerless, which separates them from private and state ownership. As a matter of fact, scholars did not consider them as state land until the Land Law of

[9] It is worth noting that the categorization of properties adopted by El-Ashker and Wilson (2006) differs from that of Günay (1997). While Günay classifies these properties as free (mubah) and emphasizes the fact that they may turn to private and public properties depending on the conditions, El-Ashker and Wilson deem them under public property.

1858 (Arazi Kanunnamesi), after which the bare ownership of dead (mawat) lands was widely accepted to belong to the state (Ibid: 52). Furthermore, he argues that the public does not directly and actively benefit from these lands. In this regard, we can emphasize their idle status as one of the characteristics. So, according to him, they violate the distinguishing features of public properties explained above (Ibid: 51). Lastly, dead (mawat) lands can be privately owned through a grant (iqta) and revival (ihya), which also constitute another aspect where they differ from public goods. Consequently, he considers dead (mawat) lands as idiosyncratic property under the state's rule and disposal (Ibid: 53).

The state may have three different dispositions on the dead (mawat) lands. First, the state has the authority to allocate these lands for the public in general or for the poor and the treasury in particular to graze their livestock. This allocation was conceptualized as hima (protected land) in Islamic law and practiced throughout Islamic history, starting from the periods of the Prophet ﷺ and the Rightly Guided Caliphs (ra) (Günay, 1998: 53). Allocating a dead (mawat) land as hima forbids its private acquisition but ensures free access, making it public land according to the categorization of Günay.[10] Secondly, the state can grant dead (mawat) lands to people with or without remuneration (Günay, 1997: 53). In this context, grant (iqta) stands for the transfer of the ownership or operation/utilization rights over lands or immovables at the disposal of the public authority to private individuals by the state (Demirci, 2000: 43). Abu Yusuf acknowledges that the head of state can operate these lands by way of rent (ijarah) if he finds it appropriate (Günay, 1997: 43–44). Thirdly, the ones who carry out needed actions with the intention of revival (ihya) and possession are entitled to own the dead (mawat) land, according to all schools of Islamic jurisprudence. Many actions may be considered as a revival (ihya) of the land, such as irrigation, digging canals, building fountains, digging wells, weeding the land, draining the swamp, planting cereals and trees, constructing buildings, and so on (Aktan, 2000: 8). Most Hanafite and Cafarite scholars deem the approval of the state required, considering that the ahadith regarding the revival (ihya) was said in the prophetic capacity (Ibid: 9). It

[10] Günay (1998: 54) believes it is more appropriate to view hima allocated for animals at the disposal of the treasury, such as zakat animals and horses kept for holy war (jihad), as state property.

is worth noting that one of the essential aspects of the consideration of Abu Hanifa is to prevent the disputes and conflicts over the lands subjected to revival (ihya). Abu Yusuf also has the same opinion about the areas where conflicts may arise (Günay, 1997: 49–50).

b) Public Properties

Public property refers to things left to the active/direct and free use of the general public or the inhabitants of a particular area. The concept of public property was not used in the classical Islamic law literature. However, this does not mean the Islamic property theory lacks goods dedicated to public use. Hima in the classical literature and matruq defined in the Ottoman Land Law of 1858 (Arazi Kanunnamesi) are essential concepts and institutions to reveal the public property theory in Islamic law (Günay, 2004: 416).

Günay lists three channels leading to the acquisition of public property status. First, some properties are considered public property owing to their nature, which prevents private ownership over them. These primarily include natural sources and wealth, such as common waters, salt fields, apparent (zahir) minerals, and pastures (Günay, 1997: 109–110). Secondly, tradition and ancient practices indicating the public use of particular areas, such as the grassland, road, prayer hall, marketplace, cemetery, etc., are also valid to consider these places as public property (Ibid: 110-111). Lastly, legal dispositions, especially by the state, namely, allocation, waqf, and expropriation, may transform free (mubah), state, or private immovables to public properties (Ibid: 111-116).

One may realize that the examples given for free (mubah) properties above, such as water, apparent (zahir) minerals, and pasture, are almost identical to those deemed as public property based on their nature, preventing private ownership. However, it is worth distinguishing between goods acquired and their source, where they are found, to understand the difference between free (mubah) and public properties in this context. For instance, salt, apparent (zahir) minerals, and water are free (mubah) properties, but corresponding salt fields, mining lands, and watercourses are public property. Therefore, the former properties can be privately owned by respecting the acquisition principles, while private ownership over the latter group is forbidden due to being public property (Ibid: 153-188).

In principle, public properties cannot be subjected to a grant (iqta) or revival (ihya), and it is not allowed to issue exclusive utilization rights to particular persons, as indicated in the classical treatises, to prevent hardship and distress that may arise for the public. They are under the state's rule and disposition, not ownership. The state has the authority to supervise and oversee them (Ibid: 131-132). Nevertheless, Hanbalite and Shafi'ite scholars consider granting (iqta) public properties permissible if there is public interest (Gözübenli, 2000: 51). However, this allocation is conceptualized as iqta al-irfaq, a form of granting that provides a permanent right of priority benefit over public lands (Günay, 1997: 148–151).

c) State Property

State properties cover movable and immovable assets, including monetary revenues, under the ownership of the state or treasury (bait al-mal). In contrast to the free (mubah) and public properties, the bare ownership of these properties belongs to the state. However, state ownership does not imply that the head of the state can dispose of these properties as if they were his private property. The public interest restricts his actions and dispositions over the state properties (Günay, 1997: 66–67; Kahf, 1998: 244).

State properties can be categorized into four subgroups: cash holding, lands, industrial plants and commercial enterprises, and service goods (Ibid: 68). Since the cash holdings are derived from various sources, including other state properties and financial obligations on people, such as kharaj and jizyah, which we have discussed separately in the thesis, we merely mention it as a form of state property here.

Lands, the second group of state properties, constitute the most controversial part due to disputes on ownership status linked with how they were conquered. Basically, there exist four possible ownership statuses for the lands after the conquest. They may belong to the state, mujahids, all Muslims as waqf, and previous owners holding the lands before the conquest (Kallek, 1997: 72–73). When the lands are distributed among the mujahids after the conquest as ghanimah, the state gets its one-fifth share (khums). When the ownership of the lands conquered by peace agreement is not left in the hands of their former owners or when the lands conquered by force are not divided among the mujahids, most scholars think these lands become a waqf devoted to Muslims' welfare (Ibid: 72). However, Hanafites argue that bare ownership of such lands can be

assigned to the state or treasury (Günay, 1997: 71–72). We prefer not to go further into the details of the controversy because it exceeds the scope of the thesis despite its importance. As a matter of fact, waqf or state ownership status of the conquered lands does not constitute a significant difference in terms of the state's authority over these lands. From both perspectives, the state controls the bare ownership of the lands and disburses their revenues to the public welfare. The only difference emerges in the cases of sale and waqf, which may be possible for the state lands but not awqaf lands (Ibid: 77-79). However, it is worth emphasizing that most jurists consider the sale or grant with ownership rights (iqta al-tamleek) of state lands to be permissible only out of necessity and public welfare. Lastly, the conquests are not the only way to establish state ownership over land. When the private owners of lands pass away without an heir and debts, these privately owned lands are transferred to the treasury (Ibid: 72).

Among the other kinds of state properties, industrial plants and commercial enterprises refer to the state's economic activities in the manufacturing and service sectors. The state can carry out such activities in areas the private sector does not engage in for various reasons, such as low profitability and high costs, or in industries that cannot be left to the private sector due to their strategic importance. El-Ashker and Wilson (2006: 146) note that state-owned commercial enterprises emerged during the Umayyad and Abbasid dynasties. The Umayyad Caliph al-Walid b. Abd al-Malik (705-15) established a council (Diwan al-Mustaghallat) to supervise public enterprises, including public baths, small shops, mills, etc., which were either directly operated by the state or rented to generate income (Ibid: 148-149). The last category of state properties, service goods, includes guest houses for ambassadors, treasury buildings, and prisons, which occurred at the time of the Prophet ﷺ and the Rightly Guided Caliphs (ra). Hospitals, as one example of state-owned service goods, were first built during the reign of Walid b. Abd al-Malik (705-715). Nowadays, the scope of service goods has expanded in line with the roles of the state to include buildings of governments, municipalities, police stations and schools, hospitals and other health facilities, libraries, courthouses, and public markets (Günay, 1997: 75–76). However, in cases where persons directly benefit from the service, and it is impossible to distinguish between the service provided and the goods instrumental to it, such goods may be considered public goods (Ibid: 79-81).

3.2.1.2. The Value of the Properties Under the State's Ownership or Rule and Disposal in terms of Public Finance

The preceding subsections on free (mubah), public, and state properties present their characteristics and the state's discretionary power over them, either through its ownership or rule and disposal authority. We expect that such vast resources entrusted to the control of the state may have implications for public finance revenues. Therefore, the following parts focus on particular free (mubah), public, and state properties and reveal how these properties can contribute to public revenues. These include minerals, lands, and water, considering their current potential on the one hand and well-established Islamic rulings and historical practices on the other.

The properties under the state's ownership or rule and disposal can directly or indirectly be an instrument in providing public goods and services. For instance, the state can devote its properties or free (mubah) properties to public use through roads, public gardens, pastures, and copse (Günay, 1997: 113). Similarly, natural resources, as free (mubah) properties, and their sources, as public property, can provide raw materials for public enterprises in various sectors, which may produce public goods. However, the thesis does not cover these aspects of the properties owned or ruled by the state, since we focus on public revenues composed of monetary revenues. Therefore, the state's direct or indirect utilization of these properties in producing public goods and services has been mentioned only in terms of the public revenues generated through them.

a) Minerals

The definition and scope of minerals have been subject to changes due to industrial needs and technological advancements. For instance, the First Five-Years Development Plan (1963-1967) of Türkiye initially considered petroleum products in the mining sector, while the Second Plan (1968-1972) classified them within the manufacturing sector (Adalı, 1987: 57). Currently, the second article of the Mining Law of Türkiye regards all materials that are naturally found in the earth and water and have economic and commercial values as minerals except crude oil, natural gas, geothermal, and water sources (T.C. Resmi Gazete, 1985: 2). On the other hand, Ibn Humam (d. 1457), a Hanafite scholar, defines minerals as the permanent element that

Allah composed in the earth while creating it (Aktan, 1986: 25). Since crude oil and natural gas have a similar nature to the other minerals defined in the Mining Law and by Ibn Humam, we prefer to examine them together with the other well-known minerals, such as gold, silver, lignite, sodium, uranium, diamonds, etc.

It is required to approach minerals from three aspects, namely ownership statuses, granting (iqta) and revival (ihya), and financial obligations, to understand their connection with public finance properly. Examining these dimensions enables us to clarify which type of property minerals belong to and the extent to which the state and the people can exercise disposal rights over them. In this way, the state's authority and the people's financial obligations in this context are identified, and the link between minerals and public revenues is revealed. However, it should be noted that in this section, we have focused on the financial liabilities arising from minerals that may be subject to private ownership and their contribution to the treasury. Beyond this, it is also worthwhile to consider the operation of minerals directly owned or controlled by the state, either by the state or the private sector, through various contracts. As a matter of fact, the considerations set out below for public enterprises apply to state-owned mining enterprises. On the other hand, the relationship between the state and the private sector in the mining sector is discussed in the fifth section with a specific focus on Türkiye.

i) Ownership Status of Minerals

We have identified three matters that may impact the ownership status of minerals in Islamic law. These are whether minerals are at their source or extracted, the ownership status of lands where minerals are found, and mineral types. Since the mineral types are a factor that needs to be considered while interpreting the impacts of the other two matters on the ownership status of minerals, it is worth prioritizing the two main classifications presenting mineral types in the classical literature to better grasp the ownership status of minerals.

The classification proposed by Mawardi, a Shafi'ite scholar who is known for his theories in politics and ethics, and Abu Ya'la (d.1066), a well-known Hanbalite scholar, divides minerals into apparent (zahir) and hidden (batin) minerals. This classification has been mainly adopted by Shafi'ite and Hanbalite schools (Günay, 1997: 169). Mawardi bases the category of apparent (zahir) minerals on the hadith

(tradition) about the Ma'rib salt mine, while the category of hidden (batin) minerals is exemplified with the minerals of the Kabaliyyah land granted by the Prophet Muhammad ﷺ to Bilal b. al-Harith (Erkal, 2008: 172). According to the classical definition, apparent (zahir) minerals are the ones on the surface or close to the surface and whose ore is visible without needing labor and expense (Günay, 1997: 169). This definition has been formulated considering the characteristics of salt, and the minerals included in this category are determined with an analogy (qiyas) to salt. Pitch, gypsum, millstone, lime, loam, ruby, emerald, and marble can be listed as examples of apparent (zahir) minerals according to the definition above (Ibid: 169). On the other hand, the definition of hidden (batin) minerals is established with an analogy (qiyas) of gold, the major mineral in the land of Kabaliyyah mentioned in the hadith (tradition) above. Hidden (batin) minerals are described as those that cannot be extracted without labor and excavation, regardless of the need for smelting and refinement. Based on this definition, silver, iron, copper, and lead can be considered as some kinds of hidden (batin) minerals (Ibid: 169-170).

The need for the distinction between the two categories of minerals arises from the difference in rulings about the ownership status of the minerals in each group. According to the hadith about the Ma'rib land, the Prophet ﷺ withdrew from his decision to grant (iqta) the land to Abyad b. Hammal, after learning from a companion who warned Him ﷺ that it contains a salt mine that is constantly replenished. Thus, it has been ruled that salt and the minerals categorized in the apparent (zahir) minerals with an analogy (qiyas) to salt cannot be privately owned, granted (iqta), subjected to revival (ihya), and monopolized by the state if they are found in the lands that are not privately owned, i.e., public and dead (mawat) lands (Ibid: 171). In addition to the hadith about the Ma'rib salt mine, another hadith stating that "The Muslims are partners in three things: water, pasture, and fire, and their price is unlawful"[11] is also used as supportive evidence for the ownership status of the apparent (zahir) minerals because people are in need of these kinds of minerals and can access to them easily as in the case of water, pasture, and fire (Ibid: 171-172). In the case of private lands, including the lands owned by individuals, the state, or awqaf, where apparent (zahir) minerals

[11] Sunan Ibn Majah 2472, Chapter 16: The Muslims Are Partners In Three Things, Book 16: The Chapters on Pawning. Retrieved from https://sunnah.com/ibnmajah:2472.

are found, the majority of Shafi'ites, Sahnun (d. 854) from the Malikites, and Hanbalite and Zahirite schools, according to a report, consider them inseparable parts of the lands and entitle the landlord as the owner of the minerals. However, apparent (zahir) minerals found in privately owned land are deemed free (mubah) property by Hanbalites, some Shafi'ites, and Hanafites[12], according to the analysis of Günay (1997: 171–173). Consequently, it can be said that apparent (zahir) minerals are considered free (mubah) property, such as water, pasture, and fire, by most schools, bearing in mind the dispute among them regarding the ones found in privately owned lands. In contrast, the ownership status of hidden (batin) minerals directly depends on land types, as discussed below.

As the second matter that affects the ownership status of minerals, the land types come into prominence, especially in the case of hidden (batin) and solid minerals. It is worth noting that we examine the groups of hidden (batin) and solid minerals in terms of their ownership statuses depending on the land types from the perspective of the schools that adopt the corresponding classification.

[12] Hanafite school, which does not adopt the classification of minerals into apparent (zahir) and hidden (minerals), proposes a slightly different categorization that divides the minerals into liquid and solid minerals (Aktan 1986, 31). The basis of this categorization is the analogy (qiyas) made between water and liquid minerals. According to the Hanafite school, liquid minerals are fluid minerals brought to the surface as a source (Ibid: 32). Thus, Hanafites ruled that liquid minerals cannot be privately owned or granted, and the lands consisting of these minerals cannot be subjected to revival, even they are found in privately owned land (Ibid: 42). The view of Hanafite schools regarding the ownership status of the apparent (zahir) minerals is deducted by Günay (1997) from Hanafites' ruling about the liquid minerals that can be included in the category of apparent (zahir) minerals. As a matter of fact, el-Malik (1993: 111) acknowledges that apparent (zahir) minerals involve all liquid minerals. The same rulings derived for apparent (zahir) and liquid minerals in terms of their ownership statuses strengthen this consideration. However, we recognize the possibility of different interpretations when the other definitions in the classical or contemporary literature are adopted. For instance, it is also possible to classify the liquid minerals that can only be extracted with drilling in the category of hidden (batin) minerals (Aktan 1986, 42).

Demir (2012: 248) notes that there exist three core theories concerning the ownership status of minerals, namely accession (minerals as inseparable parts of the lands), res nullius (minerals as unclaimed goods), and domanialiter (minerals under the state's ownership). In regard to hidden (batin) and solid minerals, we can say that the schools of Islamic jurisprudence mainly adopt minerals as inseparable parts of the lands (accession) among the other three theories. For instance, minerals found in lands under the ownership of individuals, states, and awqaf are ruled to be possessed by the proprietor according to most schools of Islamic jurisprudence (Günay, 1997: 173–179). When the minerals are located in dead (mawat) lands, they are considered free (mubah) property by all schools of Islamic jurisprudence except Malikites, who accept state ownership over all minerals regardless of the lands in which they are discovered (Ibid: 175). The issue of whether private ownership can be established over the minerals found in state and dead (mawat) lands is related to the granting (iqta) and revival (ihya) of lands, and it has been discussed in the following subsection. Finally, the minerals in public lands are deemed public property by Günay despite the classical doctrine not considering public lands as a separate category from dead (mawat) lands (Ibid: 177-178).

The last matter that has implications on the ownership status of the minerals is whether minerals are at their source or extracted. As a general principle, apparent (zahir) and liquid minerals that cannot be owned at their sources become free (mubah) property after their extraction, and they are owned by the ones who extracted them, keeping in mind the disputes about the ownership status of this kind of minerals in the case of privately owned lands, as noted above. We know that there were traders who transported salts from the Ma'rib mine to the big cities for sale purposes (Aktan, 1986: 40). On the other hand, it cannot be deduced that hidden (batin) and solid minerals are not subject to private ownership at their source and are owned by the ones who extracted them independently of the ownership status of the land, as Demir (2012: 246–247) claimed by referring to the views of Sarahsi, Imam Malik and Imam Hanbal. Indeed, Günay (1997: 173) disagrees with Demir after an extensive analysis of the classical treaties in this regard and concludes that all schools of Islamic jurisprudence except the Malikites assign the bare ownership of hidden (batin) and solid minerals at their source to the land owners in the case of privately owned lands. Günay's conclusion is supported by Aktan (1986: 41), who emphasizes the theory of accession

(minerals as inseparable parts of the lands) for these kinds of minerals located in privately owned lands, including state and waqf lands. The access of third parties to the minerals in the state, dead (mawat), and public lands constitutes another issue, which is related to the institutions of granting (iqta) and revival (ihya) and elaborated on in the following subsection.

ii) Granting (Iqta) and Revival (Ihya) of Mining Lands

The issue of granting (iqta) of lands by the state is of concern in the case of state, dead (mawat), and public lands, rather than privately owned lands, while revival (ihya) is recognized for dead (mawat) lands (Gözübenli, 2000: 50–51; Günay, 1997: 173). The views of the schools in regard to granting (iqta) and revival (ihya) of agricultural lands are applicable for the mining lands according to the considerations of the scholars and early practices of the Islamic state, although the mining lands are subjected to grant (iqta) or revival (ihya) on a comparatively limited scale (el-Malik, 1993: 123). With respect to revival (ihya), whether the extraction of minerals can be considered a form of revival is a matter of debate among schools (Günay, 1997: 175). In addition, the mineral types come to the fore as a determining factor in the case of mining lands. Thus, the discussion on the granting (iqta) and revival (ihya) of the mining lands is held in the frame of the ownership status of lands, mineral types, and the nature of revival (ihya).

Grant (iqta) is the transfer of the ownership or operation/utilization rights over lands or immovables at the disposal of the public authority to private individuals by the state (Demirci, 2000: 43). A grant (iqta) can be in three main forms in terms of the ownership status of the lands granted and the rights entitled to the grantees.[13] Iqta al-

[13] The forms of grants (iqta) have various implications on the sphere of disposal of the grantees. The lands granted in the form of iqta al-tamleek can be the subject of contracts of sale, lease, etc., and inherited by the grantee's heirs (Ibid: 50). However, the grantee's ownership right over the land granted differs from the other general and substantive methods of acquisition of property, such as sale and inheritance because of the fact that grants are generally conditional on revival (ihya) and lands are taken back if they are left idle (Ibid: 51). The second form of a grant, iqta al-istiglal, is non-binding and limited to the term of office of officers and commanders (Demirci, 2000: 44; Gözübenli, 2000: 51). The lands

tamleek grants ownership rights to the grantee, while the grantee is entitled only to operation/utilization rights in the case of iqta al-istiglal and iqta al-irfaq. The difference between the last two forms of grants (iqta) is that iqta al-istiglal grants individuals the right to use and benefit from kharaji or ushri lands that are not owned, operated, or utilized by others, while iqta al-irfaq is a form of granting that provides a permanent right of priority benefit over public lands (Gözübenli, 2000: 51; Günay, 1997: 148–151). In addition, iqta al-istiglal involves the assignments of the right to collect taxes on the kharaji lands to prominent officials and commanders as compensation for their services instead of paying wages and salaries (Demirci, 2000: 44). According to most scholars from various schools of Islamic jurisprudence, dead (mawat) lands can be subjected to iqta al-tamleek (Gözübenli, 2000: 50). They also agree by consensus that iqta al-tamleek is not permissible in the case of privately owned lands and public lands of the Islamic state (Ibid: 50). Regarding the state lands or the other lands at the disposal of the state, the permissibility of iqta al-tamleek is a controversial issue among the scholars of the Islamic jurisprudence, which exceeds the scope of the thesis.

Mineral types are of great importance in determining whether a land consisting of minerals can be subjected to grants (iqta) apart from the ownership status of the lands themselves. It is not permissible to grant apparent (zahir) minerals to individuals under any circumstances, according to the Shafi'ite and Hanbalite schools (Ibid: 51). Hanafites state that liquid minerals cannot be granted and privately owned with an analogy to the case of water sources (Aktan, 1986: 39). Malikites highlights the danger of monopoly over apparent (zahir) minerals and the possible harms that other citizens may suffer because of the restriction arising from the grant (iqta) (Ibid: 113). Mawardi asserts that the grantee does not have the right to prevent others from utilizing apparent

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granted in the form of iqta al-istiglal can be rented to others and inherited by the grantee's heirs, provided that the head of the state approves (Gözübenli, 2000: 51). Otherwise, they cannot be the subject of the inheritance (Demirci, 2000: 46). Iqta al-irfaq is not allowed to be performed by the head of the state if the other beneficiaries of the public land are harmed (Günay, 1997: 149). In addition, the grant must be to achieve a public benefit (Gözübenli, 2000: 51). So, the grant is revocable if the grantee's actions harm the other beneficiaries who utilize the public land or if the public benefit aimed is no longer applicable. The lands granted in the form of iqta al-irfaq cannot be subject to sale, rent, or inheritance.

(zahir) minerals in the lands the head of state grants, even though he has no such authority (Ibid: 121).[14]

The second group of minerals, namely hidden (batin) minerals in the classification of Mawardi and Abu Ya'la or solid minerals in the Hanafites' categorization, is permissible to be granted according to most scholars in various schools of Islamic jurisprudence (Aktan, 1986: 41–42). The disposition of the Prophet ﷺ with regard to minerals of the Kabaliyyah land, as explained earlier, is considered the basis of the rulings about the grants (iqta) of the hidden (batin) or solid minerals (Gözübenli, 2000: 50). In addition, these types of minerals are different from apparent (zahir) and liquid minerals in terms of being an inseparable part of lands and not available for usage by all humans without labor and excavation (Aktan, 1986: 41–42).

The type of the grant (iqta), and thus the rights assigned to the grantee, differ among the scholars who consider the grant (iqta) of the hidden (batin) and solid minerals permissible. Iqta al-tamleek is permissible for hidden (batin) minerals, according to some scholars from Shafi'ite and Hanbalite schools. In contrast, other scholars in those schools argue that only iqta al-istiglal or iqta al-irfaq can be valid in the case of hidden (batin) minerals. On the other hand, Malikites, who hold the view that all minerals belong to the treasury (bait al-mal), hidden (batin) minerals can only be subjected to iqta al-istiglal that assigns operation/utilization rights to the grantee, rather than ownership rights entitled through iqta al-tamleek (Gözübenli, 2000: 51). Although the types of grant (iqta) have varied implications on the grantees' rights over the land and minerals granted, it can be said that they do not differ in terms of the minerals extracted belonging to the grantee based on practices at the time of the Prophet ﷺ and the rightly guided Caliphs (ra) (el-Malik, 1993: 124). This point is where financial obligations on

[14] As a matter of fact, these rulings are binding for all public properties as explained in the context of iqta al-irfaq above, and Günay (1997: 141) classifies apparent (zahir) minerals as public property such as roads, square, and streams. All people need these types of minerals as they are in need of water and pasture (Ibid: 171-173). Consequently, apparent (zahir) and liquid minerals cannot be granted, although they are located in dead (mawat) and state lands that are permissible to be granted in principle. However, the institution of iqta al-irfaq may be applied to apparent (zahir) minerals provided that public welfare is achieved, as in the case of public lands.

those who extracted and owned the minerals become relevant. However, the views of the schools of Islamic jurisprudence about this issue will be elaborated on in the following subsection.

Revival (ihya) of lands is the second aspect of the discussion in this subsection and the complementary element of the grant (iqta) since lands are generally subjected to grants (iqta) under the condition of revival (ihya) (Demirci, 2000: 44). Thus, it is a prerequisite for revealing the link between minerals and public finance. Revival (ihya) of lands is of concern in the case of dead (mawat) lands.

Since the concept of dead (mawat) lands and the act of revival (ihya) are briefly explained in the parts devoted to types of properties, we only mention the impact of the revival (ihya) on the ownership status of lands here. Revival (ihya) of dead (mawat) lands entitles the one who carries out the needed actions with the intention of revival (ihya) to own the land, according to all schools of Islamic jurisprudence. This view is based on the hadith reported by Malik Ibn Anas, stating that "whoever shall bring life to a dead soil shall have it for himself" and other ahadith (traditions) indicating the same ruling (Aktan, 2000: 8). The ownership right acquired through the revival (ihya) is lost if the lands are left idle because this kind of ownership right is not unconditional or indefinite and restricted with the purpose of the revival (ihya) (Ibid: 9).

When it comes to dead (mawat) lands containing minerals, we need to differentiate apparent (zahir) and hidden (batin) minerals, as in the case of a grant (iqta). Dead (mawat) lands consisting of apparent (zahir) as well as liquid minerals cannot be subjected to revival (ihya); likewise, they cannot be granted, according to most scholars (Ibid: 171-173). This consideration also aligns with the definitions of such minerals, which indicate those brought to the surface as a source (liquid minerals) or those on the surface or close to the surface and whose ore is visible without needing labor and expense (apparent minerals).

The possibility of revival (ihya) of the dead (mawat) lands where hidden (batin) and solid minerals, and whether it is permissible to own the minerals extracted from these lands, are treated differently by the scholars considering the nature of the revival (ihya) concept. According to Malikites, Shafi'ites, and Hanbalites, mineral extraction in a dead (mawat) land cannot be considered a revival (ihya) because it is both destructive and requires the process to be repeated each time (Ibid: 175). Therefore, the scholars

from Shafi'ite and Hanbalite schools stipulate that the dead (mawat) land must be first cultivated, i.e., brought into life, in order to entitle the ownership rights of the hidden (batin) minerals extracted (el-Malik, 1993: 112–113). On the contrary, some Shafi'ite and Hanbalite scholars think that hidden minerals can only be extracted at the cost of labor and expense, as in the case of the revival of the dead (mawat) lands (Günay, 1997: 175). Based on these considerations, they argue that extracted minerals from the dead (mawat) lands are permissible to own even though the land is not cultivated. From the viewpoint of the Hanafite school, it is inferred that ownership of minerals extracted from dead (mawat) lands can be acquired in the scope of revival (ihya), although classical Hanafite literature does not directly discuss this issue (Ibid: 175). In this regard, one of the supporting arguments is that Hanafites adopt the theory of accession (minerals as inseparable parts of the lands) in the case of solid minerals. Consequently, revival (ihya) of dead (mawat) lands entitles the one who revives to own the land as long as they do not leave it idle, and this ruling applies to hidden (batin) and solid minerals in general, bearing in mind that some scholars do not deem merely mineral extraction as revival.

iii) Financial Obligation Arising from Minerals

The subsection about the ownership status of minerals shows that hidden (batin) and solid minerals can be privately owned at their source when they are found in private lands, since the majority of scholars adopt the theory of accession (minerals as inseparable parts of the lands) for these types of minerals. In the case of apparent (zahir) and liquid minerals, Hanbalites, some Shafi'ites, and Hanafites[15] consider them free (mubah) property even if they are located on private lands. In contrast, these minerals are deemed inseparable parts of the private lands and are owned by the landlords at their source, according to most Shafi'ites. However, it can be said that there is no dispute about the private ownership of liquid minerals extracted by

[15] The view of Hanafite schools regarding the ownership status of the apparent (zahir) minerals are deducted by Günay (1997) from Hanafites' ruling about the liquid minerals which can be included in the category of apparent (zahir) minerals as discussed before, despite the fact that Hanafites does not adopt the classification of apparent (zahir) and hidden (batin) minerals.

respecting the conditions. Similarly, the institutions of grant (iqta) and revival (ihya), as elaborated on in the previous subsection, enable the grantee and the one who revives lands to privately own the extracted hidden (batin) and solid minerals, although there are some disputes in details among the scholars. So, minerals extracted from private, state, dead (mawat), and public lands can be subject to private ownership under certain conditions, which raises the question of financial obligation due to the extracted minerals.

The Holy Quran does not contain a particular verse about the financial obligation arising from minerals. In this regard, verse 267 from the Surah Baqara[16], which commands to spend in the way of Allah from what He produced for human beings from the earth, is considered evidence of the financial obligation to pay khums/zakat from extracted minerals as in the case of agricultural production (Aktan, 1986: 45; Erkal, 2008). The narrations about the practices at the time of the Prophet ﷺ reveal the existence of a financial obligation arising from the mineral extractions, but the details about its nature, rates, and subjects are not precise (Aktan, 1986: 45). In the following paragraphs, we present the views of scholars from various schools of Islamic jurisprudence about these matters in broad terms.

The hadith reported by Abu Huraira, which states that "one-fifth (khums) is obligated on rikaz,"[17] can be considered the most decisive factor in determining the nature and rate of the financial obligation on the mineral extracted. The term rikaz is regarded as a concept that covers both buried treasure and minerals by Hanafite scholars based on the fact that the hadith mentions the ones who die in mines before asserting that rikaz is subjected to khums (20%) (Ibid: 21). Another evidence supporting the view of Hanafite school is that the Prophet ﷺ defines the rikaz as gold that Allah created in the

[16] The full verse is as follows: “O you who believe! Spend of the good things which you have earned, and of that which We have brought out the earth for you. And seek not the bad (with intent) to spend of it (in charity); and know that Allah is Self-Sufficient, and Worthy of Praise” (Özek et al., 2018: 44).

[17] The full text of the hadith translated by Monzer Kahf is as follows: “Harm inflicted by animals is unclaimable, and harm inflicted while (working inside) a well is unclaimable, and harm inflicted while (extracting) minerals is unclaimable, and one-fifth is obligated on rikaz” (Al-Qaradawi, 1999a: 226).

earth when He created it as an answer of a companion about rikaz in the text of the hadith above as well according to Sarahsi (Ibid: 26). Lastly, khums (20%) on minerals is justified by considering the minerals as ghanimah and referring to verse 41 of Surah Anfal[18] stating that one-fifth of ghanimah belongs to Allah, the Messenger, his close relatives, orphans, the poor, and needy travelers (Ibid: 46). Based on the similar consideration, Cafarite school also subject the extracted minerals to khums (20%). However, this analogy between minerals and ghanimah is hard to establish, as Al-Qaradawi noted (1999a: 227).

Shafi'ites and Hanbalites distinguish rikaz from minerals after the linguistic and grammatical analysis of the same hadith (Aktan, 1986: 26). According to the other three leading schools of Islamic jurisprudence, except for Hanafites, rikaz are the valuable items buried by non-Muslims in the jahiliyyah (ignorance) period and found in the Islamic period (Adalı, 1987: 65). Therefore, they do not adopt the rate of 20% for financial obligation on minerals extracted and consider that minerals are subjected to 2.5% zakat. They base this ruling upon a disconnected tradition (munqati' hadith) reported by Imam Malik from Rabi'ah bin Abi 'Abd al Rahman, which says that a fortieth tax was levied on the Kabaliyyah gold mines (Aktan, 1986: 47; Al-Qaradawi, 1999a: 225). However, it is worth noting that Shafi'ite and Malikite scholars only deem a 2.5% levy on gold and silver as zakat, and the levy on the other minerals is considered a tax (Adalı, 1987: 65). Lastly, the rate of the levy on minerals can be determined according to the labor expended and cost incurred while extracting the minerals based on a view attributed to Imam Malik (Aktan, 1986: 47). In this case, minerals extracted with ease and at a lower cost are subjected to 20% while 2.5% is applied to the others that are extracted more costly. Considering the substantial difference between the two rates, Al-Qaradawi (1999a: 229) suggests imposing 5% or 10% based on the cost incurred compared to the value of the extracted minerals.

[18] The full text of the verse is as follows: “And know that whatever you take as spoils of war, a fifth thereof is for Allah, and for the messenger and for the kinsman (who has need) and orphans and the needy and the wayfarer, if you believe in Allah and that which We revealed to our slave on the Day of Discrimination, the day when the two armies met. And Allah is Able to to all things” (Özek et al., 2018: 181).

The dispute among the scholars about the rate of levy on minerals also shows the different considerations regarding the nature of the levy. While Hanafites do not categorize this levy as zakat, adopting the rate of 20%, the other three leading schools of Islamic jurisprudence name it zakat on minerals. Specifying the nature of the levy on minerals has implications on who is obligated to pay, whether the conditions of nisab and the passage of one lunar (hijri) year apply, and the disbursement of collected dues on minerals.

When dues on minerals are considered zakat, only Muslims are obliged to pay it, and non-Muslims pay a tax based on their agreement with the public authority (Aktan, 1986: 49). Since the ahadith reported above regarding rikaz do not mention the condition of nisab, Abu Hanifa is of the view that 20% must be collected from any amount of minerals extracted. On the other hand, the total value of minerals extracted in a lunar (hijri) year must reach the nisab of gold (twenty dinars) to be subjected to 2.5% zakat according to Imam Malik, Shafi'i, Ahmad bin Hanbal (Al-Qaradawi, 1999a: 228). The majority of scholars agree that the condition of passage of one lunar (hijri) year does not apply to minerals, as in the case of agricultural products (Ibid: 229). So, the minerals are subjected to khums or zakat after their extraction. In this regard, Imam Malik and Shafi'i note that mineral types that need to be smelted and refined will be subjected to zakat after the completion of these processes (Aktan, 1986: 52). Hanafites, who categorize financial obligation on minerals as fai', state that it can be spent for public expenditures as a part of the general budget (Al-Qaradawi, 1999a: 230). Imam Malik, Ahmad bin Hanbal, and some Shafi'ite jurists also assert that the revenues from the levy on minerals can be disbursed to those other than zakat beneficiaries, although they acknowledge the rate on minerals as 2.5% (Aktan, 1986: 48).

The scope of minerals subjected to khums or zakat is another crucial aspect of the financial obligation arising from them. Imam Shafi'i and Malik do not impose zakat on minerals other than gold and silver (Ibid: 52-53). According to Imam Malik, the minerals that can be melted and poured into molds can be taxed at 2.5%, while the other minerals can be exceptionally taxed with a ratio considering labor extended and cost incurred (Adalı, 1987: 70). Hanbalites impose zakat on all minerals without any distinction (Al-Qaradawi, 1999a: 224). Hanafites do not consider liquid minerals to be subjected to khums based on the analogy they established between these kinds of

minerals and water (Aktan, 1986: 32). In addition, they sub-categorize solid minerals in terms of whether they can be melted and poured into molds, referring to the hadith (tradition) exempting stone from due. Although this hadith (tradition) is not mentioned in the reliable hadith books, and its authenticity is disputed, Abu Hanifa concludes that only minerals that can be melted and poured into molds are subjected to khums. In contrast, Abu Yusuf is of the opinion that khums must be levied on stones that can be used as jewelry (Ibid: 53).

Where the mineral is found also affects its zakatability or being subjected to khums. For instance, the minerals discovered in residences are exempted from zakat/khums, according to Ahmad bin Hanbal and a narration from Abu Hanifa. On the contrary, Imam Malik and Shafi'i are of the opposite opinion. Abu Yusuf and Imam Muhammad think that being founded in residences does not affect the due on minerals since the phrase in the hadith is absolute and not conditional on where minerals are extracted (Ibid: 53).

Another case where the location of the minerals affects the financial obligation is related to the minerals found in the seas. According to Abu Hanifa and Imam Malik, minerals and other valuables in the sea are not subject to zakat/khums. However, Abu Hanifa exempts pearl and amber from this ruling (Ibid: 54). Abd Allah bin Abbas, as stated in one of the narrations, and Jabir bin Abd Allah, two companions of the Prophet (saw), imply that there is no levy on amber since it is not considered rikaz or ghanimah. However, we also know that Ibn Abbas (ra) reported that one-fifth must be imposed on amber if a levy is to be charged (Al-Qaradawi, 1999a: 230). Abu Yusuf considers all minerals extracted from the sea to be subjected to khums based on the narration about the letter written by Caliph' Umar (ra) to the governor of Yemen, Ya'la bin Umayyah, which states that "one-fifth is obligated on it (amber) and on every jewel that comes out of the sea" (Aktan, 1986: 55; Al-Qaradawi, 1999a: 231). Imam Shafi'i, Ahmad bin Hanbal, and Jafarite scholars subject all minerals and valuables discovered in the sea to zakat/khums (Aktan, 1986: 55). Those who believe that a levy is needed on minerals found in the sea make an analogy between them and minerals extracted from the earth. Those who state otherwise base their arguments on the fact that the relevant ahadith are silent about the minerals discovered in the sea (Al-Qaradawi, 1999a: 231).

The summary of the main views of the scholars of the four primary schools regarding financial obligation on minerals is presented in the table below. Concerning the mineral types subjected to zakat/khums, there are four views, and only Malikites and Shafi'ites have the same opinion. When we consider the views about the impact of the location on the zakatability of minerals, we can see four separate views, in which Abu Yusuf and Shafi'ites unitedly represent one of them.

Table 3.1: Minerals Subjected to Zakat/Khums According to the Schools/Scholars of Islamic Jurisprudence Considering the Location Found

Schools /Scholars	Mineral Types Subjected to Zakat/Khums	Location of Minerals Subjected to Zakat/Khums
Abu Hanifa	Minerals that can be melted and poured into molds	Except for the ones found in residences and extracted from the sea, other than pearl and amber
Abu Yusuf	Minerals that can be melted and poured into molds, and stones used as jewelry	Including the ones found in residences and extracted from the sea
Malikites *	Gold and silver	Including the ones found in residences, but except for the ones extracted from the sea
Shafi'ites		Including the ones found in residences and extracted from the sea
Hanbalites	All minerals	Except the ones found in residences, but including the ones extracted from the sea

Sources: Adalı, 1987; Aktan, 1986; Al-Qaradawi, 1999a

* According to Imam Malik, the minerals that can be melted and poured into molds can be taxed at 2.5%, while the other minerals can be exceptionally taxed with a ratio considering labor extended and cost incurred.

b) Lands

The second particular property, expected to have implications for public finance, is the lands under the state's ownership or rule and disposal. These include state, public, and dead (mawat) lands. While the section on types of properties defines the characteristics of these lands and reveals the state's discretionary power over them, the previous section on minerals elaborated on the institutions of granting (iqta) and revival (ihya), which relate to both land and minerals. Thus, these subjects are not repeated in this subsection. Instead, the possible channels through which the lands under the state's ownership or rule and disposal contribute to public finance revenues are considered.

The state has three options regarding the state-owned lands, which are required to be managed for the public welfare in general. First, the state may engage in agricultural and industrial production activities on these lands. On the one hand, such activities on state-owned lands through public enterprises incur some costs for the state and require financing. On the other hand, they may generate revenues depending on the market conditions of the relevant sectors and the performance of the public enterprises. Economic activities on state lands can generate net revenue for the treasury according to the relative magnitude of costs and returns. In addition, the nature of the output and the consumer base raise essential issues about pricing. Since the utilization of state lands in this way is mainly associated with public enterprises, this issue is discussed in a separate subsection below.

Another form of state disposal over state lands is to allocate them for public use. The same disposition can apply to free (mubah) lands, i.e., dead (mawat) lands. As noted before, the state can devote these properties to public use as roads, public gardens, pastures, copses, etc. In some cases, allocating state and dead (mawat) land in this way may even be necessary (Günay, 1997: 113). The origins of this practice can be traced back to Roman law. Similar allocations, which existed in the age of jahiliyyah (ignorance), were reorganized by the Prophet ﷺ to prevent them from being used for personal interests and accompanying injustices and were conceptualized as hima (protected land) in Islamic law (Günay, 1998: 53). Allocating a dead (mawat) land as hima forbids its private acquisition but ensures free access, making it public land. Based on the practices in periods of the Prophet ﷺ and Rightly Guided Caliphs (ra), Kahf (1987a: 29) notes that the state should not grant special privileges to the rich while denying them to the poor, though the reverse is allowed. Furthermore, it is not considered permissible to charge those benefiting from public properties any form of remuneration, such as fees, charges, or taxes (Günay, 1998: 54). However, it is reported that several Islamic states charged fees and taxes to the beneficiaries. For instance, the Abbasid Caliph al-Mahdi (775-785) imposed on those who traded in the bazaars and markets built by the state and made available to the public as of the year 783 by stating that "It is the land tax for the marketplaces and non-market areas that I had built for these people. People pay the sultan a fee for the land and mills" (ed-Dûrî, 2019: 180). Similarly, the Ottomans took customary levies from the beneficiaries of markets, fairs, ports, and summer and winter pastures (Günay, 1997: 147–148). When

considering the cost burden of establishing and maintaining these public properties on the treasury, the state may resort to such instruments to finance these expenses, especially when lacking other financial resources. Nevertheless, charging public goods at a price higher than their production cost can be problematic, as it would limit people's right to claim them freely, as the nature of public properties implies (Kahf, 1987a: 30). Consequently, public properties, as well as state and free (mubah) lands designated for public use, do not generate net revenue for the treasury and can, at best, only cover their own costs.

The third form of state disposal over state-owned and dead (mawat) lands is granting (iqta) them to people for remuneration or free of charge. As discussed before, Abu Yusuf acknowledges that the head of state can operate these lands by way of rent (ijarah) if he finds it appropriate (Günay, 1997: 43–44). The idle lands under state ownership or in the status of dead (mawat) lands can generate net revenues for the treasury when rented to the appropriate tenants. Even granting (iqta) of these lands free of charge may positively impact public revenues through the zakat (ushr) or kharaj on agricultural production. In this regard, Abu Yusuf (2019: 142) notes that it is only possible for a governor to grant kharaji land free of charge if the caliph authorizes him, considering the public welfare and increase in kharaj proceeds. This second channel of possible contribution to the treasury through productivity growth is ensured by making the grant (iqta) conditional on the revival (ihya) of dead (mawat) lands (Kallek, 2018a: 128; Kudâme b. Cafer, 2018: 188). The sawafi lands (unclaimed lands at the direct disposal of the state), which arose when individuals abandoned their lands or died, leaving no heirs after the conquests of Byzantine and Safavid lands, became a significant source of public revenue (El-Ashker & Wilson, 2006: 147). Abu Ubaid reports that during the reign of Caliph Uthman (ra), 50 million dirhams were obtained from these lands through lease-based grants (iqta al-ijarah), which had previously yielded 9 million dirhams (Demirci, 2000: 43).

c) Water

Water is categorically a free (mubah) property. However, it can be considered public and private property depending on whether water is meant for its source and watercourse, whether it has been duly acquired, and the land's ownership status. For instance, waters of seas, large lakes, and common rivers and groundwaters are free

(mubah) properties that can be subject to private ownership when duly acquired (ihraz). On the other hand, the source and watercourse of these waters are deemed as public goods, over which private ownership cannot accrue. Waters such as springs, wells, and streams located on privately owned lands and waters taken from large rivers by opening arcs are private property in terms of their sources and canals (Günay, 2009: 435). This ruling is also valid for the dead (mawat) lands to a large extent (Ibid: 436). When Abu Yusuf was asked about a person who revives a dead (mawat) land in the city of Marw and draws water from the river Amu Darya by digging an arc from an unclaimed land, he answered that the city residents could not prevent this person, provided that he does not harm their water sources. Qudamah b. Ca'far (2018: 201), who reported Abu Yusuf's answer, said that if the action is not harmful, the ruling is the same for anyone engaging in this kind of conduct. The status of the waters located in springs and watercourses subject to private ownership is controversial, and most jurists hold the view that they are free (mubah) property in principle and that the owners have only exclusive and priority rights over them. In this regard, Dihlavi's comment on the wisdom of private property makes more sense. He states that Allah is the ultimate owner of everything, and the people are entitled to private property to prevent possible disputes and constant attempts to take property away from each other. He further argues that private ownership implies the owners' priority and greater right than others to enjoy the goods on their private property (Islahi, 2011b: 68).

Despite being a free (mubah) property, people may not be able to benefit directly from water due to the infrastructural investments required to make water accessible for drinking, irrigation, industrial production, and other purposes. Throughout Islamic history, states, awqaf, and individuals contributed to developing these infrastructures, requiring financing. Regarding the financial aspect, historical cases provide some guiding principles. In order to meet the water needs of the Muslims in Medina, Hadrath Uthman's (ra) purchase of the well of Rumah and endowing it to the Muslims upon the Prophet's ﷺ call can be mentioned as the leading example in this context (Günay, 2012: 476). Abu Yusuf (2019: 160) considers the cleaning of large rivers common to all Muslims, the opening of canals from these rivers, and the regular maintenance and repair of dams and water distribution centers built on the river as among the state's responsibilities and burdens, and places their costs on the state treasury. Similarly, Qudamah b. Ca'far (2018: 202) asserts that the treasury should finance the expenses of

digging canals, building fountains, digging rivers, and constructing embankments on large rivers. Water owners (ashab-ı miyah or arbab-ı miyah), who provided the water needs of Ottoman Istanbul, put the water they found at the service of the people in the form of awqaf main waterways. Water owners included the sultans, lady sultans, grand viziers, viziers, and Shaikh al-Islam (the chief religious official), most of whom were ruling class members. While the water owners met their own needs with a portion of the water they obtained, the rest had to be allocated to the city's needs (Tabakoğlu, 2016b). These practices and views indicate that the duty of developing and maintaining public infrastructure and water utilities, in particular, was assigned to the state. Nevertheless, people, individually or through awqaf, assisted the state in the scope of this duty. These efforts aimed to reach people with water for the purpose they need, rather than for profit and income. Thus, the private sector was not involved in the water industry for a long time.

Today, the high rate of urbanization, the financial inadequacies of the public sector, concerns about water scarcity and efficient water management, and ideological policies have resulted in the involvement of private enterprises in water supply and management processes. This phenomenon has led to the commoditization of water and the partial loss of its public good status (Pehlivan & Susam, 2022). In many countries, the private sector can participate in the water market through service, management, lease, concession, or build-operate-transfer contracts (Ibid: 135). Although these contracts are generally related to mains water, private enterprises can gain concessions over some water resources and can market the water they package. On the one hand, this situation somewhat takes the financial burden of water supply from the public sector. On the other hand, it may have negative repercussions on public welfare due to price increases. In order not to limit people's access to water sources, which are public property according to the Islamic property theory, the state should manage the water market either through pricing policies or providing water cost subsidies to consumers using revenues from companies to which the state has granted concessions for the use of water resources. Although this second option would entail an expenditure item, it would provide nominal public revenue to the treasury. Preventing the possible harm to public welfare due to the privileging of some commercial operators on public property, which, in principle, must be open to the equal use of all, constitutes the primary rationale behind such approaches.

3.2.2. Classical Public Revenues: Ghanimah and Fai'

Classical treatises concerning the public treasury classify the state revenues into three main categories: ghanimah, zakat/sadaqah, and fai' (Ebû Ubeyd, 2016: 23–34; İbn Teymiyye, 2021: 46–47). This section focuses on ghanimah and fai' in terms of their relation with public revenues, leaving zakat in a separate section below. Before elaborating on the concepts of ghanimah and fai', it is crucial to begin by distinguishing them as well as the notion of anfal to avoid misunderstandings.

To begin with, we should note that all three concepts are related to the property acquired from non-Muslims. Ghanimah is generally defined as captives and all kinds of property captured by Muslims from non-Muslims through war (Erkal, 1996: 351). On the other hand, the fai' stands for all properties obtained from non-Muslims through a peace agreement or without a war (Fayda, 1995: 512). Thus, the main difference between ghanimah and fai' lies in whether the acquisition of the property of non-Muslims takes place in war or peace. However, jurists dispute regarding the status of lands conquered by war. In this context, Caliph Umar's (ra) treatment of the Sawad lands constitutes a decisive role in establishing the doctrine. Although it was conquered through war, Caliph Umar (ra), after consultation with the Companions, did not distribute the Sawad lands among the mujahids and left their management to their former owners, who were obligated to pay kharaj, designating the lands as waqf for all Muslims (Ebu Yusuf, 2019: 70–71). Considering the Prophet's ﷺ practices after the conquests of Banu Qurayza, Khaybar, Wadi al-Qura, Banu Nadir, Fadak, Hunayn, and Banu Mustaliq and mainly the treatment of Caliph Umar (ra) to Sawad lands, Hanafites have assigned the head of state a discretionary power regarding the lands conquered by war, allowing a choice between distributing them among the mujahids (ghanimah) or leaving them to their former owners under the condition that they pay kharaj (fai') (Fayda, 1995: 512). According to them, the ownership of lands can either belong to the former owners or be endowed to all Muslims as waqf (Kallek, 1997: 73). In contrast, the Shafi'ites consider the lands part of the ghanimah, one-fourth of which are required to be allocated to mujahids unless veterans agree otherwise (Fayda, 1995: 512). Despite the disputes among the jurists, historical practices show that lands conquered by war were not included in the ghanimah (Erkal, 1996: 352).

Anfal is the first concept that appeared in the Holy Qur'an regarding the property acquired from non-Muslims. The verse stating, "They ask you (O Muhammad) about the spoils of war. Say: The spoils of war belong to Allah and the Messenger," [19] was revealed as a result of a dispute among the Muslims over the division of the considerable amount of captives and property captured in the Battle of Badr (Erkal, 1996: 352). As shown in verse, it is stipulated that anfal belongs to Allah and the Prophet ﷺ, which seemingly indicates a different distribution than what is ruled in verse 41[20] of the same surah using the verb form ghanimah. While most scholars think that verse 1 was abrogated by verse 41, which was revealed later, some scholars do not see any contradiction in the rulings of the two verses, emphasizing that verse 1 exemplifies the moral dimension of the issue and verse 41 explains how Allah intends to distribute what belongs to Him (Karaman, Çağrıcı, Dönmez, & Gümüş, 2020a: 661–662). Despite the difference in wording, anfal is used in the same sense as ghanimah in these contexts, although the concept of anfal may have several connotations (Ebû Ubeyd, 2016: 310–311). Therefore, it seems not plausible to classify the properties acquired from non-Muslims into three categories by considering anfal as a distinct category, contrary to el-Ashker and Wilson's argument (El-Ashker & Wilson, 2006: 103).

3.2.2.1. Ghanimah

Ghanimah means spoils of war, which are only permissible for the Prophet ﷺ and Muslims (Ebû Ubeyd, 2016: 313–314). As noted above, it is generally defined as captives and all kinds of property captured by Muslims from non-Muslims through

[19] The full verse is as follows: " They ask you (O Muhammad) about the spoils of war. Say: 'The spoils of war belong to Allah and the Messenger, so keep your duty to Allah, and adjust the matter of your difference, and obey Allah and His Messenger, if you are (true) believers" (Özek et al., 2018: 176)

[20] The full verse is as follows: "And know that whatever you take as spoils of war a fifth thereof is for Allah, and for the Messenger and for the kinsman (who has need) and orphans and the needy and the wayfarer, if you believe in Allah and that which We revealed to our slave on the Day of Discrimination, the day when the two armies met. And Allah is Able to do all things" (Özek et al., 2018: 181)

war, although the immovables were not included in ghaminah in practice, based on the discretionary power given to the head of state by referring to Caliph Umar's treatment of Sawad lands (Erkal, 1996: 351). The distribution of ghanimah is prescribed in verse 41 of Surah al-Anfal. According to the verse, one-fifth of the ghanimah is allocated to Allah, the Messenger ﷺ, his close relatives, orphans, the poor, and needy travelers, while the rest is distributed among mujahids.

The one-fifth, conceptualized as khums, is vital for public finance since the beneficiaries include the head of the state and those that the state and society must care for. Although it is reported that the Prophet ﷺ allocated a small portion of the khums to the services of the Kaabah, most scholars think that Allah's name was mentioned first to begin the conversation. Thus, the shares of Allah and the Prophet ﷺ were treated as a single share (Ibid: 353). Among the beneficiaries of khums, the Prophet's ﷺ close relatives were the most controversial category, even at the time of the Rightly Guided Caliphs (ra) (Apaydın, 1998: 367). However, we do not elaborate on this discussion since it exceeds the scope of the thesis.

The views of the schools of Islamic jurisprudence about the distribution of khums after the demise of the Prophet ﷺ are worth mentioning to understand how the ghanimah should be disbursed today. The Hanafites are of the opinion that khums is divided into three to be allocated to orphans, the poor, and needy travelers. The Shafi'ites and Hanbalites think that the beneficiaries of khums are the same as the five categories at the time of the Prophet ﷺ, but His share is spent on public interest-oriented services, such as security and law. The Malikites consider the allocation of khums at the discretion of the head of state like fai' (Ibid: 368). As a matter of fact, Abu Ubayd (2016: 330–332) also thinks that khums is subject to the rulings of fai'. There are two main reasons behind his view. The first is that both depend on the same source, the property of non-Muslims. Thus, when Muslims are in need, khums reverts to its original status, fai'. The second is that Allah, in declaring the beneficiaries of both fai' and khums, begins by attributing them to Himself. According to him, this indicates that fai' and khums are left to the head of state's authority, provided that he acts following Allah's will, unlike zakat, which is not attributed to Allah while declaring the eligible to receive it. Despite all this, Abu Ubayd is of the opinion that khums cannot be spent elsewhere if the specified beneficiaries are more needy. The disagreement in this regard stems from different approaches to the issue of whether

verse 41 of Surah al-Anfal determines or exemplifies the beneficiaries of khums (Apaydın, 1998: 368). Regardless of which view is adopted, the relevance of khums with public finance is present, albeit to varying extents depending on the selected view.

Another important dimension of ghanimah in the context of public finance is the financial value of the properties acquired from non-Muslims. Siddiqi (1989: 101), who surveys the literature of maghazi consisting of treaties on military expeditions of the Prophet ﷺ, estimates the total value of ghanimah obtained during the first decade after the Hijrah, which accounted for 6.2 million dirhams. Considering the reports about the average annual spending of a person and family at that time, as well as the prevailing Muslim population, he argues that the value of ghanimah corresponded to only 0.207% of the total expenditures of Muslims every year during the specified period (Ibid: 102). According to these estimations, the value of khums in this period is expected to be around 1.24 million dirhams, 0.041% of the total expenditures of Muslim society. However, the literature shows that the magnitude of ghanimah and, thus, khums increased significantly during the reign of the Rightly Guided Caliphs in proportion to the expanding conquests (El-Ashker & Wilson, 2006: 149). Consequently, depending on the circumstances, khums can be an essential component of public revenues.

It is fair to say that the fiscal value of ghanimah for contemporary Muslim-majority countries is hard to be predicted because of its circumstantial nature. In addition, there exist ongoing discussions regarding the applicability of ghanimah in prevailing international legal frameworks, its scope in modern settings, and its disbursement in an era dominated by regular and salaried armies. For instance, Iqbal and Khan (2004: 30–31) assert that rulings of ghanimah were context-specific, established at a time when non-Muslims would confiscate the possessions of their opponents. Thus, they argue that ghanimah is suspended (not abrogated) when Islamic states are involved in international agreements that protect the opponents' properties. Samsudin et al. (2025) emphasize that ghanimah has goals and functions such as equitable wealth distribution, social and economic justice, and fostering social solidarity beyond providing revenue to the state. In this context, they intend to make an analogy between the institution of ghanimah and the laws on confiscating illegal gains in Indonesia, whose objectives and functions are viewed as similar to those of ghanimah. Therefore, they suggest recontextualizing ghanimah within the framework of asset confiscation laws so that the ghanimah can be incorporated into the national legal framework, providing the

philosophical basis for inclusive and equitable fiscal policies (Ibid: 89). In addition, war redemptions constitute another contemporary discussion points in terms of whether it has a separate status other than that of ghanimah and fai'.[21] Sharif and Abdullah (2021: 699–700) argue that it is more appropriate to allocate the whole ghanimah to the state rather than soldiers because all expenses regarding the military operations, including training, research and development, wages, establishing defense infrastructures, etc., are incurred by the state revenues today, in contrast to military expeditions depending on the personal expenses and sacrifices before. Consequently, ghanimah could not be included in the empirical part of this thesis, despite its legal, historical, and systemic importance, due to the fact that these revenues are circumstantial and not predictable, as well as the current debates have not yet been resolved, which complicates their analysis in today's conditions.

3.2.2.2. Fai': Kharaj, Jizyah, and Ushur

Fai' covers all properties obtained from non-Muslims through a peace agreement or without a war, as defined above, while discussing its differences from ghanimah and anfal. Although the status of immovables captured in war is controversial among scholars, the head of state is authorized to distribute them among the mujahids or to treat them as fai', considering the public interest (Ebû Ubeyd, 2016: 80; Ebu Yusuf, 2019: 117; Kallek, 2018a: 124). Therefore, lands and rivers captured by war can have the status of fai' at the discretion of the head of state, which is beyond the scope of the above definition. Notably, the revenues generated from these immovables, conceptualized as kharaj, are also part of the fai' (Fayda, 1995: 511–512). In addition, fai' also consists of jizyah and Islamic tithe on trade goods belonging to non-Muslim merchants (Demirci, 2003: 51; Ebû Ubeyd, 2016: 33; Ebu Yusuf, 2019: 198; Kenanoğlu, 2013: 55). Some even argue that fai' represents all state revenues other than zakat and ghanimah, such as heirless inheritance and gifts from non-Muslim states (Fayda, 1995: 512).

In contrast to zakat and ghanimah, which are deemed semi-state revenues, fai' is considered full-state revenue (Azmi, 1998). This distinction is because zakat and one-

[21] We thank our fellow graduate student Salim Refas in the Islamic Economics and Finance PhD program at Istanbul Sabahattin Zaim University for bringing this issue to our attention.

fifth of ghanimah[22] are earmarked for the beneficiaries specified in verse 60 of Surah al-Tawba and verse 41 of Surah al-Anfal, respectively. On the other hand, scholars assign discretionary power to the head of state regarding the disbursement of fai', considering the interests of Islam and Muslims (Ebû Ubeyd, 2016: 238). Based on verses 7 to 10 of Surah al-Hashr and the practices of the Prophets ﷺ and Rightly Guided Caliphs (ra), it is ruled that all Muslims are entitled to the revenues of fai', which can be used to meet public goods and services within the framework of certain principles (Ebu Yusuf, 2019: 134; Kenanoğlu, 2013: 53). At this point, the dispute about those eligible for fai' revenues is worth noting. Although the above view is mainly accepted, some state that those who do not contribute to the holy war (jihad), do not perform administrative duties, and are not engaged in public services are not entitled to fai' (Ebû Ubeyd, 2016: 229). However, Abu Ubaid argues that the hadith exempting those who did not emigrate from the fai' has been abrogated by verse 75 of Surah al-Anfal.[23] Thus, he concludes that fai' belongs to all Muslims in proportion to their contribution to social duties and the defense of Islam, highlighting the differences between bedouins and urbanists (hadari) (Ebû Ubeyd, 2016: 227–258; Kallek, 2018a: 126–127). Lastly, the reports show that fai' were distributed to people in the form of cash grants or foodstuffs during the early periods, but especially after the institutionalization in the Abbasid state, they started to be used for the expenses of the state (Demirci, 2003: 64; Ebû Ubeyd, 2016: 274; Ebu Yusuf, 2019: 198).

The preceding paragraphs present an overview of the scope of fai' and its disposal that is valid for all revenues categorized as fai'. The following subsections are dedicated to kharaj, jizyah, and ushur (Islamic tithe on trade goods), which altogether constitute fai' revenues. While investigating these revenue sources, we focus on their essential characteristics, obligants, subjects, schedules, and proceeds generated in history and possible views on their relevance today.

[22] Please refer to the previous section on ghanimah for an overview of the disputes on its disbursement.

[23] The full verse is as follows: "And those who afterwards believed and left their homes and strove along with you, they are of you; and those who are akin are nearer one to another in the ordinance of Allah. Surely, Allah is Knower of all things" (Özek et al., 2018: 185).

a) Kharaj

Kharaj mainly refers to land tax, although it has various connotations, including other state revenues, such as market and poll taxes (Kallek, 2018a: 7–10). However, the discussion in this subsection focuses on kharaj as the land tax. Therefore, it is helpful to start by defining the lands subjected to kharaj since it is not imposed on every land. These lands cover the ones left to their previous owners, conditional on paying the kharaj after the conquest through either a peace treaty or a war (Demirci, 2003: 50; Kallek, 1997: 72–73). It is important to note that these are arable lands occupied by people, excluding the sawafi lands (ownerless lands at the direct disposal of the head of state) and dead (mawat) lands (Demirci, 2003). In addition, for the lands acquired by war, it is required that the head of state attributes fai' status to them by not distributing among the mujahids within the scope of ghanimah, considering the public interest, as discussed earlier.

The form of the financial obligation imposed on lands is generally considered a land tax, namely kharaj. Still, different interpretations arise depending on the ownership status of these lands and which method is adopted while determining the levy. Leaving the lands to the previous owner does not mean that ownership belongs to them in every case. The lands acquired by war are generally deemed waqf to the Muslims, which means that both the lands and their revenues are in the status of fai'. On the other hand, the ownership of lands conquered based on a peace treaty may belong to the Muslims as a whole or their previous owner, depending on the terms of the agreement. In the second case, only the revenues generated from these lands are fai, while the lands are under private ownership (Demirci, 2003: 153). When the ownership belongs to their previous possessors, some view the amount they are obliged to pay to the state as a price (saman). Otherwise, this financial obligation is regarded as rent (Ibid: 79). In addition, most Malikite, Shafi'te, and Hanbalite jurists think that the financial obligation on the lands captured by a peace treaty and left in possession of their owners is due to their disbelief, and thus it is like jizyah (Kallek, 1997: 77). As a matter of fact, Demirci argues that these lands are simultaneously subject to jizyah and kharaj collected jointly from the inhabitants, which constitute a third method of collection in addition to the other two practices called muwazzaf (fixed) and muqasamah (proportional) (Demirci, 2003: 145–146). Lastly, in the context of jurisprudential views on the circumstances in which the obligation of kharaj drops, different analogies

are made regarding the nature of this obligation, depending on the kharaj calculation procedure. For instance, the Hanafites, who state that kharaj muqasamah will be dropped if natural disasters destroy the crops, consider the landowner in this situation as a partner in the property. Thus, it is fair to consider the parts transferred to the state as its share in the product corresponding to its ownership right in the property rather than the tax. On the other hand, most Hanafites, Shafi'ites, and Hanbalites held the view that kharah muwazzaf does not drop when the land is left idle, considering that this type of kharaj is like rent (Kallek, 1997: 76).

The preceding paragraph shows that the financial obligation arising from the lands left to their previous owners after the conquest through either a peace treaty or a war can be considered in the forms of land tax (kharaj), poll tax (jizyah), rent, price (saman) or partner's share depending on the ownership status of these lands and which method is adopted while determining the levy. Although such considerations impact various rulings about financial obligation, as seen above, their practical implications on public finance revenues are limited to the issue of the conversion of kharaj liability into ushr (zakat on agricultural production). Most Malikite, Shafi'te, and Hanbalite jurists are of the opinion that the financial obligation on the lands captured by a peace treaty and left in possession of their owners, which is like jizyah, is transformed to ushr when the landowner converts to Islam or sells the land to a Muslim (Ibid: 77). However, Demirci (2003: 152–156) states that the financial liability collected jointly from a region conquered peacefully is not deducted when land from that region is sold to a Muslim, although the Muslim is obligated to pay ushr of the harvested crop from this land. If the latter opinion, which Abu Yusuf also holds, is adopted, the impact of the above changes on public revenues will be realized in the case of conversions to Islam, which results in the deduction of the collective financial obligation accordingly.

The subject of kharaj is open to different interpretations in terms of its calculation procedures. A region conquered by a peace agreement is obliged to pay a fixed amount covering both jizyah and kharaj collectively. There is no distinction between these two types of levy in these regions (Ibid: 149). As noted above, such financial obligation is due to the disbelief of the region's inhabitants, and the total amount is expected to be reduced when they convert to Islam despite the controversial practices in history (Demirci, 2003: 148; Kallek, 1997: 77). These characteristics of the levy indicate that its subject is every liable individual, as in the case of jizyah, rather than the land or

crops harvested. On the other hand, jizyah and kharaj are separately stipulated for the lands whose property rights are deemed as waqf for Muslims. These lands can include those conquered by war or a peace treaty (Demirci, 2003: 155). In the case of such lands, the subject matter of the levy becomes the arable land itself when it is imposed in the form of kharaj muwazzaf, a fixed in-kind or cash liability. As a matter of fact, the levy determined in the form of kharaj muwazzaf is not dropped when the possessor leaves the land idle, as highlighted above. Regarding the other form of the calculation procedure, kharaj muqasamah, which determines the liability proportional to harvest, it can be said that the tax subject is the harvested product rather than the arable lands or liable individuals. The jurisprudential view asserting that kharaj muqasamah is dropped if natural disasters destroy crops supports this argument. Consequently, the above considerations show that liable individuals, arable lands, or crops harvested may constitute the subject of kharaj, depending on the collection procedures.

Kharaj payers are those who are entitled to ownership of kharaji lands or who have the right to use the kharaji lands, the ownership of which is qualified as fai' for all Muslims. There is no distinction between free and slave, child and elderly, man and woman, or intelligent and insane (Kallek, 1997: 74). According to the Hanafites, waqf lands are also subject to kharaj if classified as kharaji lands (Ibid: 75). Exempting those unable to pay from kharaj is valid both in doctrine and practice (Ebu Yusuf, 2019: 71–72).

Kharaj schedules have been determined based on factors such as land cultivability, irrigability, fertility, and proximity to markets and residential areas, which result in regional differences as well as conflicts in the narrations (Erkal, 2009: 258–259; Kallek, 2018a: 84; Kenanoğlu, 2013: 54). However, early scholars vehemently opposed imposing kharaj above the capacity of lands and their inhabitants (Ebu Yusuf, 2019: 172). Qudamah b. Ca'far, Abu Ubaid, and Yahya b. Adam state that kharaj can be reduced in cases where obligors are having serious difficulty paying despite the controversies regarding the increase in kharaj in proportion to their ability to pay (Ebû Ubeyd, 2016: 57; Kallek, 2018a: 149; Yahya b. Adem, 2018: 33–34). The balance between the ability to pay of non-Muslims and the welfare of Muslims comes into prominence as a general principle for determining kharaj schedules, according to Qudamah b. Ca'far and Abu Ubaid (Kallek, 2018a: 125, 149).

Various reports and narrations exist about the kharaj schedule at the time of Caliph Umar (ra). Based on these narrations, Table 3.2 presents a range of annual kharaj

muwazzaf liability per jarib[24] for different product groups in the Sawad region during the reign of Caliph Umar (ra). It is worth noting that the measures and kharaj schedules in the Sawad region became a model for the other areas (Katbi, 2010: 20). Both kharaj in kind and cash were prevalent at the time concerned, and thus, the ranges in the table may consist of the measure called qafiz[25] as well as dirham (Ibid: 21). Most reports indicate that there was no distinction between the cultivated and uncultivated lands having access to water in terms of kharaj muwazzaf imposed although some narrations imply that the uncultivated lands were only subject to kharaj in cash (Ibid: 21-22). Considering that one cooked meat or a bunch of grapes was worth one dirham during the reign of Caliph Umar (ra) (Kallek, 2018b: 170), the total annual financial obligation per jarib, varying between two and ten dirhams, is not expected to cause a heavy burden on the lands and their possessors.

Table 3.2: The Schedule of Kharaj Muwazzaf in Cash and in Kind during the Reign of Caliph Umar (ra)

Products	Annual Kharaj Muwazaaf (in cash and/or in-kind per jarib)
Furiet Trees	6 dirhams – 10 dirhams and 10 qafiz
Grapes	6 – 10 dirhams or 10 qafiz
Wheat	4 dirhams – 5 dirhams and 5 qafiz
Olive Grove	12 dirhams
Sesame	8 – 10 dirhams
Clover	5 – 10 dirhams
Date Palm	0 – 10 dirhams
Sugar Cane	6 dirham
Barley	2 dirhams – 1 dirham and 1 qafiz

Sources: Demirci, 2003: 334; Kallek, 1997: 73–74; Katbi, 2010: 20–24

* Qafiz was a volume measurement unit, approximately equal to 45.7 kilograms of wheat in Sawad, according to mathematician al-Buzjani (940-988) (Kallek, 2001: 155). Jarib was an area measurement unit equal to 1366 square meters in the early periods of Islam (Fayda, 1993: 402).

[24] Jarib was an area measurement unit equal to 1366 square meters in the early periods of Islam (Fayda, 1993: 402).

[25] Qafiz was a volume measurement unit, approximately equal to 45.7 kilograms of wheat in Sawad, according to mathematician al-Buzjani (940-988) (Kallek, 2001: 155).

The kharaj schedule determined under Caliph Umar's (ra) rule was subjected to numerous amendments in the latter periods. The Umayyad and Abbasid dynasties conducted several land surveys for various reasons, such as responding to people's complaints, calming uprisings, increasing state revenues, distinguishing kharaji and ushri lands, etc. (Demirci, 2003: 333–349). The need for such changes in the kharaj schedule mainly stemmed from the high dependence of state revenues or farmers' solvency on prices and crop yields in the system of kharaj muwazzaf. In this system, land cultivators become insolvent when the prices increase, while the state can collect only a small portion of the total revenue generated by the farmers when the prices rise because of the fixed levies. As a matter of fact, this analysis was first articulated by Muawiyah b. Yesar, the vizier of the Abbasid Caliph al-Mahdi (775-785), in his tract presented to the caliph (Kallek, 2018a: 148–150; Kudâme b. Cafer, 2018: 192). Abu Yusuf later emphasized that no agreed-upon threshold for what is cheap and what is expensive can be agreed upon and measured while considering the unfavorable aspects of the kharaj muwazzaf system when applied in-kind (Ebu Yusuf, 2019: 88–89). Thus, another kharaj calculation procedure, kharaj muqasamah, suggesting taxation proportional to crops harvested, started to be implemented in the reign of Caliph al-Mahdi (Demirci, 2003: 358). However, one should not take this to mean that the muqasamah system was adopted in all lands of the Islamic state. While kharaj muwazzaf was still the dominant procedure of tax calculation in rural areas and for perishable agricultural crops, kharaj muqasamah was generally implemented in crowded cities and where irrigated agriculture is intensive, including Sawad, and for durable products (Ibid: 359). Regarding the tax rates in the system of kharaj muqasamah, Table 3.3 summarizes those proposed by Muawiyah b. Yesar and Abu Yusuf to the caliphs of their time.

Table 3.3: The Schedule of Kharaj Muqasamah Proposed by Muawiyah b. Yesar and Abu Yusuf

Lands in terms of Irrigation Methods	Muawiyah b. Yesar	Abu Yusuf
Naturally Irrigated Lands	%50	%40
Lands Irrigated with Buckets	%33	%30
Lands Irrigated with Water Wheels	%25	%30
Date Palms and Orchards	Kharaj Muwazzaf	%33
Summer Vegetables	Kharaj Muwazzaf	%25

Sources: Demirci, 2003: 360–361; Ebu Yusuf, 2019: 90; Kallek, 1997: 79, 2018a: 84; Kudâme b. Cafer, 2018: 192

Kharaj proceeds constituted an important state revenue source starting from the period of Caliph Umar (ra). According to Qudamah b. Ja'far (2018: 148–150), who reports the district-based revenues of the Sawad region, based on the council (diwan) accounts for the year 818, the total revenue of Sawad amounted to around 14 million dirhams in the corresponding year. However, it is unclear whether these figures only cover kharaj revenues, although he explicitly states that zakat proceeds are not included. Thus, it is quite probable that the total revenue mentioned also comprises proceeds of jizyah and ushur (Islamic tithe on trade goods), as Kallek (1997: 80) points out. Kharaj remained the leading public revenue source during the Ottomans' reign.[26] Asker and

[26] In the Ottomans, the miri lands, which were leased to subjects for an indefinite period, with bare ownership attributed to the state, fundamentally corresponded to kharaji lands as a part of fai' (Akgündüz, 1992b: 138). In a similar vein, the levy on agricultural production, ashar (âşâr), stands for kharaj muqasamah, while the tax imposed on lands (resm-i çift) represents kharaj muwazzaf during the Ottomans' reign (Ibid: 67). As a matter of fact, Ebussuud Efendi, the Ottomans' Shaikh al-Islam (the chief religious official) between 1545 to 1574, consider the levy on the agricultural production as both kharaj muqasamah and rent, after stating that it is neither ushr or zakat (S. Kaya, 2017: 237). According to Kaya (2017), this consideration may stem from the fact that the obligation to pay kharaj or ushr would persist if it were regarded solely as rent. This reasoning is supported by other fatawa (legal rulings by Islamic jurists), which state that people are not required to pay anything from the remaining crops once kharaj or rent has been settled, as highlighted by Kaya (2017).

Yıldız (2014: 81), citing Quataert (2006), state that the share of ashar (âşâr) revenues in the total budget hovered around 30% throughout the second half of the 19th century. Şener (1990: 70), who presents budget items for the fiscal years 1863/4 and 1875/6, calculates the share of ashar (âşâr) in total revenues as 27.40% and 36.42%, respectively.

Many Islamic states have enacted measures and policies to preserve the status of land subject to kharaj and to distinguish between ushri and kharaji lands (Demirci, 2003: 337). However, despite these, there were many cases in which kharaji lands were transformed to ushri status on the grounds that the landowners were converted to Islam and the lands were purchased by Muslims, and this de facto status was approved by the states occasionally (Demirci, 2003: 61–62; Kallek, 1997: 80). In addition, in the latter periods of the Abbasid dynasty and subsequent Islamic states, the convergence of the disposition rights of kharaji landholders to private ownership, the high social mobility and migration, the abandonment of lands due to heavy taxes, the widespread use of military grants (iqta) practices, the attempts of iqta holders to prevent the state's disposition over the kharaji lands through awqaf and the increase in the lands left without heirs due to wars and epidemics resulted in a complication in the legal status of lands (Demirci, 2003: 76–81; Kallek, 1997: 80–82). As a matter of fact, some scholars, such as Ibn Nujaim and Ibn al-Humam, consider the kharaji lands in Egypt transformed into state property due to the transfer of heirless lands to the state treasury and thus argue that the financial obligation on those who cultivate the land is the rent (Islahi, 2009: 117; Kallek, 1997: 82).

As has been the case throughout history, the status of lands in present Muslim-majority nation-states is vital for both taxpayers and public finance. In contemporary Islamic public finance literature, some researchers contend that classical revenue sources, including kharaj, are no longer "in vogue" (Chaudhry, 1992: 110). On the other hand, Hamdi and Widiastuti (2021: 145) establish parallels by linking fai'/kharaj with land/building tax, recognizing the differences in their structures and rates. Iqbal and Khan (2004: 30–31) assert that rulings of ghanimah and fai' were context-specific, established at a time when non-Muslims would confiscate the possessions of their opponents, as noted above. They think it is not probable to acquire new lands, which can be qualified as ghanimah or fai', since states are involved in international agreements that protect the opponents' properties. In the case of the existing lands,

Iqbal and Khan (2004: 31–32) deem imposing ushr more applicable than kharaj. According to the fatwa issued by the High Board of Religious Affairs under the Directorate of Religious Affairs in Türkiye, the status of lands may change according to circumstances and public interest, referring to the discretionary power given to the head of the state in this regard. Thus, the High Board of Religious Affairs is of the opinion that the lands in Türkiye are qualified as ushri lands considering the fact that they were left as private property to the landholders or landless farmers during the Republican period (İ. Öner, 1994).

This thesis approaches the issue in the empirical part, focusing on the Turkish public revenue system based on the views asserted by the High Board of Religious Affairs of Türkiye and Iqbal and Khan (2004). So, agricultural production on the lands of Türkiye will primarily be subject to ushr, not kharaj. In addition, adopting the aforementioned views does not rule out kharaj. It is still essential to reveal the taxation principles in Islamic public finance theory, addressed separately in the relevant section below.

b) Jizyah

Jizyah, the second component of fai' revenues, is the financial obligation (tax) imposed on non-Muslim subjects (dhimmi) of the Islamic state in return for the assurances of life, property, and freedom of religion (Erkal, 1993: 42). However, this obligation is not merely the remuneration for the covenant of protecting non-Mulisms against the enemy. By paying jizyah, non-Muslims also recognize that they are subject to the state's legal order and will fulfill the obligations of accepting the Islamic state's sovereignty (Karaman et al., 2020a: 751–755; A. Öner, 2018: 182). Jizyah obligation was stipulated in verse 29 of Surah al-Tawbah, which was revealed in the 9th year of Hijri (630). It started to be implemented in the same year by the Prophet ﷺ and continued to be practiced in the following centuries.

Jizyah can be categorized as a fixed poll tax. Indeed, it is the most significant person-based financial liability in Islamic public finance, although others exist, such as sadaqah al-fitr (charity of breaking the fast) (Kenanoğlu, 2013: 53). As a poll tax, the tax subject is non-Muslim individuals, who also constitute the taxpayers. The definition above implies that jizyah applies to non-Muslims who desire to live in an Islamic state but refuse to convert to Islam (Erkal, 1993: 42). Jizyah obligants also include must'aman, a non-Muslim foreigner who gets permission (aman) for temporary

residence in the Islamic state when they stay more than a year (Yahya b. Adem, 2018: 172). In this regard, the schools of Islamic jurisprudence have varying views on the religious affiliation of the people obligated to pay jizyah. Malikites and Hanafites hold all non-Muslim and non-Arab non-Muslims liable to jizyah, respectively, while Shafi'ites consider the jizyah to be exclusive to Christians, Jews, and Mazdeans (Erkal, 1993: 42). Despite the disagreement regarding the religious affiliation of jizyah payers, most scholars acknowledge that only sane, pubescent, free, and financially capable men are liable to pay jizyah (Ebû Ubeyd, 2016: 51; Yahya b. Adem, 2018: 81).

The description of jizyah payers also indicates those permanently exempted from jizyah. For instance, categorically, women and children are not obliged to pay jizyah. In addition to them, Abu Yusuf (2019: 195–196) notes that jizyah is not collected from the destitute who live on the charity of others, from the blind who do not have a profession or a job, from the cripplingly sick, paralyzed and those who are incapable of working as long as they do not own property or assets. He further states that priests who devoted themselves to worship and the clergy serving in the churches are exempted from jizyah unless they have personal income and property. Temporary exemptions are also possible, as in the case of the people of Najran in Yemen, whose jizyah obligation was suspended for 24 months after they inhabited Iraq during the reign of Caliph Umar (ra) (Ebu Yusuf, 2019: 124). These exemptions clearly demonstrate that men's financial situation determines their liability to the jizyah. As a matter of fact, it is reported that the exemptions granted to non-Muslim clergy were abolished due to the increase in their wealth and financial capacity during the Umayyad and Abbasid dynasties (Ebû Ubeyd, 2016: 58; El-Ashker & Wilson, 2006: 145–146).

Jizyah can be levied in kind, in cash, or as a service, such as scouting on the borders (Erkal, 1993: 44). In addition, jizyah, whether in cash or in-kind, can be assessed collectively on a region or individually. Neither the Prophet ﷺ nor the Rightly Guided Caliphs (ra) explicitly and precisely stated the jizyah amount, which differed by time, region, and financial capacity of jizyah payers (Karaman et al., 2020a: 755). As in the case of kharaj, the balance between Muslims' welfare and non-Muslims' ability to pay constitutes the general principle for determining the jizyah amount (Kallek, 2018a: 125, 149). According to the findings of Erkal (2009: 255), the Prophet ﷺ collected jizyah amounting to one dinar per jizyah payer or sometimes in kind. Jizyah,

collectively imposed on the people of a region at the time of the Prophet ﷺ, also accounted for an average of one dinar per obligant when the taxpayer population of the relevant areas is considered (Erkal, 1993: 43–44). Caliph Umar (ra) categorized the non-Muslim subjects (dhimmi) of the Islamic state in terms of their financial status and determined a jizyah schedule accordingly, which is presented in Table 3.4 below. The Ottomans adopted the same triple categorization, whose jizyah liabilities were amended over time (see Figure 3.1).

Table 3.4: The Jizyah Schedule in Iraq and Damascus during the Reign of Caliph Umar (ra)

Category	Jizyah (Iraq)	Jizyah (Damascus)
Lower Class	12 dirham	1 dinar
Middle Class	24 dirham	2 dinar
Upper Class	48 dirham	4 dinar

Sources: Ebu Yusuf, 2019: 195–196; Kudâme b. Cafer, 2018: 193–194

* The editor Abu Ubaid's Kitab al-Amwal cites al-Bayhaqi as saying that one dinar of jizyah corresponded to 12 dirhams of jizyah at the time of Caliph Umar (ra) (Ebû Ubeyd, 2016: 54). Occupations requiring muscle power, such as farm labor and hodman, are considered in the category of lower class (Ebu Yusuf, 2019: 195–196).

The narrations above clearly point out that Calip Umar (ra) imposed a higher rate of jizyah compared to the period of the Prophet ﷺ. After highlighting the fact that the jizyah imposed on the people of Yemen by the Prophet ﷺ was lower than the jizyah levied on the people of Damascus and Iraq by the Caliph Umar (ra), Abu Ubaid (2016: 56) states that the difference was because the people of Damascus and Iraq were more prosperous than those of Yemen. In a similar vein, Qudamah b. Ca'far (2018: 194) reports that when Mujahid was asked why Caliph Umar (ra) imposed a higher jizyah compared to that levied by the Prophet ﷺ, he said that it was because of richness. Therefore, regardless of its form and assessment method, the financial capacity of the jizyah payers is the most decisive factor for the amount of jizyah.

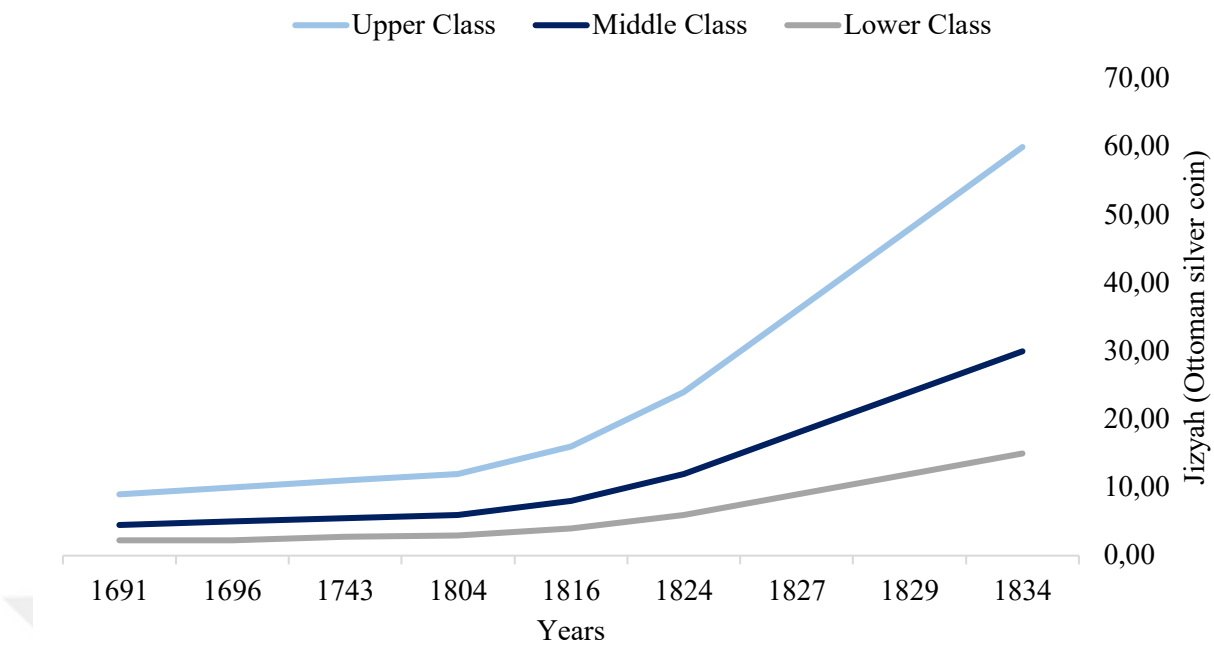

Figure 3.1: The Jizyah Schedule in the Ottomans between 1691 and 1834

Source: Inalcik, 2013: 47

* It is observed that the ratio between the jizya obligations among the categories was in line with the schedule at the time of Caliph Umar (ra) and was maintained throughout the time under consideration.

The jizyah can be subject to changes when it is not specified through a treaty. Indeed, jizyah obligations had been amended considering the financial capacity of the regions whose jizyah was not determined by treaties throughout history (Ebû Ubeyd, 2016: 164). However, the amount of the jizyah can be adjusted only downwards if it is determined by agreement. Qudamah b. Ca'far and Abu Ubaid hold that even if it is settled by agreement, the jizyah can be lowered when the taxpayers have serious insolvency (Kallek, 2018a: 125, 149). The modifications in the jizyah obligation on the people of Najran can exemplify this ruling. The jizyah of 2000 dresses, which the people of Najran were obliged to pay jointly based on the agreement concluded by the Prophet ﷺ, was reduced to 200 dresses by the time of Umar b. Abd al-Aziz, following multiple reductions in consideration of their declining population (Ebu Yusuf, 2019: 122–123; Erkal, 1993: 43).

Jizyah, which is explained in general terms above, generated considerable revenues for the treasury. Although we do not know the exact figures collected in the early periods, the narrations reported could provide some insight. For instance, the total

annual jizyah proceeds in the Sawad region reached 100 million dirhams during the governorship of Uthman b. Hunayf (A. Öner, 2018: 182). Annual jizyah revenues in Egypt accounted for two million dinars under Amr ibn al-As's governorship, reaching four million dinars in the following years (Ibid: 194). The total proceeds of jizyah during the reign of Caliph Uthman (ra) from various regions, such as Iraq, Egypt, Africa, and Iran, are estimated to exceed 220 million dirhams (Alawiye, 2023: 89). The average contribution of jizyah to the Ottomans' public budget was around 4.3% between 1849 and 1917 (Güran, 2006: 75–76).[27]

The relevance of the jizyah today is a crucial point of discussion in the context of public finance. Chaudary (1992: 110) contends that jizyah is no longer "in vogue," as he also stated for other classical revenue sources, including kharaj. Hamdi and Widiastuti (2021: 145) make an analogy between jizyah and visa requirements in today's world, recognizing the differences in their structures. Iqbal and Khan (2004: 31) argue that jizyah is currently inapplicable due to the organizational structure of modern armies. However, they contextualize this inapplicability with contemporary conditions and think the jizyah is suspended, not abrogated. Alawiye (2023: 102), who discusses the historical reasons for the repeal of jizyah in the modern world, asserts that the presence of an Islamic state defining the borders of dar al-Islam (territory of the Islamic state) and dar al-harb (territory not under the peaceful treaty with the Islamic state) and the call for jihad (the holy war) that is expected to result in favor of the Muslims are the main factors for the successful implementation of jizyah. According to him, they are not fulfilled by the contemporary Muslim-majority states. Therefore, he proposes "conciliatory" jizyah, which stimulates all to support the development of the state without providing further details regarding this proposal.

It would be helpful to dwell on the reasons for the imposition of the jizyah to grasp its relevance better today. Jizyah is generally defined as the remuneration for the assurances of life, property, and freedom of religion granted to non-Muslims living

[27] Jizyah was repealed after the proclamation of the Ottoman Reform Edict of 1856. However, it continued to be imposed on non-Muslim males since the conscription of non-Muslims was deemed inappropriate (Güran, 2006: 67; Pamuk, 2018: 90).

under the rule of the Islamic state (Alawiye, 2023: 90; Elmalılı, 2022a: 348; Erkal, 1993: 42; İbrahimoğlu, 2022: 173; Iqbal & Khan, 2004: 31; Karaman et al., 2020a: 751–755; A. Öner, 2018: 145).[28] This reasoning is supported by the fact that some treaties stipulated that the jizyah would be returned if the Islamic state was unable to protect non-Muslim subjects (Erkal, 1993: 42). In fact, Abu Ubaydah b. al-Jarrah gave back the collected jizyah to the people of Homs due to the uncertainty of the situation when he mobilized the Muslim army against the Byzantine military campaigns toward the region (İbrahimoğlu, 2022: 174). In this context, jizyah is associated with non-Muslims not being obliged to perform military service. Exempting non-Muslim subjects from mandatory military service is also deemed the justification of jizyah (Alawiye, 2023: 9; İbrahimoğlu, 2022: 36; Iqbal & Khan, 2004: 31). As a matter of fact, the Ottoman experience validates such justification. For instance, jizyah was repealed after the proclamation of the Ottoman Reform Edict of 1856. However, it continued to be imposed on non-Muslim males since the conscription of non-Muslims was deemed inappropriate (Güran, 2006: 67; Pamuk, 2018: 90).

The link between jizyah and mandatory military services should be reconsidered in light of today's circumstances. First, most nation-states have paid, professional, and regular armies in contrast to armies composed of self-financed soldiers in the early periods of Islam. Although compulsory military service is still in force, their contribution to the national defense and military campaigns is limited compared to the regular armies. The trend of limiting or abolishing compulsory military service in many countries further deepens this phenomenon in favor of regular armies (Buchholz,

[28] Nevertheless, the jizyah is also a symbol of the peace established with the regions that came under the sovereignty of the Islamic state (İbrahimoğlu, 2022: 173). Moreover, as mentioned earlier, the jizyah cannot be reduced to a security service provided by Muslims to non-Muslims in return for compensation. Those who agreed to pay the jizyah recognize that they are subject to the state's legal order and will fulfill the obligations of accepting the Islamic state's sovereignty (Karaman, Çağrıcı, Dönmez, & Gümüş, 2020a: 751–755). Finally, by offering a third way out of the options of war or conversion to Islam, the jizyah offers both time and opportunity for the guidance of non-Muslims. As a matter of fact, the purpose of the jihad (the holy war) that culminates in the jizyah is to disseminate the divine guidance (Alawiye, 2023: 92).

2023). Second, security cannot be confined to the military. Internal and external defense requires vast expenses on training, research and development, arms production, infrastructure, etc. (Al-Qaradawi, 1999b: 279–299). Even in a scenario where non-Muslims are subjected to compulsory military service, considering Muslims' welfare, this does not necessitate the removal of their jizyah obligation, given the multifaceted investments and expenditures that the Islamic state has made for their security. Non-muslims can be rewarded for their services in the case of employing them in the regular army. As a matter of fact, it is permissible to employ non-Muslims for particular tasks, such as guidance and espionage, during military expeditions, and they are entitled to compensation in return. Ahmad b. Hanbal states that non-Muslims who participate in the war with Muslims can receive a share of the ghaminah, while Muhammad al-Shaybani adopts the same view under specific conditions requiring non-Muslims' participation in the war (Erkal, 1996: 353). These considerations imply that non-Muslims who participate in or contribute to the war on the side of Muslims are compensated for their services rather than being exempted from jizyah. Consequently, compulsory military service binding for all citizens, including non-Muslims, in modern nation-states cannot be considered a reason for the repeal of the jizyah obligation on them.

Another issue that needs to be considered regarding the relevance of jizyah today is the demands of the nation-state structure and the notion of citizenship. Nation states require standard legislation that applies to everyone regardless of the religious affiliations of their citizens. Thus, the jizyah imposed on only non-Muslim citizens is likely to raise objections from nationalist and secularist segments of the society, even though Muslims are obliged to pay zakat on their assets, unlike non-Muslims.[29] The history of contemporary Muslim-majority nation-states is full of such cases. The criticism and views against statutes specific to Muslims concerning marriage, divorce, and religious courts, which were initiated by the Ministry of Religious Affairs in Indonesia, the establishment of which was initially rejected after Indonesia's independence, are a clear example of such reactions from non-religious or non-Muslim sections of a contemporary nation-state (Salim, 2008: 7–76). Considering these

[29] In fact, zakat, when it is compulsorily imposed on Muslims, is also very likely to give rise to complaints with regard to equality between citizens of the nation-state.

prevailing circumstances and referring to the practice of doubled zakat imposed on Bani Taghlib, a Christian Arab tribe who refused to be liable for a levy titled jizyah because of its connotations, during the reign of Caliph Umar (ra), al-Qaradawi (1999a: 35–38) suggests taxing non-Muslim citizens of today's Muslim-majority nation states equivalent to zakat, which will correspond to jizyah without labeling as such. The empirical part of the thesis adopts this approach toward the taxation of non-Muslim citizens of Türkiye because of the facts mentioned in the preceding paragraphs.

c) Ushur

Ushur, the third component of fai' revenues, stands for the Islamic tithe on trade goods of non-Muslim foreigners (harbi) and non-Muslim subjects of the Islamic state (dhimmi).[30] Classical treatises on public finance state that ushur was first introduced by Caliph Umar (ra) (Ebû Ubeyd, 2016: 492; Ebu Yusuf, 2019: 214). However, we know that Arap and non-Arap leaders had imposed a 10% tax on trade goods in the pre-Islamic periods (Kallek, 2003: 584; Yeniçeri, 1991: 411). This tax, also called maks, had many types (A. Öner, 2018: 198). These include market taxes on trade goods and caravans, taxes on the purchase and sale of real estate, dock duties, and taxes on manufactories and businesses (Kallek, 2003: 587).

The jahiliyyah (ignorance) practices of maks and ushr were subjected to substantial reform by the Prophet ﷺ. After the establishment of the state in Madinah, the Prophet ﷺ concluded agreements with many tribes and abolished the internal ushur, while the external ushur continued to be implemented (Erkal, 2009: 165–166). At this point, it is worth noting that the narrations from the Prophet ﷺ against the maks and those who collect this tax (makkas) were due to the oppression of the people with heavy taxes, persecution, bullying, and torture during collection, taking more than the official types and rates, failure to spend the collected taxes on the deserving parties (Kallek, 2003: 584). However, legitimately levied ushur does not fall within the scope of the taxes mentioned in these traditions, as noted by Ibn Hazm (Ibid: 587).

[30] For Muslims, ushur is nothing but zakat on trade goods. Therefore, the part of ushur revenues originating from Muslims' trade goods is not considered fai' and is allocated to the zakat recipients.

The narrations confirm that non-Muslim foreigners (harbi) were obliged to pay ushur at the time of the Prophet ﷺ. However, there is no information that ushur was also imposed on the non-Muslim subjects of the Islamic state (dhimmis). On the contrary, some reports imply that dhimmis were not responsible for ushur as long as they paid the jizyah in the early periods of Hadrath Umar's (ra) caliphate (Erkal, 2009: 167). Considering the above points, Erkal (2009) argues that classical treatises attribute the introduction of ushur to Caliph Umar (ra) because he systematized ushur and expanded its scope, including Muslims and dhimmis. In this regard, Kazıcı (2019: 50–51) associates this practice of Caliph Umar with the free commercial activity of the dhimmis within the expanding borders of the Islamic state and their close commercial relations with neighboring regions. Consequently, non-Muslim foreigners, non-Muslim subjects, and Muslims are deemed ushur payers after the Caliph Umar (ra). Nevertheless, for Muslims, ushur is nothing but zakat on trade goods.

The subject of ushur is goods acquired for commercial purposes. Therefore, properties kept for personal use, such as livestock, crops, camels, cows, sheep, and slaves, are not subject to ushur (Ebu Yusuf, 2019: 212; Kallek, 2018a: 115). According to Yahya b. Adam and Qudamah b. Ca'far, the debts of the dhimmis, if any, should be deducted from the ushur base (Kallek, 2018a: 115; Kudâme b. Cafer, 2018: 199–200). Abu Ubayd, on the other hand, requires Muslim witnesses to testify to the dhimmi's indebtedness for the debt to be deducted from the ushur base (Ebû Ubeyd, 2016: 495). However, Imam Malik, who establishes an analogy between ushur and jizyah, is of the opinion that the debt of dhimmis cannot be deducted under any circumstances (Ebû Ubeyd, 2016: 493; Kudâme b. Cafer, 2018: 199–200). As for the trade goods of non-Muslim foreigners (harbi), scholars agree that debts are not deductible (Ebû Ubeyd, 2016: 496).

Another issue that affects the goods subject to ushur and, thus, the tax base is the status of the religiously prohibited (ghair mutaqawwim) properties. Although Muslims cannot own these properties, there is no such restriction for non-Muslims. Abu Ubaid states that no ushur should be taken either in kind or based on the value of ghair mutaqawwim properties acquired by non-Muslims for commercial purposes (Ibid: 67-68). According to Abu Hanifa, wine is subject to ushur, but pork is exempt from tax. However, the dhimmi merchant is not to be relied upon to determine the value of the wine, and other dhimmis are also consulted (Ebu Yusuf, 2019: 216; Erkal, 2009: 169).

Abu Yusuf considers wine and pork to be taxed based on their value. He also reports the case of Abu al-Zubair, who forbade taxation on these goods, believing that it was not permissible, and then ordered taxation again due to the decline in tax revenues in Yemen (Ebu Yusuf, 2019: 216–217).

Those having trade goods whose value is lower than 200 dirhams or 20 dinars are exempted from ushur (Ebû Ubeyd, 2016: 492; Ebu Yusuf, 2019: 196; Kudâme b. Cafer, 2018: 199; Yahya b. Adem, 2018: 35). In fact, Caliph Umar (ra) did not mention such a threshold when he mentioned the ushur rates for Muslims, non-Muslim subjects (dhimmi), and foreigners (harbi). However, Iraqi scholars established an analogy between ushur and zakat, considering the cooccurrence of ushur on Muslims' trade goods (zakat) with that of others. Therefore, they also extended the nisab of zakat to ushur. However, as mentioned above, Imam Malik, who associates ushr with the jizyah, is of the opinion that there is no nisab for it (Ebû Ubeyd, 2016: 493).

Ushur rates are primarily determined on the basis of reciprocity and Muslims' welfare. According to one of the narrations regarding the initiation of ushur during the reign of Caliph Umar (ra), he ordered the imposition of the same rate, which Muslims are subject to in foreign states (Ebû Ubeyd, 2016: 85; Kudâme b. Cafer, 2018: 199). Abu Ubayd reports that Caliph Umar (ra) halved the 10% ushur on trade goods only for olive oil and wheat to encourage the Nabataean merchants to bring more of them after considering the need of residents of Madinah for them (Al-Qaradawi, 1999b: 301; Ebû Ubeyd, 2016: 491). A similar reduction in the ushur rate was granted to Damascene merchants, the leading suppliers of essential foodstuffs to Madinah in particular and Arabia in general (A. Öner, 2018: 202). Ushur rate also varies depending on the payers' status in the Islamic state. While non-Muslim subjects (dhimmi) are obliged to pay 5%[31], non-Muslim foreign merchants are liable for 10% ushur (Erkal, 2009: 168). However, it is worth noting that the rate for non-Muslim foreign merchants may differ depending on the tax that their state imposes on Muslim merchants, as the reciprocity

[31] The higher rate of ushur on non-Muslim subjects (dhimmis) compared to Muslims is explained by the fact that eligible Muslims are obliged zakat on trade goods even if they do not pass through customs, while dhimmis pay ushur only on trade goods that cross customs (DİA, 1996: 261; Yereli, 1994: 82).

principle requires. As mentioned above, for Muslims, ushur is applied at the rate of 2.5%, which is nothing but zakat on trade goods.

Ushur is an annual tax generally charged at points like city gates, roads, bridges, and harbors. Merchants can be charged only once, even if they repeatedly pass through these points in the same year, unless a substantial increase in their trade goods is observed (Ebu Yusuf, 2019; Kudâme b. Cafer, 2018: 199). However, non-Muslim foreign (harbi) merchants are subject to ushur every time they pass in and out of the Islamic state. When these foreign traders reside within the borders of the Islamic state for more than one year, they are obliged to pay the jizyah, but the ushur rate is reduced to 5% (Kallek, 2018a: 114; Yahya b. Adem, 2018: 172). Table 3.5 summarizes the ushur schedule prevalent at the time of Caliph Umar (ra), whose details are presented above.

Ushur imposed on non-Muslim merchants is left to the discretion of the administration to be determined, considering the general welfare of Muslims. Its scope, rate, and other details can be set based on principles of foreign policy, such as reciprocity, as well as economic conditions that affect the well-being of Muslims (Kenanoğlu, 2013: 54). Indeed, in later periods, ushur schedules were modified based on factors such as whether the goods arrived by land or sea, the regions they passed through, types of goods, transportation means, etc. For instance, the Samanid Empire levied a tax of 2 dirhams on each camel load in Turkistan, while those bringing goods from mountainous regions were charged only 1 dirham (DİA, 1996: 261–262). Ottomans imposed taxes on internal, external, and transit trade. While the tax rates specified for internal trade varied between 3% and 5%, capitulations became a determining factor in foreign trade taxation starting from Sultan Mehmed the Conqueror (Kazıcı, 2019: 162–163).

Table 3.5: The Ushur Schedule during the Reign of Caliph Umar (ra)

Taxpayer Category	Ushur Rate
Muslim	2.5%
Non-Muslim Subject (dhimmi)	5%
Non-Muslim Foreigner (harbi) Residing More than a Year	5% + Jizyah
Non-Muslim Foreigner (harbi) Residing Less than a Year	10%

Sources: Erkal, 2009: 168; Kallek, 2018a: 114; Yahya b. Adem, 2018: 172

* For Muslims, ushur is nothing but zakat on trade goods. Therefore, the part of ushur revenues originating from Muslims' trade goods is not considered fai' and is allocated to the zakat recipients.

Proceeds generated from taxes on trade goods were one of the primary state revenue sources for most Islamic states in history. Abd al-Aziz al-Duri (2019: 181) reports that the ushur levied on ships during the second Abbasid period reached 22,375 dinars in the Hijri year 306. Custom revenues of Ottomans constituted 16% and 8.68% of the total public proceeds in the 1863/64 and 1875/76 fiscal years, respectively. Its share gradually increased to 20% in the late Ottoman period after the unilateral cancellation of capitulations under cover of war conditions in 1914, and the recognition of the removal by other countries with the Lausanne Peace Treaty signed in 1923 (Önder, 2019: 493; Pamuk, 2018: 164–165; Şener, 1990: 68–70; Yıldız, 1996: 74).

Ushur maintains its relevance today in the form of customs duties, albeit with some structural differences. Customs matter for the contemporary Muslim-majority countries both as a foreign policy instrument and as public revenue. However, we opt to prioritize other prominent revenue sources of the Turkish public budget, such as consumption taxes and personal income tax, in the empirical part of the thesis. Thus, the current structure of customs duties has not been addressed in the assessment of Turkish public revenues from the perspective of Islamic public finance theory.

3.2.3. Zakat

This subsection aims to approach zakat from the perspective of Islamic public revenue theory and practices. The focal point is contemporary theoretical frameworks shaped around zakat, the discussion about the zakatability of new wealth items, such as businesses, rental buildings, and financial investments, prevailing legal frameworks in Muslim-majority countries today, and realized zakat proceeds in comparison with

estimated potentials. The subsection does not elaborate on the detailed jurisprudential rulings and conditions regarding zakat payers, classical zakatable items, and beneficiaries according to different schools of Islamic jurisprudence. However, we have referred to them in the empirical parts of the thesis at the points where necessary.

Zakat is covered along with other public revenue sources, such as ghanimah and fai', in both classical and contemporary literature on public finance and taxation (Akgündüz, 1992a: 218231; Chapra, 1979: 211; Ebû Ubeyd, 2016: 23–34; İbn Teymiyye, 2021: 46–47; Islahi, 2009: 144–145). It is defined as the share taken from the properties of eligible wealthy Muslims, which Allah has ordained in the Holy Qur'an to be given to the specified beneficiaries (Erkal, 2008: 21). The state's involvement in its collection and distribution, starting from the early periods, associates zakat with public finance. However, as its definition implies, the designated allocation of zakat proceeds prevents it from being deemed pure public revenues. Thus, some contemporary authors classify zakat as semi-public or semi-state revenue due to its mentioned characteristics (Azmi, 1998: 157–158; Islahi, 2009: 144–145).

Zakat is the third pillar of Islam and also constitutes one of the essential attributes of those who have faith in Allah (Erkal, 2008: 44). According to the Hanafites, it is an exclusive right of Allah that is purely an act of worship (Erkal, 2009: 110). Despite having such a nature, it is considered a reference point for the theory of Islamic public finance. For instance, Hamidullah (1950, 1955) and Eskicioğlu (1996b: 464, 2007) argue that zakat by itself presents the whole taxation system of the Islamic state. With a more restrained discourse, Awad (2000: 82) deems zakat as the core of the fiscal system and suggests a zakat-based tax structure supplemented by other taxes. Faridi (1980: 119–121), who acknowledges the importance of zakat as the "leading sector" of the revenue system of an Islamic state, points out that additional taxes must adhere to principles derived from rulings of zakat, such as nisab, deductible costs, and illegality of multiple taxation.[32] Although such considerations regarding zakat are particularly present in contemporary literature, some examples can also be found in

[32] It is highly acknowledged that zakat is not a tax by most contemporary scholars. The points of divergence and similarities are well documented in the literature (Al-Qaradawi, 1999b: 250–254; Eskicioğlu, 2007: 45; Kenanoğlu, 2013: 54). We think the proponents of the views quoted here are well aware of these points.

classical literature. Abu Ubaid (2016: 492–493) refers to an analogy made by Iraqi scholars between zakat and Islamic tithe on trade goods (ushur) in terms of nisab. This analogy draws on the fact that Caliph Umar (ra) mentioned both financial obligations together, as noted above. This view resembles the contemporary perspectives on taxation principles derived from zakat rulings.

Several objectives are attributed to zakat. In this regard, scholars straightforwardly derived two goals from the primary sources of Islam. These include the moral development and purification of individuals, as indicated by verse 103 of Surah al-Tawbah, and meeting societal needs, whose scope is prescribed by verse 60 of the same surah (Al-Qaradawi, 1999b: 166–183; Islahi, 2011b: 82). As a matter of fact, Elmalılı (2022b: 509–510) highlights the link between zakat and the feeling of stinginess, which may trigger other evils. Zakat is also expected to establish solidarity and brotherhood among Muslims by ensuring the necessities of those in need (Elmalılı, 2022c: 310–312). From the economic theory perspective, poverty alleviation and eradicating income inequality are also mentioned among the objectives of zakat (Eskicioğlu, 2007: 53; Iqbal & Khan, 2004: 28). At this point, it is vital to distinguish the objectives and implications of zakat. It is plausible to expect that zakat has implications for investment, income distribution, poverty, economic growth, resource allocation, stability, employment, and many other economic indicators, which are widely discussed in contemporary literature (Aliyu, 2019; Metwally, 1983; Sadeq, 2002; Zaim, 2000). However, these impacts, especially the positive ones, should not be deemed the objectives of zakat. If zakat is treated in the context of these economic implications, it is highly possible to introduce proposals changing the essence and rulings of zakat when the expected results are not achieved. This is evident when zakat is deemed the primary and sole public revenue source. Some studies that regard zakat in this manner argue that the subjects and rates of zakat may be modified depending on the changing circumstances and give a broader interpretation of the prescribed zakat beneficiaries (Hamidullah, 2007; Mannan, 1980). Such considerations also have a significant bearing on the fiscal aspects of zakat. Consequently, the objective of zakat cannot be confined to preventing idle capital, poverty alleviation, fair distribution of wealth, development, and other economic goals, although the effects of zakat on these indicators are worth examining. In other words, zakat is a semi-public revenue that must be efficiently collected from eligible wealthy Muslims possessing the zakatable

items and distributed to designated beneficiaries. It is not a fiscal instrument levied to address the aforementioned economic problems.

The zakatable items are not explicitly specified in the Holy Qur'an, although some verses indicate the zakatability of gold and silver, crops and fruits, commercial earnings, and those extracted from the ground (Al-Qaradawi, 1999a: 53). Therefore, the assets subject to and exempt from zakat are derived from the sayings and practices of the Prophet ﷺ. Abu Yusuf (2019: 128–130) reports that the Prophet ﷺ dictated the zakatable animals, their nisab, and the amount of zakat depending on the number of animals possessed and kept in his sword until his demise. The classical treatises list the five categories of assets subjected to zakat based on the narrations from the Prophet ﷺ. These include animals, gold and silver, trade goods, minerals and treasury troves, and agricultural produce in general terms (Günay, 2017: 591). Considering the common characteristics of these items and the relevant narrations indicating the zakatability criteria, jurists have identified conditions related to assets to be subjected to zakat. Despite the opposing views in detail, complete and absolute ownership, actual or discretionary growth (nama), nisab level, the passage of one lunar (hijri) year (hawalan al-hawl), being other than essential needs, and being free of debt are identified as the conditions concerning the zakatable items (Erkal, 2008: 53–67). Among them, only the condition of nama (actual or discretionary capacity to grow) can be deemed to be directly related to the nature of the property itself. The other conditions pertain to the ownership of the property, its volume, the holding period, and whether it is allocated for essential needs or debt. Even the condition of nama is linked more to how an asset is used rather than its type or nature. The same asset does not meet the nama condition when used for personal needs, but it acquires the characteristic of nama when offered for sale with a commercial purpose. Accordingly, while the Hanafite school specifically considers goods essential for basic needs under the term al-hawaij al-asliyyah, most jurists have associated them with the lack of actual or discretionary growth (nama), resulting in non-zakatability (Erkal, 2006: 550). In fact, Kahf (1989: 12–13) criticizes the nama condition as the criteria of zakatability in terms of the lack of its inclusiveness, the arbitrariness of the concept of discretionary growth, and insufficient rationalization. Nevertheless, the nama condition has always been a fundamental criterion for determining which of the new items of wealth and income are subject to zakat. In this context, Table 3.6 presents new zakatable items of

wealth and income having the characteristic of nama, which can also be considered extensions of the above-mentioned categories of zakatable assets.

The zakat rates imposed on the classical zakatable items are well-established despite the controversies regarding the financial obligation on extracted minerals. However, contemporary scholars have different approaches and resolutions for both the zakat rates and bases of new forms of wealth and income. In this introductory subsection, we opted not to go into the details of these views. However, we have touched upon them in the empirical part of the thesis and either preferred one of them or constructed scenarios for the selected ones.

The fact that the Qur'an mentions those who are in charge of collecting zakat among the beneficiaries of zakat proceeds in verse 60 of Surah al-Tawbah, and the expression "take" in verse 103 of the same surah concerning zakat obligation indicates the role of the state in zakat management (Al-Qaradawi, 1999b: 113). In addition, Yeniçeri (1984: 46–50), based on the relevant narrations, states that the foundations of the institution of the treasury (bayt al-mal), where zakat, ghanimah, and fai' revenues were kept, were laid by the Prophet ﷺ from the early years of the Hijrah. It is reported that the Prophet ﷺ appointed officials for the recording, safeguarding, and administration of zakat according to the type of zakatable items. For instance, Bilal b. Rabah (ra) was responsible for the zakat of agricultural produce, and Abd al-Rahman b. Awf (ra) was in charge of the zakat on animals (Ibid: 47). Kahf (2000: 15) identifies more than 25 zakat officers appointed by the Prophet ﷺ in various parts of the Arabian peninsula, citing the narrations compiled by al-Qaradawi (1999b: 114–115).

Table 3.6: New Zakatable Items of Wealth and Income as an Extension of Classical Categories of Zakatable Items based on the Condition of Actual or Discretionary Growth (Nama)

Classical Categories	New Zakatable Wealth and Income Items
Animals	Industrial livestock, dairy, poultry, and fish farming, rabbit breeding, beekeeping, and silkworm cultivation
Gold and Silver	Local currencies, foreign currencies, salaries, wages and self-employment earnings, stocks and bonds traded on the stock exchange, severance pay, retirement bonus, and pension
Trade Goods	Factories and industrial plants, industrial products, commercial establishments such as shops, business halls, shopping malls, plazas, etc., service sectors such as tourism, health, education, transportation, income-generating buildings, and transportation vehicles, securities purchased to benefit from annual dividends, intellectual and artistic works, publishing and publishing activities
Minerals and Treasury Troves	Crude oil, natural gas, and other mining activities
Agricultural Produce	Industrial agriculture

Sources: Günay, 2017: 591–592

* It is worth noting that the matching between the classical categories of zakatable items and new forms of wealth and income does not necessarily imply that these new items are subject to zakat according to the rulings applying for the corresponding classical category. For instance, scholars assert that dairy farming can be subject to zakat as trade goods through their produce, while some establish an analogy between fixed capital assets, such as factories and industrial plants, and agricultural lands.

The reports in the preceding paragraph confirm the central role of the Islamic state in zakat management at the time of the Prophet ﷺ. However, it is also clear that the Prophet ﷺ did not force the Muslims to pay zakat on their hidden (batin) assets, such as gold, silver, and trade goods, to the officials appointed. Muslims calculated the zakat that accrued on these goods and voluntarily handed it to state officials. Such practice concerning the hidden (batin) assets was also present at the time of Caliphs Abu Bakr (ra) and Umar (ra). Caliph Uthman (ra) assigned the responsibility of distributing the zakat on hidden (batin) assets to their owners, considering the prevailing circumstances of expanding borders and increasing state revenues (Erkal, 2008: 52).

The distinction between apparent (zahir) and hidden (batin) zakatable items regarding the state's involvement in their collection and disbursement from the practical aspect has led to disputes in the doctrine. However, al-Qaradawi (1999b: 117–119) concludes

that scholars agree on two points after analyzing jurists' views from different Islamic jurisprudence schools. First, the Islamic state is authorized to collect and distribute zakat on all assets, including the hidden (batin) assets, and zakat must be paid to the state when it assumes this responsibility. Second, asset owners are responsible for distributing zakat themselves if the state fails to collect it. Therefore, the decision, which was taken by Caliph Uthman and not objected to by the Companions, does not annul the right of the state to collect the hidden (batin) zakatable items.[33] As a matter of fact, even Caliph Uthman (ra) deducted zakat from the salaries granted by the state after confirming whether the recipient had zakatable wealth, which covers the hidden (batin) assets (Boynukalın, 2017: 96–97). However, it is crucial to note that entrusting zakat collection to a state governed by those rejecting Islam is forbidden since they are not reliable in administering it properly (Al-Qaradawi, 1999b: 124).

Contemporary Muslim-majority states are involved in zakat management in a considerable number of countries. Hammad (1980), who reviewed the regulations and practices regarding zakat in 29 Muslim-majority countries, identified 22 countries where zakat is managed through state-led regulatory and institutional frameworks. Among these 22 countries, only seven collect zakat compulsorily, but the scope of compulsion may differ depending on regions and obligants. These include Kuwait, Nigeria, Pakistan, Saudi Arabia, Singapore, Sudan, and Yemen (Ibid: 34-35).

Zakat proceeds vary among Muslim-majority countries due to the level of state involvement in zakat administration, the payment mechanism (voluntary or compulsory), the modus operandi (centralized, decentralized, or hybrid), the coverage of zakat, the sectoral structure of national economies, incentives available, such as deductions from tax payable or bases, etc. While the zakat proceeds in countries where zakat is collected on a voluntary basis, such as Indonesia and Jordan, differs between

[33] Al-Qaradawi (1999b: 123) points out the fact that the apparent (zahir) or hidden (batin) status of a zakatable item may transform over time, quoting from Khallaf, al-Hasan and Abu Zahrah. In today's world, where accounting records prevail and savings are tracked in the banking system, trade goods and cash assets previously considered hidden (batin) are likely to have the status of apparent (zahir). It is possible for the state to collect zakat on assets that have become apparent (zahir) today, just as trade goods that pass through customs were subject to zakat in the past.

0.01% and 0.07% of the corresponding countries' GDP, the ratio of zakat proceeds to GDP can reach 2.13% as in the case of Pakistan where zakat is collected compulsorily (Ibid: 20). However, being compulsory does not necessarily imply high zakat proceeds compare to GDP because the above-mentioned factors also impact on the zakat collected. For instance, zakat collection in Sudan (USD 220 million) amounted to only 0.17% of the GDP (USD 128 billion) in 2013, while the same figure was realized as 0.47% in 2018 (Hammad, 2022: 20; Obaidullah & Shirazi, 2015: 40).

Zakat constitutes great potential in terms of its financial value as a semi-public revenue, despite the relatively modest realized zakat proceeds in most countries. According to the estimation of Kahf (1987b, 1989: 18), the zakat potentials of eight Muslim-majority countries, namely, Egypt, Sudan, Indonesia, Pakistan, Türkiye, Syria, Saudi Arabia, and Qatar, range from 1.9% to 7.5% of the corresponding countries' GDP. Shirazi and Amin (2009: 746) estimated the zakat potential of the Organization of the Islamic Cooperation (OIC) member countries between 1.50% and 4.31% of their GDP, varying due to three different scenarios in terms of the coverage of zakat specified by Kahf (1987b). A recent study by Hassan et al. (2024: 159) estimated Bangladesh's total zakat potential in the 2018-19 fiscal year at $9 billion (3.77% of GDP). Although the estimation methods have inherent deficiencies, these estimates are crucial to roughly uncover the value of zakat as part of the Islamic public finance revenues system. Thus, zakat on both classical and contemporary wealth and income items is addressed in the empirical part of the thesis.

3.2.4. Public Enterprises

Properties under the state's ownership or rule and disposal have been classified into three categories above, adopting the classification constituted by Günay (1997). These include free (mubah), public, and state properties. State properties can be further categorized as cash holdings, lands, industrial plants and commercial enterprises, and service goods (Ibid: 68). In line with this classification, industrial plants and commercial enterprises can be conceptualized as public enterprises. However, public enterprises are not restricted to operating based on commercial principles to make profits. In addition, it also consists of enterprises that provide monopoly goods and services, observing the public interest. Considering the connection between public enterprises and other property types, properties under the state's ownership or rule and

disposal can provide sources of raw materials and land for public enterprises. As a matter of fact, Khaf (1992: 158) considers the extractive industry as the backbone of the public sector.

Public enterprise is a way for the state to be involved in economic activities. As noted before, the state can carry out such activities in areas the private sector does not engage in for various reasons, such as low profitability and high costs, or in industries that cannot be left to the private sector due to their strategic importance. In other respects, the possible negative consequences of state involvement in economic activities are widely discussed both in classical and contemporary literature. For instance, Ibn Haldun highlights the implications of the ruler's agricultural and commercial activities on incentives to work, market mechanisms, prices, competition, and public revenues generated through taxing the private sector. Then, he even implies that the benefits of a fair tax system would be greater for both the state and the general economy compared to that of state economic activity due to such adverse outcomes (El-Ashker & Wilson, 2006: 276–278). Nevertheless, public enterprises utilizing the properties under the state's ownership or rule and disposal through public initiatives constitute one of the public revenue sources in Islamic public finance theory, especially in the contemporary literature (Awad, 2000: 85; Kahf, 1983: 117; M. N. Siddiqi, 1992: 28–29).

It is worth differentiating public enterprises in terms of the nature of the goods and services they produce. Such differentiation is required to analyze the possible contribution of public enterprises to the treasury. Public enterprises producing public goods and services are expected to make a limited or even zero net revenue contribution to the budget. As noted in the context of the value of public properties for the treasury before, charging public goods at a price higher than their production cost can be problematic, as it would limit people's right to claim them freely, as the nature of public properties implies (Kahf, 1987a: 30). In a similar vein, public enterprises in sectors such as water and energy supply, as well as coast and airfield management, should not operate based on commercial principles to make profits. Consequently, this kind of public enterprise cannot generate net revenue for the public treasury, provided prices are set at a level to cover costs or lower. On the other hand, public enterprises producing market-oriented products and services in sectors such as banking, insurance, telecommunications, machinery, minerals, and chemicals may generate revenues depending on the market conditions of the relevant industries and the performance of

the public enterprises. Thus, the economic activities of these enterprises can generate net revenue for the treasury according to the relative magnitude of costs and returns.

Public enterprises did not occur in the early years of Islamic history. This is expected for a time when the state's presence in the socio-economic sphere was quite limited compared to today. El-Ashker and Wilson (2006: 146) note that state-owned commercial enterprises emerged during the Umayyad and Abbasid dynasties. The Umayyad Caliph al-Walid b. Abd al-Malik (705-15) established a council (diwan al-mustaghallat) to supervise public enterprises, including public baths, small shops, mills, etc., which were either directly operated by the state or rented to generate income (Ibid: 148-149). The Ottoman state has controlled the mining sector since the early days (Genç, 2014: 228). Although mines were operated through different methods with different levels of state involvement during the Ottomans, these businesses can be considered public enterprises, taking into account the mines directly operated by the state in particular and its active role in general (Çağatay, 1943: 123–124). The contribution of revenues generated from mining activities to the budget was remarkable even in the early centuries of the Ottomans. For instance, revenues of mines and salt works in the Ottoman Rumelia constituted approximately 15% of the region's total revenues in 1475 (İnalcık, 2005: 56).

Public enterprises are still in operation today, although they have been criticized for their inefficiency and for being a burden rather than a contribution to the budget. Especially in sectors of strategic importance, such as the defense industry and energy, there is a significant presence of state-owned enterprises.

3.2.5. Voluntary Contributions

We have discussed above the fact that Islamic public finance theory and practice go beyond the state and public institutions, referring to the concept of socially obligatory duties (fard al-kifayah), the foundational principles of an Islamic society, such as brotherhood, solidarity, cooperation, altruism, and voluntarism, and their practical implications in the form of awqaf, sadaqah, infaq, and other channels of voluntary contributions. Further, we have addressed the possible impacts of this aspect of Islamic public finance on the presence of the state in the economic and public finance sphere, which depends on the people's individual and collective efforts to fulfill socially obligatory duties. Recalling what voluntary contributions imply for Islamic public

finance in general, this subsection focuses more specifically on voluntary contributions channeled to the state or mobilized at its call and direction rather than direct transfers to the third sector or individuals without state intervention. Such a restriction on the scope of voluntary contributions is needed because public finance, in a literal sense, is exclusively devoted to the monetary revenue sources of the budget and its management.

Voluntary contributions made by individuals on their own initiative or at the call of the state to provide funding for public expenditures have been evident since the early days of the Islamic state. In this regard, the purchase of Bir Rumah (Ruma Well) by the Hadrath Uthman (ra) upon the request of the Prophet ﷺ and the voluntary support of the companions upon the call for the expedition to Tabuk can be cited as the most famous instances (Küçükaşçı, 2008: 231; Yiğit, 2011: 229).

As the cases mentioned above indicate, the voluntary contributions needed for state expenditures are generally obtained through an appeal by the head of state. However, this phenomenon does not negate the fact that people's contributions are voluntary. Otherwise, it would be nothing more than taxation. These voluntary contributions can either go into the budget or be allocated directly to an expenditure by the state. Considering that such appeals are mostly raised in the case of extraordinary situations and emergencies, the resources obtained are expected to be directly transferred to the relevant expenditures by the state.

Contemporary literature on Islamic public finance views voluntary contributions as one of the sources of public revenue (Kahf, 1983: 132–134). Iqbal and Khan (2004: 33–34) argue that such kinds of voluntary support can generate significant resources for public expenditures when adequately managed. The findings of the Charities Aid Foundation's last report covering the generosity behavior of 142 countries in 2023 indicate such a potential. According to the report, the average population ratios in those countries who helped a stranger and donated money are 61% and 35%, respectively (Charities Aid Foundation, 2024: 5). Although these figures do not necessarily imply that the same proportion of the population will make voluntary contributions in response to state appeals, it is undeniable that there is significant potential.

3.2.6. Miscellaneous Revenues

Various sources other than the aforementioned ones can be incorporated into the Islamic public revenue system. These include zakat/sadaqah al-fitr (fast-breaking zakat), unclaimed properties, including heirless inheritances, kaffarah (expiations), fidyah (obligatory payment for missed fasts during Ramadan), gifts, foreign aid, confiscation, and other financial penalties. This section briefly discusses these sources of revenue in terms of their value from the perspective of public finance.

Zakat/sadaqah al-fitr (fast-breaking zakat), which was imposed on all Muslims in the second year of Hijrah by the Prophet ﷺ to purify the fasting person from evil words and behaviors and to provide food for the needy (Al-Qaradawi, 1999b: 197–200). Despite the disagreements in details, the scope of its obligants is broader than those subjected to zakat and is payable at the end of the month of Ramadan. In line with its broader scope in terms of obligants, the minimum amount to be paid is set at a level (one sa' of barley and date) that everyone can afford (Ibid: 207-214). According to al-Qaradawi (1999b: 203), one of the functions of zakat al-fitr is to educate Muslims on spending in the way of Allah, even if only a little. The sayings of the Prophet ﷺ and the narrations regarding the practice of zakat al-fitr reported by the companions indicate neither the requirement nor the prohibition of the collection of zakat al-fitr by the state. Instead, it seems Muslims distributed zakat al-fitr on their own. In a similar vein, today, Muslims, either themselves or through charitable foundations and zakat funds, deliver zakat al-fitr to those in need. For instance, the South African National Zakat Fund (SANZAF), registered as a non-profit organization, manages one of the largest zakat al-fitr collections and distributions, working with nearly 80 mosques in the Western Cape to collect, purchase, and distribute groceries to local beneficiaries (Obaidullah & Shirazi, 2015: 92). The Zakah Fund of Algeria, supervised by the Ministry of Religious Affairs and Awqāf, has been collecting zakat al-fitr in addition to zakat and ushr since its establishment in 2003 (Obaidullah, Shirazi, & Dakhli, 2020: 31). According to the Ministry of Religious Affairs and Awqāf, the annual amount of zakat al-fitr collected has, on average, accounted for 57% of the total yearly zakat proceeds since 2003. The total value of zakat al-fitr in 2016 reached $4.3 million (Ibid: 36). Obaidullah et al. (2020: 59) estimate the annual potential zakat al-fitr in Morocco ranging between $20 and $30 million. These indicators and estimates reveal the

potential of zakat al-fitr to serve as a considerable resource for public finance, provided that it is appropriately allocated to beneficiaries, as in the case of zakat proceeds.

Unclaimed properties, which are ultimately transferred to the state treasury, can be considered a public revenue source. These mainly include heirless inheritance and movable and immovable properties seized, borrowed, or entrusted, and whose rightful owners have subsequently become impossible to know (İbn Teymiyye, 2021: 57). The lost properties found by someone else can also be included in this category.[34] Islamic inheritance law stipulates that inheritance with no heir is ultimately transferred to the state. These properties are generally considered under the fai' category and can be spent considering the public interest (Fayda, 1995: 512). It is stated that during the reigns of the Umayyad and the Abbasid dynasties, significant revenues for the state treasury were generated from the estates of those who died without heirs (Demirci, 2003: 113). Several countries already have laws and regulations on unclaimed property, which date back centuries (DeCarrera, 2015). The value of unclaimed properties may be significant depending on several factors, such as demographic structures, social relations, regulatory aspects, etc. For instance, the Bona Vacantia Department of the Government Legal Department in the United Kingdom (UK), which is responsible for vacant properties, gathered over £18 million from unclaimed estates while distributing just over £6 million for claims in 2015 (Stanley, 2016). In 2020 alone, Malaysia recorded 70 million Malaysian Ringgits in unclaimed goods because of disputes among heirs, lack of awareness, and negligence (Supi, 2022). These indicators underscore the importance of treating unclaimed goods seriously as a source of public revenue.

Kaffarah (expiations) and fidyah (obligatory payment for missed fasts during Ramadan) are two other forms of financial obligation on Muslims committing certain acts, which may contribute to public revenues when paid to public institutions. In this regard, kaffarah is a general concept of financial or physical acts of worship, such as

[34] There are several ways to dispose of found properties. When the owner remains unidentified, the finder may claim ownership, and the relevant authorities, such as the office of judges, lend them to those in need, sell them and retain the proceeds, or donate them to the poor. Additionally, according to Imam Shafi'i and Ahmad b. Hanbal, one-fifth of their value may be collected as tax (Köse, 2003: 225).

liberating slaves, fasting, feeding, and clothing the poor, which are obligatory for those who violate specific prohibitions (Yaran, 1994: 179). These include breaking an intentionally taken oath, manslaughter by mistake, breaking the fast of Ramadan purposely without an excuse, and others (Ibid: 180). Kaffarah is considered both a punishment and a means of seeking forgiveness from Allah. Regarding fidyah, Islamic scholars unanimously agree that individuals who cannot fast due to old age or an incurable illness must pay it for each missed day (Öğüt, 1996: 55). The amount of fidyah for fasting is equivalent to two meals that can sustain a person for a day, corresponding to the amount of zakat al-fitr (Ibid: 56). Nowadays, Muslims, who are obliged to pay kaffarah and fidyah, can donate required amounts in cash to charitable organizations. These organizations even announce campaigns during the months of Ramadan. In addition, Ismail et al. (2019: 10–15), who examine Islamic revenues in the federal constitution and the constitutions of fourteen states in the cases of Malaysia, Singapore, and Brunei, argue that they theoretically also include sources like kaffarah and fidyah, although explicitly mentioned Islamic revenues are limited to items such as zakat and zakat al-fitrah. Despite such efforts at the state and charitable institution levels, structuring financial obligations like kaffarah and fidyah as public revenue is quite challenging for several reasons. First, verifying those obliged to pay kaffarah and fidyah is almost impossible for the state or any organization. As a matter of fact, al-Qaradawi (1999a: 70) adopts the view of Hanafites regarding the non-deductibility of debts of pledge and kaffarah from the zakat base when the state takes the responsibility of collecting zakat due to the same verification problem. Second, the lack of knowledge and awareness, especially regarding kaffarah, would significantly limit the amount received, even if the payment of these obligations to the relevant state accounts is left to individual discretion.

The gifts presented from foreign states constitute another form of public revenue for an Islamic state. They are also deemed a part of fai' revenues, which can be spent considering the public interest (Fayda, 1995: 512). The reports confirm that the Prophet ﷺ received gifts from foreign state leaders and local chiefs and accepted them as a sign of courtesy (Argun & Eskin, 2020: 88). However, gift exchange holds meanings beyond being a source of revenue in interstate diplomacy. Gifts may be sent to establish friendly relations and declare goodwill, prevent a potential military operation or rebellion, trade with the recipient country, reward cooperation against a

common enemy, etc. (Ibid: 59). Therefore, the diplomatic aspect of gift exchange outweighs its budgetary dimension. In a similar vein, foreign aid generally has serious political and ideological motives despite its significant contributions to state expenditures, especially in emergent cases, such as economic crises, war, famine, and natural calamities. Therefore, the revenue aspect of both gifts and foreign aid remains secondary, while their other dimensions should be wisely considered.

Lastly, confiscated properties and other financial penalties can generate revenues for the public treasury. Confiscation is the act of the state seizing property as a penalty or precaution, either to be incorporated into the treasury or temporarily placed under protection. It specifically refers to the state's appropriation of all or part of the wealth or assets unlawfully acquired by public officials (Tomar, 2006: 65). In this context, the penalties imposed on those who refused to pay zakat, the measures taken against those who misappropriated spoils of war during the time of the Prophet ﷺ, and the confiscation practices during the era of second caliph can be mentioned as the earliest instances (A. Öner, 2018: 138–143). Caliph Umar (ra) would request a list of assets from anyone he appointed as a governor. If he later noticed an unexplained increase in their wealth, he would order the confiscation of the excess amount (Tomar, 2006: 65). Kallek (2018b: 217–222) provides a detailed list of companions whose properties were confiscated by the Caliph Umar (ra) together with their values or share in the total wealth. In addition, Islamic law prescribes financial penalties for certain offenses, although there are disputed points. These include refusing to pay zakat, hiding a lost animal, possessing alcohol, acts of defiance against a ruler’s authority, and stealing from war booty, among others (Esen, 1996: 99). Today, assets and profits obtained through criminal activities, including smuggling, remain subject to confiscation. Additionally, the scope of monetary penalties has significantly expanded, becoming one of the key components in public budgets. However, since these matters fall under criminal law and require a detailed examination within the framework of Islamic law, they exceed the scope of this thesis. Therefore, neither the theoretical aspect nor the empirical section of the thesis addresses confiscation and other financial penalties.

3.2.7. Taxes as the Last Resort

Taxation is an ancient phenomenon whose origins are hard to trace deep in history. It is commonly accepted in the relevant literature that the early practices to finance state expenditures, such as gifts, charities, and voluntary contributions, evolved into the current form of taxation, which is obligatory and more inclusive (Eskicioğlu, 1996a: 34–35; Kazıcı, 2019: 58; Kenanoğlu, 2013: 52). As a matter of fact, the phrases used for the tax in Medieval Europe come from the root words of help, generosity, etc. (Edizdoğan et al., 2021: 132). The modern form of taxes can be defined as a forced and gratuitous financial obligation to finance public expenditures, although various definitions have been proposed with slightly different wording (Edizdoğan et al., 2021: 143–144). Being gratuitous implies that taxes are not paid in exchange for goods or services provided by the state at the individual level, distinguishing them from fees (Edizdoğan et al., 2021: 145; Kenanoğlu, 2013: 52).

Abu Yusuf considers collecting legitimate dues and spending them in permissible ways as one of the duties of caliphs (Eskicioğlu, 1996a: 25–26). As reported by Abu Yusuf (2019: 189) in this treatise, Kitab al-Kharaj, addressing people in a sermon (khutbah), Caliph Umar (ra) said that taxes are legitimate only if they are levied justly, spent justly, and if injustice is avoided in their levying and spending. The legitimacy of the levies imposed by the contemporary Muslim-majority states in terms of Islamic law and public finance must still be a significant concern, as it was in the early periods. This concern becomes increasingly important for countries whose public revenue systems highly depend on taxes, such as Türkiye, where the ratio of tax revenues to the total revenues of the central administration budget has generally lingered around 85% since 2012.

Our analysis reveals that the legitimacy of levies has been discussed in two dimensions in classical and contemporary literature on Islamic law and public finance. The first dimension concerns the conditions required for levies beyond zakat, while the second focuses on the principles that should be upheld when imposing additional financial obligations once these conditions are met. The real need to be fulfilled by the state and the lack of financial resources in the budget can be listed as two main conditions for financial dues. In addition to these two conditions, we have discussed whether wealth and income inequalities can be considered one of the conditions that may justify

imposing taxes in a separate section. On the other hand, we figured out that richness beyond needs, justice, levy in proportion to the need, public welfare, and ensuring the balance between productivity and public revenues are the principles that shape the nature of additional financial obligations. Both conditions and principles are defined, and their implications for taxation are explained in the following sections.

At this point, we would like to emphasize that the conditions and principles are related to the levies other than zakat, and the debate about whether zakat is the only financial due on Muslims is a different point of discussion, although in some ways related to customary levies, as noted below. Al-Qaradawi (1999b: 225–235) elaborates on the arguments by those who argue that zakat is the only financial liability and those who think there are financial obligations on Muslims other than zakat. Consequently, he asserts that all scholars of both views unanimously agree that Muslims have financial responsibilities other than zakat, such as helping parents and family members in need, meeting food, clothing, and shelter needs of needy members of the society, lending household appliances to the neighbors, contributing to defending Muslim lands, and liberating captives, etc., which are classified as socially obligatory duties (fard al-kifayah) despite the disagreements in details and their scope (Ibid: 241-243). As an answer to the question of why some scholars deem zakat the only financial liability, although they acknowledge the mentioned responsibilities, Ibn Taymiyyah states that zakat is the only financial obligation imposed because of owning wealth above the nisab level. On the other hand, the other kinds of obligations arise not because of wealth itself but for different reasons when needs and necessities occur (Ibid: 244). So, wealth is the cause (sabab) of zakat, while it is the condition (shart) for the other obligations. In other words, wealthy Muslims must pay their zakat regardless of the need in society. However, they are expected to provide support to meet other obligations when needed. Zakat is an individual obligation that is permanent and clearly defined, while other obligations are temporary and depend on the level of need that must be fulfilled collectively (Ibid: 244).[35]

[35] Brotherhood, solidarity, and cooperation grounded in the belief in Tawhid are the underlying principles of Islamic economics, which constitute the basis for the collective obligations and their fulfillment by the capable members of the society (Abu Sulayman, 1998: 90–95). Chapra (1979: 16–17) emphasizes the commitment to the brotherhood in Islam while

The discussion regarding financial obligations other than zakat referred to in the previous paragraph is mainly about religious responsibilities stated by Allah and His Messenger ﷺ, which directly address individuals. However, this discussion can be extended to the issue of whether the state can impose taxes to finance the expenses related to the mentioned responsibilities and the like for the following two reasons. First, states may be involved in ensuring that these societal needs are met, considering they are in the scope of socially obligatory duties related to the public and coincide with the state's responsibilities. In fact, Siddiqi (1996: 48) lists the fulfillment of socially obligatory duties as one of the permanent public expenditure items in cases where the private sector cannot meet them. Second, customary taxes may be justified by referring to evidence in favor of the presence of financial obligations on Muslims in addition to zakat. As a matter of fact, it is not difficult to see the reflections of this debate in the views on the legitimacy of taxation, which we discuss below.

3.2.7.1. Conditions for Taxation

The permissibility of taxes is an important discussion point in Islamic public finance literature. Kahf (1983: 128) and Islahi (2009: 142) point out that contemporary scholars are more affirmative regarding additional levies than old schools, who approach the issue cautiously. As noted above, we have identified that the legitimacy of levies has been discussed in two dimensions in classical and contemporary literature on Islamic law and public finance. The first dimension concerns the conditions required for levies beyond zakat, while the second focuses on the principles that should be upheld when imposing additional financial obligations once these conditions are met. We can remark on the presence of two essential conditions related to the legitimacy of taxes in both groups of scholars: The real needs to be fulfilled by the state and the lack of financial resources in the budget. In addition to these two conditions, we have discussed whether wealth and income inequalities can be considered one of the conditions that may justify imposing taxes in a separate section.

discussing the role of an Islamic state regarding social security and equitable distribution of wealth. In addition, Kahf (1991: 9) acknowledges the role of intra-personal solidarity in meeting the basic needs of indigent members of society.

a) Real Needs to be Fulfilled by the State

The first condition that justifies taxation is the real needs that need to be fulfilled in society by the state. In this regard, the most crucial question is the content and scope of the real needs. Thus, we will refer to the discussions on the state's roles and the socially obligatory duties (fard al kifayah) while determining the real needs. However, we would like first to point out some differences in the approaches of classical and contemporary scholars to the issue of taxation in the context of needs.

The most prominent real need from the perspective of classical jurists in the case of additional levies is the presence of military requirements to defend the borders of Muslim lands. When the opinions of Imam Malik b. Anas, Imam Ghazzali, Imam Nawawi (d. 1277), and Shatibi about the imposition of additional dues are examined, we can see this necessity implying the financial need for compensating military expenses (Al-Qaradawi, 1999b: 298–301; Kahf, 1983: 129). Imam Ghazzali and Shatibi argue that the harm in the case of deficiencies in military defense is much higher than the taxes imposed on the capable members, both at the individual and societal level, which explains the rationale behind conditioning tax levy on military needs (Al-Qaradawi, 1999b: 298). Secondly, Ibn Hazm considers the failure to meet the poor's needs for food, clothes, and shelter as one of the conditions validating the additional levies (Kahf, 1983: 129).

When contemporary scholars' views about taxation legitimacy are surveyed, we observe a more affirmative approach regarding taxes (Chaudhry, 1992; Hamdi & Widiastuti, 2021; Mayer, 1986; Salama, 1982). Very few contemporary scholars sharply criticize modern public revenues, particularly taxes (Awad, 2000; Eskicioğlu, 1996b, 2007). In this regard, Chapra (1979: 21) lists taxes among the financial resources of an Islamic state, provided that taxes are just and tolerable. He thinks that "the right of the Islamic state to raise resources through taxes cannot be challenged" by referring to a hadith of the Prophet ﷺ acknowledging obligations beyond the zakat.[36] He also puts forward the same rationale as Imam Ghazzali and Shatibi mentioned

[36] This argumentation is one of the examples for reflections of the debate regarding the financial obligations of Muslims other than zakat on the views about the legitimacy of taxation as noted above.

above. Similarly, Mannan (1980: 117) argues that taxation as a revenue source is justified in Islam. Kazıcı (2019: 15) argues that every state requires taxes to sustain its existence. Accordingly, he thinks customary taxes imposed by the Ottomans were natural and compatible with Islam, which approves a tax system that responds to changing circumstances and needs (Ibid: 61).

At this point, it is worth reiterating divergent approaches and ideas in the contemporary literature, some of which either require or exclude one another, as noted in Chapter 2.2. Those who conceive of the state's roles and responsibilities in a broader sense, encompassing welfare and developmental functions, are inclined to adopt a more affirmative stance toward modern public revenues, particularly taxation (Chaudhry, 1992; Faridi, 1980; M. Iqbal & Khan, 2004; M. N. Siddiqi, 1992). Conversely, when the state's functions are viewed more narrowly, the emphasis on the need for taxation diminishes significantly (Dökmen & Yeşilyurt, 2016; Eskicioğlu, 1996b, 2007; Es-Sadr, 1980; Kahf, 1983, 1987a; Yağmur, 2021). Moreover, the studies focusing on fiscal policy tools and goals attach high importance to taxation, often deeming it essential, compared to works that rarely address fiscal policy (Faridi, 1980, 1983; Salama, 1982, 1983).

On the other hand, Kahf (1983: 130) adopts a different position concerning the legitimacy and permissibility of taxation and notes that it is an exception depending on specific circumstances and conditions rather than a rule. In fact, most scholars, including those who require the tax for a state, condition its imposition on particular needs to be met either by capable members of the society or the state, which can be conceptualized as fard al-kifayah or the roles of an Islamic state. Since the fulfillment of duties in the scope of fard al-kifayah by Muslims is obligatory even in the absence of a state, taxes imposed to finance those kinds of expenses are deemed obligatory by some scholars (Kenanoğlu, 2013: 54). However, fardh al-kiyafah is an abstract and dynamic concept, and thus, scholars propose varying lists of socially obligatory duties and roles of an Islamic state, as discussed at the beginning of Chapter 3.1. In addition, using broader terms, which may have different connotations and interpretations while expressing these duties and roles, makes the issue more complicated on the one hand and more flexible on the other. Although it is hard to list all roles assigned to the state or collective obligations expressed by classical and contemporary scholars in detail,

which can justify the additional levies, we opt to note the main categories of real needs and highlight the differences between those in classical and contemporary literature.

We have identified the following main categories of real needs in both classical and contemporary literature. Although the titles of the main categories of needs are expressed similarly throughout history to some extent, their meanings and, thus, their scope have changed over time. The change can be regarded as an expected consequence of analogical reasoning (qiyas), considering the necessary roles assigned to the state by the early jurists in the context of objectives (maqasid) of Shari'ah (M. N. Siddiqi, 1996: 47).

- Security
- Providing for the poor and ensuring a subsistence level for all
- Developing and maintaining the infrastructure
- Establishing and running political and judicial institutions

Security, which covers all military expenses to ensure internal and external safety and to protect the dignity of Islam, is unanimously accepted by both early and contemporary scholars as a role of an Islamic state in the scope of the real needs of the society. The fact that the state should undertake the security responsibility is evident in Umar's (ra) sermon, in which he declared the rights of the people over the caliph, as well as in the views of the aforementioned early scholars at the beginning of this subsection (Al-Qaradawi, 1999b: 298–301; Ebu Yusuf, 2019: 198; Kahf, 1983: 129, 1991: 7). These theoretical considerations can be supported by historical facts, such as border cities' expenditure items mainly consisting of military expenses, as listed by Qudamah b. Ca'far (2018: 156–157). It is evident that the contemporary writers in the literature on Islamic public finance acknowledge the role of security of an Islamic state, which may justify taxation (Chapra, 1979: 9–10; Kahf, 1983: 130–131; M. N. Siddiqi, 1996: 47–49). However, contemporary considerations count intellectual, scientific, industrial, and economic power in the scope of security needs, while the army was the most prominent security requirement in the past (Al-Qaradawi, 1999b: 279–299).

Providing for the poor and ensuring the subsistence level for all can be listed as the second main group of real needs, which is considered one of the roles of the state and socially obligatory duties. Even though there are some variations in the details, all

scholars from different periods, such as Ibn Hazm, Chapra, Siddiqi, and Kahf, agree that the state can impose additional levies to finance these needs (Chapra, 1979: 9–10; Kahf, 1983: 129–131; M. N. Siddiqi, 1996: 48). Nevertheless, Ibn Hazm highlights the poor's needs for food, clothes, and shelter, as noted before. On the other hand, the necessities of the poor cannot be limited to these needs and go beyond them by including health, education, communication, transportation, and similar goods and services nowadays.

Thirdly, infrastructure constitutes one of the real needs that can be financed by taxes when necessary. It mainly includes transportation routes and irrigation facilities in classical literature. Scholars, including Abu Hanifa, Imam Malik, Sufyan al-Thawri (d. 778), Imam Zufar (d. 775), and Abu Yusuf, state on many occasions that the treasury should bear the costs of such facilities (Ebu Yusuf, 2019: 160; Kallek, 2018a: 87–88; Kudâme b. Cafer, 2018: 202). When the current circumstances are considered, additional facilities, such as airways, subways, energy transmission lines, etc., come into prominence. The same considerations regarding the impact of changing conditions over time on the scope of the main categories of the real need apply to the necessity of establishing and running political and judicial institutions by the state.

In addition to changes in the content of need categories due to the time factor, new concepts and indicators have emerged, which widen the scope of societal needs, such as welfare, development, and sustainability. The implications of these concepts on the roles of states are endless since they encompass almost every good and service that can improve and contribute to the welfare and development of individuals and society, such as education, health care, environmental protection services, and social, sportive, and artistic activities.

Last but not least, role assignment by citizens to the state is a critical factor in determining the scope of duties and responsibilities of states, which require financing, especially in contemporary democratic political structures. Indeed, it is one of the reasons for a state to undertake activities along with the failure of the private sector to realize optimum welfare satisfactorily (Edizdoğan et al., 2021: 18). Siddiqi (1996: 57) notes that such kinds of assignments constitute an open-ended category for the roles of states. Although this phenomenon is a consequence of the modern political system, the early examples can be found in the views of jurists (Ibid: 57). For instance, Abu Yusuf suggests the caliph give necessary orders and instructions for the repair of old

rivers and canals to be compensated from the treasury when the inhabitants of a town in kharaj lands request for the revival of vacant lands after confirming that it is beneficial in all respects and will not harm the people of other villages and towns by the officials sent to the region (Ebu Yusuf, 2019: 177; M. N. Siddiqi, 1996: 57–58).

Based on the considerations about the real needs in the context of the state's roles and socially obligatory duties above, we argue that it would be more prudent not to have a definitive judgment regarding societal needs as a justification for taxation. As a matter of fact, providing a complete and comprehensive head of public expenditures is not feasible, as acknowledged by Iqbal and Khan (2004: 20). Thus, we opt to let the countries determine the real needs to be fulfilled by states, reflecting on their people's demands and prevailing circumstances, including the performance of the private sector, market failures, technological improvements, etc., but without ignoring the necessities acknowledged by the classical and contemporary Islamic public finance literature.

b) The Lack of Financial Resources in the Budget

The real needs as the first condition for taxation per se cannot justify the taxation. It is one of the required conditions, but not sufficient without the second condition, the lack of financial resources in the budget. There is a consensus among early and contemporary scholars that other public revenue sources must be insufficient in order to impose taxes to finance real needs (Al-Qaradawi, 1999b: 298–301; Kahf, 1983: 129–131; Kenanoğlu, 2013: 54). Therefore, the imposition of taxation depends on the availability of other resources and financing requirements for real needs.

The condition of the lack of financial resources is evident in the views of classical scholars who discuss the legitimacy of taxation. For instance, Imam Malik stipulates insufficient resources in the treasury as a condition while justifying the option of taxation to finance the army's needs (Kahf, 1983: 129). Ibn Hazm considers additional dues permissible when zakat revenues do not meet the necessities of indigent people (Ibid: 129). When Imam Nawawi was confronted with the question asked by Sultan al-Zahir Rukn al-Din Baybars (d. 1277) about whether additional taxes could be imposed to fund military expenditures in the war against Tatars in Syria, he stated that additional levies are not permissible unless there are other sources in any form, including money, real estate, and the pieces of jewelry of the slave women (Al-

Qaradawi, 1999b: 300–301). Imam Ghazzali and Imam Shatibi also assert the lack of funds in the treasury as the condition for imposing taxes in the case of military needs to defend the borders and lands of the state (Ibid: 298).

Contemporary literature on Islamic public finance is more affirmative toward the legitimacy of taxation than early writings, which are more prudent about additional levies, as noted above. However, even the ones who consider taxes an essential revenue source of an Islamic state refer to earlier scholars, such as Marghinani (d.1197), who condition taxation on the non-availability of other resources (Chapra, 1979: 21). From the early periods of the twentieth century, Abd al-Haiy al-Kattani (d. 1962) notes that the responsibility of fulfilling collective obligations lies with human beings when there is a shortage in the treasury, which implies taxation or voluntary contributions (Kahf, 1983: 130). Among the arguments in favor of taxation, Al-Qaradawi (1999b: 297–299) mentions the fact that beneficiaries of zakat are pre-determined, but there exist expenditure items where zakat revenues cannot be allocated, such as schools and mosques, and concludes that the state may impose taxes when revenue sources other than zakat like ghanimah and kharaj are lacking.

The considerations above bring us to the point that taxes are deemed the last resort in the theory of Islamic public finance (Kahf, 1983: 130). When alternative revenue sources, such as revenues generated from properties under the state's ownership or rule and disposal, ghanimah, kharaj, jizyah, ushur, zakat, public enterprises, voluntary contributions, equity finance, borrowing, and forced borrowing cannot compensate the expenditures for real needs to be fulfilled by the state, taxes can be levied. The following explanations also support this argument. First, there exists the ahadith of the Prophet ﷺ that is considered evidence against the legitimacy of taxation, which makes the issue controversial among jurists (Al-Qaradawi, 1999b: 225–227). However, the legitimacy of other Islamic public revenues listed above is less debated by scholars. In addition, being a forced and gratuitous financial obligation on an individual basis despite the fact that they finance public goods and services raises concerns about violation of the objective of protecting wealth in Islam and freedom granted by Allah (Kahf, 1983: 128, 2014: 15). On the other hand, among the other public revenue sources, revenues generated by public economic enterprises or through fees are in exchange for goods and services provided. Voluntary contributions are intentional supports to the budget without any enforcement, although they are gratuitous like

taxes. Even financing the budget through forced borrowing gives lenders the right to repayment.

c) Do Income and Wealth Inequalities Justify Taxation?

The contemporary literature on Islamic economics asserts that maintaining justice and equitable distribution of wealth is one of the economic functions and objectives of an Islamic state (Chapra, 1979: 16–17; Kahf, 1983: 134, 1991: 12; Tabakoğlu, 2016a: 88). Based on this role assigned to the state, some argue that income and wealth inequalities may rationalize taxation, which serves to reduce it if there is no other way to achieve this goal (Al-Qaradawi, 1999b: 301). In this subsection, we briefly question the suggested rationales behind the state's role in preserving the equitable distribution of wealth and the justification of taxes through this role.

The most prominent argument in favor of a more equitable distribution of income and wealth is verse seven of Surah Hashr[37], which states, "so that they will not become the property of the rich among you" about the allocation of fai' revenues.[38] As a matter of fact, Caliph Umar refers to this and the following verses in the same Surah while reasoning his view about the conquered lands of Sawad concerning intergenerational justice (Ebu Yusuf, 2019: 55; Yahya b. Adem, 2018: 38). It is worth noting that the context of the verse is related to properties, which are considered a waqf for all Muslims, rather than privately owned assets (Karaman, Çağrıcı, Dönmez, & Gümüş, 2020b: 288–289).

[37] The full verse is as follows: "That which Allah gives as spoil to His Messenger from the people of the townships, it is for Allah and His Messenger (for the State) and for the near of kin and the orphans and the needy and the wayfarer, so that they will not become the property of the rich among you. Whatever the Messenger gives you, accept it; and whatever he forbids you, abstain from it. Have fear of Allah; He is stern in retribution" (Özek et al., 2018: 545).

[38] The verse has different interpretations by the jurists of various schools of jurisprudence concerning the scope of revenues subjected to the allocation in the relevant verse. However, most scholars think that the seventh verse is related to immovables acquired as a result of war (Karaman, Çağrıcı, Dönmez, & Gümüş, 2020b: 288–289).

In addition, Abu Sulayman (1998: 90–95) asserts that humans as a part of society have equal rights in natural resources, starting from the concept of Tawhid in Islam, which comprises how people relate themselves to Allah and other fellows according to his perspective. He argues that violating equal rights in natural resources by illegally exploiting them is riba in the broader sense, referring to the concepts of vicegerency (khilafah) and brotherhood. After acknowledging the right of private property, but not in an absolute sense, and differences in incomes depending on variation in labor expended, Abu Sulayman notes that societies have the right to redistribute the private income and wealth as exemplified by the policies of the Prophet between Ansaar (Muslims helpers in Madinah) and Muhajir (Meccan Muslims emigrants to Madinah) (Ibid: 95-113).

Eskicioğlu (2007: 8–11) approached the issue of redistribution from the perspective of the sociality of production. According to him, production is a social phenomenon, and the distribution of added value generated through production should not be confined to the owners of production factors. He lists two ways of transferring to those who do not own production factors: zakat and sadaqah.[39] In the same vein, Tabakoğlu (2016a: 67) considers wealth a social phenomenon and argues that it must be shared with society. Abu Sulayman (1998: 96), from a similar point of view, maintains that the rich in society should be grateful to the poor for being able to use their rights in natural resources, while the poor thank the wealthy members of society for the transfer of the right shares in the benefits derived from these sources to themselves.

The Islamic economic system is indeed tuned towards the distribution of wealth and income. The fact that the unjust acquisition of income and wealth, such as interest, theft, gambling, etc., is forbidden, and the goal of providing sufficient sustenance for all contributes to restraining the concentration of wealth in the Islamic economic system. It also has inherent institutions restricting the unusual disparity between individuals' income and wealth, such as zakat, inheritance law, and awqaf (Kahf, 1982: 126). Apart from these institutions, the Islamic economic system consists of measures,

[39] According to Eskicioğlu (2007: 11), the pretended contradiction between the ahadith referred by those who affirm the financial obligations of Muslims other than zakat and who consider zakat the only financial dues on Muslims can be resolved in a way that the former ahadith point out sadaqah while the latter ones directly imply zakat.

such as free donation of the usufructs of productive capital, such as domestic utensils and animals, the collective obligation to pay the blood money compensation, obligatory safeguarding of the relatives, accommodating passengers and guests, which may contribute the inherent redistributive mechanism, as presented by Zarqa (1995). In addition, taxing the richness beyond needs, described as one of the taxation principles below, when the conditions for taxation are met, is another feature of the Islamic economic system, which alters the distribution of wealth and income in favor of the low-income members of the society. However, these features of the system do not mean that taxes and other means, such as confiscation, can be applied to alleviate or eliminate income and wealth inequalities, in contrast to the above considerations. Including at the time of the Prophet ﷺ and the rightly guided caliphs, there existed differences between individuals in terms of income and wealth. Such differences are natural, provided that they do not stem from unjust acquisitions. Thus, we argue that wealth and income inequalities per se cannot justify the tax imposition on private ownership and cannot be considered one of the conditions for taxation.

3.2.7.2. Taxation Principles

Meeting the two conditions for taxation discussed in the previous subsection does not mean any tax can be imposed to finance the real needs to be fulfilled by the state without considering the second dimension of the discussion on the legitimacy of levies in classical and contemporary literature. At this point, the Islamic public finance theory provides guiding principles of taxation. These principles come to the fore when the conditions that justify the need for taxation are met, as discussed in the previous sections. They are guiding foundations that shape the nature of additional levies imposed by the state, such as the subject of tax, the taxpayer, the tax base, and other relevant matters. Notably, most taxation principles we could identify stem from the rulings about zakat in Islamic law. This relationship shows that "zakat is the basis and essence of Islamic public finance," as acknowledged by Mannan (Eskicioğlu, 2007: 131). Taxation principles that are profoundly present in classical and contemporary Islamic public finance literature are listed below.

- Taxing Richness Beyond Needs
- Justice
- Levy in Proportion to the Need
- Public Welfare
- Ensuring the Balance between Productivity and Public Revenues

The list only covers principles concerning tax composition and can be extended with additional principles about the technical and administrative dimensions of tax enforcement, such as collection and disbursement of taxes. Also, the possible implications of the conditions and principles regarding taxation on the subject of tax, taxpayer, tax burden, and other relevant matters are discussed while assessing the public revenue system of Türkiye in Chapter 5.

a) Taxing Richness Beyond Needs

The first taxation principle, conceptualized as taxing richness beyond needs, consists of two parts. The first part, taxing richness, does not mean that rich people have to pay taxes on their income or wealth. As Ibn Taymiyah clarified, the only financial obligation for Muslims, which arises because of wealth, is zakat (Al-Qaradawi, 1999b: 244). So, richness must not be taxed unless the conditions for taxation are realized from the perspective of Islamic economics. Regarding the second part of the principle, the necessities of wealthy people, such as financial means allocated to personal and family needs and payment of debts, and their holdings outside commercial purposes, should not be ignored and should be carefully considered in circumstances requiring financing state expenditures through taxation.

The first component of the principle, implying that taxes should be imposed on the rich, can be supported by rulings of Islamic law, legal opinions of jurists, and facts from Islamic history. First, nisab, which is one of the prominent conditions of zakat related to property and a criterion of being rich in terms of every zakatable asset, such as gold, silver, the commodity of trade, livestock, and agricultural products, underpins the principle that only the rich will be taxed when necessary (Duman, 2017: 32–33). The instruction given by the Prophet ﷺ to Muadh b. Jabal, who was assigned as the governor of Yemen, clearly shows that zakat is collected from the rich and distributed to the poor (Erkal, 2013: 197). We observe that jurists consider the nisab condition for zakat in the case of financial obligations other than zakat. For instance, ushr, an Islamic

tithe on the trade goods held by non-Muslims inside or outside the Islamic state, is not imposed on commodities whose value is lower than nisab. Although Caliph Umar (ra) did not stipulate a nisab level for ushr, the same threshold of zakat is applied to it since zakat on trade goods was mentioned together with ushr (Ebû Ubeyd, 2016: 493).

The practices in the history of Islamic states also confirm that poor and financially weak people have not been taxed. Uthman b. Hunayf, the officer Caliph Umar (ra) assigned to determine the jizyah and kharaj liabilities of the people of Sawad, granted exemptions to the weak (Ebu Yusuf, 2019: 72). In the answers given by Abu Yusuf to the questions of Caliph Harun Rashid, he says that the jizyah is not collected from the destitute who live on the charity of others, from the blind who do not have a profession or a job, from the cripplingly sick, paralyzed and those who are incapable of working as long as they do not own property or assets (Ibid: 195-196). The same approach was present during the periods of the rightly guided caliphs, the Umayyads, and the Ottomans (Erkal, 2009: 259; Kazıcı, 2019: 64). On the other hand, Umar b. Abd al-Aziz imposed jizyah on priests because they were capable of paying, and the ones who provided the livelihood of the priests could also pay on their behalf, while they were generally exempted from jizyah throughout Islamic history unless they owned property (Ebû Ubeyd, 2016: 58).

The second part of the principle, which implies that the necessities of the rich should be considered during taxation, is grounded in verse 219 of Surah Baqarah.[40] The term 'afv, which is translated as "what is superfluous" or "the excess [beyond needs]," is interpreted in a way that as long as there are people in society who are unable to meet their basic needs, those who do not fulfill these needs will be responsible for their excess wealth although most scholars assert that Muslims are only obliged to pay zakat and provide maintenance for their dependents (Karaman, Çağrıcı, Dönmez, & Gümüş, 2020c: 345–348). In regard to the relation of taxation with the concept of 'afv, both Caliph Ali (ra) and Ibn Abbas (ra) affirm that only the excess beyond the needs of non-

[40] The full verse is as follows: "They ask you about drinking and gambling. Say: 'There is great harm in both, although there is some benefit for men, but their sin is greater than their benefit.' And they ask you what they should spend; say: 'What is superfluous.' Thus Allah makes plain to you His revelations, so that you may ponder" (Özek et al., 2018: 33).

Muslim citizens of the Islamic state can be subjected to financial levies (Yahya b. Adem, 2018: 82).

Among the rulings of zakat concerning zakatable assets, nama (the characteristic of incrementality, whether real or judicial), being other than essential needs, and not to be a debt allowance, can also be considered the basis of the second part of the principle. The majority of jurists interpret the condition of nama in a way that encompasses the condition of being other than essential needs, which Hanafites separately examined (Erkal, 2006: 550). House of residence, the clothes worn, home furnishings used, the servants (slaves), the animals used for riding and agriculture, beasts of burden, weapons, family provisions, all ornaments other than gold and silver, precious stones such as pearls, rubies, and emeralds, books and art tools are commonly listed assets that are exempted from zakat because they either do not satisfy the condition of nama or are considered essential needs (Erkal, 2013: 199). The amount of zakatable assets allocated to debt settlement is also reduced from the zakat base of the assets categorized as hidden (batin), such as gold and silver.[41] This ruling is a natural consequence of the conditions of complete ownership and being other than essential needs (Ibid: 199). As a matter of fact, Eskicioğlu (2007: 83) argues that debt, like one's basic needs, has a designated place of disposal, and if it is not discharged accordingly, there is a danger of imprisonment, referring to Ibn Malak.

The views of scholars in the classical literature of Islamic public finance and the practices in Islamic history acknowledge the principle of taxing richness beyond needs. Abu Yusuf (2019: 212) states that no zakat or tax is levied on the livestock and crops grown by Muslims and non-Muslims for their personal needs. According to him, zakat and tax are only imposed on goods bought and sold for trade. In a similar vein, Yahya b. Adam utters that the trader's belongings, such as camels, cows, sheep, slaves, etc., should not be included in the ushr base (Kallek, 2018a: 115). In addition, he notes that the declarations of both Muslim and non-Muslim traders are taken into consideration,

[41] Most jurists state this condition does not apply to the apparent (zahir) zakatable assets, such as livestock and agricultural products. In addition, Hanafites classify the debts into three categories and do not consider the third group of debt in the scope of the condition "not to be debt allowance," which is the debts for God that cannot be claimed by individuals, such as nadhr (wow) and kafarah (atonement) (Erkal, 2013: 199).

and their debts, if any, are deducted from the tax base.[42] Abu Ubayd (2016: 89) reports that according to the ahadith narrated from Caliph Umar (ra), during his reign, there was no kharaj on dwellings and houses where taxpayers resided.

Last but not least, richness in terms of income and wealth must be separately examined. It is evident that the nisab for various zakatable wealth items can be deemed as the threshold that determines richness in terms of wealth. On the other hand, the reference points for richness in terms of income can be nisab for the zakat on agricultural production, since it is a type of income rather than wealth. According to the majority of jurists, the condition of nisab, which is determined as five wasq by the Prophet ﷺ, is necessary for the accrual of the obligation (Erkal, 2008: 146–147). Five wasq as a volume measure corresponds to an amount between 653 and 1000 kilograms, depending on the agricultural products. Al-Dihlawi states that the nisab condition of zakat on agricultural production exempts a part of the production, which corresponds to a family's annual subsistence (Islahi, 2011b: 84; Salama, 1982: 344). As a matter of fact, we observe a similar approach toward annual expenses while determining taxes on non-Muslims in Islamic history. Dahhak b. Abd al-Rahman, who was sent to Cazirah by Caliph Abd al-Malik b. Marwan, found the prevailing taxes low. In order to determine the new taxes, he found out how much money could be saved in a year by taking into account the possible yearly earnings and the cost of eating, drinking, dressing, and other expenses, assuming that people were workers with their hands (Ebu Yusuf, 2019: 78). Consequently, yearly or monthly needs for family subsistence should be determined based on the existing circumstances of each country to specify a threshold for richness in terms of income. Such a threshold is a must in the contemporary world, where the proportion of wage earners is increasing, and the highly-paid rich are multiplying.

[42] Although Qudamah b. Ca'far has the same opinion as Yahya b. Adam, regarding the debts deducted from the ushr base for non-Muslim subjects, Imam Malik (712-795) states that the declaration of non-Muslim subjects in this regard cannot be relied on (Kudâme b. Cafer, 2018: 199–200). Abu Ubayd requires Muslim witnesses to consider the debts of non-Muslims in the calculation of ushr (Ebû Ubeyd, 2016: 495; Kallek, 2018a: 126). The claims of non-Muslims outside the Islamic state about debt and ownership of property are not accepted in any way (Ebû Ubeyd, 2016: 496).

b) Justice

The first principle, taxing richness beyond needs, shows that the rich must bear the obligation to finance the real needs to be fulfilled by the state through taxation when the other public revenues are insufficient. As a supplement to the first principle, the principle of justice implies that taxes imposed on rich people must be according to their ability to pay, and equals must be treated equally. This principle acknowledges the variations in income and wealth among rich members of society, who are above the thresholds that determine richness in terms of income and wealth. Accordingly, the tax system must ensure that wealthy members contribute in proportion to their ability to pay without ignoring the tax shifting through pricing policies. In fact, it is not permissible to impose kharaj beyond the obligants' ability to pay it easily, as noted by Abu Yusuf (2019: 172). In addition, the justice principle requires equals to share the burden evenly. Both classical and contemporary literature on Islamic public finance confirms the importance of the justice principle in taxation (Al-Qaradawi, 1999b; Chapra, 1979; Ebu Yusuf, 2019; Erkal, 2009; Eskicioğlu, 2007; Kahf, 1983; Kenanoğlu, 2013; Kudâme b. Cafer, 2018).

Numerous practices in Islamic history reveal how the justice principle has been applied in the context of taxation. For instance, Caliph Umar (ra) initiated three groups of non-Muslim subjects in the Islamic state according to their financial situations while determining the amount of jizyah imposed. Those who are prosperous, those categorized as middle class, and needy people who work with their hands, such as farm labor and hodman, were obligated to pay 48, 24, and 12 dirhams, respectively (Ebu Yusuf, 2019: 195–196; Kudâme b. Cafer, 2018: 193–194). Abu Ubayd draws attention to the fact that the jizyah imposed on the people of Yemen by the Prophet ﷺ was lower than the jizyah levied on the people of Damascus and Iraq by the Caliph Umar (ra). According to him, the difference was because the people of Damascus and Iraq were more prosperous than those of Yemen (Ebû Ubeyd, 2016: 56). Qudamah b. Ca'far (2018: 194) reports that when Mujahid was asked why Caliph Umar (ra) imposed a higher jizyah compared to that levied by the Prophet ﷺ, he said that it was because of richness. As a matter of fact, Abu Ubayd (2016: 57) states that kharaj or jizyah imposed on non-Muslim subjects can be reduced if they are unable to pay them or increased if they can pay more.

Determining kharaj amounts by considering land cultivability, irrigability, productivity, and proximity to markets and settlements throughout Islamic history can be regarded as another supportive evidence for the principle of justice (Ebu Yusuf, 2019: 142; Erkal, 2009: 258–259; Kallek, 2018a: 84; Kazıcı, 2019: 112; Kenanoğlu, 2013: 54). The listed characteristics of kharaj lands represent how much tax the land can bear and thus the solvency of the person cultivating the land. On the other hand, the replacement of the tax system named kharaj muwazzaf with kharaj muqasamah, based on the proposal of Abu Yusuf during the reign of Harun al-Rashid (786-809), resulted in collecting kharaj proportional to the products harvested rather than a fixed amount imposed regardless of the harvest status (Ebu Yusuf, 2019: 88; Kallek, 2018a: 82–84). The change in the system strengthened the link between the amount of tax and the ability to pay. Lastly, removing or discounting taxes, which causes an unbearable burden on taxpayers in the regions conquered by Islamic states, is another piece of evidence from Islamic history in favor of the justice principle. During the Ottoman period, it is seen that some taxes were reduced by taking into account the financial deterioration of the new subjects by the Ergani Code of Laws dated 1518, while taxes that were burdensome and arbitrary were abolished by the Iskele-i Tarablus Code of Laws dated 1571 (Kazıcı, 2019: 65–69).

The justice principle also consists of intergenerational justice. The issue of justice between the present and future generations comes into prominence, primarily when the burdens and blessings do not occur in the same time frame. Financing long-term projects whose benefits will accrue mainly to the next generation through taxing the present generation or incurring long-term debt burdens that future generations will mostly pay to fund the short-term investments benefited by the present generation are the two fundamental problems of intergenerational justice in the context of public finance (Kahf, 1983: 118). In this regard, the decision of Caliph Umar (ra) and the approval of most companions of the Prophet ﷺ about Sawad lands, which were not distributed to mujahids and considered as kharaj lands, is the most evident and prominent example that future generations are taken into consideration in the Islamic public finance theory (Ebu Yusuf, 2019: 55; Yahya b. Adem, 2018: 38).

c) Levy in Proportion to the Need

The third taxation principle, levy in proportion to the need, is a natural consequence of the conditions of taxation, which require that tax can only be imposed to finance real needs in the case of insufficient public revenues. Since real needs are of different kinds in terms of permanency and magnitude, the taxes imposed to fund these needs must correspond to the relevant types of needs. For instance, a tax levied to compensate for damage and losses caused by a natural calamity should be repealed when the targeted results are achieved. On the other hand, tax revenues allocated for permanent needs can be maintained unless there is a fiscal recovery in the budget, such that the tax is no longer needed. As a matter of fact, Hanafite jurists restrict the provisional taxes to the circumstances that require the imposition of a tax and to the cases of insufficient revenues in the treasury (Kallek, 2007: 34). The other dimension of the principle is that the projected revenues generated from a tax must be proportional to the financial need required by the purpose for which the tax was imposed.

The principle of levy in proportion to the need is partially related to the issue of allocation (takhsis) of public revenues to public expenditures. One may argue that allocation of each revenue to a particular expenditure item is required from the perspective of Islamic public finance when the principle, levy in proportion to the need, is considered. When other revenue sources of Islamic public finance are taken into account, it can be seen that some revenues are allocated to definite beneficiaries. For instance, verse 60 of Surah Tawbah[43] lists eight groups of beneficiaries for zakat proceeds. In addition, one-fifth of revenues in the form of ghanimah is ruled to be allocated to Allah and the Messenger, his close relatives (in need), orphans, the poor, and the (needy) wayfarer, as specified by verse 41 of Surah Anfal.[44] Based on these

[43] The full verse is as follows: "Alms are only for the poor and the needy, and those whose hearts are to be reconciled, and for the ransom of captives and debtors and for the way of Allah and for (the hospitality of) the wayfarers. This is an obligation duty from Allah, and Allah is Knowing, Wise" (Özek et al., 2018: 195).

[44] The full verse is as follows: "And know whatever you take as spoils of war, a fifth thereof is for Allah, and for the Messenger and for the kinsman (who has need) and orphans and the needy and the wayfarer, if you believe in Allah and that which We revealed to our slave

rulings, S. A. Siddiqi (1972: 155–157) states that public expenditures are determined in accordance with public revenues in an Islamic state and notes that it is mandatory to open separate accounts for various income groups by referring to Radd al-Muhtar of Ibn 'Abidin (1784-1836).[45] On the other hand, there are different views about the expenditure areas of ghanimah, like the opinion of Imam Malik, which considers that the one-fifth share can be spent on all kinds of public services within the authority of the head of state and that the classes mentioned in verse 41 of Surah Anfal are the primary beneficiaries of this distribution (Erkal, 1996: 353). Considering that other revenue sources in Islamic public finance, such as kharaj, jizyah, and ushr, are not allocated to specific expenditure items according to most schools of jurisprudence, and the tendency of the majority of jurists implying that the allocation of one-fifth of ghanimah is within the authority of the head of state and that he can dispose of it as he wishes, provided that he observes public welfare and justice, it is hard to argue that Islamic public finance theory is strictly following the principle of allocation between public revenues and expenditures (Apaydın, 1998: 369; Fayda, 1995: 512–513; Tabakoğlu, 2016a: 359). In other words, the head of state has a certain discretionary power in allocating public revenues, especially for revenues other than zakat. Nevertheless, in the case of taxes, it is required to determine the area to which the tax will be allocated.

d) Public Welfare

Today's tax systems may have economic, social, and environmental objectives and functions in addition to their financial aspect. However, we have not identified that such specific roles were assigned to taxes in the scope of Islamic public finance by early Islamic states or scholars. On the other hand, the concepts of maslahah and public

on the Day of Discrimination, the day when the two armies met. And Allah is Able to do all things" (Özek et al., 2018: 181).

[45] One of the pillars of the Ottoman expenditure system was the allocation (takhsis) principle. Offsets played an important role in the Ottoman budget. Offsets or tax exemptions are carried out in exchange of public investments undetaken by local communities (Tabakoğlu, 2016a: 190–191).

welfare occupy an essential place in Islamic law and state governance, respectively.[46] This section focuses on the public welfare in the field of public finance as a part of state governance, not the maslahah concept in Islamic law, which is briefly explained in the footnote below.

Public welfare is tightly linked with state governance from an Islamic perspective since Shar'i rulings exclusive to public law are limited, and thus, general principles become more of an issue (Dönmez, 2003: 91). As a matter of fact, the Civil Code of the Ottomans (Majallah) prepared in the 1870s consisted of many legal maxims about public welfare.[47] Public welfare had a central position in the approaches of the authors in the literature of Kharaj and Amwal. For instance, Abu Yusuf suggests the caliph select among the opinions considering the most favorable and convenient alternative for Muslims on many occasions, such as the shares of cavalry and infantry in ghanimah and the disposition of state lands (Ebu Yusuf, 2019: 47, 103). Similarly, Kallek (2018a: 124) confirms that Qudamah b. Ca'far attributes a pivotal role to the public interest

[46] Although the concept of maslahah has been translated as public welfare/interest in Roman law by mostly European and partially Muslim writers, especially after Ignác Goldziher (1850-1921), the former cannot be confined to the latter. The fact that the public interest is an essential criterion for filling the legal gap in Roman law, as well as the emphasis on the public interest in jurisprudence based on maslahah in Islamic law, constitute the basis of the similarity (Dönmez, 2003: 91). However, maslahah is a broader concept comprising public welfare/interest. Maslahah mainly refers to the consideration, which argues that all Shar'i rulings look after the welfare/interest of servants in the world and hereafter when rulings are analyzed according to the inductive method (Ibid: 89). Therefore, not only interpersonal and societal interest, but also interest arising from people's obligations to Allah falls within the framework of the concept of maslahah. It also has a methodical role in Islamic jurisprudence, ensuring that the judicial opinions towards new issues are linked to the Shar'i rulings in the Qur'an and Sunnah (Ibid: 90-92).

[47] "A private injury is tolerated in order to ward off a public injury" (Article 26) and "The exercise of control over subjects is dependent upon the public welfare" (Article 58) can be listed two legal maxims concerning public welfare/interest in the Civil Code of the Ottomans (Majallah) (“Al-Majalla al-Ahkam al-Adaliyyah [English Translation],” 2005).

when choosing between jurisprudence and Abu Ubayd prioritizes public interest over individual rights when they conflict (Ibid: 107).

Public welfare, by its very nature, requires favoring the majority's interests because of the fact that there always exists a conflict of interest in many cases, meaning that it is difficult to speak of pure benefit or loss for all (Dönmez, 2003: 91–93). According to Kallek (2018a: 87), there are three ways to determine the public interest. First, it can be determined by a leader and adopted by citizens. Secondly, it can be developed over time based on common interests in social life. Thirdly, it results from individuals prioritizing the welfare of society over their own. In addition to these ways, it is crucial to note that public welfare must be compatible with the Shar'i rulings and their objectives (Dönmez, 2003: 79). Indeed, solutions to new issues, which are not directly regulated by the primary sources of Islamic law, cannot be developed based on only the general meaning of maslahah and human reasoning. There should be a unity of purpose between the suggested solution and either specific Shar'i rulings or their general objectives, as Imam Ghazzali (1058-1111) explained (Ibid: 81).

In Islamic public finance thought, there are also examples where the public interest is pursued. For instance, Abu Ubayd reports that Caliph Umar (ra) halved the 10% ushr on trade goods only for olive oil and wheat to encourage the foreign merchants to bring more of them to the Madina (Al-Qaradawi, 1999b: 301; Ebû Ubeyd, 2016: 491). Although Calip Umar (ra) previously determined to apply the same rates of ushr on all trade goods as the other states imposed on Muslim merchants, he (ra) opted to decrease the rate for some foodstuffs, considering the need of residents of Madina for them. Since it is a common need that benefits all, this policy can be regarded as a clear example of public interest in taxation. Qudamah b. Ja'far states that in determining the amounts of jizyah and kharaj, a balance must be maintained between the ability of the non-Muslims to pay and the interests of the beneficiary Muslims (Kallek, 2018a: 125). According to Abu Yusuf (2019: 59), Caliph Umar's taxation of Sawad lands and the distribution of the collected taxes among the Muslims were for the community's common good. If this had not been done, the costs of defense would not have been met, and the return of the unbelievers to the lands of Islam would not have been prevented. In addition to the examples above, Kallek (2018a: 88) states that Abu Yusuf's proposed tax policy and legislation considered economic, social, and demographic aspects in addition to the fiscal aspect. In the Ottoman Empire, the

rationale for customs duties was to protect local arts, commerce, and agricultural crops and thus to provide a more prosperous life for its citizens (Kazıcı, 2019: 161). Lastly, the public welfare principle is also evident in the fields of public expenditures and investments, tax collection methods, granting (iqta) and revival (ihya), sharing of ghanimah, etc. However, we have not referred to these examples since they are beyond the scope of this study.

e) Ensuring the Balance between Productivity and Public Revenues

This principle implies that taxes and other measures the state takes should not break the balance between the private sector's productivity and public revenues. The concern about the productivity presented in the views of early scholars and practices of caliphs in Islamic history cannot be perceived from the perspective of economic growth objectives in a modern sense. First, there was no macroeconomic indicator, such as gross domestic/national product, at that time, and the motivation behind the productivity concerns stemmed from the purpose of not leaving the blessings of Allah idle and not wasting them. In addition, the sustainability of public revenues can be listed as one of the objectives that motivates them to ensure productivity.

Historical incidents and views of early scholars show that the private sector's productivity was one of the concerns in Islamic public finance. Abu Yusuf (2019: 140) states that Caliph Umar (ra) aimed to understand the possibility of increasing or decreasing kharaj in a way that would not put landowners out of business when he sent officers to Sawad lands. It is reported that Umar b. Abd al-Aziz wrote a letter to one of his governors, stating, "…do not impose taxes on developed land that will cause it to be ruined. Likewise, do not tax ruined land until it is reconstructed…" (Ibid: 142). In addition, Kallek (2018a) interprets the following views as incentives for the private sector and their productivity. For instance, Abu Ubayd's conceptualization of the institution of ihya and iqta as "cultivate or lose" shows that he cared about encouraging agricultural production (Ibid: 128). In other words, the revived lands cannot be kept without cultivating them. Keeping the land idle after its revival will result in a decrease in both production and public revenues generated from kharaj, especially when the kharaj muqasamah is applied. Secondly, Kallek (2018a) argues that Abu Yusuf encouraged the private sector, investment, and production by exempting the

production of fewer than five wasq from zakat on agricultural production (Ibid: 81-82).

f) Comments on Additional Principles

It is essential to admit that the taxation principles listed according to the results of our research cannot be deemed as final principles. Many parts of this list may be improved by adding new principles or modifying the existing classification. In order to guide the researchers in this field, we would like to conclude the discussion on taxation principles in Islamic public finance with the other possible principles we do not prefer to list above, along with their justifications for our choices.

The first draft of the list of taxation principles included two more principles, namely reciprocity and the consideration of personal circumstances. The first additional possible principle, reciprocity, is mainly derived from the reason for the initiation of ushr, an Islamic tithe on trade goods, by Caliph Umar (ra). While determining the rates of ushr, he (ra) first asked about the amount of levy imposed on Muslim merchants who traveled to other states and imposed the same rate on non-Muslim merchants (Ebû Ubeyd, 2016: 85; Kudâme b. Cafer, 2018: 199; Yahya b. Adem, 2018: 173). As Abu Yusuf (2019: 214) acknowledged, Caliph Umar (ra) imposed ushr based on the reciprocity principle. In other words, he adopted the tariffs imposed on Muslims by other states. Based on Caliph Umar's (ra) practice, we could not deem reciprocity as one of the taxation principles for two reasons. First, it can be considered a political decision, which may change depending on the circumstances. Secondly, it can only be regarded as a guiding reference rather than a binding must (Tabakoğlu, 2016a: 58) since we could not identify other practices or views that support reciprocity in ushr, and Caliph Umar (ra) himself abandoned this practice for some products, as noted in the previous subsection.

The second additional possible principle we have not listed above is the consideration of personal circumstances. Al-Qaradawi (1999b: 301) suggests that individual factors should be considered as one of the conditions for taxation. According to him, these factors include exemption for subsistence costs, family provisions, and debts. In addition, Caliph Umar (ra) exempted the people of Najran in Yemen, who inhabited Iraq, from kharaj on the land allocated to them in Iraq, and the jizyah they were obliged to pay was suspended for 24 months (Ebu Yusuf, 2019: 124). This treatment was raised

because of the special circumstances concerning the people of Najran, who were expelled from Yemen to Iraq, probably because of the rebellion caused by a false prophet in the region, which may lead to evil and harm to the Muslims living there. Since the personal factors noted by Al-Qaradawi are taken into consideration in the first principle, taxing richness beyond needs, especially its second part, and the decision of Caliph Umar (ra) was made based on an exceptional case, and exceptions generally require bending the rules, we did not prefer to add considering personal circumstances as another principle.

Lastly, we want to mention taxation principles initially proposed by Adam Smith and adopted in the public finance theory. Among these principles, we have touched on fairness or equality above from the Islamic economic perspective under the principle of justice. However, we have not referred to other principles, namely certainty, convenience, and efficiency/economy. This choice does not mean that these principles are not present in the public revenue system of Islamic economics. On the contrary, Al-Qaradawi (1999b: 272–279) states and justifies that the rulings of zakat secure them. Similarly, Eskicioğlu (2007: 46–47) states that zakat contains provisions that ensure most of these principles. Kallek (2018a: 88) cites the literature arguing that Abu Yusuf's principles are reminiscent of Adam Smith's taxation principles. The principles other than fairness/equality have not been discussed because they are primarily concerned with the technical and administrative aspects of tax practices. For instance, the principle of certainty is about taxpayers' awareness of tax types and rates, tax payment schedules, and methods (Edizdoğan et al., 2021: 238). The principle of convenience is related to the appropriateness of tax collection processes and timing for taxpayers. Lastly, the principle of efficiency/economy focuses on potential losses in tax collection due to costs and time factors (Ibid: 239). As mentioned earlier, due to the scope of this study, we focus on the principles concerning tax composition in general rather than dimensions related to tax enforcement.

CHAPTER IV

TURKISH PUBLIC REVENUE SYSTEM

This chapter presents the prevailing public revenue system and its components in Türkiye, providing their historical background. It relies on the current laws, regulations, and realized budget statistics to describe the Turkish public revenue system, while drawing on its historical evolution where relevant. Overall, it introduces and elaborates on the subject matter of the thesis, i.e., the Turkish public revenue system, which we attempt to approach from the perspective of Islamic economics.

4.1. Historical Evolution of the Turkish Public Revenue System

The Turkish public revenue system has been amended many times for various reasons and under the influence of different interest groups in the history of the Turkish Republic. The authorities sometimes reformed the system to meet the need for immediate revenues during wartime or post-war periods. The complicated structure of Turkish public finance by the wartime amendments was also exposed to new reforms aiming for a more straightforward revenue system (Bulutoğlu & Thirsk, 1999: 361). The concerns about attracting foreign capital to Türkiye led to modifications, especially in tax structure, when the competition between countries for capital has been accelerated by increasing globalization (Çalcalı, 2012: 59–60). Complaints and protests by the taxpayers, such as farmer protests at the beginning of 1980, caused the prevention or repeal of change attempts in the revenue system (Bulutoğlu & Thirsk, 1999: 373). Last but not least, the ideological and political inclination of the ruling governments can be listed as one of the drivers of reforms (Sakınç, 2016: 15–16).

This section aims to present a summary of the history of the Turkish public revenue system by focusing on the significant changes. It focuses on the major components of public revenues with higher shares in the budget and amendments in these components throughout history. Therefore, the minor revenue sources and temporary practices are either ignored or partially covered. Although the focal point is the history of the Turkish Republic's public revenue system, we will refer to the earlier periods when it is needed to link discussions in the Turkish Republic with those of the time of the Ottomans. As a matter of fact, it is evident that there are divergences between the

Republic of Türkiye and the Ottomans, but there is also continuity, especially in the economic structure (Pamuk, 2018: 9–10).

The ratios of public revenues and expenditures to the gross domestic or national product (GDP or GNP) are essential indicators that show the magnitude of the public sector in the economy.[48] However, the GDP and GNP data, which require sectoral production and price statistics, are available after the First World War (1914-1918) for most developing countries (Ibid: 19). Therefore, we have only estimated datasets based on different methodologies, which cover the early periods of the Ottomans. Regarding the public revenue and expenditure statistics, we can benefit from the Ottoman budget records, but the issue is that the Ottomans did not have unity between their revenues and the central budget. For instance, 50% and 75% of the public revenues were not recorded in the budget during the 16th and 17th centuries, which was mainly because of the separate budgets of autonomous provinces, such as Egypt, Basra, Yemen, the manorial or fief (timar) system, and awqaf system (Akgündüz, 1992a: 215–216; Mutluer et al., 2016: 54). However, the issue of unity was tried to be solved after the Imperial Edict of Reorganization (Tanzimat) in 1839. According to the data on public revenues and spending provided by Eldem (1994: 169–170) and his estimation of total domestic revenues at current prices, the percentages of public revenues and expenditures in the total domestic revenues were between 11% and 14% during 1887-1913. Figure 4.1 shows the periodic changes in the percentages and the total domestic revenues in a million kurus for the given period. The calculation of Pamuk (2018: 91–92) based on the estimations for income per capita for an extended period, which covers the years between 1700 and 1914, shows that the increasing trend in the percentage of budget revenues in the GDP was also valid for earlier centuries.

[48] The other indicators for the magnitude of the public sector in the economy are the share of output produced by the public sector in the GDP and the ratio of public sector employees to total employment. However, the former is hard to be implemented since it is not possible to price public and quasi-public goods and services. The latter is a superficial indicator because it does not consider the productivity differences between employees of the public and private sector (Mutluer, Öner, & Kesik, 2016: 34).

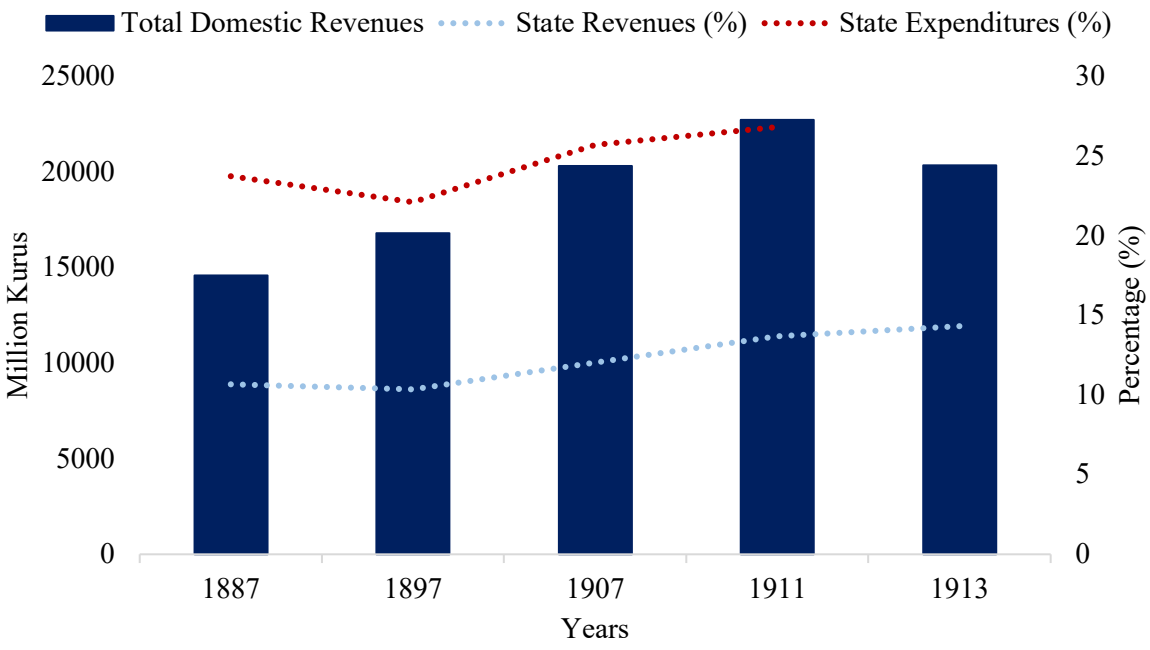

Figure 4.1: The Percentages of State Revenues and Expenditures in the Total Domestic Revenues in the Ottomans (1887-1913)

Source: Calculated based on the data presented and estimation by Eldem (1994).

* Please note that we could not calculate the ratio of public expenditures to total domestic revenues in 1913 because the data on public expenditure is not available for 1913. Also, there are some mismatches between the domestic income dataset and other datasets in terms of timing. Thus, we had to use the values of domestic revenues in 1889 and 1899, while the corresponding values in the other datasets are for 1887 and 1897, respectively.

The ratios of consolidated budget[49] revenues and expenditures to the GNP of the Turkish Republic between 1924 and 2005 are shown in Figure 4.2. Keeping in mind the differences in the data sources, changes in the political borders, and the methodological transformations while calculating the national product, both the share of the public revenues and spending in the economy increased to higher levels after a relative decrease in 1924 during the republic era compared to the late Ottoman period, which is depicted in Figure 4.1.

[49] Mutluer (2016: 59) opted to use the consolidated budget, which covers general and special budget institutions, for the period between 1924 and 1994 since the central government had been ruled with those institutions until the amendments in 2006. Therefore, for the sake of consistency, we completed the data series until 2006 based on the same indicators, the ratios of consolidated budget revenues and spending to the GNP of Türkiye.

As shown in Figure 4.2, after the proclamation of the republic, the increasing trend continued with peaks during the crises, such as in 1940 and 2001. The highest ratios of public revenues and spending to the GNP at current prices during 1924-2005 were 29.2% and 45.7%, respectively, while the average ratios were 21.4% and 26.5%, much higher than the average in the late Ottoman period.

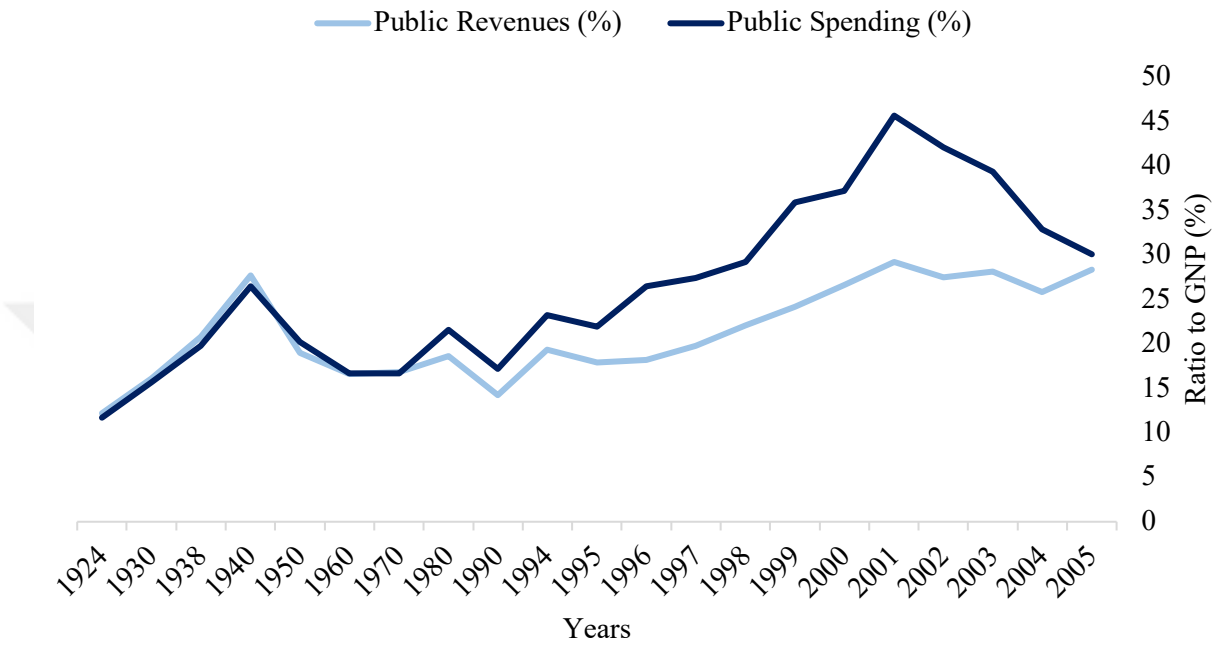

Figure 4.2: The Ratios of Consolidated Budget Revenues and Spending to the GNP of Türkiye (1924-2005)

Source: Mutluer (2016) for 1924-1994; the rest is calculated based on the data on the Electronic Data Delivery System of the Ministry of Finance of Türkiye and the Periodic Accounts by TurkStat under National Accounts.

* Please note that figures for 1924-1974 are based on appropriations, and the following years are on the basis of expenditures, as pointed out by Mutluer (2006:87). All data after 1994 represent the realized public revenues and spending.

The last figure about the magnitude of the public sector in Türkiye focuses on the period between 2006 and 2023. Since the scope of the central administration has changed and the GDP has started to be used mostly instead of GNP, we had to present the ratios of public revenues and spending to the GDP at current prices in Figure 4.3 separately. According to Figure 4.3, the size of the public sector in the economy seems to have stabilized, except for the 2008 Financial Crisis and the exceptional circumstances during the COVID-19 period. While the percentage of public revenues in the GDP is lingering around 21%, that of public expenditures is 23% on average

during 2006-2023. Another noteworthy point is that budget deficits, which started in the 1970s, as shown in Figure 4.2, have become a characteristic of the country and hovered around 2% of GDP on average for the 2006-2023 period.[50]

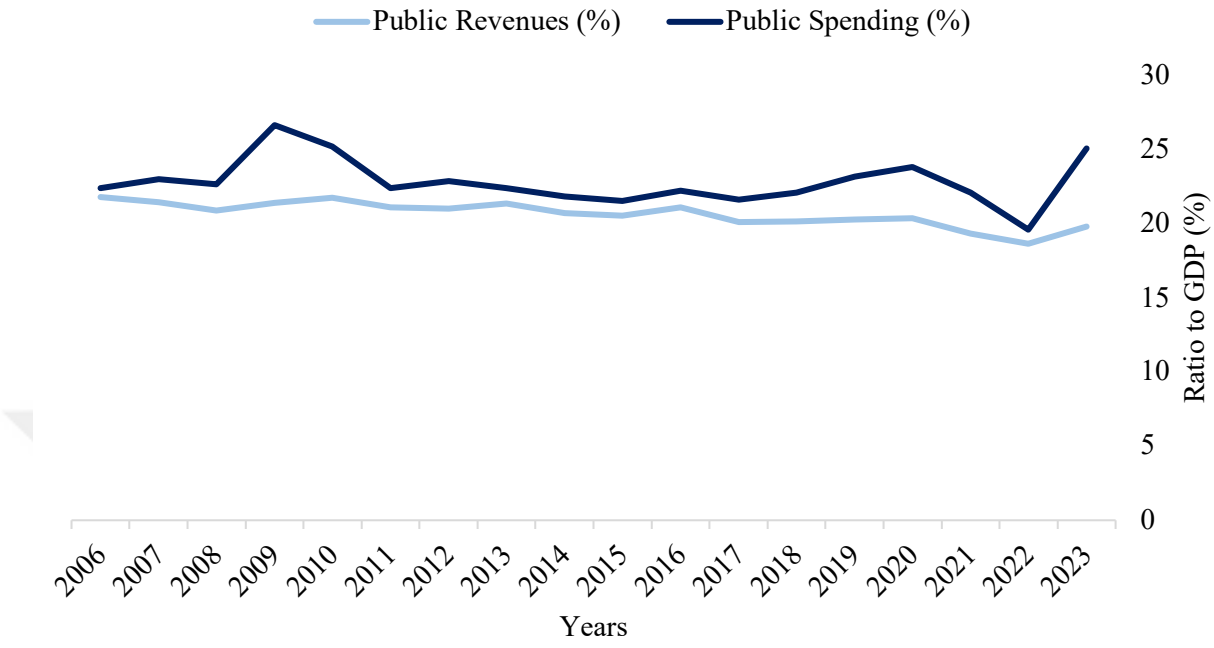

Figure 4.3: The Ratios of Central Government Budget Revenues and Spending to the GDP of Türkiye (2006-2023)

Source: Calculated based on the central government budget data of the Ministry of Finance of Türkiye and the GDP in the Periodic Accounts by TurkStat under National Accounts.

The historical evolution of ratios of public revenues or expenditures to the total domestic revenues, GNP, or GDP depicts the increasing presence of the state in the economy. At this point, both public revenue and expenditure composites are of great importance, but we will focus only on the components of public revenues due to the scope of the study. According to the data provided by Güran (2006), based on the primary sources covering the period between 1849 and 1917, the shares of public

[50] In this regard, debts can be considered temporary public revenues since they must be paid when due (Edizdoğan, Çetinkaya, & Gümüş, 2021: 121). Although deficit financing is a crucial matter that needs to be discussed from the perspective of Islamic public finance, we have not addressed this issue since it exceeds the scope of this study and requires separate research.

revenue items in the budget were distributed as in Figure 4.4. Except for the gray area in the figure, which stands for the state's revenues other than the categories specified, the other areas constituting the rest of the public revenues, 81.2% on average, are either direct or indirect taxes. It is worth noting that the category of other revenues may also consist of some taxes. As a matter of fact, Mutluer (2016: 58) asserts that 93% of the budget revenues were derived from taxes and fees in the 1860s, and the percentage was reduced to 80% in 1909, which is above the shares we have calculated based on the data we used. However, it seems that two of the main components of other revenues were the state's property revenues, such as revenues generated from the state's real estate, forests, state maritime organizations, mines, telegraph, and post office, and fees for some services carried out by the state (Güran, 2006: 70; Mutlu, 2009: 159–165; Şener, 1990: 70). Blue-toned fields in the figure are direct taxes, such as ushr, income, and property taxes, taxes on sheep, cattle, and swine, and jizyah[51], which generate 57.5% of the public revenues on average, while the orange-shaded areas are indirect taxes, such as customs duties, and taxes on tobacco, salt, alcoholic beverages, which averagely account for 19.1% of the public revenues in the given period. Lastly, lump-sum taxes from the autonomous provinces, such as Egypt, Wallachia, and Bogdania, correspond to 4.6% of total public revenues and are represented with the black field in the figure.

When we focus on the trends of revenue items throughout the given period, it can be said that the most prominent phenomenon is the decreasing share of direct taxes and increasing share of indirect taxes and state economic enterprises' revenues (Eldem, 1994: 168). While direct taxes constituted 62.7% of total public revenues at the beginning of the period, they declined to below 50% at the end. The major change leading to such a decrease on the side of direct taxes was related to amendments in assessment methods, scope, and rates of profit (temettü), property (emlak), and land (arazi) taxes during the period, especially after the 1860s, which will be elaborated in the following sections (Eldem, 1994: 166–167; Güran, 2006: 66–67). On the other hand, indirect taxes, approximately corresponding to 15% of the public budget in the

[51] Jizyah was repealed after the proclamation of the Ottoman Reform Edict of 1856. However, it continued to be imposed on non-Muslim males since the conscription of non-Muslims was deemed inappropriate (Güran, 2006: 67; Pamuk, 2018: 90).

1850s, started to receive a share of around 20% beginning in 1875. Regarding the increasing trend of indirect taxes, the monopolization of the production and sale of salt at the beginning of the Reorganization (Tanzimat) period, and the ban on tobacco imports and monopolization of its retail trade might contribute to the revenues generated from indirect taxes imposed on these goods (Güran, 2006: 69). As noted above, monopolization and state economic enterprises can be considered the main drivers contributing to the increase in the share of the category of other revenues in the budget (Eldem, 1994: 169).

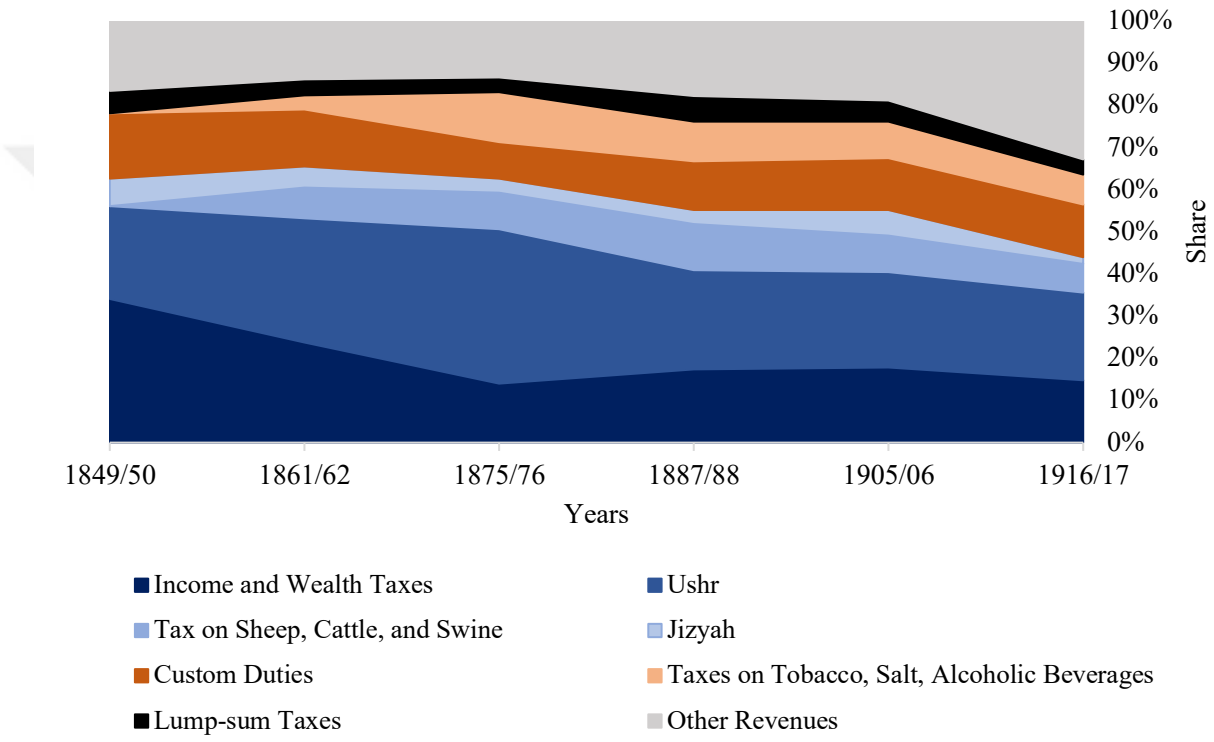

Figure 4.4: Public Revenues Composite of the Ottomans' Budget (1849-1917)
Source: Güran, 2006: 75–76

The public financial management system after the proclamation of the republic was regulated by the Law numbered 1040 and dated 1927, whose principles had been applied since 1910 (Mutluer et al., 2016: 351). According to the Law, which remained in force until 2006, the budget types in Türkiye mainly consisted of the general budget,

budgets of annexed budgetary institutions, local governments[52], budgetary and extra-budgetary funds, and various administrations with public legal personality established by different laws (Ibid: 352). Figure 4.5 shows the components of the consolidated budget revenues, which are the total sum of general and annexed budgets on a net basis between 1924 and 2005.

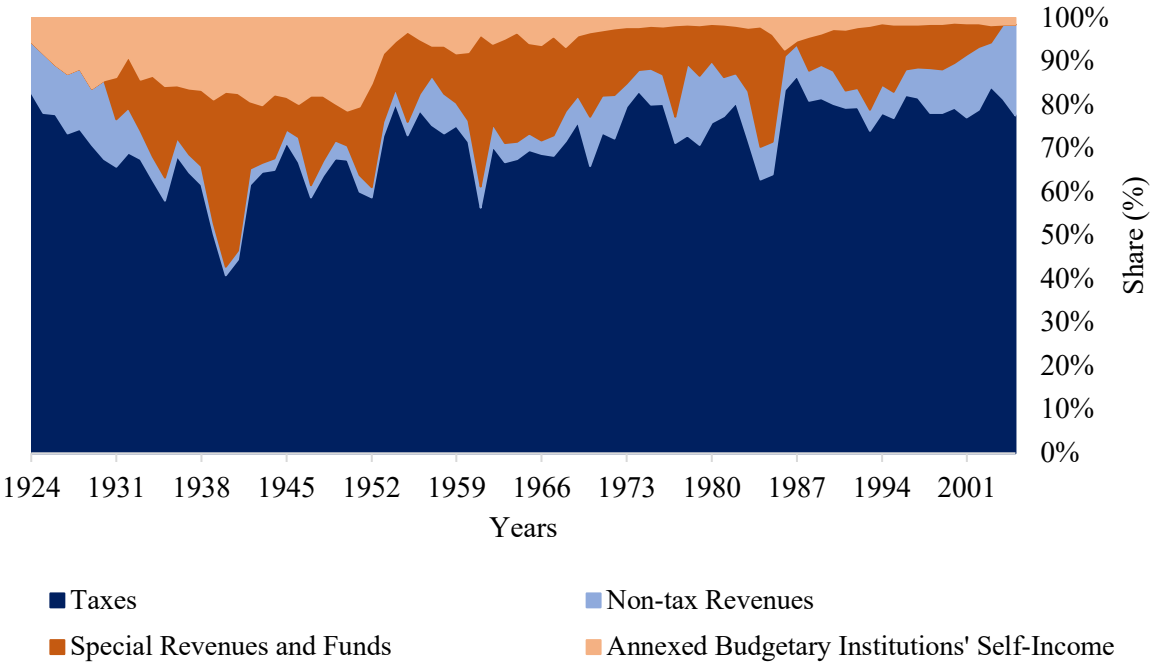

Figure 4.5: Components of the Consolidated Budget Revenues in Türkiye (1924-2005)

Source: HMB, 2022

The share of the tax revenues in the consolidated budget between 1924 and 2005 corresponds to 71.7% on average, according to the data in Figure 4.5. This share is considerably lower than the average share of taxes (81.2%) between 1849 and 1917, as shown in Figure 4.4. One of the main differences between the two periods regarding taxes is that lump-sum taxes generated from the autonomous provinces in the late Ottoman era, which accounted for approximately 4.55% of the total public revenues, were not available in the republic era because of the changes in the political borders

[52] The budgets of the local governments cannot be presented because of the lack of data. However, it is worth noting that their budget sizes have been minimal until the 1980s, although they were regulated in the 1930s (Mutluer et al., 2016: 59).

and conversion to a unitary state. The second main difference stems from the repeal of ushr in 1925, which was generating approximately one-third of total public revenues, more precisely 27.9% of 1923's budget and 28.6% of 1924's budget (Çalcalı, 2012: 40; Mutlu, 2009: 72; Önder, 2019: 493). The state searched for alternative revenue sources to compensate for the loss due to the abrogation for a long time but could not achieve the desired results, especially from the taxes on income and consumption (Mutluer et al., 2016: 63). In addition, there were plenty of other factors affecting the trend in the contribution of tax revenues to the consolidated budget, such as the impact of the two world wars on international trade and, thus, the revenue from customs tariffs, extraordinary and temporary taxes imposed like economic depression tax, wealth tax, and crop tax, new consumption taxes in the 1980s, namely ad-valorem tax and fuel excise tax, and then special consumption tax at the beginning of the new century (Özkardeş, 2015: 29; Pamuk, 2018: 194–195; Yaraşlı, 2003: 31). However, explaining all turning points in the historical trend in the share of taxes in the budget one by one is beyond the scope of this study. The amendments in the tax structure have been elaborated on in the following subsections as much as possible.

Non-tax revenues of the consolidated budget involve revenues from movable and immovable state properties, state-owned economic enterprises, fines, interest, etc. The data available until the 1980s does not provide subsets of the category of non-tax revenues. Regarding the trend of the total non-tax revenues throughout the period in Figure 4.5, the increasing number and magnitude of state-owned economic enterprises in the 1930s led to a high contribution of non-tax revenues to the budget, reaching 18% of total revenues (Mutluer et al., 2016: 60).

According to Law numbered 1040, the budget types also consist of budgets of budgetary and extra-budgetary funds, and various administrations with public legal personality established by different laws, as noted above. The special revenues and funds category in Figure 4.5 stands for the revenues transferred to the budget from these kinds of extra-budgetary funds and administrations in addition to budgetary fund revenues, grants, aids, and other special revenues. The leading cause of the fluctuations in the shares of the special revenues and funds in the total revenues seems to be the budgeting of the extra-budgetary funds and temporary grants and aids to the budget. As a matter of fact, 63 extra-budgetary funds were included in the budget by the 1993 fiscal year budget law (Saygılı, 2022: 37). Under the 1999 IMF stand-by agreement,

the liquidation of 6 funds, 5 of which were extra-budgetary, out of 74 budgetary and extra-budgetary funds as of the beginning of 2000, was completed by the end of 2001 (Ibid: 147).

Lastly, the annexed budgetary institutions[53], such as the higher education council and the general directorates of highways, forestry, petroleum affairs, etc., had self-income from taxes, non-tax revenue sources, and special revenues and funds. A decrease in the subcategory, special revenues and funds, as the most income-generating source of the annexed budgetary institutions, after the liquidations of the public funds in Türkiye at the end of the 1990s, seems to result in a lower share of total revenues of these institutions in the budget.

The public financial management system regulated by the Law numbered 1040 was replaced with the Public Financial Management and Control Law (5018) enacted in 2003 and entered into force in 2006. The new law defines five main budget types: the general budget, the special budget, the budget of regulatory and supervisory institutions, the local administrations' budgets, and the social security institutions' budgets. The annexed budget institutions defined in the previous law have been included in the general or special budget institutions. The scope of the public budget has been extended by including the regulatory and supervisory institutions and social security institutions (Mutluer et al., 2016: 354).

When we focus on the relative sizes of the budgets mentioned in Law numbered 5018, it can be inferred that the general budget constitutes 60.7% of total revenues of the budgets on average, while social security institutions' budget averagely corresponds to 26.1%, according to the data covering the period between 2011[54] and 2023 (HMB, 2023). The remaining 13.2% of total budget revenues represents the total average

[53] The annexed budgetary institutions are established by special laws and have separate legal entities. They carry out particular public services by using the revenues assigned to them. They are considered outside the general budget (Acar, 1997: 361–362; Mutluer et al., 2016: 363–364).

[54] The reason for starting the period in 2011 is that we could not reach the budget statistics of the social security institutions before 2011. The data on the other budgets have been available since 2006.

budget size of the special budget institutions (1.6%), the regulatory and supervisory institutions (0.4%), and the local administrations (11.2%). It is important to note that the total revenues of all budgets are calculated by deducting the inter-budgetary grants and aids transferred either directly or through projects. In other words, we only consider the self-incomes of the budgets to prevent the multiple counting of the same revenue sources.

The budgets, which adopted the international classification after the enactment of Law 5018, economically categorize the revenue items into six main groups: taxes; property and enterprise income; grants, aids, and special revenues; interest, shares, and fines; capital revenues; and collections from loans. Social security institutions have the category of social contribution revenues instead of the tax revenues category. The subcategories under each primary revenue group are summarized in Table 4.1. Considering the main categories of the revenue items of all budgets except that of the social security institutions,[55] Figure 4.6 shows the total annual revenues generated in each main category regardless of the budget types.

The most income-generating revenue items of the central government and local administrations are the categories of taxes, and interest, shares and fines, with the average shares of 71.8% and 15.8% for the given period, respectively. When the beginning and end of the specified period are considered, it is clearly seen that the only revenue category with an observable increasing trend is the tax revenues, which have risen from 68.8% to 75.5%.

[55] Figure 4.6 does not include the revenues of the social security institutions because of the fact that they are related to insurance rather than public finance, which requires further assessment considering their modus operandi, instruments, how the premiums used, and so on. Thus, we limited our study to other public budgets.

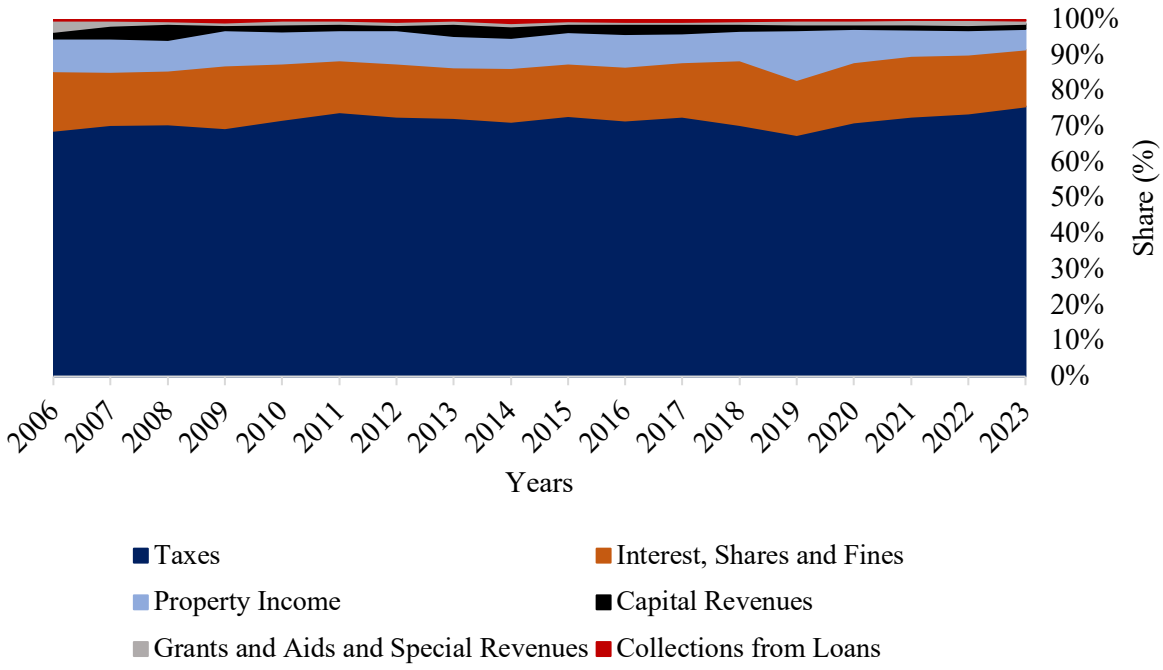

Figure 4.6: Revenues of Central Government and Local Administrations by Category (2006-2023)

Source: HMB, 2023

* Please note that the central government is composed of the general budget, special budget, and the regulatory and supervisory institutions.

The dominance of the tax revenues becomes more evident when central government budget revenues are taken into consideration by excluding the local administrations.[56] Taxes constitute 82.6% of the central government budget revenues on average between 2006 and 2023. The share of tax revenues reached 86.5% in 2023, while 79.3% in 2006. These figures indicate a considerably higher share of tax revenues than the average contributions of taxes in 1924-2005 and 1849-1917, which corresponded to 71.7% and 81.2%, respectively, as mentioned above (see Figures 3.4 and 3.5).

[56] Such an exclusion is needed for a more accurate comparison with the prior periods, especially the one between 1924 and 2005, in which only the consolidated budget statistics, consisting of the general and annexed budgets, but not the local administration budgets, were publicly available.

Table 4.1: The Main and Sub-categorization of Public Revenue Items after Law 5018

Main Categories	Subcategories				
Taxes	Taxes on Income, Profits and Capital Gains		Taxes on Property		Domestic Taxes on Goods and Services
	Taxes on International Trade and Transactions		Stamp Tax	Fees	Other Taxes not Elsewhere Classified
Property and Enterprise Income	Sales of Goods and Services		Permission Revenues of Property Utilization and Activities		Revenues from PEEs and Public Banks
	Corporation Revenues		Corporation Profits	Rents	Other Property and Enterprise Income
Grants, Aids, and Special Revenues	From Abroad	Project Aids	From Central Government Budget Agencies		From Grants and Aid from Persons and Agencies
	From Other Agencies	Special Revenues			
Interest, Shares, and Fines	Interests	Fines	Shares from Person and Agencies		Other Miscellaneous Revenues
Capital Revenues	Sales of Immovables	Sales of Movables	Securities and Asset Sales		Other Capital Sales
Collections from Loans	Domestic Receivable Collections			Abroad Collections from Loans	
Social Contribution Revenues	Social Security Premium Incomes		Compensation Insurance and Occupational Diseases Premium Incomes		
	Other Social Security Premium Income		General Health Insurance Premium Incomes		Government Contribution

Source: HMB, 2023

* PEEs stand for the public economic enterprises.

The detailed data with subdivisions of the revenue items starting from 1980 enable us to look into the distribution of the tax revenues by type, which is the main revenue source with the highest share in total public revenues throughout history. In this regard, Figure 4.7 presents the shares of tax types in the total revenues generated from taxes and fees. While the dataset between 1980 and 2005 shows the tax revenues and their shares of the consolidated budget (sum of the general budget and annexed budget on a net basis), the figures after 2005 represent the taxes in the central government budget along with the local administration budgets.[57]

The historical evolution of the tax structure in Figure 4.7 shows that the increasing trend in the shares of indirect taxes, which started during the Reorganization (Tanzimat) period, as seen in Figure 4.4, has gained momentum since the 1980s and reached its highest level in 2003. While the share of direct and indirect taxes was around 73% and 27% in 1980, respectively, the situation was almost reversed by 2023, with the share of indirect taxes in total tax revenues rising to 65% and the share of direct taxes falling to 34.7%. The main drivers of this phenomenon were the introduction of the value-added tax (VAT) by Law 3065 in 1984 and the special consumption tax (SCT) imposed by Law 4760 in 2002. In the last six years, the taxes on income, profits, and capital gains, as well as the domestic taxes on goods and services, have contributed to the total tax revenues at the same level on average (33.7%). However, the revenues generated from the latter have been considerably higher than those generated by the former since the 2000s. The gradual increase in the corporate tax rates from 20% to 25% between 2017 and 2022, imposing higher

[57] We could not include the tax revenues of the local administrations before 2006 because of the lack of publicly available data. Please note that the consolidated budget involves the general and annexed budgetary institutions. On the other hand, the central government budget is composed of the general budget, the special budget institutions, and the regulatory and supervisory institutions. As noted before, after the amendments by Law 5018 in 2006, the annexed budgetary institutions have been included in the general or special budget institutions according to the new public financial management system. Considering that the regulatory and supervisory institutions do not have any income from taxes or fees, it can be said that the consolidated budget before 2005 corresponds to the central government budget after 2005 in terms of taxes, except for the new public administrations other than annexed budgetary institutions included in the central government with the Law 5018.

corporate tax rates for banks, financial, and insurance companies starting from 2022, excessive profitability rates of firms, especially banks, finance, and insurance companies, in the inflationary environment of recent years, the reduction in VAT rates for essential food products from 8% to 1% in 2022 and other factors may result in the convergence in the shares of the two groups of tax types in the total tax revenues in the last years (Batı, 2024; İltir, 2024).

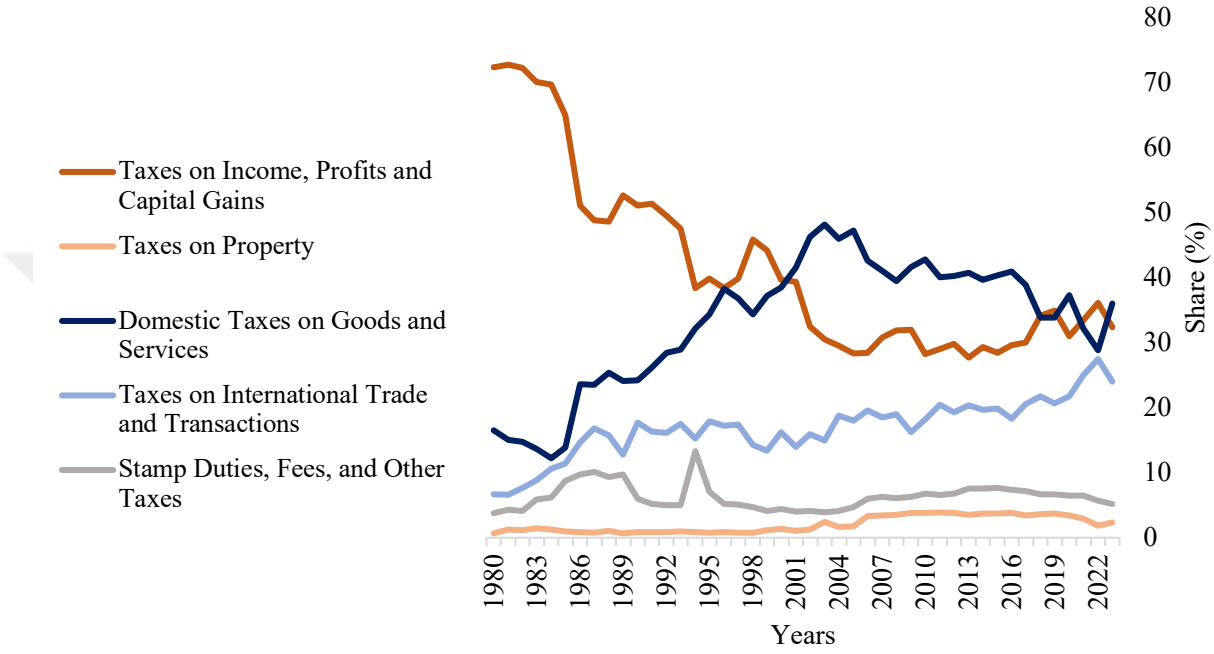

Figure 4.7: The Distribution of Tax Revenues by Types (1980 – 2023)

Source: HMB, 2023

The following subsections are planned to elaborate on the structure of each revenue source in the Turkish public revenue system, along with their short historical background. We have adopted the current classification of revenue items and their share in the budget while determining the subsections and their orders.

4.2. Revenue Sources in the Turkish Public Finance

4.2.1. Domestic Taxes on Goods and Services

Taxes in this category are considered consumption taxes[58] and are imposed when income or wealth is spent in exchange for goods and services in the domestic market. They are indirect and objective taxes, which lead to a financial obligation at the same rate regardless of the economic situation of individuals through a transaction (Mutluer et al., 2016: 254–255). Their types mainly differ in terms of the tax subject, i.e., goods and services produced, sold, or purchased, and according to which stages of the production and consumption chain are taxed. Table 4.2 lists all prevailing kinds of domestic taxes on goods and services in the central government and local administration budgets.

Table 4.2: Types of Domestic Taxes on Goods and Services in the Central Government and Local Administration Budgets of Türkiye

Central Government Budget	Local Administration Budgets
Value-added Tax (VAT)	Entertainment Tax on Joint Bets
Banking and Insurance Trans. Tax	Entertainment Tax for Places Entered w/o Tickets
Gambling Tax	Entertainment Tax for Places Entered w/ Tickets
Special Communication Tax	Environmental Cleaning Tax for Residences
Digital Services Tax	Environmental Cleaning Tax for Workplaces
Accommodation Tax	Fire Insurance Tax
	Announcement and Advertising Tax
Special Consumption Tax (SCT)	Special Consumption Tax (SCT)
Petroleum and Natural Gas	*Communication Tax*
Motor Vehicles	*Electric and Coal Gas Cons. Tax for Households*
Beverages	*Electric and Coal Gas Cons. Tax for Workplaces*
Tobaccos	
Coke	
Durable Goods and Others	

Source: HMB, 2023

[58] The literature and regulations may use expenditure, transaction, sales, or excise taxes instead of consumption tax (Edizdoğan et al., 2021: 306).

Value-added tax (VAT), one of the prominent domestic taxes on goods and services in the central government budget, was introduced by the Value-added Tax Law numbered 3065 enacted in 1984, although there had been various consumption taxes since the Ottoman period. Nakiboğlu (2012: 5), examining the Ottomans' budget for the Hijri year 1291 (Gregorian years of 1875-1876), confirms that the revenues generated from consumption taxes on salt, tobacco, and alcoholic beverages constituted a significant income source for the budget. We also know that taxes imposed on consumer goods, such as sugar, kerosene, match, coffee, tea, alcoholic beverages, and cigarettes, increased in 1915, corresponding to the First World War (Karta, 2013: 234). The general sales tax (umumi istihlak vergisi), a type of consumption tax, was one of the taxes introduced in 1926 to compensate for the fiscal gap that emerged after the repeal of ashar (âşâr). It is considered the first systematic transaction tax inspired by the systems in Germany and France (Mutlu, 2009: 81–82). Yaraşlı (2003: 29) notes that it was the initial form of the value-added tax in Türkiye. However, more precisely, the collective sales tax (toplu muamele vergisi), which replaced the general sales tax (umumi istihlak vergisi) in 1927, was the first application of value-added tax at the manufacturing stage in Türkiye (Edizdoğan et al., 2021: 313). The collective sales tax (toplu muamele vergisi) that imposed tax at the final manufacturing and production stage remained in force until the enactment of the Expenditure Tax Law in 1956. The new law shifted the tax from the final manufacturing stage to the initial production phase, mainly because the former tax was preventing businesses from expanding for fear of falling within the scope of taxation, and companies resorting to ways such as spin-offs to avoid taxation considering the exemptions for small industrial enterprises (Ülkmen, 1956: 11–14). Another amendment by the new law was repealing consumption taxes, which have become complex and disorganized, and including them in the new production tax (istihsal vergisi) (Mutluer et al., 2016: 79). Lastly, taxes on services were integrated into the new law with minor changes (Ülkmen, 1956: 1). The Added-value Tax Law enacted in 1984 abrogated the production tax and some other expenditure taxes, such as transportation and sugar excise taxes (Edizdoğan et al., 2021: 319).

VAT is a diffused consumption tax imposed on the added value created at every production and consumption chain stage (Mutluer et al., 2016: 259–260). The transactions subject to the tax are quite vast, and the deliveries and services made

within the framework of commercial, industrial, agricultural activities, and self-employment activities fall within the scope of the tax (T. C. Resmi Gazete, 1984: 1). Although sellers and service providers are taxpayers according to Article 8 of the Value Added Tax Law, buyers undertake the tax burden since it is shifted to them through pricing by the taxpayers (Ibid: 8). Article 28 of the same law stipulates that the VAT rate is 10% for every transaction subject to tax, but it authorizes the president of the republic to increase this rate up to four times and to reduce it down to 1% (Ibid: 28). According to the latest Presidential Decree dated 7th July 2023 about the changes in VAT rates, the updated rates for the corresponding goods and services are presented in Table 4.3 below.

There exist three groups of goods and services, which are subject to three different VAT rates: 1%, 10%, and 20%. The first group with the lowest VAT rate, 1%, mainly consists of food products, such as milk and milk products, cereals, vegetables, fruits, salt, sugar, water, and others listed in Table 4.3. The goods and services in the second group that are subject to 10% VAT cover basic necessities like textiles, personal hygiene items, medical products, health and education services, accommodation, and restaurant services, in addition to some agricultural vehicles, wastewater, and advocacy services. The goods and services not listed in the first two groups are subject to 20% VAT. It is worth noting that Table 4.3 does not consider VAT exceptions and exemptions.

The second domestic consumption tax, shown in the central government budget, the special consumption tax (SCT), started to be enforced with Law numbered 4760 in 2002. As in the case of VAT, alignment with the European Union legislation in the field of indirect taxes was the main reason for its initiation (Edizdoğan et al., 2021: 334). The law united 16 different taxes, additional taxes, and shares under a single tax, the SCT (Mutluer et al., 2016: 85). In contrast to general consumption taxes charged at every stage of the production and consumption chain, the SCT is imposed at a single stage. In addition, SCT is only imposed on goods, meaning services are not subject to this tax (Edizdoğan et al., 2021: 334–335). According to Article 4 of Law 4760, for goods subject to SCT other than motor vehicles required to be registered and certified, those who manufacture, construct, or import and those who sell these goods through auction are defined as taxpayers, while for motor vehicles required to be registered and certified, those who trade motor vehicles, import them for use or sell them through

auction are taxpayers (T. C. Resmi Gazete, 2002: 4). However, the tax burden is shifted to buyers through pricing by the taxpayers as in VAT.

The SCT Law classifies goods subjected to the tax into four main categories while defining the tax subject (Ibid: 1). The categories and some prominent examples classified under each category are presented in Table 4.4. A specific duty is imposed on the goods in the first category, determined per kilogram, liter, cubic meter, and other relevant units of measure (Ibid: 11). For instance, as of 15th July 2023, unleaded fuel (98 octane) is subject to an SCT of 7.8899 Turkish liras (₺) per liter. Motor vehicles listed in the second category are subjected to an ad valorem tax (a proportional tax imposed on the value of the goods), which varies between 0% and 220%, mainly depending on the engine displacement, tax base, and whether they have an electric motor. For the alcoholic beverages and cola sodas in the third category, only the specified ad valorem tax is applied, provided that it is not less than the tax amount calculated according to the minimum specific duty. For tobacco products in the same category, the specified ad valorem tax is applied, which must not be less than the tax amount calculated according to the minimum specific duty in addition to the specific duty itself. Lastly, the specified ad valorem tax changing between 6.7% and 50% is imposed on the goods in the fourth category. The rates in this category differ depending on the goods subject to SCT, except for cell phones, considering the tax base.

Table 4.3: Value-added Tax Rates for Goods and Services as of 7th July 2023

VAT Rate	Goods and Services
1%	Live horses, donkeys, mules, cattle, pigs, sheep, goats, poultry, rabbits, deer, etc.
	Meat and giblets of poultry, lard, and fats of poultry
	Live, fresh, chilled, or frozen fish (except ornamental fish), shellfish, mollusks
	Milk, cream, yogurt, kefir, whey, butter, cheese, eggs, honey
	Animal intestines, bladders, and stomachs, whole or in parts
	Vegetable and flower seedlings
	Edible vegetables, some roots, and tubers
	Edible fruits and nuts
	Coffee, tea and spices
	Cereals
	Milling products (such as flour)
	Vegetables and fruits, their seeds, kernels and spores, mint, sugar cane, cotton seeds and dew, flour and coarse flour of oil seeds and fruits
	Animal, vegetable, and microbial fats and oils suitable for use as human food
	Prepared and canned meat, fish, shellfish, soft meats
	Sugar and sugar products, except for white chocolate
	Cocoa and cocoa products
	Cereals, flour, starch and, dairy products and pastry products (such as pasta, bulgur)
	Products from vegetables, fruits, nuts, and other parts of plants
	Only water and vinegar
	Salts intended for human consumption only
	Goods and services other than food products, such as newspapers and magazines; delivery of used passenger cars and tractors; funeral services; books of the Holy Qur'an, Torah, Zabur, and Bible; renovated and certified mobile phones, etc.

%10	Some cotton products, such as cotton staple and cotton fiber
	Raw hides and leather of cattle, horses, sheep, lambs, goats and kids
	Yarns and fibers prepared for the manufacture of yarns, etc.
	Cotton, woolen, silk, and synthetic textile goods
	Underwear and outerwear, towels, bathrobes, curtains, and home textile products such as sheets, pillows, and home textile products produced from cotton, woolen, silk, and synthetic textile goods
	Processed hides, leather, and leather goods and apparel manufactured from them
	Shoes, boots, bags, suitcases, carpets
	Payment recording devices mandatory for VAT taxpayers; compulsory tachograph devices for buses, trucks, etc.
	Books and similar publications; school supplies such as pencils, watercolors, etc.; education and training services at universities and colleges; cinema, theater, opera, operetta, ballet, museum entrance fees
	Formula used as human food, vaccines, blood products, etc., used for human or animal health
	Medicinal products for human use licensed by the Ministry of Health
	Parasites and predators used in biological control; butchery protection products licensed by the Ministry of Agriculture
	Preventive medicine, diagnosis, treatment, and rehabilitation services for human or animal health
	Services provided in coffee houses, restaurants, restaurants with alcohol, etc. (except for the part corresponding to alcoholic beverages), excluding casinos, bars, dance halls, pavilions, taverns, beer houses, and similar places
	Overnight accommodation services in hotels, motels, pensions, holiday villages and similar places
	Services provided in care, nursing homes, and orphanages
	Wastewater services provided by municipalities
	Some agricultural vehicles, machinery, and equipment, such as harvesters, reapers, plows, etc.
	Tolls for bridges and submarine highway tunnels built under the build-operate-transfer model
	Delivery of Liquefied Petroleum Gas (LPG), except those to be used in motor vehicles, by those holding LPG distributor licenses and subsequent deliveries by purchasers
	Certain advocacy services, such as cases falling within the scope of consumer courts, family courts, etc.
	Furniture for seating and bedding
	Electricity delivery to residential and agricultural irrigation subscriber groups
	Deliveries of plots, lands, and net area of dwellings up to 150 square meters
	Toothbrush, toothpaste, and dental floss; hygienic towels, baby and similar hygienic items
20%	Other goods and services subject to VAT but not listed above

Source: T.C. Ticaret Bakanlığı, 2023; TÜRMOB, 2023

Although the taxes on communication, electricity, and coal gas consumption are classified under the special consumption tax in the local administration budgets, they are regulated by the Municipal Revenues Law numbered 2464, like other domestic taxes on goods and services collected by local administrations. Tax base, taxpayer, and rates of all taxes on goods and services received by local administrations are summarized in Table 4.5 below.

The domestic taxes on goods and services other than VAT and SCT in the central government budget, except for gambling and digital services taxes, are regulated by the Expenditure Tax Law numbered 6802. The characteristics of these taxes are briefly presented in Table 4.6. Although the gambling tax was also included in Law 6802 until 2007, a separate Law numbered 5602 was enacted to stipulate taxes, funds, and shares on gambling revenues. Law numbered 7194 contains the provisions related to the digital services tax.

Table 4.4: Goods Subjected to Special Consumption Tax by Category

Categories	Some Selected Goods
(I) Petroleum and Petroleum Products	Light oils and their products, such as unleaded fuel and aviation fuel; medium oils, such as jet fuel; heavy oils, such as diesel and heating fuel; petroleum gases and other hydrocarbons, such as natural gas etc.
(II) Motor Vehicles	Motor vehicles, such as tractors, buses, minibuses, automobiles, motorcycles, helicopters, airplanes, ships, yachts, etc.
(III) Tobacco Products; Alcoholic Beverages; Cola Sodas	Fruit juices, sodas, beers, wine, vodka, raki, cigars, cigarettes, etc.
(IV) Luxury Goods; White Appliances; Electronic Products	Caviar, perfume, hair spray, skin care products, cosmetics, furs, tableware and kitchenware made of lead crystal, cutlery and spoons covered with gold or silver, air conditioners, refrigerators, freezers, water heaters, washing machines, tumble dryers, vacuum cleaners, telephones, video game consoles, crystal chandeliers, revolvers, pistols, etc.

Source: Edizdoğan et al., 2021: 335; T. C. Resmi Gazete, 2002; T.C. Ticaret Bakanlığı, 2023

Table 4.5: Details of the Domestic Taxes on Goods and Services in the Local Administration Budgets of Türkiye

Tax	Tax Subject	Tax Base	Rate	Taxpayer
Entertainment Tax on Joint Bets	Activities of entertainment facilities located within municipal boundaries and adjacent areas	The amount collected from the participants (excluding VAT)	5%	Those running entertainment facilities
Entertainment Tax for Places Entered w/o Tickets		Specific duty determined per day in service		Those running entertainment facilities
Entertainment Tax for Places Entered w/ Tickets		Gross revenue generated as ticket price, excluding Entertainment Tax	5-20%*	Those running entertainment facilities
Environmental Cleaning Tax for Residences	Environmental cleaning services utilized by residences within the municipal boundaries and adjacent areas	Specific duty per cubic meter of water consumed		Those using the buildings
Environmental Cleaning Tax for Workplaces	Environmental cleaning services utilized by workplaces and other buildings within the municipal boundaries and adjacent areas	Specific duties based on building groups and degrees determined by municipal councils		Those using the buildings
Fire Insurance Tax	Premiums received for fire insurance for movable and immovable properties within municipal boundaries and adjacent areas	Amount of insurance premiums	10%	Insurance companies

Announcement and Advertising Tax	All kinds of announcements and advertisements made within the boundaries of the municipality and its adjacent areas	Specific duties according to venue, size, and some other features		Those making the announcement and advertisement on their behalf
Communication Tax	Telephone, telex, facsimile, and data fees collected by PTT (excluding installation, transfer, and relocation fees)	Fees charged (excluding expenditure taxes)	1%	Post Telegraph Telephone Administration (PTT)
Tax on Electric and Coal Gas Consumption for Households	Electricity and coal gas consumption within municipal boundaries and adjacent areas	Sale price*	5%	Consumers
Tax on Electric and Coal Gas Consumption for Workplaces	Electricity and coal gas consumption within municipal boundaries and adjacent areas	Sale price*	1% (Electricity) 5% (Coal Gas)	Consumers

Source: T. C. Resmi Gazete, 1981

* Please note that sale prices of the electricity and coal gas do not include charges related to the transmission, distribution, and retail sale services of electricity, as well as taxes, funds, and shares. In regard to the Entertainment Tax for Places Entered with Tickets, the tax rate applied to local and foreign movie screenings, sports competitions, horse races, and concerts was reduced to 0% with the Presidential Decree dated 21/12/2022, numbered 6584. Theaters, operas, operettas, ballets, Karagöz-Hacivat (traditional Turkish shadow theatre), puppets show, and traditional improvised theatre are subject to entertainment tax at a rate of 5%, while circuses, amusement parks, gardens with instruments, and the like are subject to entertainment tax at a rate of 10%. Lastly, most taxes listed above have exemptions and exceptions to some extent.

Table 4.6: Details of the Domestic Taxes on Goods and Services other than VAT and SCT in the Central Government Budget of Türkiye

Tax	Tax Subject	Tax Base	Rate	Taxpayer
Banking and Insurance Transaction Tax	Money received in cash or on account by banks and insurance companies for their transactions and bankers for their bank transactions and services*	Money received (sales amounts or premiums)	15% (banking and insurance transactions) 0.2% (foreign exchange transactions)	Banks and insurance companies
Accommodation Tax	Accommodation services provided in facilities such as hotels and pensions, and all other services offered within the accommodation facility being sold together with this service	Payment for the accommodation service	2%	Those providing accommodation services
Special Communication Tax	Services within the scope of mobile electronic communication operations; services related to the transmission of radio and television broadcasts via satellite platform and cable media; wired, wireless, and mobile internet services; and other electronic communication services	Price of services	7.5%	Operators providing electronic communication services
Gambling Tax	Games of chance, betting on horse races, football, and other sports competitions, the national lottery, and others	The amount collected from the participants (excluding VAT)	5% (Sports competition) 7% (Horse races) 10% (Others)	Entities having right and authorization to organize gambling games
Digital Services Tax	All kinds of advertising services offered in the digital environment, services offered in the digital environment for the sale, listening, watching, playing, or recording of any audio, visual, or digital content in the digital environment, services for the provision and operation of digital environments where users can interact with each other	Revenues derived from the services subject to the tax	7.5%	Digital service providers

Source: T. C. Resmi Gazete, 1956, 2007, 2019

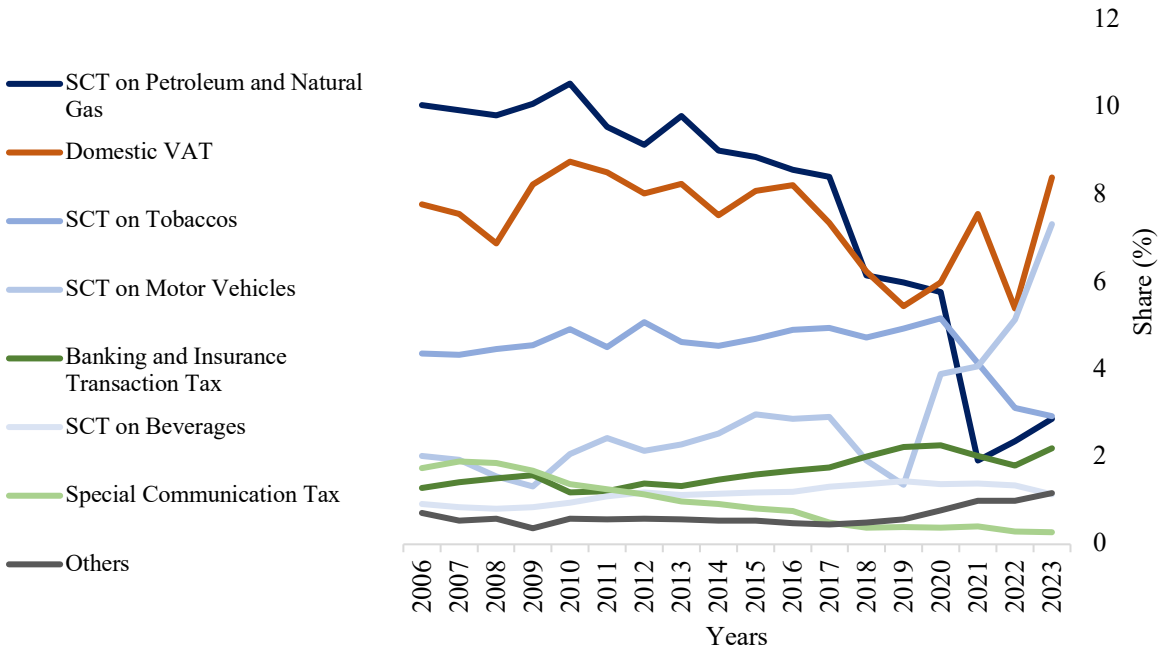

Figure 4.8: The Share of the Domestic Taxes on Goods and Services in the Total Public Revenues, Excluding Social Security Institutions, by Category (2006 – 2023)

Source: HMB, 2023

Domestic taxes on goods and services, whose main structures are explained in this section, constitute 36% of total tax revenues of all budgets in 2023, as presented in Figure 4.7 above. The share of revenues generated from these taxes in the total budget revenues, including the central government and local administration budgets, but excluding the budget of social security institutions, corresponds to 26.3% for the same fiscal year. The relative share of the revenues from these types of taxes in the total public revenues, excluding social security institutions, is presented in Figure 4.8, covering the period between 2006 and 2023. According to the figure, domestic VAT, SCTs on petroleum and petroleum products, and tobacco products were, respectively, the top three revenue-generating domestic taxes on goods and services until the 2020s. However, since 2021, revenues from the SCTs on motor vehicles and tobacco products have surpassed those from the SCT on petroleum and petroleum products. The current three tax types at the top raised 14.18% of total public revenues in 2023. The domestic taxes on goods and services, which are categorized as others in the figure, include electric and coal gas consumption tax, gambling tax, SCT on cola sodas, announcement and advertising tax, digital services tax, entertainment tax,

communication taxes, environmental cleaning taxes, accommodation tax, and fire insurance tax.

4.2.2. Taxes on International Trade and Transactions

Taxes on international trade and transactions are considered consumption taxes as the domestic taxes on goods and services in terms of tax subject (Edizdoğan et al., 2021: 306–307). Thus, we opt to mention them right after the domestic taxes on goods and services, although the second most income-generating tax category is the taxes on income, profits, and capital gains, as shown in Figure 4.7. Taxes in this category are composed of VAT on imports, customs duties, and other taxes on international trade and transactions.

The Value Added Tax Law numbered 3065 also regulates VAT on imports as the VAT imposed on goods and services in the domestic market. The first article of the law stipulates that the import of all kinds of goods and services is subject to VAT. Importers are determined as the taxpayers of VAT on imports by Article 8 of the same law. VAT on imports arises with the commencement of the obligation to pay customs duty following the Customs Law and with the registration of the customs declaration in transactions not subject to customs duty (T. C. Resmi Gazete, 1984: 10). The exceptions for certain goods and services in the law also applies to VAT on imports (Ibid: 16). At this point, it is worth noting that Article 11 of the law exempts exports from VAT.

The tax base of VAT on imports is the value of the imported goods, which is the basis for the imposition of customs duty. If the customs duty is not levied based on value or if the goods are exempt from customs duty, the CIF (cost, insurance, and freight price) value, in cases where this is not certain, the value of the goods to be determined by customs, is deemed to be the tax base. All other taxes, duties, fees, and shares paid during imports are also included in the tax base (Ibid: 21). If the price is calculated in foreign currency, the foreign currency is converted into Turkish currency at the current exchange rate at the time of the taxable event while calculating the value of the imported goods and services (Ibid: 26). The rates of VAT imposed on goods and services in domestic market, which summarized in Table 4.3 are valid for the imported goods and services.

The second tax on international trade and transactions, customs duty, in the Turkish public revenue system was also a prominent revenue source in the history of the Ottomans and the Turkish Republic. Although it constituted 16% and 8.68% of the total public proceeds in 1863/64 and 1875/76 fiscal years, respectively, its share gradually increased to 20% in the late Ottoman period after the unilateral cancellation of capitulations under cover of war conditions in 1914, and the recognition of the removal by other countries with the Lausanne Peace Treaty signed in 1923 (Önder, 2019: 493; Pamuk, 2018: 164–165; Şener, 1990: 68–70; Yıldız, 1996: 74). The newly established republic regime with self-reliance and economic nationalism tendencies and protectionism, inward-oriented industrialization, and import substitution policies, which stemmed from the trade stagnation caused by the First World War (1914-1918), the Great Depression (1929-1939), and the expectations about the possible new world war, changed the customs tariffs dated 1916 after the end of the limitations regarding the tariffs in the Lausanne Peace Treaty as of 1929 (Pamuk, 2018: 163–164; Yıldız, 1996: 74). The average customs rate increased to 40% after the Law (Özkardeş, 2015: 27).

The current customs duties are regulated by the Customs Law numbered 4458. According to Article 3 of the law, customs duties cover import and export taxes. These taxes stand for customs duties and other equivalent-effective taxes and financial burdens to be paid on the import/export of goods and taxes and other financial burdens to be levied on import/export within the framework of agricultural policy or special regulations applicable to certain products obtained as a result of the processing of agricultural products (T. C. Resmi Gazete, 1999: 3).

Customs duties are calculated according to the customs value of imported goods and the customs tariff in force at the commencement date of the customs obligation. The customs value of the imported goods is the sale price of the goods (Ibid: 24). On the other hand, for goods subject to tax based on weight, the weights subject to tax are the sum of the weight of the goods itself and the sum of the weights of all packaging materials and containers in cases where the gross weight is referred to, and the weight of the goods itself in cases where only the weight or the net weight is referred to (Ibid: 32). Customs tariffs are determined through the Turkish Customs Tariff Schedule (TCTS) and other schedules based on the TCTS and considering preferential tariff applications and exemptions or discounts specific to the goods (Ibid: 15). The

schedules list the goods subjected to customs duties and other import taxes within the framework mentioned above and present the corresponding tax rates. Tax rates vary between 0% (some pharmaceuticals) and 250% (meat and offal of cattle and sheep) depending on goods classified according to the customs tariff statistical positions and countries of origin (T.C. Ticaret Bakanlığı, 2023, 2024b). Since the scope of the tax subject is significantly broad, classified under 21 chapters and 99 sections corresponding to thousands of goods, and the rates are periodically updated according to economic policies and agreements, we cannot provide a detailed list of goods and tax rates.

Another aspect that needs to be considered regarding customs duty rates is the customs regime under which the goods are subject to foreign trade. The regimes to which the goods will be subject are (a) free circulation regime, (b) transit regime, (c) customs warehouse regime, (d) inward processing regime, (e) processing regime under customs control, (f) temporary import regime, (g) outward processing regime and (h) export regime. Law 4458 stipulates various customs duty exemptions and reductions depending on the customs regimes. For example, the outward processing regime refers to the temporary export of goods in free circulation from the Turkish Customs Territory to be subjected to outward processing activities and the re-entry of the products obtained as a result of these activities into free circulation with full or partial exemption from import duties (Ibid: 135).

Taxes on international trade and transactions correspond to 24% of the total tax revenues of all budgets in 2023, as shown in Figure 4.7. On the other hand, their share in the total revenues of the central government and local administration budgets accounts for 18.17% in the same year. The shares of revenues generated through taxes on international trade and transactions in the total public revenues, excluding that of social security institutions, by category between 2006 and 2023 are presented in Figure 4.9. Although the first kind of tax that comes to mind among the taxes on international trade and finance is customs duty, its share has not exceeded 2.5% of the sum of the central government and local administration budgets and has remained around 1.5% on average since 2006. On the other hand, VAT on imports constituted 13.25% of the total public revenues between 2006 and 2023 and reached its highest level in 2022 with a 17.82% share. The most common other taxes on international trade and transactions are the mass housing fund (agriculture share), anti-dumping tax,

additional financial obligation, and resource utilization support fund (T.C. Ticaret Bakanlığı, 2024a). However, their total share has remained at around 0.04% in the period considered.

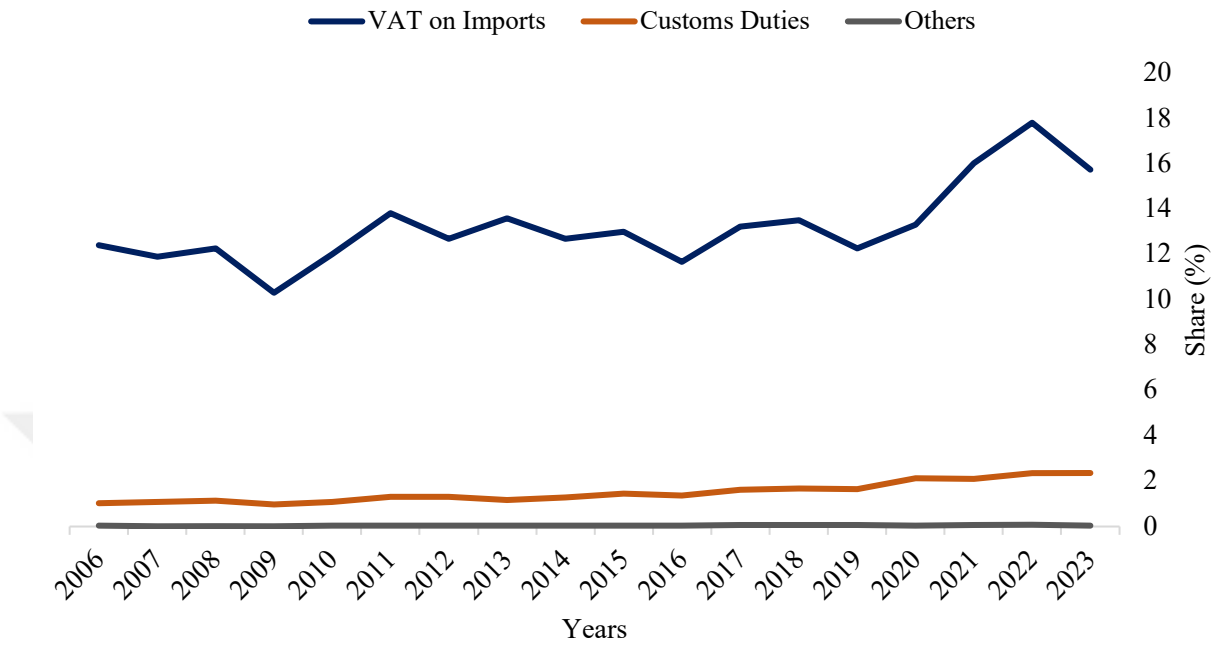

Figure 4.9: The Share of the Taxes on International Trade and Transactions in the Total Public Revenues, Excluding Social Security Institutions, by Category (2006 – 2023)

Source: HMB, 2023

4.2.3. Taxes on Income, Profits, and Capital Gains

Taxes on income, profits, and capital gains are the second most income-generating tax category after the domestic taxes on goods and services in Türkiye, as shown in Figure 4.7. These taxes are regulated by the Income Tax Law 193 and the Corporate Tax Law 5520. While the former stipulates the rulings about taxing the incomes of the natural person, including partners in collective partnerships and unlimited/acting partners in commandite partnerships, the latter is about the income of the corporations, businesses, and institutions specified in the law. In this subsection, we first explain the main structure of the income tax that a natural person is subjected to, and then legal entities, after briefly touching on the historical background.

The first example of modern corporate income taxes in the Ottomans was the profit tax (temettü vergisi), which had been gradually introduced together with property taxes

(emlak ve arazi vergileri) starting from the 1860s (Türklü, 2016; Yaraşlı, 2003: 20). The profit tax (temettü vergisi) was substituted with income tax (kazanç vergisi) in 1926 mainly because of the facts that the determination of the profit tax base by relying on external presumptions led to nepotism and unfairness, non-Muslims were not obliged to pay, and public revenue losses due to the abrogation of ushr (Mutluer et al., 2016: 237; Yıldız, 1996: 74). Income tax (kazanç vergisi) differentiated from the profit tax (temettü vergisi) in terms of the tax subject by including incomes of wage-earners and moneychangers as well as banking-related securities incomes, which were not subject to the profit tax (temettü vergisi) previously (Yaraşlı, 2003: 20). As a matter of fact, the burden of income taxes on civil servant salaries and worker wages started to increase by the 1930s (Tezel, 1982: 393). Income tax (kazanç vergisi), introduced in 1926, was replaced with three separate laws: Income, Corporate, and Artisan Tax Laws in 1950 (İnan, 2010: 356). The new Income Tax Law started to calculate the tax liabilities by collecting the income of the natural person from various sources rather than separately taxing them as in the previous law, and included revenues from movable and immovable capital fully within the scope of the tax (Ibid: 353-354). Among these three laws, the first two have maintained their existence until today with amendments.

According to the first article of the prevailing Income Tax Law numbered 193, the tax subject is the net earnings and revenues a natural person obtains in a calendar year.[59] Article 2 of Law 193 classifies the components of earnings and revenues into the following seven categories, valid for corporate incomes regulated by Law 5520.

1. Commercial earnings
2. Agricultural earnings
3. Salaries and wages
4. Self-employment earnings

[59] The concept of earning refers to the income generated from the collaboration of economic factors, entrepreneurial labor, and capital, to some extent. On the other hand, revenue stands for the income generated from only capital, without the involvement of the labor factor (Mutluer et al., 2016: 243).

5. Revenues from immovable capital
6. Revenues from movable capital
7. Other earnings and revenues

The categories determined for the earnings and revenues of a natural person do not mean that each component is separately taxed. Rather, Law 193 adopts the unitary income tax method, which considers the total income gain from all components as a whole (Mutluer et al., 2016: 238–239; T. C. Resmi Gazete, 1960: 104). As a matter of fact, losses incurred from some components of earnings and revenues (except those arising from the seventh category) shall be offset against the income generated from the other sources while calculating the total income subject to the tax (T. C. Resmi Gazete, 1960: 88). The categorization is mainly needed to precisely define the tax subject with different natures and stipulate the exemptions, exceptions, deductible expense items, and other matters specific to the relevant income source. Table 4.7 below summarizes the definition, tax base, and expense items deductible from the revenues for each income source.

The exempted taxpayers and exceptional tax subjects are not included in the sum of the earnings and revenues subjected to the income tax and are considered outside the tax base, as explained in Table 4.7. In this regard, Article 9 of Law 193 exempts traders and artisans who gain earnings that do not exceed specified levels as a result of the activities they independently carry out using primitive tools without opening a workplace from income tax. This exemption includes those engaged in retail trade on a mobile basis, those who collect or purchase all kinds of scrap materials on a mobile basis and sell these goods, those who sell the products they manufacture in their homes over the internet and similar electronic media, provided that they do not use driving force and do not hire outside workers, and other similar traders and artisans. The fourth chapter of the Law mentions the excepted earnings, which seem to be intended to support and encourage artistic and scientific activities, educational services, young entrepreneurs, small businesses, digital content producers, etc. For instance, the income of those subject to small business taxation according to Articles 47, 48, and 51 for commercial earnings is excepted from the income tax. The fifth chapter of the Law is about the excepted immovable and movable capital revenues. Accordingly, 33,000 ₺ of the income obtained from renting a building as a dwelling in a calendar year and half of the profits derived from stocks and participation shares of full-fledged taxpayer

corporations are excluded from income tax. When we look at the wages excepted from income tax in the sixth section of the Law, it seems that they are generally offered to facilitate the execution of some production and services, such as the exemptions made for the wages of employees working in hand-made carpet and rug weaving enterprises and small-scale agricultural operations. In addition, monthly allowances for retirees, orphans, widows, and invalids, income of amateur athletes, foreign currency payments made by employers from their earnings abroad to those providing services abroad, and earnings at the minimum wage level are excluded from income tax. Finally, we would like to note that the exemptions and exceptions regarding the income tax are not limited to the ones listed above.

Article 89 of Law 193 lists the other spending items that can be deducted from revenues subject to income tax in certain proportions apart from the deductible expense items, which are directly related to the field of activity from which the earnings are derived. These items are mainly related to goods and services generally financed by the state, such as schools, health facilities, and food banks for the needy. In addition, education and health expenditures made for the taxpayers themselves, their spouses, and minor children, amounts set aside as venture capital funds, sponsorship expenditures for sports teams, etc., can also be deducted from the revenues at different rates and with various conditions.

The tax base calculated considering the sum of earnings and revenues defined in Law 193, the deductible expense items in Table 4.7, and other deductible spendings summarized above are subject to the progressive income tax rates, which are specified in Article 103 according to the corresponding five income brackets, as shown in Table 4.8 below.

Table 4.7: The Types of Earnings and Revenues Subjected to Income Tax

Income Source	Definition	Tax Base	Deductible Expense Items*
Commercial Earnings	Earnings arising from all kinds of commercial and industrial activities	The positive difference between the values of the equity capital at the end and beginning of the accounting period or the positive difference between the revenues and expenses obtained within an accounting period	Overhead costs, employees' insurance premiums and pension contributions, compensations, travel and residence expenses, vehicle expenses, depreciation, etc.
Agricultural Earnings	Earnings obtained as a result of the production, hunting, preservation by hunters and breeders, transportation, sale, or other utilization of crops of plants, forests, animals, fish, and their products in land, seas, lakes, and rivers through sowing, planting, maintenance, production, breeding, etc.	The positive difference between the revenue collected in money or accrued as receivables and the expenses paid or debited during the accounting period	Expenses incurred for the supply of seeds, fertilizers, feed, similar materials, and vehicles for production, payments to employees and insurance premiums, depreciation and compensation expenses, etc.
Salaries and Wages	Money paid and benefits, which can be represented by money, provided to employees in return for service under a specific workplace subject to the employer	The actual net value of the salaries and wages obtained by deducting the items defined in the law from the total of the benefits provided by the employer in cash and in-kind	The premiums paid by the employee for personal insurance policies such as death, accident, health, etc., and 50% of the premiums paid for life insurance policies of the employee, their spouse and minor children, dues paid to labor unions, etc.
Self-employment Earnings	The earnings of those who do non-commercial works on their own behalf and account, which are based on personal labor, scientific or professional knowledge, or specialization, rather than capital	The difference remaining after deducting the expenses related to the activity from the money and other benefits that can be presented by money received in return for the self-employment activity in an accounting period	Overhead costs, employees' insurance premiums and pension contributions, travel and residence expenses, costs of purchasing goods and services, costs of vehicles, etc.

Revenues from Immovable Capital	Revenues obtained as a result of renting out assets such as land, buildings, springs, saltpans, quarries; licenses; copyright, trade name, trademark rights; ships and ship shares; motor vehicles and machinery, etc.	The net revenues obtained by deducting the expenses defined in the law from the amount of the rental fees collected in cash or kind within a calendar year	Expenses, such as lighting and heating paid by the lessor, insurance expenses, interest on the debts incurred and spent due to the goods and rights leased, and 5% of the acquisition cost of one real estate property leased as a residence, depreciation costs, maintenance and repair expenses,
Revenues from Movable Capital	Dividends, interest, rents, and similar revenues derived from the owner's cash capital or capital consisting of values represented by money other than commercial, agricultural, or professional activities	The net revenues calculated by deducting the expenses specified in the law from the movable capital revenues	Expenses incurred for the safekeeping of securities, such as storage and insurance fees; collection expenses of dividend shares and interest; all kinds of taxes, duties, and fees paid for securities and their proceeds
Other Earnings and Revenues	Appreciation gains arising from the disposal of certain goods and rights, such as stocks, other capital market instruments, licenses, trade names, trademark rights, land, buildings, ships, etc.; some incidental gains	The net revenues calculated by deducting the expenses specified in the law from the amount of all kinds of benefits that can be represented by money and cash received in return for the disposal	The cost of the goods and rights disposed of, and the expenses incurred, and taxes and duties paid by the seller due to the disposal

Source: T. C. Resmi Gazete, 1960

***** Please note that the expense items listed for each income source here do not cover all items mentioned in Law 193. Among them, the most prominent ones have been selected to exemplify them. In addition, the Law stipulates some conditions, percentages, and thresholds for various cost items, which limit the deductible portion of the costs. Lastly, the Law highlights that the expenses shall be related to the activities from which the earnings and revenues are generated.

Table 4.8: Income Tax Schedule as of 30th December 2023

Income Brackets	Income Tax Rates
Until 110,000 ₺	15%
16,500 ₺ for 110,000 ₺, but excess up to 230,000 ₺	20%
40,500 ₺ for 230,000 ₺, but excess up to 580,000 ₺ (up to 870,000 ₺ for wage income)	27%
135,000 ₺ for 580,000 ₺ (213,300 ₺ for 870,000 ₺ of wage income), but excess up to 3,000,000 ₺	35%
982,000 ₺ for 3,000,000 ₺ (558,800 ₺ for 3,000,000 ₺ of wage income), but excess	40%

Source: T. C. Resmi Gazete, 1960

The second law regarding taxes on income, profits, and capital gains is Corporate Tax Law 5520, which regulates tax on the income of corporations, businesses, and institutions. The first article of the law lists the taxpayers, whose scope is defined by the second article, as follows:

1. Equity companies (joint stock and limited liability companies, commandite partnerships with divided share capital, funds, and similar foreign institutions and funds)
2. Cooperatives
3. Public economic organizations
4. Economic enterprises belonging to associations or foundations
5. Business partnerships

The corporate tax base is net corporate income calculated considering the rulings about the commercial earnings stipulated in the Income Tax Law 193 (T. C. Resmi Gazete, 2006: 6). Corporate earnings of foreign affiliates of full taxpayer natural persons and corporations which they control directly or indirectly, individually or jointly, by holding at least 50% of the capital, dividend or voting rights are also included in the calculation of total net corporate income when the relevant conditions are met (Ibid: 7).

The deductible expense items for the commercial earnings, summarized in Table 4.7, are also valid for the corporate income, but Law 5520 lists the following additional expense items that can be deducted from the gross corporate earnings (Ibid: 8):

1. Securities issuance expenses
2. Establishment and organization expenses
3. Expenses incurred for general assembly meetings and merger, transfer, division, dissolution, and liquidation expenses
4. The profit share of the limited partner in commandite partnerships with divided share capital
5. Dividends paid by participation banks for participation accounts
6. Technical provisions for insurance contracts in force at the balance sheet date in insurance and reinsurance companies

Article 9 of Law 5520 allows discounting losses included in the declarations of previous years and losses arising from foreign operations (except for those related to earnings exempted from corporate tax in Türkiye), provided that they are not carried forward for more than five years, from the gross corporate income while calculating the tax base (Ibid: 9).

The other deductible spending items defined in Article 10 of Law 5520 resemble those listed in Article 89 of the Income Tax Law 193 to a large extent, except for grants to food banks for the needy and education and health expenditures made for the taxpayers themselves, their spouses, and minor children. In addition to deductible spending items, which are common with those in Law 193, Corporate Tax Law 5520 includes a specific portion of cash capital increases and 50% of the income derived by the institutions operating in the Istanbul Financial Center Zone from the sale of goods purchased from abroad without being brought to Türkiye or from the intermediation of the trade abroad to the deductible spending items, provided that they are transferred to Türkiye within a certain period (Ibid: 10).

The corporate tax exemptions specified in Article 4 of Law 5520 generally cover enterprises operated by public administrations and organizations in education, health, broadcasting, arts, sports, culture, research and development, and social assistance. In addition, enterprises operated by special provincial administrations, municipalities, villages, and village associations, such as water distribution, passenger transportation, and agricultural enterprises, are also exempt from the corporate tax. Some cooperatives, organizations providing loan guarantees and sureties, and organizations exclusively engaged in scientific research and development activities may also benefit from the exemption, provided they meet the specified conditions.

When the exceptional corporate incomes explained in Article 5 of Law 5520 are considered, the first set of exceptions focusing on the gains derived from participation in the capital of corporations seems to be granted to prevent double taxation (Kurbetçi, 2010: 31). Income generated from participating in the capital of joint stock and limited liability companies whose legal and business headquarters are not located in Türkiye is excepted from corporate tax, provided that certain conditions are met (T. C. Resmi Gazete, 2006: 5). Earnings arising from portfolio management of securities investment funds, and gold and precious metals investment funds (the latter's portfolios shall be traded on stock exchanges established in Türkiye), and earnings of venture capital, real estate, pension, housing finance, and asset finance investment funds are not subjected to the corporate tax if they are incorporated in Türkiye and specified conditions are satisfied. However, such earnings are subject to withholding tax at 15%, excluding the earnings of pension investment funds (Ibid: 15). Except for those engaged in securities trading, 75% of the gains arising from the sale of equity shares and participation shares of investment funds within the scope of the exemption, which is kept for at least two full years, are among the earnings exempted from corporate tax (Ibid: 5). Earnings of corporations through their workplaces or permanent representatives abroad, provided that they have at least 15% tax burden in the relevant country and their earnings are transferred to Türkiye, and earnings of private educational institutions at pre-high school levels and rehabilitation centers affiliated to foundations granted tax exemption by the President or public benefits associations are also exempt from corporate tax. Lastly, 50% of income derived from the leasing, sale, and marketing of inventions resulting from research, development, innovation, and software activities carried out in Türkiye are not subject to corporate tax.

The corporate tax base determined, considering the deductible expense and other spending items, exemptions, and exceptions explained above, is subject to rates stipulated in Articles 32, 32/A, and 32C of Law 5520 and summarized in Table 4.9 below. Since the rates differ depending on the various factors, such as the sectors, initial public offering on the stock exchange, etc., the table includes these factors as categories in the first column.

Table 4.9: Corporate Tax Rates Depending on Categories

#	Category	Rates*
A	Ordinary corporate tax rate when the following cases do not apply	25%
B	Financial leasing, factoring, financing, and savings finance companies, electronic payment and money institutions, authorized foreign exchange institutions, asset management companies, capital market institutions, insurance and reinsurance companies, pension companies	30%
C	Companies (except the ones listed in B) whose shares are publicly offered at least 20% of their shares to be traded on the Borsa Istanbul for the first time*	23%
D	Earnings derived exclusively from exports by exporting corporations	20%
E	Earnings derived exclusively from the production activities of corporations holding the industrial registry certificate and actually engaged in production activities	24%
F	Earnings from investments granted incentive certificates by the Ministry of Industry and Technology	Tax Deductions*
G	Domestic minimum corporate tax to be imposed on the amount found by adding unallowable expenses to the commercial balance sheet profit at the end of the accounting period and deducting the exemptions and reductions specified in Article 32/C	10%
H	Global and local minimum complementary corporate tax to be imposed on earnings in the relevant accounting period of the affiliates of multinational business groups whose annual consolidated revenue of the ultimate parent entity exceeds the Turkish lira equivalent of 750 million euros	15%

Source: T. C. Resmi Gazete, 2006

* Please note that Law 5520 refers to the discount points applied to the ordinary corporate tax rate instead of the discounted rate itself. However, we prefer to note the rate after discounting the points specified in the Law. In this context, the Law enables companies to utilize the discounts in categories C, D, and E at the same time. It is also worth noting that the corporate tax rate in Category C is valid for five accounting periods, starting from the accounting period in which the shares are offered to the public for the first time. Regarding the tax deductions in category F, corporate tax is applied at a reduced rate until the amount of corporate tax waived reaches the contribution amount foreseen by the state for the investment determined according to the type and scope of the incentive.

Taxes on income, profits, and capital gains constitute 32.4% of total tax revenues of all budgets in 2023, as shown in Figure 4.7, which makes them the second most income-generating tax type after taxes on domestic goods and services. In addition, 24.56% of the total public revenues, excluding social security institutions, have been generated from income and corporate taxes in the same year. The separate shares of income and corporate taxes in the total public revenues between 2006 and 2023 are

presented in Figure 4.10 below. Income tax revenues have corresponded to 14.73% of the total public revenues on average until 2020, while corporate tax revenues have averagely generated only 6.86% in the relevant period. However, as of 2020, the contribution of corporate tax revenue to the budget increased more than income tax revenues, and their shares ended up at 13.05% and 11.52%, respectively. The fact that the COVID-19 pandemic, which started to be effective in Türkiye as of early 2020, caused an increase in unemployment rates and income losses for natural persons, while the excessive rise in corporate profitability in inflationary circumstances during this period can be considered as one of the reasons for the recent changes in the shares of income and corporate taxes. In addition, exempting incomes up to the minimum wage from the income tax in 2022 contributed to the decline in the income tax revenues. Lastly, the gradual increase in the corporate tax rates from 20% to 25% between 2017 and 2022, imposing higher corporate tax rates for banks, financial, and insurance companies starting from 2022, can be considered a factor positively affecting the revenues derived from corporate tax in recent years.

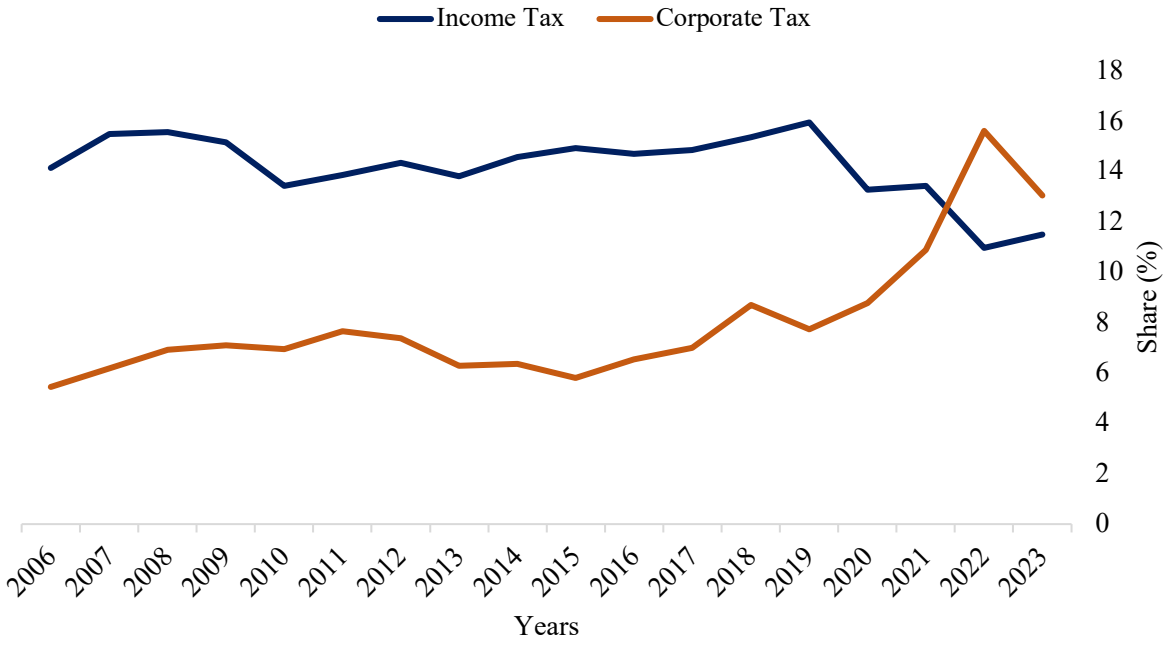

Figure 4.10: The Share of Income and Corporate Taxes in the Total Public Revenues, Excluding Social Security Institutions (2006 – 2023)

Source: HMB, 2023

4.2.4. Stamp Tax, Fees, and Other Taxes

The revenues classified under the titles of stamp tax, fees, and other taxes (not elsewhere classified), according to the Ministry of Treasury and Finance budget statistics, constitute the fourth most income-generating tax type[60] in Türkiye when they are considered together. Before elaborating on the details of these revenue sources, it is worth noting their differences. Stamp taxes and fees, like taxes, are among the coercive public revenues obtained by the state based on its sovereignty. However, they differ from taxes since they are paid in exchange for concrete public services, while taxation cannot be considered to be in exchange for goods and services whose benefits are measurable.

Stamp tax is a financial obligation levied on paper or electronic documents issued for various legal transactions to prove and establish a specific matter (Furtun & Aslan, 2019: 3; T.C. Resmi Gazete, 1964a: 1). The relevant current legislation in Türkiye defines it as a tax, although it is a duty in terms of its nature, which is received in remuneration for the privilege of proof provided to the parties to a legal transaction by putting it on paper (Furtun & Aslan, 2019: 3). As a matter of fact, duties are paid to public authorities in return for permission to do a certain kind of work or for a particular privilege, such as a license. The relevant legislation of the Turkish tax system does not formally consist of duties, but stamp duty, which has been applied since the Ottomans, was regulated as a duty in Law numbered 1324 in 1928 before it was deemed as a tax by the Stamp Tax Law in 1964 (Ibid: 4).

Stamp Tax Law numbered 488 stipulates the rulings about the taxpayers, paper or electronic documents subjected to tax, tax rates or the amount specified for each document, and other relevant issues. Article 3 of the Law asserts that the taxpayers of the stamp tax are the signatories of the papers. As indicated by Article 1, the list of documents subject to the stamp tax is presented in the first table attached to the law. According to the table, the documents are classified into four main groups: contracts;

[60] Although stamp duties/taxes and fees differ from taxes in various aspects explained below, we deem them among the tax types considering the current legislative framework in Türkiye. As noted by Edizdoğan et al. (2021: 116), fees are getting less and less important, even taking the form of taxes in theory and practice.

resolutions and memoranda; papers used in commercial transactions; receipts and other papers. While the documents that do not consist of money are imposed with a specific tax amount per copy, an ad valorem tax (a proportional tax imposed on the value on the document) is designated for the others. The specific tax amounts vary between 3.40 ₺ (loading note) and 2,628.59 ₺ (quota contracts between tourism enterprises and travel agencies). On the other hand, stamp tax rates differ between 0.189% (termination agreements) and 0.948% (contracts for the wholesale sale of natural gas) (T.C. Resmi Gazete, 1964a). It is worth noting that these amounts and rates are based on the schedule valid as of 1/1/2024.

Fees, like duties and taxes, are financial obligations the state collects by force based on sovereignty. However, they are only imposed on those who benefit from semi-divisible public services. From this perspective, they may be regarded as not mandatory for everyone, but people cannot stay away from some of the public services, such as education and passport issuance, requiring them to pay fees (Edizdoğan et al., 2021: 115). The amounts specified as fees in exchange for certain public services do not always correspond to the service costs and vary depending on political, social, and financial factors (Ibid: 115). The fees set may be higher or lower than the cost of services. Thus, some argue that the part of the fee exceeding the cost should be considered a tax rather than a fee (Mutluer et al., 2016: 185). Another dimension of concept confusion specific to the Turkish legislative context in this regard is that remuneration paid in return for the permission granted for the work or activity to be carried out, such as departure fee abroad, which theoretically stands for duties, is also regulated within the Fees Law numbered 492 (Furtun & Aslan, 2019: 48).

The Fees Law, enacted in 1964, categorizes fees into nine different groups, such as judicial, notary, and traffic fees. A section is dedicated to each fee group to define the subject matter of the fee, those obliged to pay the fee, exceptions and exemptions, the fee rates and amounts, payment procedures, and other details. In general, fees must be paid by those who demand the relevant public service, as noted in Article 11 in the context of judicial fees (T.C. Resmi Gazete, 1964b: 11). Schedules of the different groups of fees are presented in separate tables at the end of the Law. To give an idea, the highest specific fee corresponds to 5,058,318.4 ₺ and is paid yearly for permission certificates for central branches opened in Türkiye by banks established in Türkiye and foreign banks. On the other hand, the lowest specific fee is 14.7 ₺ and is paid for each

page of a copy of a decision on tax jurisdiction to be provided upon request of the parties. Regarding the ad valorem fee rates, the highest rate is 159%, which is imposed on the value to be appraised from the registration of the places acquired by filling with or without permission on the shores of the sea, lakes, and rivers. The lowest fee rate defined in the law is the 0.22% fee charged on the value written on the contractor certificates. It is worth noting that these specific fees and rates are according to the schedules valid as of 1/1/2024.

The other taxes (not elsewhere classified) consist of removed tax residuals, taxes within the scope of Law 5811 on the transfer of certain assets to the national economy, taxes levied on income and corporate taxpayers as a result of the revaluation of immovables, and other taxes which are not explicitly listed as subcategories (SBB, 2021: 417–418). The taxes specified in Law 5811 are levied due to bringing money, foreign currency, gold, securities, and other capital market instruments and immovables into the country or registering them upon declaration (T.C. Resmi Gazete, 2008: 1). The tax arising from the revaluation of real estate considering the appreciation in their value is regulated by the 31st provisional article of the Tax Procedure Law numbered 213 (T.C. Resmi Gazete, 1961).

Figure 4.11 shows the share of revenues generated from stamp taxes, fees, and other taxes (not elsewhere classified) in the total public revenues, excluding that of social security institutions, between 2006 and 2023. The share of other taxes (not elsewhere classified) seems trivial, with an average of 0.07% in the given period. The contributions of fees and stamp taxes to the total budget average account for 2.91% and 1.78%, respectively. The revenues derived from fees and stamp taxes have a similar trend, with a positive correlation of 85% between them. Their shares in the total public revenues (except that of social security institutions) have been decreasing since 2015. These trends support the argument of Edizdoğan et al. (2021: 116) about the diminishing importance of fees for public finance noted above.

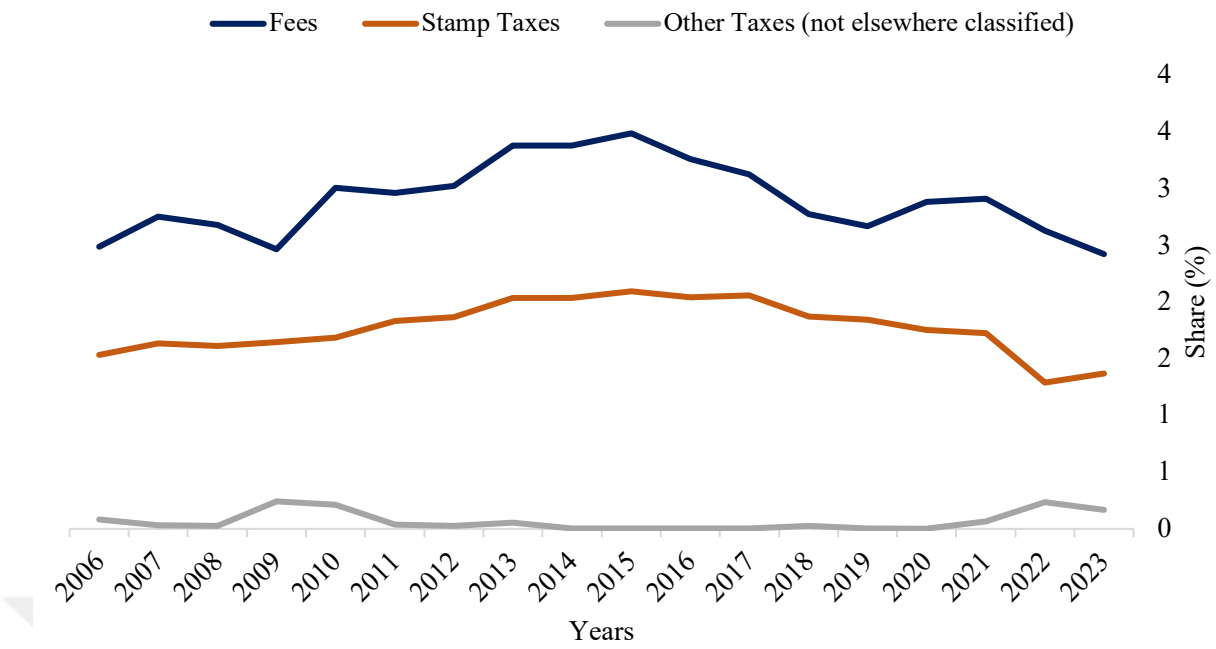

Figure 4.11: The Share of Revenues Generated from Stamp Taxes, Fees, and Other Taxes (Not Elsewhere Classified) in the Total Public Revenues, Excluding Social Security Institutions (2006 – 2023)

Source: HMB, 2023

4.2.5. Taxes on Property

Taxes on property are the last component of the tax structure in Türkiye and generate the lowest[61] tax revenues, as shown in Figure 4.7. In theory, taxes on property are classified into three main categories in terms of tax subject. While the first category taxes the property itself, the transferred wealth is subject to tax in the second category. On the other hand, the tax subject in the third category is the increase in property value (Mutluer et al., 2016: 269–270). According to the current legislation in Tükiye, the following wealth taxes in force can be included in either the first or the second category. The revenues from motor vehicle taxes, inheritance and gift taxes, and

[61] In fact, taxes on property generate public revenues higher than stamp taxes. However, the economic classification of budget items reports stamp taxes together with fees and other taxes (not elsewhere classified). Thus, the total revenue they generated exceeds that of taxes on property.

valuable housing tax are recorded in the general budget, while the other types of property taxes are collected by the local administrations.

1. Motor Vehicle Taxes
    1.1. Additional Motor Vehicle Tax
2. Building Tax
    2.1. Valuable Housing Tax
3. Land Tax
    3.1. Ground Tax
4. Inheritance and Gift Taxes
5. Environmental Cleaning Tax

Motor vehicle taxes (MVT) constitute the most income-generating one among the property taxes in Türkiye when the period between 2006 and 2023 is considered. Among the motor vehicles that started to be taxed in Tükiye as of 1957, private vehicles were initially subject to the Private Car Tax (*Hususi Otomobil Vergisi*), while commercial vehicles were subject to the traffic fees (Mutluer et al., 2016: 80; Sugözü, Yıldırım, & Aydın, 2014: 117). In 1963, these financial obligations were repealed, and the Motor Land Vehicles Tax Law, which subjects only land vehicles, private or commercial, to the tax, was enacted. The scope of the tax subject was extended by imposing a tax on engine-driven sea and air vehicles by 1980 (Sugözü et al., 2014: 117). However, the Law numbered 5897 and dated 2009 excluded sea vehicles from the MVT and initiated the obligation to be recorded in the mooring register and pay yearly fees for sea vehicles specified (T.C. Resmi Gazete, 2009: 1).

According to the first article of the Motor Vehicle Tax Law numbered 197, registered and certified motor vehicles, airplanes, and helicopters are subjected to the MVT (T.C. Resmi Gazete, 1963: 1). Article 3 of the Law defines taxpayers as natural and legal persons in whose names motor vehicles are registered and certified (Ibid: 2). Vehicles registered and certified in the name of general and special budget administrations, social security institutions, special provincial administrations, municipalities, village legal entities and local administration unions of which they are members and the Turkish Red Crescent; (provided that they are reciprocal) embassies and consulates of foreign states in Türkiye and their officials of the relevant state nationality and international organizations headquartered in Türkiye and their officials of foreign nationality; disabled persons with a disability rate of 90% or more and other disabled

persons for their specially equipped vehicles; and banks transferred to the Savings Deposit Insurance Fund are exempted from the MVT based on Article 4 of the Law (Ibid: 4).

Law 197 stipulates a specific and progressive tax, considering the type of vehicle, engine displacement or engine power, the value and age of the vehicle, number of seats, maximum total weight, and maximum take-off weight (Ibid: 5-6). Tax specified according to the type of vehicle raises as the indicators mentioned above increase, except for the age of the vehicle. Regarding vehicles with electric motors only, taxes on the schedules are applied with a 25% discount. As a final note, the Turkish state imposed an additional MVT equal to the amount of MVT accrued for 2023 to compensate for the economic losses incurred in Türkiye in February 2023 (T.C. Resmi Gazete, 2023: 1).

The second and third most income-generating property taxes in Türkiye are the building tax (with the valuable housing tax) and land tax (with the ground tax), respectively. Before elaborating on the structure of these taxes, it is worth summarizing the history of taxes on buildings and lands in the Ottoman period. The first step toward taxing lands and buildings in the Ottomans was taken through the ancemaatin tax introduced in the 1840s (Alkan, 2010: 36). The ancemaatin tax replaced al-takalif al-'urfi (customary taxes), in which the total tax was equally distributed to men or households (Yaraşlı, 2003: 19). The amount of the ancemaatin tax to be collected was allocated to townships based on the census results examining the inhabitants' wealth and income sources. Subsequently, the inhabitants undertook part of the township's total tax burden in proportion to their ability to pay, determined by their real estate, land and livestock holdings, and commercial incomes (Eroğlu, 2010: 63). Thus, real estate and land holdings were indirectly subjected to a tax to some extent during the 20 years that the tax was in place. The Imperial Legal Code for Lands (Arazi Kanunname-i Hümayun), enacted in 1858, imposed a proportional tax directly on real estates and lands under the name of property tax (emlak vergisi) starting from 1865 (Alkan, 2010: 36). Thus, taxation by apportionment was eliminated, and taxation through individual assessment was adopted (Eroğlu, 2010: 64).

A single tax law regulated real estate and land taxes between 1865 and 1910. As of 1910, it was decided to reform the property tax (emlak vergisi), and in this context, taxes on real estate were regulated by a separate law called Law on the Real Estate Tax

(Müsakkafat Vergisi Kanunu) (Yaraşlı, 2003: 25). The new law abandoned taxing real estate based on its values and determined the tax base as gross revenues of the real estate (Eroğlu, 2010: 64). Lands continued to be taxed based on property tax (emlak vergisi) until 1931.

The real estate tax (müsakkafat vergisi kanunu) was substituted by the building tax (bina vergisi) in 1931. The change aimed to make the law more systematic and explicit. The subject of the tax consisted of all buildings. The tax base was the revenues of the buildings, as in the law dated 1910. However, the new law considered the maintenance expenses and the amortization, thus making the tax base net income of the buildings (Özyüksel, 1985: 65). The two separate laws had been in force until they were unified and regulated by the Real Estate Tax Law enacted in 1970 (Mutluer et al., 2016: 81).

The first chapter of the Real Estate Tax Law, numbered 1319, stipulates the rulings specific to the building tax. The building, as the tax subject, covers all fixed construction, whether on land or water, regardless of the material from which it is made (T.C. Resmi Gazete, 1970: 1). However, the permanent and temporary exemptions defined in Articles 4 and 5 limit the scope of the tax subject. While some exemptions aim to subsidize sectors such as agriculture, fishery, and tourism, a significant portion of them exempt buildings constructed for public benefits, such as health facilities, student dormitories, orphanages, libraries, mosques, docks, piers, stations, and dams (Ibid: 4-5). It is worth noting that the exemptions are not limited to these.

According to Article 3 of Law 1319, the owner of the building, the usufructuary, if any, and if neither of them is present, those who dispose of the building as if they were the owner shall pay the building tax (Ibid: 3). The tax base of the buildings subjected to the tax are calculated based on the normal construction costs per square meter of building determined and announced by the Ministry of Treasury and Finance and the Ministry of Environment, Urbanization and Climate Change and ground unit values determined by the valuation commissions (Ibid: 29). The tax rates that differ depending on building type and location, are presented in Table 4.10, below.

Table 4.10: Building Tax Rates Depending on Building Types and Location

Building Type	Location	
	Metropolitan Municipalities	Other Municipalities
Residence	0.2%	0.1%
Others	0.4%	0.2%

Source: T.C. Resmi Gazete, 1970

The residential buildings whose tax base exceeds 12.88 million ₺ (applicable starting from 2024) are also subject to the valuable housing tax (VHT) in addition to the building tax since 2021 (Ibid: 42). The tax base of the VHT is the portion of the taxable value of the building exceeding 12.88 million TL. The rates of the VHT are shown in Table 4.11.

Table 4.11: Rates of the Valuable Housing Tax in 2024 (VHT)

The Value of Residential Buildings	VHT Rates
For the portion exceeding 12.88 million ₺ up to 19.32 million ₺	0.3%
19,323 ₺ for 19.32 million ₺, but excess up to 25.7 million ₺	0.6%
57,975 ₺ for 25.7 million ₺, but excess	1%

Source: T.C. Resmi Gazete, 1970

The second chapter of the Real Estate Tax Law regulates the taxes on the lands and grounds. According to Article 12, lands and grounds within the borders of Türkiye are subject to land tax. Land within the municipal boundaries, parceled by the municipality, is considered ground (Ibid: 12). Although the tax subject covers all lands and grounds, the permanent and temporary exemptions and exceptions limit its scope. For instance, lands and grounds owned by the state, special budget institutions, local administrations, associations in the public interest, the Turkish Armed Force, and the Housing Development Administration are permanently exempted from land tax (Ibid: 14). In addition, lands and grounds located outside the boundaries of municipalities and adjacent areas are also exempt from tax, provided that they are not used for commercial, industrial and touristic activities. In the context of temporary exemptions, land afforested to become a forest through human labor is exempt from tax for 50 years; revived and rehabilitated land that cannot be used for agriculture previously is exempt from tax for ten years; technically, economically and ecologically suitable land

in which is orchards, grapery or gardens are built is exempt from tax for a minimum of 2 years and a maximum of 15 years (Ibid: 15). Lastly, up to ten thousand ₺ of the total taxable value the lands (excluding grounds) owned by the taxpayer (including the lands belonging to their spouse and children in their custody) within the borders of municipalities and adjacent areas are excepted from the land tax (Ibid: 16).[62]

Taxpayers are the owner of the land/ground, the usufructuary, if any, and if neither of them is present, those who dispose of the land/ground as if they were the owner, as in the case of building tax (Ibid: 13). The tax base of lands and grounds are calculated based on unit values determined by the valuation commissions (Ibid: 29). The tax rates that differ depending on land type and location, are presented in Table 4.12, below.

Table 4.12: Land/Ground Tax Rates Depending on Type and Location

	Location	
Land Type	Metropolitan Municipalities	Other Municipalities
Land	0.2%	0.1%
Groud	0.6%	0.2%

Source: T.C. Resmi Gazete, 1970

Inheritance and gift taxes (IGT) constitute the fourth most income-generating property taxes in Türkiye. The Turkish Republic introduced the IGT in 1926 (Şafak & Yurtsever, 2015: 35). The tax can be considered new since it was not present during the Ottomans in the form of a tax (Kılıçaslan, 2011: 338). However, the Ottomans charged fees for the transfer of real estate properties from the earliest time. If the transfer was realized through a purchase agreement, the fee charged was called the transition fee (intikal harcı), while it was named the grant fee (ferağ harcı) in the case of transfers due to inheritance. These charges cannot be categorized as taxes because they were taken in exchange for services provided by public institutions (Kükrer, 1987: 105). On the other hand, the Turkish Republic imposed a separate tax on wealth

[62] The latest update regarding the fixed tax exception amount in the total taxable value of the lands seems to have been made in 2009 (see footnote numbered 28 in the Real Estate Tax Law). Since the Law does not assert a ruling about the revaluation of the exception amount, it remains at the same level while the taxable value of land increases (Ak, 2022).

transfers through either inheritance or grants and continued to charge fees for the sales of real estate properties (Eroğlu, 2010: 77).

The IGT differs from the other property taxes explained above in terms of being a tax on the transferred wealth rather than the property itself, as noted earlier. In other words, the subject of the IGT is the transfer of property belonging to persons who are Turkish citizens and property located in Türkiye from one person to another by inheritance or gratuitously (T.C. Resmi Gazete, 1959: 1). The person in this context stands for both natural and legal personalities. The properties cover movable and immovable assets and all rights and receivables, which can be subject to ownership (Ibid: 2). The taxpayer is the person who acquires property through inheritance or in a gratuitous manner (Ibid: 5). However, the public administrations, pension and relief funds, social insurance institutions, associations in the public interest, and political parties are exempted from the IGT (Ibid: 3). In addition, organizations in the fields of science, research, culture, arts, health, education, religion, charity, development, sports, etc., which are established by legal entities other than the ones above for public benefit are listed as the exempted taxpayers. Some of the assets excepted from the IGT by Article 4 of the Law are listed below:[63]

1. Household goods, personal belongings of the deceased, and items such as paintings, swords, and medals kept as family souvenirs, which are acquired through inheritance
2. 1.6 million TL of the inheritance shares corresponding to each of the child and spouse (3.2 million TL of the inheritance share corresponding to the spouse in the absence of a child)[64]
3. 37 thousand TL of the amounts obtained gratuitously or through lotteries, contests, and games of chance

[63] The specific values excepted from the IGT refer to those determined for 2024.

[64] In the case of inheritance from military officers, non-commissioned officers, privates (including gendarmerie), and police officers who lost their lives in the line of duty, the excepted amount of the inheritance is doubled, and the exception applies to inheritance shares of fathers and mothers as heirs.

4. Gifts, favors, and dowries (excluding real estate), which are habitual to be given according to custom and tradition, and all kinds of alms
5. Vested portions of state contributions made to individual pension accounts
6. Properties allocated to foundations granted tax exemption by the President of the Republic for their establishment or after their establishment

The value of the assets subject to the IGT is calculated according to the Tax Procedure Law numbered 213 (Ibid: 10). However, the IGT law allows taxpayers to deduct some costs and debts from the calculated value while computing the tax base. Documentable debts and tax debts of the deceased, debts and tax debts on the property transferred, and funeral and burial expenses of the deceased are considered among the items deductible (Ibid: 12). IGT rates change according to the tax base and form of the transfer, as summarized in Table 4.13, below.

Table 4.13: Inheritance and Gift Tax Schedule as of 2024

	Form of the Transfer	
Tax Base	Inheritance	Gratuitous Transfer
Up to 1.7 million ₺	1%	10%
For the 4 million ₺ above 1.7 million ₺	3%	15%
For the 8.7 million ₺ above 5.7 million ₺	5%	20%
For the 17 million ₺ above 14.7 million ₺	7%	25%
For the part above 31.4 million ₺	10%	30%

Source: T.C. Resmi Gazete, 1959

* Please note that in the case of a gratuitous transfer to an individual from their parents, spouse, and children (except for gratuitous transfers from adoptees to adopters), the IGT is calculated by applying half of the rates in the tariff for gratuitous transfers in the table. The 20% IGT is imposed on the prize acquired from lotteries, contests, and games of chance.

Revenues generated from the environmental cleaning tax (ECT) are also classified under the property tax revenues in the local administration budgets. However, ECT for residences and workplaces is listed among the domestic taxes on goods and services of the local administration budgets, as shown in Table 4.2 above. It is more appropriate to classify it as a domestic tax on goods and services rather than a property tax because of the facts that it is a specific tax calculated per cubic meter of water consumed in residences and workplaces, which needs to be paid by those using the buildings, not the owner of the property, as explained in Table 4.5. As a matter of fact, we observe that the revenues derived from the ECT under the property taxes have been mainly transferred to the account of the ECT for residences and workplaces under the category of domestic taxes on goods and services in the budget statistics starting from 2021 (HMB, 2023). Based on the above considerations, we opt not to include the ECT revenues in the figure showing the share of the property taxes in the total public revenues below.

Property taxes account for 2.39%[65] of the public budgets, excluding the social security institutions, on average between 2006 and 2023. The contribution of each type of property tax to the total public revenues is presented in Figure 4.12. It is worth noting that there is a declining trend in the share of property taxes since 2015, when the total property tax revenues are considered. However, it can be said that the additional MVT initiated to compensate for the economic losses incurred in Türkiye in February 2023 partially and temporarily stopped the declining trend.

[65] The total share of property taxes in the public budgets is calculated without including the revenues generated by the ECT, corresponding to 0.07% of the total public revenues on average between 2006 and 2023 (HMB, 2023).

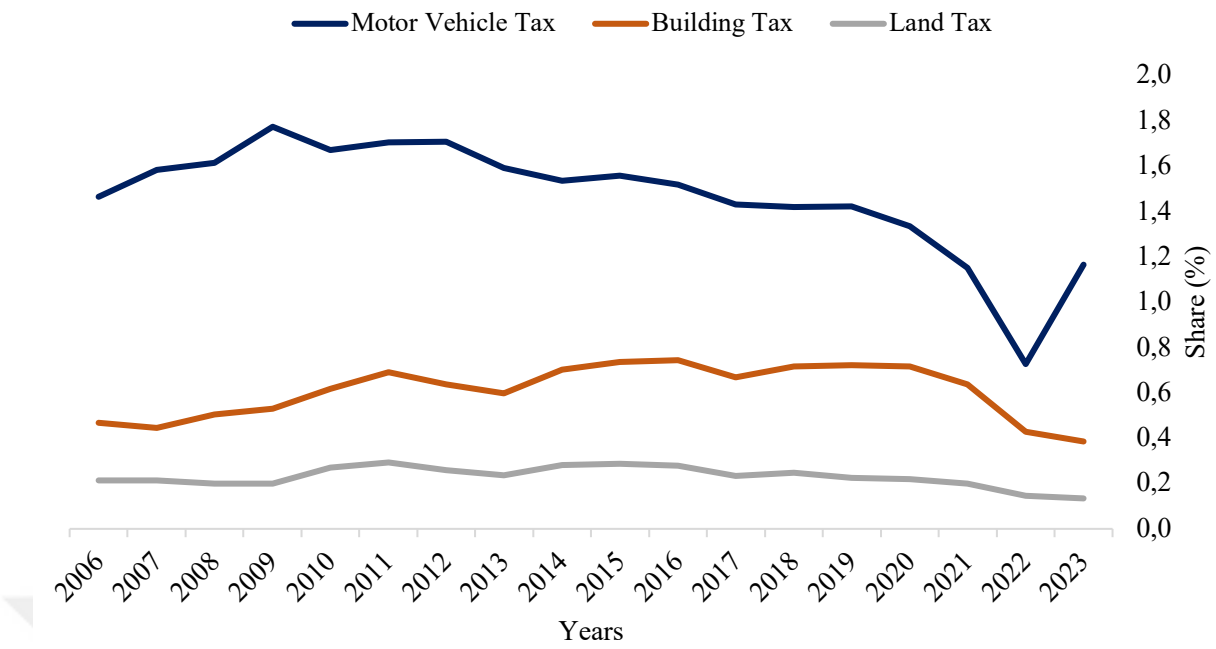

Figure 4.12: The Contribution of Property Taxes to the Total Public Revenues, Excluding Social Security Institutions, by Types (2006 – 2023)

Source: HMB, 2023

* Please note that the motor vehicle tax in the figure includes the additional motor vehicle tax imposed in 2023, while valuable housing tax revenues are added to the building tax revenues, considering their similar structure. In addition, land and ground taxes are presented as a single category under the title of land tax in the figure.

4.2.6. Property and Enterprise Income and Capital Revenues

The second group of public revenue items after taxes is categorized as the Property and Enterprise Income based on the economic classification of public revenues, as shown in Table 4.1. It is crucial to note that the properties and enterprises (except those that remain idle) owned by the state are either allocated to public services within the framework of public law or managed based on the provisions of private law to understand the scope of the property and enterprise income. Revenues from property and economic enterprises in the second group constitute the revenue item of the Property and Enterprise Income in the budget statistics (Edizdoğan et al., 2021: 119–120). In fact, unlike taxes, fees, or duties, the Property and Enterprise Income are considered discretionary public revenues that are not based on the state's sovereignty (Mutluer et al., 2016: 188–189). In other words, the state, using its legal personality,

obtains revenues through legal transactions that it conducts on an equal footing with private persons and upon mutual agreement.

The components of property and enterprise revenues, according to the budget statistics of the Ministry of Treasury and Finance, are as follows:

1. Sales of Goods and Services
2. Permission Revenues of Property Utilization and Activities
3. Revenues from PEEs and Public Banks
4. Corporation Revenues
5. Corporation Profits
6. Rents
7. Other Property Income

In this subsection, we opt to discuss the public revenue items of Capital Revenues and Shares from Persons and Agencies, although they are not considered part of the Property and Enterprise Income in the budget statistics based on the economic classification of revenue items. The reason for including the Capital Revenues in this subsection is that these revenues, which are generated through the sale of immovables, movables, and other capital assets, such as securities, reflect the definition of the Property and Enterprise Income noted above. In fact, classifying public revenues from renting movables and immovables within the Property and Enterprise Income category and assigning the missions of selling and renting public properties to the Directorate General of National Property (DGNP) also rationalizes the approach we adopted. On the other hand, some of the subcategories of the Shares from Persons and Agencies in the budget statistics, as in the case of state rights on minerals, shares from Eti Mining Operations General Directorate (ETİ MADEN), boron mine shares, and shares from Borsa Istanbul, are mainly stemming from properties and enterprises, which are wholly or partially owned by the state or under its rule and disposal. Thus, this section covers capital revenues and revenues acquired through shares related to public properties and enterprises, in addition to the seven components of property and enterprise revenues listed above. These revenue sources are detailed below by grouping them according to their nature.

The first group of revenue sources consists of income derived from immovables, movables, and other capital assets owned by the Treasury and public administrations

or under the state's rule and disposal. While the DGNP is assigned to manage the properties owned by the Treasury or under the state's rule and disposal, central government and local administrations can also generate revenues by directly renting and selling their properties or through their shares in the rents and sales by the DGNP, which are specified in Law numbered 4706 (T.C. Resmi Gazete, 2001). According to Article 101 of Presidential Decree No. 1, the DGNP is responsible for the sale, lease, swap, and establishment of limited rights in the immovable properties under the private ownership of the Treasury, the leasing of the places under the state's rule and disposal and granting occupancy permits for these places when deemed necessary, and responsible for allocating to public administrations those of these properties that are necessary for public service. The revenues in this group can be traced from the budget items of Rents[66], Capital Revenues[67], and Shares from Persons and Agencies[68]. The contribution of these three budget items to the total public revenues of the central government and local administration budgets is presented in Figure 4.13 for the period between 2006 and 2023.

As shown in Figure 4.13, the total share of income derived through movables, immovables, and other capital assets owned by the Treasury and public administrations or under the state's rule and disposal in the public budgets is minimal compared to tax revenues discussed before. While they contribute to the budget by 3.27% on average in the given period, only 2.36% of total public revenues were generated from this group of revenues in 2023.

[66] The category of Rents consists of revenues from renting movable and immovable assets as well as from prior authorization, easement, and utilization permits.

[67] Capital Revenues cover income generated from selling movable and immovable public properties as well as securities such as stocks and bonds.

[68] According to the standard economic classification of public budget items, the Shares from Persons and Agencies are classified under the category of the Interest, Shares, and Fines, not the Property and Enterprise Income. However, we prefer to mention some shares, such as state rights on minerals, state shares in petroleum, water usage fees paid by companies operating hydroelectric power plants, and shares from mining enterprises, which mainly stem from properties under the state's rule and disposal, along with other property revenues.

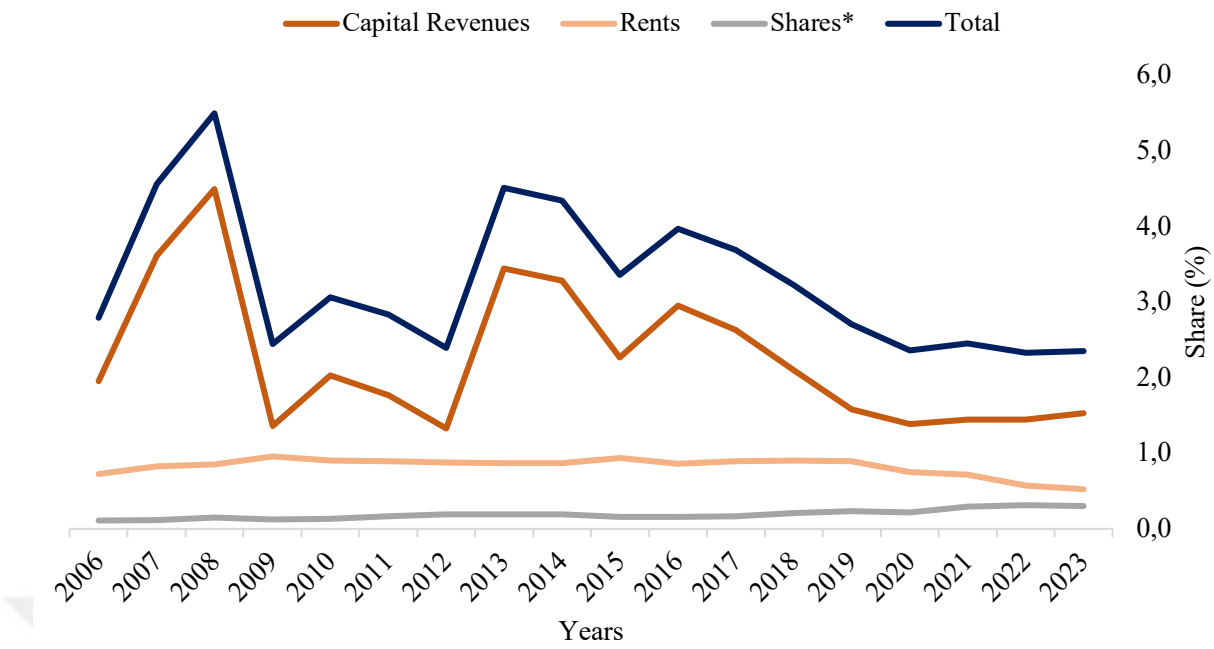

Figure 4.13: The Share of Capital Revenues, Rents, and Shares in the Total Public Revenues, Excluding Social Security Institutions (2006 – 2023)

Source: HMB, 2023

* Please note that shares in the figure do not represent the whole revenues generated from the Shares from Persons and Agencies in the public budgets. Instead, they only cover state rights on minerals, state shares in petroleum, water usage fees paid by companies operating hydroelectric power plants, and shares from mining enterprises, which mainly stem from properties under the state's rule and disposal.

The second group of revenue sources in the scope of property and enterprise revenues is returns generated by the Public Economic Enterprises (PEE) and Public Banks, in which the Ministry of Treasury and Finance holds more than 50% of their shares. The economic classification of budget statistics categorizes this public revenue item into two main subgroups: (1) Treasury Portfolio and Revenues from Participation and (2) Revenues from Economic State Institutions (ESI) and Public Economic Organizations (PEO) (SBB, 2021: 306).[69] The categorization reflects the legislation on public

[69] The concepts used for different kinds of public enterprises in Turkish are very similar in terms of wording. Since there are no commonly accepted English equivalents, we opt to translate them as follows, considering the categorizations among them.

1. Kamu İşletmeleri [Public Enterprises]

1.1. Kamu İktisadi Teşebbüsleri [Public Economic Enterprises, PEE]

enterprises. In general, public enterprises are defined as enterprises whose majority of the capital belongs to public institutions and organizations or as commercial public entities, which the Turkish Court of Accounts audits (Kamu Sermayeli Kuruluş ve İşletmeler Genel Müdürlüğü, 2023: 12). Although the enterprises in both groups are considered public enterprises, the legislative framework they are subject to constitutes the basis for the distinction. While the Decree Law on Public Economic Enterprises regulates the second group, consisting of ESIs and PEOs wholly owned by the state, the public enterprises in the first group are not subject to the Decree Law. According to Article 1 of the Decree Law, the PEOs provide monopoly goods and services, observing the public interest, and do not operate based on commercial principles (T.C. Resmi Gazete, 1984: 1). On the other hand, the ESIs operate for profit according to commercial principles.

More than 40 public enterprises, of which the Ministry of Treasury and Finance holds more than 50% of their shares, operate in various sectors, such as energy, mining, agriculture, manufacturing, transportation, communications, and banking, as of September 2023. According to the list of public enterprises published by the Ministry of Treasury and Finance, 19 public economic enterprises (15 ESIs and two PEOs) are subject to the Decree Law on Public Economic Enterprises. Although five of these enterprises were transferred to the Türkiye Wealth Fund (TWF), they remain subject to the relevant Decree Law. The same list shows four public enterprises in the scope and program of privatization, eight state-owned banks, and more than ten other public enterprises. These enterprises are not subject to the Decree Law regarding public economic enterprises. Among the second group of public enterprises, most of the shares of three state-owned banks and all or a significant portion of the shares of four other public enterprises were transferred to the TWF.

1.1.1. İktisadi Devlet Teşekkülleri [Economic State Institutions, ESI]

1.1.2. Kamu İktisadi Kuruluşları [Public Economic Organizations, PEO]

1.2. Kamu Bankaları ve Diğer Kamu İşletmeleri [Public Banks and Other Public Enterprises]

The contribution of the mentioned public enterprises to the public budgets can be traced from the revenue items of the Treasury Portfolio and Revenues from Participation and Revenues from Public Economic Enterprises (ESIs and PEOs) in the economic classification of public budget statistics. The revenues transferred from these enterprises to the public budgets are either in the form of dividend payments or revenue shares, if we exclude the taxes they pay, which are recorded in tax accounts of the budget (HMB, 2024). In this regard, revenue shares refer to the percentage that public enterprises and companies must pay to the general budget from their gross revenues, which can be a maximum of 15% (T.C. Resmi Gazete, 2003: 78). However, only two PEOs, the General Directorate of State Airports Authority and the Directorate General of Coastal Safety, are currently required to pay revenue shares at 14% and 10%, respectively (Kamu Sermayeli Kuruluş ve İşletmeler Genel Müdürlüğü, 2023: 21).

Figure 4.14 shows the contribution of the total dividend income and revenue shares of public budgets from public enterprises in which the Ministry of Treasury and Finance is a shareholder between 2006 and 2023 to the total public revenues. While the dividend payments of these public enterprises, including public economic enterprises (ESIs and PEOs), are recorded in the account of the Treasury Portfolio and Revenues from Participation, the revenue shares from the ESIs and PEOs are presented by the Revenues from Public Economic Enterprises. The total share of these revenue sources in the public budgets, excluding the social security institutions, is 2.33% on average, while the revenue shares are minimal and correspond to only 0.11% of the total public revenues. The peak for the dividend revenues in 2019 resulted from a sudden increase in the dividend payments by the Central Bank of the Republic of Türkiye in the corresponding year (HMB, 2024).

The issue of contributions of the public economic enterprises to the public budgets would be incomplete without considering transfers and payments from the budget to enterprises. The fiscal relationship between the enterprises and the central administration budget can be explained through five items in Table 4.14 below. The items on the left show the flows from the budget to enterprises, while the counterflows are listed on the right. The data covering the years between 2020 and 2022 shows that inflows to the PEEs from the central administration budget are generally much higher than counterflows, sometimes by a factor of ten, as in 2021 (Kamu Sermayeli Kuruluş ve İşletmeler Genel Müdürlüğü, 2023: 21).

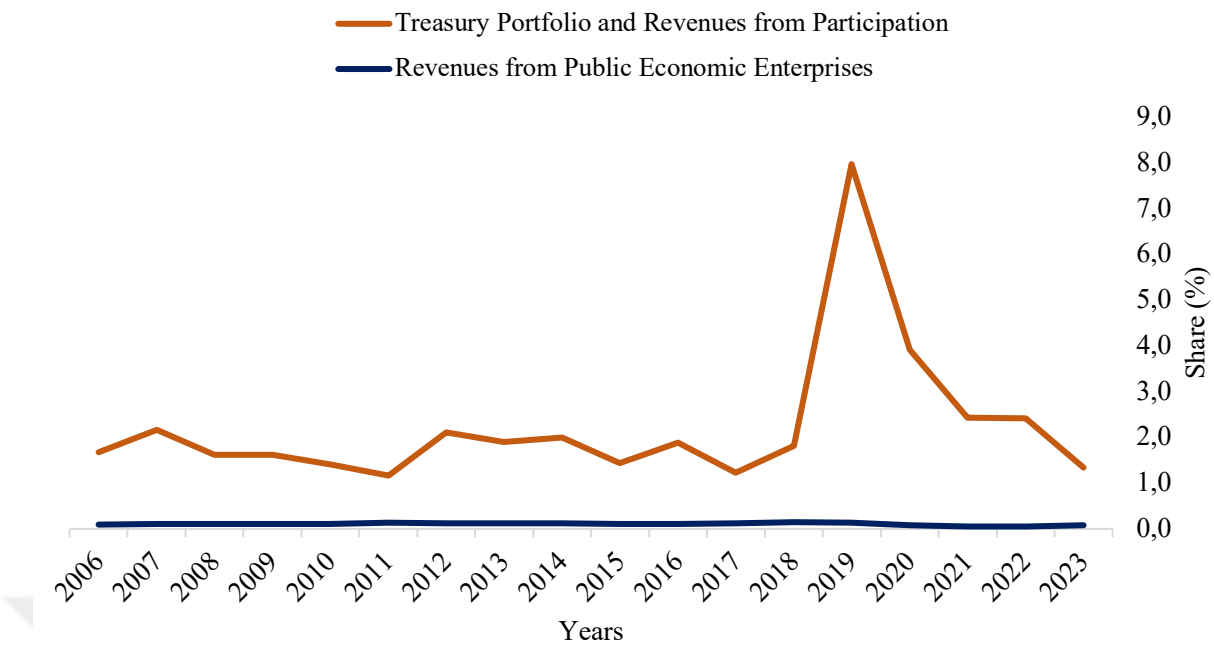

Figure 4.14: Contribution of Total Dividend Income and Revenue Shares of Public Budgets from Public Enterprises to the Total Public Revenues (2006 – 2023)

Source: HMB, 2023

At this point, it is essential to highlight that some revenues generated by public enterprises are transferred to the public budgets in the form of shares in addition to dividend payments and revenue shares. These are recorded among the revenue items classified as the Shares from Persons and Agencies in the budget statistics, a category separate from the Property and Enterprise Income discussed above. In this regard, the Shares for Participation in Management Expenses of PEEs, Shares in Net Revenues of the Ministry of Energy and Natural Resources and Related PEE, and Sales Shares of Imported Weapons and Cartridges Received from the Machinery and Chemical Industry Corporation (one of the PEEs) can be listed to exemplify such revenues (SBB, 2021: 312–313). Since these revenues are not recorded separately in the budget statistics, we could not provide the details about their magnitude.

Table 4.14: The Fiscal Relationship between Public Economic Enterprises and the Central Administration Budget

#	Inflows to Enterprises from the Budget	Inflows to the Budget from Enterprises
1	Capital Payments	Dividend Payments
2	Compensation for Service Assignments	Revenue Shares
3		Taxes
4		Financing Surplus
Years	**Total Value of Inflows** *(billion ₺)*	
2020	17.5	5.4
2021	63.0	6.4
2022	245.0	27.0

Source: Kamu Sermayeli Kuruluş ve İşletmeler Genel Müdürlüğü, 2023

The public enterprises are not limited to those in the portfolio of the Ministry of Treasury and Finance. According to the table attached to the Communiqué on Monitoring and Reporting the Activities of Public Enterprises, local administration companies constitute another set of public enterprises (T.C. Resmi Gazete, 2021b). The Public Sector Classification numbered 2024/2, prepared and periodically updated by TurkStat, shows that 1220 personnel companies belonging to municipalities and affiliated administrations and 1200 municipality economic enterprises actively operate nowadays (TurkStat, 2024a). In addition to them, special provincial administrations can also establish joint stock companies and in-budget enterprises to carry out their duties and services based on the relevant articles of the Law on Special Provincial Administration numbered 5302 (T.C. Resmi Gazete, 2005: 52-53). All these companies and enterprises are considered public enterprises according to international classifications (Kamu Sermayeli Kuruluş ve İşletmeler Genel Müdürlüğü, 2023: 158).

The revenues and profits generated from public enterprises affiliated with central and local administrations can be traced in the revenue items of Corporation Revenues and Corporation Profits in the budget statistics. The category of Corporation Profits is generally recorded with the subcategories of the Revolving Funds and Other Corporations Profits. In this regard, Revolving Funds stand for capital allocated to the enterprises established under the public administration in order to sustain the activities

related to the production of goods and services that arise in connection with the primary and permanent public duties, which cannot be carried out according to the principles of general administration, as defined in Article 3 of the Regulation on Budget and Accounting of Revolving Fund Enterprises (T.C. Resmi Gazete, 2007: 3). Figure 4.15 presents the annual total values of Corporation Revenues and Corporation Profits between 2006 and 2023. As shown in the figure, the total value of Corporation Revenues and Corporation Profits approximately corresponds to only 1% of the public budget, excluding the social security institutions, for the last five years.

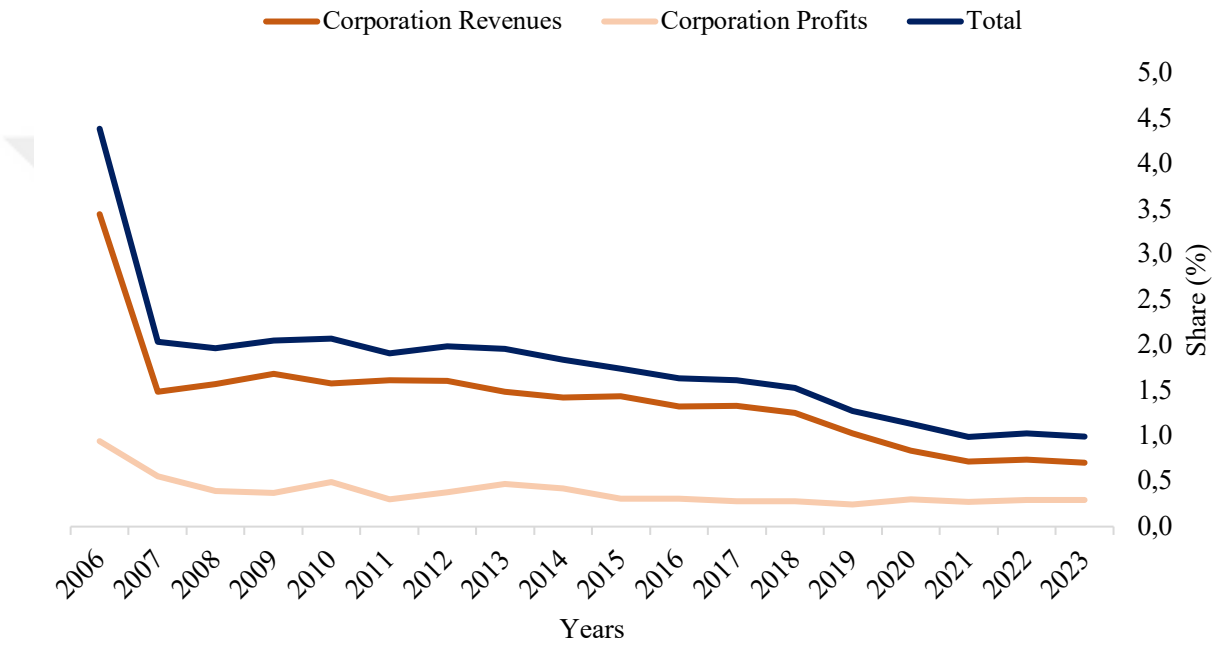

Figure 4.15: The Share of the Revenues and Profits Generated from Public Enterprises Affiliated with Central and Local Administrations in the Total Public Revenues, Excluding Social Security Institutions (2006 – 2023)
Source: HMB, 2023

The third group of revenue sources in the scope of property and enterprise revenues is constituted by the Sales of Goods and Services and Permission Revenues of Property Utilization and Activities. According to the subcategories of these two public revenue categories in the economic classification of the budget, the Sales of Goods and Services record the revenues generated from goods sold by the public administrations, such as publications, negotiable instruments, identity cards, driving licenses, passports, and services offered such as inspection, auditing, accreditation, parking lot,

exhibition, fair, and many other services in the sectors of education, health, agriculture, transportation, and so on (SBB, 2021: 302–305). On the other hand, the Permission Revenues of Property Utilization and Activities include revenues from licenses, certificates, etc., issued by the public administrations. From a theoretical perspective, they resemble duties, which are paid to public authorities in return for permission to do a certain kind of work or for a particular privilege, such as a license. Figure 4.16 shows the shares of the revenues derived from goods and services sold and permissions granted in the total public revenues, excluding social security institutions, between 2006 and 2023. Among these, service sales are the most income-generating revenue item, corresponding to an average of 2.44% of the total public revenues and 1.75% in 2023. The total contribution of goods sales and permission revenues to the budget is less than 1%.

As shown in Figure 4.6 above, the total property and enterprise income accounts for 5.76% of the total public revenues, excluding social security institutions, in 2023, while its average is 8.78% between 2006 and 2023. However, we may consider capital revenues and income received through some shares together with the Property and Enterprise Income category based on the fact that they mainly stem from properties and enterprises wholly or partially owned by the state or under its rule and disposal, although they are separately categorized according to the economic classification of budget items, as discussed above. In this case, the contribution of property and enterprise income, including capital revenues and some shares, reaches 7.59% of the public budget in 2023, while its average becomes 11.23%.

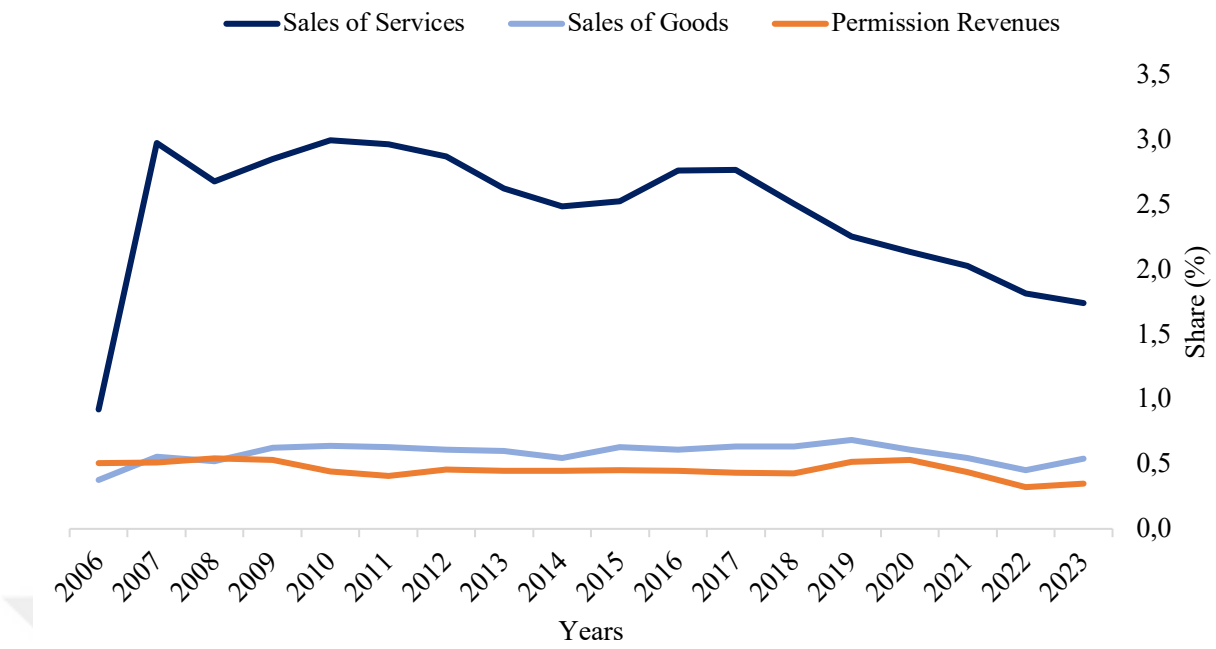

Figure 4.16: The Share of Revenues Derived from Permissions and Sales of Goods and Services in the Total Public Revenues, Excluding Social Security Institutions (2006 – 2023)

Source: HMB, 2023

The components of the category of Property and Enterprise Income, as well as Capital Revenues and Shares (related to public properties only), which are described separately in this subsection, and their relative shares in the total revenues generated from public properties and enterprises are presented in Figure 4.17 below. Revenues generated from goods and service sales, PEEs, and public banks, along with capital revenues, constitute 68% of total property and enterprise income on average in the given period. While corporation revenues and profits correspond to 16% of total property and enterprise income, the rest of the components (rents, permission revenues, shares, and others) account for approximately the remaining 16%.

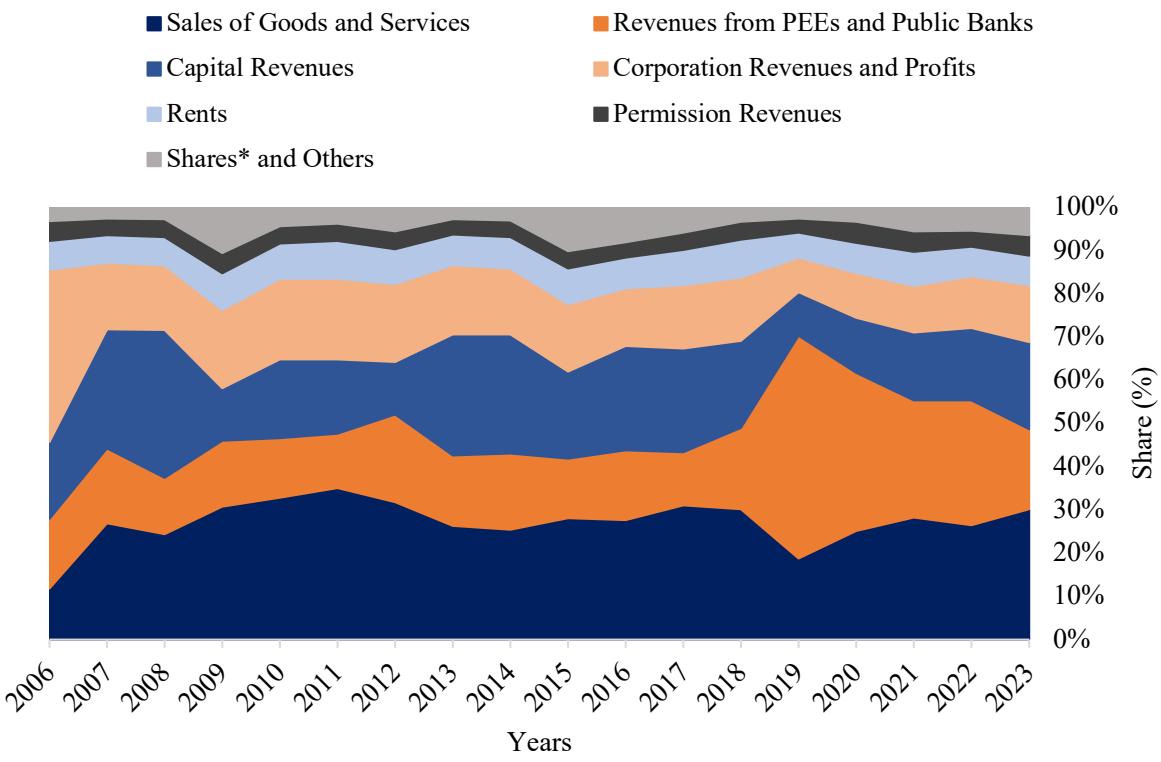

Figure 4.17: The Distribution of Property and Enterprise Income, Including Capital Revenues and Some Shares by Types (2006 – 2023)

Source: HMB, 2023

* Please note that shares in the figure do not represent the whole revenues generated from the Shares from Persons and Agencies in the public budgets. Instead, they only cover state rights on minerals, state shares in petroleum, water usage fees paid by companies operating hydroelectric power plants, and shares from mining enterprises, which mainly stem from properties under the state's rule and disposal.

4.2.7. Other Public Revenues

This subsection is dedicated to the remaining three categories of budget items based on the economic classification of public budgets.

1. Interest, Shares, and Fines
2. Collection from Loans
3. Grants, Aids, and Special Revenues

As the title of the first category implies, it consists of earnings derived from interest-bearing transactions, shares, and fines. The account of Interest records interest income from the lending of financial assets, interest on overdue payments, interest on receivables, and late payment interest on taxes, duties, and fees (SBB, 2021: 427). The

second subcategory, Shares from Persons and Agencies, covers shares assigned to central and local administrations' budgets in extracted natural resources, revenues of some PEEs, tax and fee revenues, joint betting revenues from horse races, sporting events, and other lotteries, and so on. This sub-category also includes shares collected from beneficiaries of public services to finance the costs of infrastructures such as sewage, drinking water, and roads (Ibid: 427-429). The third subcategory, Fines, consists of all judicial, tax, and administrative penalties issued based on various laws (Ibid: 429-432).

The total value of revenues generated in the scope of Interest, Shares, and Fines category has been lingering around 15% of total public revenues, except for social security institutions, as shown in Figure 4.6. The shares of each subcategory in the public budgets since 2006 are presented in Figure 4.18 below. As the figure indicates, the most income-generating subcategory is the Shares from Persons and Agencies, with a 10.22% average share of the total public revenues. At this point, it is essential to note that we have not excluded shares related to public properties and enterprises, which we discussed in the scope of Property and Enterprise Income in the previous subsection for simplicity. The shares of interest and fine revenues in the public budget are 2.00% and 1.62% on average, respectively.

The category of Collection from Loans records principal payments to the state as a result of loans granted by the state for public purposes based on a financial right or commitment (SBB, 2021: 435). Its share in public budgets is minimal and accounts for 0.37% of the total public revenues on average between 2006 and 2023. Figure 4.19 shows its contribution to public revenues throughout the given period. As clearly shown in the figure, its total share in public budgets has not exceeded 1% since 2006 and has continuously decreased as of 2016.

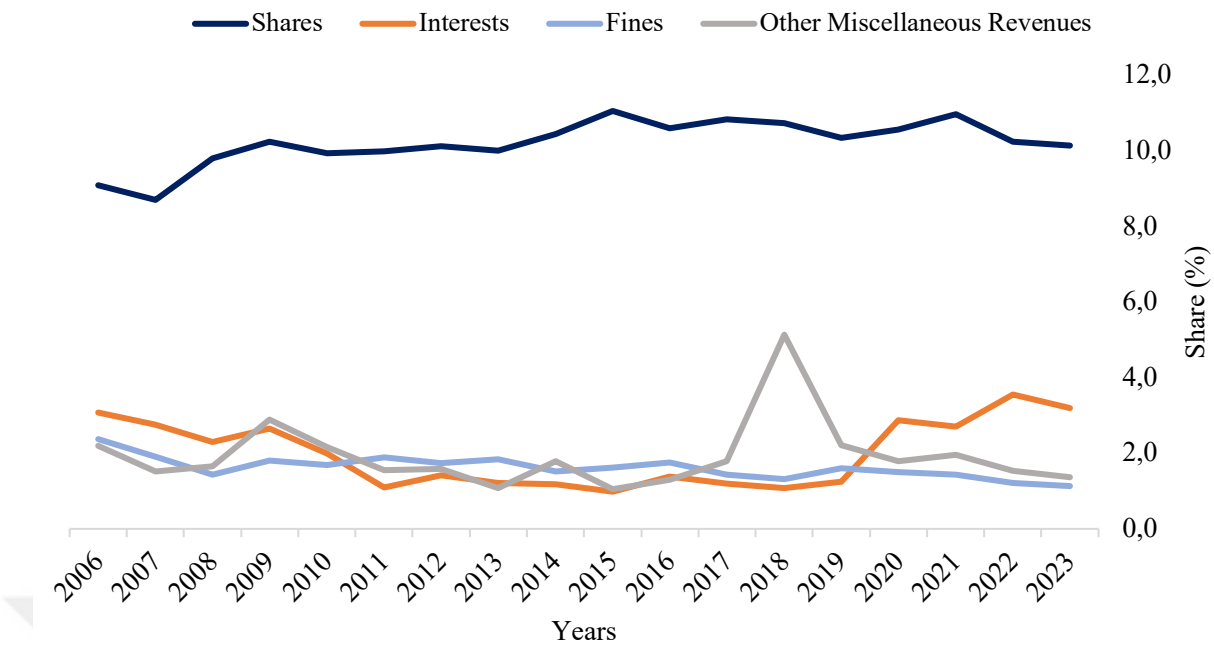

Figure 4.18: The Contributions of Interest, Shares, Fines, and Other Miscellaneous Revenues to the Total Public Revenues, Excluding Social Security Institutions (2006 – 2023)

Source: HMB, 2023

The category of Grants, Aids, and Special Revenues includes gratuitous, non-refundable, and non-obligatory collections, among which those in kind are not recorded as budget revenues. In addition, the revenues of the general budget administrations, obtained from the activities specified in the relevant legislation other than public duties and services and allocated to be used in the services specified in the same legislation, are recorded in the subcategory titled Special Revenues (SBB, 2021: 425). When all grants and aids that appeared in the central and local administration budgets are considered, their total value constitutes almost 10% of the total public revenues, excluding social security institutions (HMB, 2023).

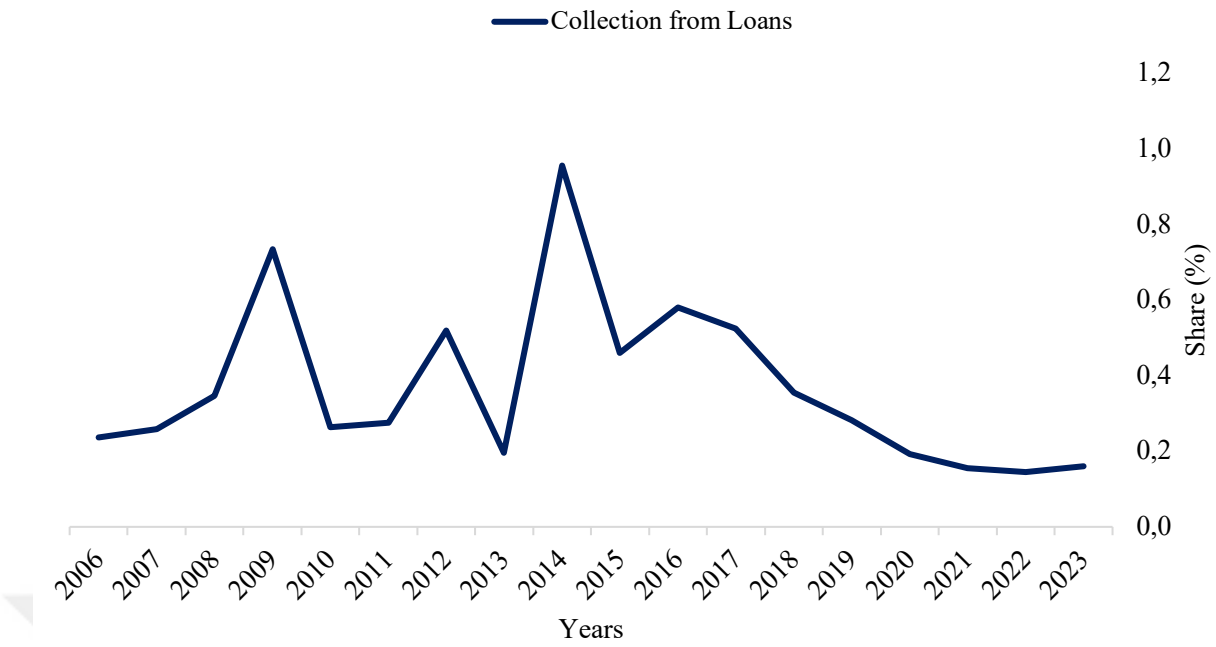

Figure 4.19: The Total Share of Collections from Loans in the Public Budgets, Excluding Social Security Institutions (2006 – 2023)

Source: HMB, 2023

However, this figure is misleading because most grants and aids to the special budget institutions, regulatory and supervisory institutions, and local administrations are transferred from the treasury. In other words, the multiple counting of the same revenue sources in different public budgets overestimates the magnitude of grants and aids. After deducting the inter-budgetary grants and aids transferred either directly or through projects, we can reach grants and aids from outside the public budgets, which account for only 0.61% of total public revenues on average between 2006 and 2023. Based on the considerations above, Figure 4.20 presents the historical evolution of grants and aids outside the public budgets and special revenues in the given period.

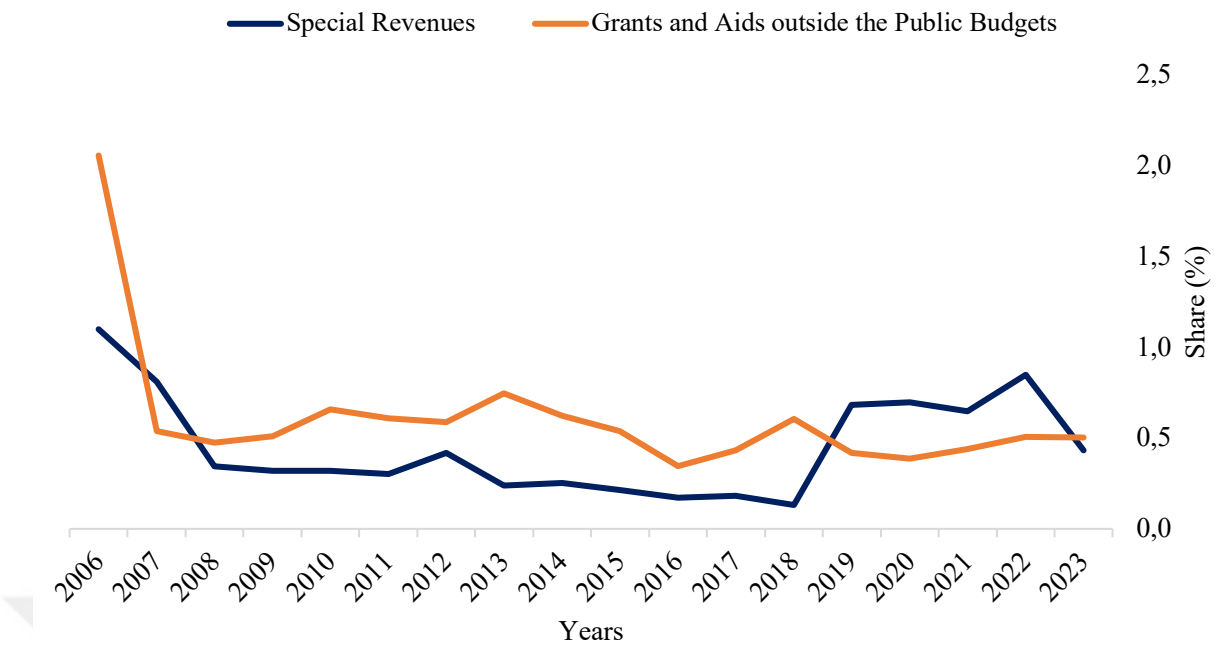

Figure 4.20: The Shares of Special Revenues and Grants and Aids outside the Public Budgets in the Total Public Revenues, Excluding Social Security Institutions (2006 – 2023)

Source: HMB, 2023

CHAPTER V

DATA AND METHODS

This thesis focuses on the public revenue system in Türkiye from the perspective of Islamic economics to understand how Islamic public finance theory envisions transformations in the current revenue structure and the possible effects of these transformations on the public budget. In this regard, Chapter 3 has outlined the theoretical framework of Islamic public finance and its revenue sources, while the literature review in Chapter 2 has elaborated on the selected classical and contemporary Islamic public literature, which constitutes a basis for the theoretical framework established in Chapter 3. In addition, Chapter 4 has presented the prevailing public revenue system and its components in Türkiye, providing their historical background.

The preceding three chapters provide fundamental input to answer the first two questions of the thesis, which address the degree of connection between Islamic public finance theory and the present Turkish public revenue structure, and inquire about the potential reforms and amendments in the prevailing structure to increase the level of the connection, which are elaborated on in Chapter 6. The third research question of the thesis, which goes into the possible impacts of the reforms on the public revenue composition of Türkiye, requires an empirical analysis. Considering the availability of the data, whose details are presented in the following sections of this chapter, 2022 is found to be the most recent year for analyzing the impact of reforms on the budget revenue structure. However, the proposed reforms have different natures and necessitate various data sources and quantitative methods for calculating their incidence on the budget. Therefore, the methods for each set of reforms are separately presented in the following sections.

5.1. Data and Methods for Estimating Potential Revenues from Minerals and Hydrocarbons

The review of views asserted by the classical scholars and the schools of Islamic jurisprudence on the ownership status of minerals in Chapter 3 propounds that minerals extracted from private, state, dead (mawat), and public lands can be subject to private

ownership under certain conditions. Among these scholars and schools, the Malikites have a different stance, which accepts state ownership over all minerals regardless of the lands in which they are discovered (Günay, 1997: 175).

The private ownership of minerals raises the question of financial obligation due to the minerals extracted. As noted in the section regarding the financial obligation arising from minerals in Chapter 3, the nature of the levy can be either of two forms: zakat[70] or khums (as part of fai' revenues). On the other hand, state ownership of minerals requires discussion of the compensation for private initiatives extracting the minerals on behalf of the state or with its permission. The remuneration may be set as a predetermined payment, a share of the extracted minerals, or determined through an alternative method. This issue lies beyond the scope of the present thesis and will, therefore, not be addressed in detail. Furthermore, to avoid additional complexity, it is necessary to limit the number of sub-scenarios when estimating the potential contribution of minerals to the public budget. Accordingly, under the assumption of state ownership of mineral resources, it is presumed that the state and private enterprises share the extracted minerals in fixed proportions, and the state gets the monetary equivalent of its share, henceforth referred to as the public share.

The following subsections first present the data sources employed and then the quantitative methods followed while estimating the potential public or semi-public revenues generated from minerals extracted in Türkiye as of 2022, considering the framework outlined in the preceding paragraphs.

[70] When we take the view of those, who deem the financial obligation on minerals as zakat, the zakat potential on minerals may be incorporated in the section regarding zakat potential estimation methods below. However, we opt to discuss the contribution of minerals to the public budget in the context of properties under the state's ownership or rule and disposal, considering that Hanafite scholars subject the minerals to khums (20%) in the scope of fai' revenues and the Malikites adopt the state ownership over minerals.

5.1.1. Data

Estimating the potential value of zakat[71], khums, or public share on minerals, including crude oil and natural gas, in Türkiye requires data on mineral production figures and prices at the mineral kind level. However, we could not obtain reliable data for domestic crude oil market prices per barrel and the natural gas sales price to distribution companies or eligible consumers, which are considered when calculating the state's shares determined by the current legislation in Türkiye (T.C. Resmi Gazete, 2013: 9). Therefore, we adopted a different method for estimating the public or semi-public revenues from crude oil and natural gas, using the state's shares collected in 2022, as elaborated in the following subsection.

Based on the above considerations, we can list the primary data sources used to calculate zakat, khums, or public share on minerals, including crude oil and natural gas, as follows:

- Mineral Production Statistics 2022
- Benchmark Prices of Minerals 2022
- Annual Report of the General Directorate of Mining and Petroleum Affairs 2022

The Mineral Production Statistics (MPS), compiled by the General Directorate of Mining and Petroleum Affairs (MAPEG), present the annual production volumes of minerals extracted in Türkiye, categorized by type and measured in tons. For 2022, the MPS lists 96 different mineral types, 13 of which have zero production (MAPEG, 2023b). Thus, estimates have been made of over 83 mineral kinds produced in 2022. Appendix A presents these mineral kinds and the corresponding categories they belong to based on two different classifications by the MAPEG and Mining Law.

The license holder operating a mine must report the prices and costs to the MAPEG, along with all other relevant information needed to calculate the state's rights, as required by Mining Law. In this regard, the MAPEG annually announces benchmark

[71] Please see the subsection devoted to the zakat on mining sector companies in Chapter 5.2.1 for the reasons that do not allow us to calculate zakat potentials on minerals through a micro dataset at the company level, such as the Company Account Statistics.

prices for minerals considering the mineral types, regions, quality, and other technical details to prevent the loss of the state's rights due to the disinformation reported by the license holders. Article 14 of the Mining Law states that the prices declared by the license holders for the minerals sold without enrichment processes cannot be lower than the benchmark prices announced by the MAPEG annually, considering the mineral types, regions, quality, and other technical details (T.C. Resmi Gazete, 1985: 14). Also, the price constituting the basis of the state's right for mines sold after enrichment, which is calculated by deducting the costs from the final sale price cannot be less than the benchmark prices, as stipulated in the general provisions about the benchmark prices (MAPEG, 2023c). Therefore, we opt to estimate the minimum value of minerals produced in 2022 based on the benchmark prices announced by the MAPEG so as not to overestimate the production value and potential of zakat, khums, or public share.

The benchmark prices are not available for all minerals produced in Türkiye during 2022. Sources other than the MAPEG have been used to calculate the production values of these minerals. For instance, the production values of the two minerals, magnesium salt and rutile, whose benchmark price is not available, are determined based on the average monthly prices estimated using the data provided by the Chamber of Mining Engineers (Maden Mühendisleri Odası, 2024).

Lastly, data about the state's share collected from crude oil and natural gas production is obtained from the Annual Report of the MAPEG, published in 2022. As explained in the methodology section, the crude oil and natural gas production values in 2022 have been determined with an inverse calculation method based on the state's share data. These values constitute the basis for calculating the zakat, khums, and public share to be collected from crude oil and natural gas.

5.1.2. Methods

This section consists of two separate methods of calculation. While the first method is designed for estimating the potential contribution of minerals to the public budget using the Mineral Production Statistics (MPS) and annual benchmark prices announced by the MAPEG, the second method is meant for finding crude oil and natural gas production value through the state's share data presented in the Annual

Report 2022 of the MAPEG. Ultimately, both methods aim to discover the total value of production subjected to zakat, khums, or public share.

5.1.2.1. Minerals

The contribution of minerals ($C_{minerals}$) to the Turkish public budget 2022 in the form of zakat, khums, or public share can be derived from a straightforward equation, as shown below. The components of the equation are the production volume (Q_i), price per unit of production (P_i), and the rate of the levy or the share of the public (r) for each mineral kind. Since the rate does not differentiate depending on the mineral types, it is written without index i, which stands for mineral kinds.

$$C_{minerals} = r \,.\, \sum_{i=1}^{n} Q_i . P_i \tag{1}$$

The number of minerals (n) included in the calculation and the rate (r) applied lead to various scenarios due to the different views of schools of Islamic jurisprudence. As explained in Chapter 3 and summarized in Table 3.1, four views exist in terms of the mineral kinds subjected to zakat/khums, with only the Malikites and Shafi'ites sharing the same position. When we consider the views about the impact of the location on the zakatability of minerals, we can see four separate views, in which Abu Yusuf and Shafi'ites unitedly represent one of them. However, the disputes concerning the location of minerals do not lead to any practical difference, as the types of minerals subject to zakat or khums—according to scholars who exempt marine production—are extracted on land in Türkiye, and data on production within residences are not available.

Although the scholars exemplify the minerals subjected to zakat/khums according to their views, we cannot find a complete and up-to-date list of minerals that comprise the minerals produced nowadays, specifically in Türkiye. Therefore, we have classified the mineral types produced in Türkiye during 2022, considering the view of schools and scholars of Islamic jurisprudence. The complete list of mineral classifications according to contemporary legislative frameworks in Türkiye and

classical Islamic scholars is presented in Appendix A.[72] Consequently, the number of minerals (n) subject to levy out of 83 minerals is 18 based on the views of Abu Hanifa, Abu Yusuf, and the Malikites[73]. On the other hand, the Hanbalites subject all 83 minerals to zakat, while the Shaifi'ites consider only gold and silver to be zakatable.

It is important to note specific adjustments made when using benchmark prices to calculate mineral values before addressing the rates applied to the total value of minerals subject to the levy. First, the benchmark prices for some minerals are announced at the provincial level, such as the ones in Group I [b] and Group II [a, c]. Since we only know the production amounts for Türkiye in general, and the provincial distribution of the yearly output is not available, we need to calculate the production value of these minerals based on the arithmetic average of provincial prices. Secondly, for minerals such as iron and chromium classified in Group IV [c], which differ in benchmark price according to their tenor range, the production value is calculated according to the arithmetic average of the prices at the relevant quality parameter level because we do not have the distribution of production amount according to the tenor

[72] The minerals titled metallic minerals and classified in Group IV [c] by the Mining Law are considered minerals that can be melted and poured into molds, which are subjected to khums, according to Abu Hanifa and Abu Yusuf. Since the statistics provided by MAPEG do not show any production of precious and semi-precious minerals, which can be used in the jewelry industry, the dispute between Abu Hanifa and Abu Yusuf in regard to stones used as jewelry does not lead to any difference in classification and the estimation of khums based on their views. Consequently, the classification of minerals produced in Türkiye for 2022, according to the views of Abu Hanifa and Abu Yusuf, exactly match each other. This matching is valid for the classification by the Malikite school if we adopt the view of Imam Malik, stating that the minerals that can be melted and poured into molds can be taxed at 2.5%. Therefore, only Shafi'ites, who limit zakat to only gold and silver, and Hanbalites, who consider all minerals subjected to zakat, suggest two other classifications apart from the one by Abu Hanifa, Abu Yusuf, and Malikites.

[73] According to Imam Malik, the minerals that can be melted and poured into molds can be taxed at 2.5%, while the other minerals can be exceptionally taxed with a ratio considering labor extended and cost incurred. Considering this report from Imam Malik, the number of mineral types subject to levy is identified as 18 for the Malikites, despite their alignment with the Shafi'ites on the general zakatability of minerals.

range for these minerals. On the other hand, minerals such as coal and asphaltite in Group IV [b], which differ in benchmark price according to their calorific value, we opt to use a weighted price average calculated based on the data presented by Dağıstan (2013: 40) on the distribution of total production of these minerals in Türkiye by calorific value. Thirdly, for a type of mineral classified as a complex mineral, which contains at least two metals intricately, we first confirmed the metals in the complex mineral, considering the complex mining licenses issued in Türkiye. Then, the price of the metal with the lowest value (iron) in the complex mineral was used to avoid overestimation. The prices assigned to all minerals are available in Appendix B.[74]

The rate (r) suggested by the scholars differs due to the disputes on the scope of rikaz and, thus, the nature of the levy, as explained earlier. There are three main views in the classical literature about the rate of the levy, which are summarized in Table 5.1 below.

Table 5.1: Views about the Nature and Rate of the Levy on Minerals in the Classical Literature of Islamic Law

Schools	Nature of the Levy	Rate of the Levy
Hanafites	Khums	20%
Shafi'ites	Zakat	2.5%
Hanbalites	Zakat	2.5%
Malikites*	Zakat	2.5%

Sources: Adalı, 1987; Aktan, 1986; Al-Qaradawi, 1999a

* Based on a view attributed to Imam Malik, minerals extracted with ease and at a lower cost are subjected to 20%, while 2.5% is applied to the others that are extracted more costly.

5.1.2.2. Crude Oil and Natural Gas

We adopted a different method for estimating the public or semi-public revenues generated from crude oil and natural gas because we could not obtain reliable price

[74] We could not find the prices of only two minerals that have the production amount for 2022: pyrite and strontium salt. Lastly, it is worth noting that the MAPEG does not announce the benchmark price for boron. However, we do not need to calculate the production value of boron because the ETİMADEN, a state economic enterprise, carries out all boron production. Thus, boron is exempted from zakat, khums, and public share estimations.

data for these hydrocarbons. In this regard, we first find the value of crude oil and natural gas production through an inverse calculation using the collected state's share variable (SS) and the prevailing rate (s) stipulated as the state's share, as shown in the equation below. Then, the rate of the levy or the share of the public (r) is applied to the calculated value of both hydrocarbons ($SR_j.{}^{1}/_{S}$). The calculation is made considering the total value of the collected state's share in crude oil and natural gas. Thus, variable $C_{hydrocarbons}$ stands for the estimated total contribution of zakat, khums, or public share on crude oil and natural gas to the public budget.

$$C_{hydrocarbons} = r.SS.{}^{1}/_{S} \quad (2)$$

According to the Turkish Petroleum Law, the state's share to be paid by the oil producer is calculated based on the domestic crude oil market price per barrel. Natural gas producers are obliged to pay the state's share, which is determined by using the natural gas sales price to distribution companies or eligible consumers (T.C. Resmi Gazete, 2013: 9). The rate of 12.5% (s) is imposed on crude oil and natural gas produced as the state's share. The value of the collected state's shares (SS) in crude oil and natural gas amounted to 5.1 billion ₺ and 757.9 million ₺ in 2022, respectively (MAPEG, 2023a: 40).

Concerning the rate of the levy or the share of the public (r) in Equation 2, only Hanbalites among the classical schools impose 2.5% zakat on crude oil and natural gas since they subject all minerals to zakat, regardless of whether they are apparent, hidden, solid, or liquid. The other schools of Islamic jurisprudence exempt these hydrocarbons from zakat or khums, as can be inferred from Table 3.1. In addition, there is no need to differentiate between offshore and onshore production of crude oil and natural gas despite the availability of the data for the reason that Hanbalites, who only subject them to zakat, do not exempt the minerals extracted from the sea, as shown in Table 3.1. The contemporary considerations regarding the scope of the subject matter of zakat or khums and the rate to be imposed have been presented in the following subsection since they relate to minerals, crude oil, and natural gas.

5.1.2.3. Contemporary Considerations

The contemporary discussions on the scope of minerals subjected to zakat/khums and rates imposed are expected to impact the zakatability of crude oil and natural gas, the number of minerals n in Equation 1, and the rate of levy or the share of the public (r) in Equations 1 and 2. Regarding the scope of zakat/khums, apparent (zahir) minerals are ruled not to be subjected to private ownership at their source, grant (iqta), and revival (ihya) by most scholars. These minerals are defined as the ones from which the public can directly benefit to satisfy their needs. However, all minerals classified as apparent (zahir) in the classical literature may not be easily accessible and utilized by everyone, such as pitch, neft, gypsum, marble, ruby, and emerald, especially in today's world of increasing specialization and urban life (Günay, 1997: 179). Therefore, subjecting these minerals to grants (iqta) cannot be considered as preventing others from accessing them. As a matter of fact, the view of Imam Shafi'i that apparent (zahir) minerals that require excavation, smelting, and refinement can also be granted, supports this approach (Aktan, 1986: 42). According to Günay (1997: 179–180), the above consideration is valid for most apparent (zahir) minerals, including petroleum. In a similar context, Aktan (1986: 32) argues that the liquid minerals exempted from khums are fluid minerals brought to the surface as a source. Therefore, according to him, operation rights of deep liquid mines, which can only be accessed through drilling, can be transferred to private persons, unlike liquid mines on the surface (Aktan, 1986: 42). Granting liquid minerals or issuing operation licenses makes them the subject of private property and requires a levy. One of the direct implications of these views on the potential of zakat/khums on minerals extracted in Türkiye during 2022 is subjecting crude oil and natural gas to zakat/khums since their investigation and extracting processes cannot be carried out by everyone because of the high cost and required expertise and technology.

Many contemporary jurists argue that all minerals must be subjected to zakat/khums without any distinction, as in the view of Hanbalites (Karadâğî, 2017: 996; Özek, 1987a: 13). In this regard, their main argument is mainly based on the fact that the economic value of the minerals discovered in recent centuries is incomparable with the past, and they are of increasing importance for economic development (Günay, 2017: 604). For instance, Al-Qaradawi (1999a: 224) asserts that if the prominent jurists of the past centuries had realized the importance and value of petroleum today, they

would not have hesitated to subject it to zakat. When we adopt this stance of contemporary scholars, Equation 1 should include all minerals ($n = 83$), consistent with the Hanbalite view.

The last point discussed by contemporary scholars that we would like to refer to is the rate of levy imposed on minerals. As noted earlier, the rate can be determined according to the labor expended and cost incurred while extracting the minerals based on a view attributed to Imam Malik (Aktan, 1986: 47). According to this view, minerals extracted with ease and at a lower cost are subjected to 20%, while 2.5% is applied to the others that are extracted more costly. Al-Qaradaghi (2017: 996) also suggests applying 2.5% or 20% rates on minerals, considering the cost of extracting minerals. Abu Zahra (1978: 26) acknowledges the possibility of adopting this view for the minerals that are costly and difficult to obtain, although he notes that the strongest view is that the 20% rate should be applied. On the other hand, Al-Qaradawi (1999a: 229) calls attention to the substantial difference between the two rates and proposes to impose either 5% or 10% based on the cost incurred compared to the value of the extracted minerals. In this context, it is hard to figure out the production costs of each mineral extracted in Türkiye during 2022 and compare them with the production values because of the limited microdata about the operation license holders. Therefore, we opt to use the average of the two rates, i.e., 20% and 2.5%, corresponding to 11.25%, to understand how such an approach would affect the potential for zakat and khumus on minerals.

5.1.2.4. Exempting Production by Public Enterprises

State economic enterprises that are 100% state-owned entities are also involved in mineral production in Türkiye. Therefore, the amount produced by state economic enterprises should be exempted while estimating the potential of zakat, khums, or public share. Based on our investigation regarding the contribution of state economic enterprises to the production of different kinds of minerals, we found that the enterprises listed in Table 5.2 are the primary producers of minerals. Their shares in the total production of the corresponding minerals are also presented in the third column of the table. Appendix B provides the total production of minerals and the amount after deducting the shares of the state economic enterprises in Table 5.2.

Table 5.2: The Share of the State Economic Enterprises in the Total Production of the Corresponding Minerals in 2022

State Economic Enterprises*	Mineral Types	Shares in the Total Production
ETİ MADEN	Boron	100%
TTK	Hard Coal	76%
TPAO	Crude Oil	75%
TPAO	Natural Gas	75%
TKİ & EÜAŞ	Crude Coal	52.1%

Sources: Gençbay & Dinlen, 2023; T.C. Resmi Gazete, 1983, 2021a; TKİ, 2023; TPAO, 2023; TTK, 2023

* The abbreviations of the state economic enterprises stand for Eti Mining Operations General Directorate (ETİ MADEN), the General Directorate of Turkish Hard Coal Authority (TTK), the Turkish Petroleum Corporation (TPAO), the General Directorate of Turkish Coal Enterprises (TKİ), and the Electricity Generation Corporation (EÜAŞ), respectively.

Public institutions such as municipalities, the Ministry of Transport and Infrastructure, the General Directorate of State Hydraulic Works, ETİ MADEN, Special Provincial Administrations, the General Directorate of Highways, the General Directorate of Rural Services, etc. also produce building and construction raw materials to be used in their projects such as roads, bridges and dams within the scope of the permission they have received based on Article 14 of the Mining Law. Although we cannot reach publicly available data on the amount and kind of mineral production by these institutions, the distribution of the active mineral production permits given to the public institutions in terms of mineral groups shows that 99.48% of them are issued for the minerals in Group I [b] and II [a] (MAPEG, 2023e). We cannot identify the exact amount of production in the scope of mineral production permits. Since the share of the minerals in these groups in the total value of mineral production for 2022 corresponds to only 1.02%, we opt not to include them in estimating zakat in order not to lead to overestimation, being aware of the possible underestimation.

5.2.Zakat Potential Estimation Methods and Data

The classical treatises list the five categories of assets subjected to zakat based on the narrations from the Prophet ﷺ. As noted before, these include animals, gold and silver, trade goods, minerals and treasury troves, and agricultural produce in general terms (Günay, 2017: 591). Considering the common characteristics of these items and the relevant narrations indicating the zakatability criteria, jurists have identified conditions

related to assets to be subjected to zakat. Based on these conditions, especially actual or discretionary growth (nama) and being other than essential needs, contemporary scholars examine the new wealth and income items in terms of their zakatability. As presented in Table 3.6, the scope of the items in question is considerably extensive. While some items are unanimously considered zakatable, like currencies, securities, and industrial agriculture, disputes exist on the zakatability of various forms of wealth and income, such as wages, salaries, factories, and industrial plants. It is important to note that those who agree on the zakatability of the same wealth or income item may differ regarding the zakat base and rate. The contemporary views for new wealth and income items subject to zakat are summarized in Table 5.3 below.

The table presents scholars' views on the zakatability, zakat base, nisab, and zakat rate of the corresponding new wealth and income items. The name of the scholar or institution holding a particular view regarding the above-mentioned points is written in italics within square brackets under the relevant part. The names adopting particular zakat rates for corresponding zakatable items are not written in the column dedicated to zakat rates for simplicity, since those suggesting a specific zakat rate can be inferred from the cells in the previous columns. When a scholar with a view on zakat base has no clear stance regarding other matters, or we cannot find their opinions on the concerned point, their name is not included in the corresponding cells of the following columns devoted to nisab and zakat rate. It is worth noting that scholars' views on stocks vary depending on whether stocks belong to trading or industrial corporations, whether they are held intending short or long-term investments, or whether corporations or shareholders pay zakat due on shares. Thus, the views about the zakat base of stocks are presented considering these scenarios, which are underlined in the relevant cells' first line. Lastly, the notes under the table mention minor differences of opinion that could not be included. The views in Table 5.3 constitute the reference points while determining the methodology of zakat potential estimations of relevant wealth and income items in the following subsections.

Table 5.3: Contemporary Views for New Wealth and Income Items Subject to Zakat

Zakatable Items	Zakatability / Zakat Base	Nisab	Zakat Rate
Domestic animals (excluding working ones), other than camels, cows, and sheep, naturally pastured and raised for breeding and animal products	Not zakatable *[AAOIFI]*	N/A	N/A
	Current value of animals *[Abu Zahrah, al-Qaradawi]*	Nisab of gold *[Abu Zahrah]*	2.5%
		5 aminals *[al-Qaradawi]*	
Non-pastured animals raised for animal products (industrial livestock farming, poultry, rabbits, bees, silkworms, etc.)	Current value of animals and their products *[al-Hadi, al-Mu'ayad, Kahf]*	Nisab of gold *[al-Hadi, al-Mu'ayad]*	2.5%
	Profits *[Günay, al-Qaradawi, Dumlu, Paçacı]*	Nisab of gold *[Günay]*	
		Nisab of gold *[al-Qaradawi]*	10%
	Current value of their products *[AAOIFI]*	Nisab of gold *[AAOIFI]*	2.5%
Business inventories and assets for trade	Current value of business inventory + Profits + Receivables *[al-Qaradawi, HBRA, Erkal, Dumlu, Kahf]*	Nisab of gold [al-Qaradawi, HBRA, Dumlu]	2.5%
		Nisab of silver *[Erkal]*	
	Profits *[Paçacı, Mahmoud Ahmed]*	Poverty line *[Paçacı]*	10%

Rental income-generating real estate, vehicles, and other assets (jewelry, animals, hotels, cinemas, etc.)	Profits *[Abu Zahrah, al-Qaradawi, Karaman, Mannan, Wahba al-Zuhayli, Paçacı, Dumlu]*	Nisab of money *[al-Qaradawi]* Poverty line *[Paçacı]*	10%
	Current value of assets + Profits + Receivables *[Ibn Aqil, Ibn Qayyim, Imam Malik, School of Hadawi]* Earned income *[Ahmad b. Hanbal, Ibn Taymiyyah, Hasan al-Basri, al-Zuhri, Umar b. Abd al-Aziz, al-Awza'i]* Value of net equity (net worth) *[Kahf]*	Nisab of gold	2.5%
	Not zakatable *[Bilmen, OIC-IIFA, AAOIFI, HBRA, Erkal, Günay]*	N/A	N/A
Machinery and industrial equipment in the manufacturing sector and capital goods in the service sector	Profit *[Abu Zahrah, Al-Qaradawi, Mannan, Karaman, Wahba al-Zuhayli, Paçacı, Dumlu]*	Nisab of money *[al-Qaradawi]*	10% Rates specific to sectors *[Abd al-Mannan]*
	Value of net equity (net worth) *[Kahf]*	Nisab of gold	2.5%
	Not zakatable *[Erkal, OIC-IIFA, HBRA, Günay, AAOIFI]*	N/A	N/A

Stocks, shares and profit participation certificates, real estate investment trusts	<u>Trading corporations</u> The current value of stocks - The portion corresponding to fixed assets + Dividends *[Shaikh Abd al-Rahman Isa, Wahba al-Zuhayli]*	Nisab of gold	2.5%
	<u>Industrial corporations</u> Dividends *[Shaikh Abd al-Rahman Isa, Wahba al-Zuhayli]*		
	<u>Trading corporations paying the zakat on behalf of stockholders</u> The current value of stocks - The portion corresponding to fixed assets + Dividends *[al-Qaradawi]*		2.5%
	<u>Industrial corporations paying the zakat on behalf of stockholders</u> Dividends *[al-Qaradawi]*		10%
	<u>Trading and industrial corporations whose stockholders pay the zakat</u> The current value of stocks + Dividends *[Abu Zahrah, al-Qaradawi, Kahf]*		2.5%
	<u>Short-term investments</u> The current value of stocks + Dividends *[Dumlu, Paçacı, OIC-IIFA, Erkal, AAOIFI]*		
	<u>Long-term investments</u> Dividends *[Dumlu, Paçacı, OIC-IIFA]*	None *[Dumlu]*	10% *[Dumlu, Paçacı]*
		Nisab of gold *[OIC-IFA]*	2.5% *[OIC-IFA]*
	<u>Long-term investments</u> The current value of stocks - The portion corresponding to fixed assets + Dividends *[Erkal]*	Nisab of gold	2.5%
	<u>Long-term investments</u> Zakatable assets of corporations per share		

	[AAOIFI]		
Bonds and commercial papers	The current value of bonds + Interest *[Abu Zahrah, al-Qaradawi, Paçacı, Dumlu]* The principal (cost) of the bond *[AAOIFI, Kahf]*	Nisab of gold	2.5%
Local and foreign cash currencies, gold and silver certificates, current/checking accounts, cryptocurrencies, etc.	Value of assets held and balance of accounts	Nisab of gold	2.5%
Time/term deposit accounts, savings accounts, certificates of deposits, savings certificates, etc.	The balance of accounts, including interest The principal amount invested	Nisab of gold	2.5%
Life insurance	Surrender the amount of life insurance *[Kahf]*	Nisab of gold	2.5%
Salaries, wages, and professional incomes	Net annual earnings *[al-Qaradawi, Dumlu]*	Nisab of gold	2.5%
	Not zakatable *[Erkal, Günay, AAOIFI]*	N/A	N/A

Sources: AAOIFI, 2015.; Al-Qaradawi, 1999a; Arsalan, 2024; Dumlu, 2008; Erkal, 2008; Günay, 2017; HBRA, 2017a, 2017c, 2023; IIFA, 2021; Kahf, 2017; Paçacı, 2015; Rahman, 2015

* Regarding the non-pastured animals raised for animal products, Paçacı (2015: 181) and Günay (2017: 593) argue that industrial camel or sheep farming does not differentiate from camel and sheep breeding through small and medium-sized peasant/farmer models in terms of productivity and

profitability. Therefore, they only subject camels and sheep to zakat when naturally pastured. On the other hand, they deem industrial cattle farming zakatable because of the change in productivity and profitability at the industrial level compared to the small and medium-sized peasant/farmer model. In fact, al-Qaradawi does not state a clear nisab for profits generated from non-pastured animals raised for animal products. However, he considers these animals as exploited assets (Al-Qaradawi, 1999a: 236), whose nisab is defined similarly to that of money and thus gold (Ibid: 247). The views of Bilmen, OIC-IFA, AAOIFI, HBRA, Erkal, and Günay regarding the rental income-generating assets consider only the saved or unexpended portion of the rental income. In other words, they do not deem these assets or their revenues as another zakatable category different from cash holdings or savings. The same approach is valid for zakat on machinery and industrial equipment, according to Erkal, OIC-IFA, HBRA, Günay, and AAOIFI. Concerning the zakat on salaries, wages, and professional incomes, we have confirmed that Erkal, Günay, and AAOIFI adopt a similar stance and exempt them unless the saved portions are kept for a lunar (hijri) year. The two separate zakat bases for time/term deposit accounts and similar interest-generating accounts and certificates are presented in the table, considering the views asserted for bonds and commercial papers in the literature, although the detailed views and studies on the zakat of these accounts and certificates are scarcely found in the literature. Both the principal and profits are subject to zakat when savings are invested in the profit and loss sharing accounts of the Islamic banks, which are non-interest-bearing and based on the mudarabah contract. Although the principal and capital invested in funds and contributions to personal or company-set voluntary retirement accounts are subject to zakat, the income generated from them should be considered based on the underlying assets invested, as noted by AAOIFI (2015: 878). The estimated tax liability when the retirement is vested or the retirement account is terminated, early withdrawal penalties and exemptions, and the vested state or employer contributions must also be considered while calculating the zakat due on voluntary retirement accounts (Arsalan, 2024: 55–57). However, the scholars are unanimous that compulsory retirement accounts and social security plans are subject to zakat only when the account holder receives the retirement benefit or payout, provided that conditions of nisab and the passage of one lunar (hijri) year are met (Rahman, 2015: 282–283). In the case of sukuk holdings, the underlying assets also matter for the zakat calculation (AAOIFI, 2015: 878). The abbreviation HBRA stands for the High Board of Religious Affairs of Türkiye. OIC-IIFA refers to the Islamic Fiqh Academy under the Organisation of Islamic Cooperation. AAOIFI is the abbreviation of the Accounting and Auditing Organization for Islamic Financial Institutions.

The opinions of scholars concerning the condition of the passage of one lunar (hijri) year, i.e., hawalan al-hawl, are not included in Table 5.3. Both classical and contemporary literature confirm that the zakat due on capital assets or wealth items, such as trade goods, livestock, gold, and silver, should be paid once a year, pointing out the annuality of the zakat obligation. It is also unanimous among the jurists that income items above nisab, such as crops harvested and minerals extracted, are subject to zakat upon acquisition (Al-Qaradawi, 1999a: 71–72).[75] However, scholars differ on when the nisab condition must be met for the zakat to accrue. While the Hanafites require zakatable assets above the nisab level both at the beginning and end of the year for the obligation of zakat to arise on these assets, according to the Shafiites and Hanbalites, the value of zakatable assets must exceed the nisab level throughout the year (Erkal, 2008: 65). Dumlu (2008: 149) states that the disagreement stems from the lack of authentic ahadith on the issue. His survey on the relevant ahadith reveals that different sayings pose the condition of nisab for zakatability on the one hand and the annuality of zakat payments on the other. However, according to his findings, no authentic hadith states that a year must pass over the nisab. After pointing out similar issues regarding the sayings reported, as also noted by Dumlu, al-Qaradawi (1999a: 256) states that it is sufficient to observe the nisab only at the end of the year. In this regard, he also notes the fact that the official sent by the Prophet ﷺ to collect zakat did not keep records of whether the zakatable assets were reaching nisab at the beginning of the year (Ibid: 258).

Based on the considerations above, the estimation of potential zakat due on various wealth and income items in the scope of this thesis has been carried out, adopting the view of al-Qaradawi, which was also in conformity with the stance of Imam Malik, for several reasons and constraints. First, the issue of having nisab at the beginning or during the year concerns those on the margins, who are expected to be a negligible percentage of zakat payers. Second, the thesis focuses on a single year, 2022, and thus, it is not feasible to control the financial situation of the same zakat payers in terms of

[75] The dispute arises in relation to capital assets acquired during the year, but we opt not to go into details at this point (Al-Qaradawi, 1999a: 72–73). We will address this controversial point, particularly in the context of zakat on earned assets, salaries, and professional income.

prevailing nisab at the end of the previous year. Focusing only on one year for the empirical analysis is one of the limitations of the thesis, which is caused by the limited research budget and schedule. However, even in the case of including multiple years in zakat potential estimations, applying the condition of hawalan al-hawl would be possible for only some wealth items for which micro panel data is available. Since such data is not accessible for most wealth items subjected to zakat, as explained in the following subsections, the condition of hawalan al-hawl still would not be addressed adequately.

The issues of assessment of the zakatable items and the deductible costs, debts, and living expenses are not covered in Table 5.3 because they require special investigation considering the availability of data and the nature of zakatable assets. Thus, we intentionally left the discussion on such matters to the subsections devoted to the methods developed for each wealth and income item subject to zakat.

The final point we would like to note before proceeding to zakat estimation methods is the ideal dataset required to obtain reliable zakat potentials. Zakat is an individual financial obligation on the eligible Muslims, putting aside the dispute on mixing (khultah) of zakatable items and their effects on the nisab and zakat rate. In addition, there are conditions regarding the zakat payers, their intentions, and assets owned, which have implications on the scope of zakatable assets, including receivables, and deductible items, such as debts, living expenses, and costs. Thus, it is necessary to know all information relevant to zakat calculation on the individual level, revealing that micro cross-sectional datasets are the ideal sources for zakat estimations. As touched upon above, if we adopt the view that the nisab should be observed at the beginning of the year or throughout the year, then we should have micro panel datasets to assess individual zakat obligations appropriately. However, in the case of Türkiye, there is currently no single micro panel or cross-sectional dataset that includes all zakatable items and other needed variables. Therefore, it is not feasible to estimate zakat obligations on an individual basis. Despite all this, various micro datasets, like Company Account Statistics and Household Budget Statistics, enable us to calculate zakat obligations stemming from particular zakatable assets, such as salaries, wages, professional incomes, rental income-generating assets, business inventories, etc., at the individual, household, or company levels. Regarding the other zakatable items, which are not covered in the micro datasets mentioned, data sources providing aggregated

variables at product, sector, or income and wealth group levels, such as Mineral Production Statistics of MAPEG, Crop Production Statistics of TurkStat, and Global Wealth Databook of the UBS Group, allow us to calculate zakat potential under certain assumptions.[76]

The following subsections present the zakat potential calculation methods for different zakat payers and zakatable items, starting with those for whom accessible microdata are available. Considering the views in Table 5.3 and data constraints, the subsections also expound the rationale for choosing the opinions on which we base our calculation and the assumptions we made.

5.2.1. Business Assets

Companies with legal entities occupy a significant position in today's economies. They generate a major part of the total production of goods and services by employing human, physical, and financial capital. In return, they make considerable profits, which may be distributed to shareholders or invested in current and fixed assets. For instance, the net operating surplus, which refers to net income remaining to the producer after subtracting compulsory payments such as wages, taxes, depreciation, etc., accounts for approximately 50% of gross value added on average in Türkiye between 2019 and 2023 (TurkStat, 2024b).

The capital invested, current and fixed assets owned, and the profits generated by the companies bring zakat on these wealth and income items forward. At this point, the first issue that becomes prominent is whether zakat can be imposed on legal entities. Since zakat is a financial obligation on natural persons, and the zakatable assets of companies are eventually owned by shareholders, it is plausible to expect the eligible partners to pay zakat corresponding to their shares, considering their other personal assets. As a matter of fact, the IIFA (2021: 49) resolves that the responsibility of paying zakat on shares lies with the shareholders unless the company is entitled to pay zakat on behalf of shareholders via company statutes, general assembly resolutions, state

[76] The abbreviation MAPEG stands for the General Directorate of Mining and Petroleum Affairs. The UBS Group is one of the prominent investment banking and wealth management firms headquartered in Switzerland.

laws, or authorization by the partners. However, no available dataset allows us to know the shareholders of the companies, their corresponding shares in zakatable business assets, and the partners' other wealth and income subject to zakat and other financial details, such as receivables and debts at the shareholder level. Therefore, in this study, we have to deem the companies as a single entity responsible for paying zakat due on their assets, regardless of the situation of the shareholders.[77]

The second issue concerning the zakat obligation on companies is determining the scope of business assets subject to zakat. In today's world, where companies' fields of activity and investments are increasingly diversified, the variety of business assets and sources of profits has also enlarged considerably. In this respect, the asset side of the companies' balance sheets may include local and foreign currencies, stock, bonds, and other securities, receivables from various parties with different maturities, raw materials, semi-products, manufactured goods, lands, buildings, vehicles, machinery and industrial equipment, and so on. On the liability side, short- and long-term liabilities stemming from bank loans, taxes, commercial activities, securities issued, etc., present the debt burden and other forms of payables or obligations in terms of their maturities.

The contemporary literature has presented different views on the zakat of items in companies' balance sheets, as summarized in Table 5.3. These views treat the items individually and generally do not suggest a formula covering all zakatable items in the company's balance sheet. Nevertheless, the two comprehensive approaches toward business assets are worth applying to calculate companies' zakat obligation through their balance sheets. The first approach considers the value of net equity (net worth) of business assets as the zakat base of the companies, as reflected in Kahf's views on the zakatability of machinery and industrial equipment in the manufacturing sector,

[77] This approach was adopted mainly due to data constraints. Nevertheless, it can be justified by assuming one of the conditions that allow companies to pay zakat on behalf of their shareholders is met, referring to the IIFA's relevant resolution noted above. In addition, the view of Shafi'ites stating that mixed zakatable assets owned by different persons are treated together in terms of nisab and zakat rate may constitute a basis for assessing the zakatability of business assets at the company level, as suggested by al-Qaradawi (1999a: 104) and Dumlu (2008: 157).

capital goods in the service sector, and rental income-generating real estate, vehicles, and other assets (jewelry, animals, hotels, cinemas, etc.) in Table 5.3. The second approach deems only current assets and net profit zakatable after incorporating receivables and deducting current debts. Such consideration is the corollary of exempting the fixed assets from zakat unless they are directly the subject of trade, as shown in the views of OIC-IIFA, AAOIFI, HBRA, Erkal, and Günay concerning rental income-generating assets, and machinery and industrial equipment in the manufacturing sector or capital goods in the service sector in Table 5.3. The zakat base suggested by the two prominent and inclusive approaches can be written in Equations 3 and 4, respectively.

$$Z_1 = Assets - Liabilities = Net\ Equity \quad (3)$$

$$Z_2 = Current\ Assets + Net\ Profit + Receivables - Current\ Debts \quad (4)$$

The formulas in Equations 3 and 4 constitute the basis for calculations of zakat on business assets. However, it is essential to note that the matters of the scope of debts that can be deducted from and the maturity of receivables that can be included in the zakat base, the treatment of provisions and reserves, and the assessment of long-term payables and receivables require further considerations. These matters have been addressed after presenting the data used for estimating zakat on companies in Türkiye for 2022 in the following subsection.

5.2.1.1. Data

The potential of zakat due on companies operating in Türkiye by 2022 has been calculated based on the Company Account Statistics (CAS) micro dataset. The CAS is compiled annually based entirely on administrative records by the TurkStat and the Central Bank of the Republic of Türkiye (CBRT). It covers the companies that keep books on a balance sheet basis, corresponding to 983,182 companies for 2022 (TurkStat, 2023a: 6). The companies are classified according to the fourth level categorization of the NACE Rev.2, "The Statistical Classification of Economic Activities in the European Community," published after the second major revision between 2000 and 2007 (Eurostat, 2008: 5). The sectoral coverage of the CAS includes all sectors in the NACE Rev.2 except the finance and insurance activities (K), public

administration and defense; compulsory social security (O), activities of households as employers (T), and activities of extraterritorial organizations and bodies (U). If a company operates in more than one sector, it is categorized based on the activity that generates the most of its gross sales revenue. When the gross sales revenue of more than one activity is equal, the decision is made considering the number of employees in each sector (TurkStat, 2023a, p. 5). The key categories of the variables in the CAS at the company level are the main field of activity, enterprise size, current assets, fixed assets, short-term liabilities, long-term liabilities, equity, and income statement items (Ibid: 5).

Although the CAS constitutes the primary dataset for estimating zakat potential on business assets and profits, we needed several other datasets for various reasons. These include the following:

- Monthly Money and Banking Statistics 2022 (CBRT)
- Public Enterprises Report 2022 (The Ministry of Treasury and Finance of Türkiye)
- General Report on Public Enterprises 2022 (The Turkish Court of Accounts)
- Public Budget Statistics of Central Government and Local Administrations 2022 (HMB)
- Financial Accounts 2022 (CBRT)
- Bank Ranking by Asset Size 2022 (Banks Association of Türkiye)
- Participation Banking Financials 2022 (Participation Banks Association of Türkiye)

The aggregated balance sheets of the banking sectors, which are not covered by the CAS, as noted below, have been obtained from the Monthly Money and Banking Statistics of the CBRT Electronic Data Delivery System. Additionally, we have benefited from the Public Enterprises Report of the HMB and the General Report on Public Enterprises of the Turkish Court of Accounts (TCA) in 2022, as well as budget item Corporation Revenues in the public budget statistics of central government and local administrations published by the HMB in order to infer the zakat due on state-owned enterprises to be excluded from the estimated zakat potential through the CAS dataset. In a similar vein, to deduct the zakat corresponding to companies owned by

awqaf and other non-profit organizations from the total potential, we have resorted to the Financial Accounts 2022 compiled by the CBRT. Regarding state-owned deposit, development-investment, and participation banks, their shares in the total equities of the relevant bank types were deduced from the reports Bank Ranking by Asset Size prepared by the Banks Association of Türkiye (BAT) and Participation Banking Financials published by the Participation Banks Association of Türkiye (PBAT). The usage of these datasets and the rationale for preferring these datasets have been explained in the following subsection.

5.2.1.2. Methods

a) The Coverage of Campony Account Statistics (CAS) Dataset

The structure and coverage of the CAS dataset raise several issues that require careful examination. The first point is that the CAS does not cover all commercial enterprises operating in Türkiye. The number of companies included in the CAS 2022 accounts for 983,182, although the total number of commercial enterprises operating in the same year was around 3.8 million (TurkStat, 2023e). As noted above, the dataset is compiled from the administrative records; thus, only those companies that keep records on a balance sheet basis are involved in the CAS. Tax Procedure Law numbered 213 stipulates that all enterprises subject to corporate tax are required to keep records on a balance sheet basis (T.C. Resmi Gazete, 1961: 177). These include equity companies (joint stock and limited liability companies, commandite partnerships with divided share capital, funds, and similar foreign institutions and funds), cooperatives, public economic organizations, economic enterprises belonging to associations or foundations, and business partnerships (T. C. Resmi Gazete, 2006: 1). In addition, enterprises that sell the goods they purchase either as they are or after processing must keep books based on the balance sheet principle if their annual purchases exceed a specified limit; for other enterprises, this obligation applies if their gross business revenue within a year is higher than the defined threshold in each year (T.C. Resmi Gazete, 1961: 176-177). Thus, it is fair to say that the CAS covers enterprises above a specific size. On the other hand, the shares of micro, small, and medium-sized enterprises (MSMEs), 99.7% of all commercial enterprises, in total production and value-added were limited to 35% of the total values of the relevant figures in 2022 (TurkStat, 2023e). A considerable percentage of these MSMEs are expected to be

subjected to corporate tax and included in the CAS due to either the company type or the annual purchases and gross business revenue exceeding the thresholds. These considerations lead us to conclude that the size of the zakat base in terms of business assets and profits—which cannot be accounted for due to the scope of the CAS micro dataset—will inevitably be limited, even if this results in a loss of zakat base to some extent. Lastly, we expect that including the entrepreneurial income provided by the Household Budget Statistics (HBA) micro dataset in the zakat base of salaries, wages, and professional incomes will partially address this loss of zakat base, as discussed in the relevant subsection below.

The second issue stemming from the data structure and coverage of the CAS is related to the companies, whose main activity is carried out in sectors of the finance and insurance activities (K), public administration and defense; compulsory social security (O), activities of households as employers (T), and activities of extraterritorial organizations and bodies (U). As noted above, the CAS does not cover the companies in those sectors. Among these, sector O contains general public administration, foreign affairs, regulation, defense, justice, judicial, public order, safety, fire, and compulsory social service activities (Eurostat, 2008: 84). Although NACE Rev.2 does not rule out the possibility of these activities being performed by the private sector, all these services are performed mainly by public institutions in Türkiye. Therefore, the assets devoted to and revenues generated from these activities should be exempted from zakat, considering that most jurists are of the opinion that state and awqaf properties are not subject to zakat (Erkal, 2008: 57). On the other hand, sector U constitutes a minor share of the overall economy. Therefore, the absence of sectors O and U from the CAS does not lead to a significant loss of the zakat base. The zakat base in sector K has been partially covered through the aggregated balance sheets published by the CBRT at the sectoral level. These balance sheet statistics include the banking sector, money market funds, non-bank financial institutions, financial intermediaries, financial assistants, insurance companies, and pension funds, which are part of the finance and insurance activities (K). Among these, we have only considered the banking sector in the zakat calculation, and thus, non-bank financial companies are not included in the estimations. Using aggregated balance sheets rather than microdata at the company level does not allow us to consider the nisab condition. However, nisab is not a significant concern when calculating zakat liability in this sector, where the

relevant laws stipulate high capital requirements. Lastly, sector T has two divisions: "activities of households as employers of domestic personnel (97)" and "undifferentiated goods-and services-producing activities of private households for own use (98)" (Eurostat, 2008: 91). Since goods and services produced for personal use, thus, not intended for sale in the market, are not subject to zakat, the absence of division 98 does not constitute a zakat base loss. Division 97 includes domestic services, such as housekeeping, cooking, gardening, babysitting, and caring for the elderly or disabled, which are labor-intensive activities. Thus, its absence does not affect the zakat base in terms of current and fixed assets. The revenues generated from these activities could be included in the zakat base through the HBS micro dataset while calculating zakat due on salaries, wages, and professional incomes if they reached the specified nisab level.

b) State and Awqaf Companies

The statistical classification of economic activities in the NACE Rev.2 does not differentiate companies regarding their ownership status (Ibid: 15). Therefore, the CAS categorizing the companies based on the NACE Rev.2 does not provide any information about those owned by the state, awqaf, or non-Muslims, which should be exempted from zakat obligation as noted before. In this context, no dataset would enable us to identify companies owned by non-Muslims or their shares in other companies at the sectoral level or in general. However, as noted while discussing the relevance and applicability of jizyah on non-Muslim citizens of Türkiye, this study adopts the view of al-Qaradawi (1999a: 35–38) that suggests taxing non-Muslim citizens equivalent to zakat, which will correspond to jizyah without labeling as such. Therefore, the estimated zakat potential from business assets and profits includes jizyah proceeds, which have the same base and rates as zakat. In other words, the estimated amount must be considered the total proceeds of zakat and jizyah, although the latter is expected to be minor. Imposing a zakat equivalent tax on non-Muslims was present in the Act of Zakat 1984 in Sudan for the sake of justice and the pioneering study of Kahf (1987b: 27–28), who estimated the zakat potentials of eight Muslim countries. We cannot pursue the same approach regarding the state and waqf-owned companies. Thus, it is necessary to determine the share of these companies in the total zakat proceeds using proxy variables.

Several alternative proxy variables may represent the state-owned enterprises covered by the CAS, each with different limitations. First, the share of public revenues and expenditures in the GDP can be taken into account while deducting the zakat proceeds derived from state-owned enterprises from the total zakat potential estimated through the CAS. However, adopting one of these indicators may cause overestimation because public budgets are composed of revenues from different sources, most of which are not generated by public enterprises. Secondly, indicators in the financial statements of public enterprises, as compiled in the Public Enterprises Report of HMB or the general report of the Turkish Court of Accounts (TCA) in 2022, can be compared with the corresponding aggregated indicators in the CAS to estimate the portion of the zakat accrued to these enterprises. However, in this case, zakat due on public enterprises may be underestimated since these reports only cover public economic enterprises (PEEs), public institutions in the scope and program of privatization, public financial institutions, and some other public institutions (TCA, 2023: 31). As stated in the subsection on property and enterprise income and capital revenues, public enterprises are not limited to those listed by the HMB and TCA.[78] Thirdly, the financial assets and liabilities held by the public sector can be considered another alternative proxy variable, referring to the Financial Accounts published by the CBRT. Regarding this indicator, we have a couple of concerns. Primarily, it only includes financial holdings and liabilities and excludes non-financial assets. Additionally, the sector of non-financial corporations in the Financial Accounts is presented without any further

[78] According to the table attached to the Communiqué on Monitoring and Reporting the Activities of Public Enterprises, local administration companies constitute another set of public enterprises (T.C. Resmi Gazete, 2021b). The Public Sector Classification numbered 2024/2, prepared and periodically updated by TurkStat, shows that 1220 personnel companies belonging to municipalities and affiliated administrations and 1200 municipality economic enterprises actively operate nowadays (TurkStat, 2024a). In addition to them, special provincial administrations can also establish joint stock companies and in-budget enterprises to carry out their duties and services based on the relevant articles of the Law on Special Provincial Administration numbered 5302 (T.C. Resmi Gazete, 2005: 52-53). All these companies and enterprises are considered public enterprises according to international classifications (Kamu Sermayeli Kuruluş ve İşletmeler Genel Müdürlüğü, 2023: 158).

categorization as public and private non-financial corporations. Although the Financial Accounts dataset has a separate category for central government and local administrations, the same issue arises as in the first suggested proxy variable. The last proxy variable we could identify is the items of public budgets, which correspond to revenues generated from PEEs and other companies and enterprises established by the local administrations. These include the budget items titled Revenues from PEEs and Public Banks, Corporation Revenues, and Corporation Profits. In order to infer the zakat due on state-owned enterprises, we can assume that the ratio of the sum of these budget items to the total revenues of the companies in the CAS reflects the ratio of state-owned and private companies' assets subject to zakat. In addition to the issue of how accurate this assumption is, it is worth noting that the revenues of public enterprises—particularly PEEs and public banks—transferred to public budgets and reflected in the mentioned budget items do not encompass all revenues of these entities, as explained in Chapter 4.

The discussion about the proxy variables in the preceding paragraph brings us to the point that the optimal way of inferring the zakat due on state-owned enterprises based on the available data sources is to calculate the ratio of the total value of public enterprise revenues in the HMB report and budget item Corporation Revenues in the public budget statistics to the aggregated revenues of the corporations in the CAS. While the first component of the numerator consists of the PEEs covered in the HMB report, the second component includes the other enterprises, especially those established by the local administrations, which are not covered by the HMB report. The ratio of the sum of these two figures to the aggregated revenues of the corporations in the CAS is assumed to represent the share of state-owned enterprises in the total zakat proceeds estimated through the CAS micro dataset. By deducting the calculated share from the zakat on business assets, we attempt to ensure the exemption of state-owned enterprises from zakat.

Companies owned by awqaf and other non-profit organizations must also be taken into account in regard to zakat on business assets through the CAS micro dataset. We could not reach any dataset covering the financial statements and revenues of these companies. Thus, we had to use the share of non-profit institutions serving households in the total financial assets in the Turkish economy as a proxy variable for the

percentage of estimated zakat accrued on companies of awqaf and other non-financial organizations. We have resorted to the Financial Accounts 2022 compiled by the CBRT to calculate the concerned ratio, recognizing its abovementioned limitations. It is worth noting that we have considered the financial assets net of short-term financial liabilities.

c) Prohibited Economic Activities

Another point that needs to be discussed in the context of zakat due on companies is the assets devoted and profit generated from the prohibited activities according to Islamic law. These assets and profits should be excluded from the zakat base because wealth earned through forbidden means, such as theft, extortion, bribery, and interest, is not subject to zakat. Scholars have stated that it is not permissible to dispose of property obtained through such means (Erkal, 2008: 57).[79] As noted above, the CAS micro dataset categorizes the companies according to the statistical classification of economic activities suggested by NACE Rev.2, considering the gross sales revenue from and the number of employees in each activity carried out by companies. Economic activities are divided into a hierarchical four-level classification as sections, divisions, groups, and classes in the NACE Rev.2. Although we need to know six-digit NACE codes under classes or further sub-categories to identify all prohibited activities, the categories at the level of four-digit codes enable us to detect some of

[79] Forbidden earnings should, if possible, be returned to their rightful owners; if that is not possible, they should be given to the poor as charity without expecting any reward in the hereafter. Therefore, it is not allowed to use these earnings even in permissible fields of activity or for procuring lawful goods and services. If they are used due to a dire necessity, such as the lack of other means of meeting subsistence, whenever it is possible, the property must be purified by giving away the amount of capital stemming from unlawful sources (Keleş, 2020: 226). In this context, not all of the initial capital of companies operating in prohibited sectors may have originated from unlawful sources. Their current and fixed assets may not, in themselves, be impermissible, nor may all the resources used to acquire them be prohibited. However, due to the lack of data that would allow for identifying the specific unlawful sources contaminating the assets and earnings of such companies, all of their assets and earnings are excluded from the zakat base.

them.[80] Table 5.4 presents the prohibited economic activities that could be revealed through four-digit codes and their corresponding sections, divisions, groups, and classes in the NACE Rev.2. The companies that carry out the listed activities are exempted from zakat calculation based on the CAS micro dataset.

The position of the companies under section K (finance and insurance activities) should be separately examined in the context of the prohibited activities. As explained, section K is not included in the CAS dataset. Thus, we resort to the Monthly Money and Banking Statistics provided by the CBRT Electronic Data Delivery System for the aggregated balance sheets to estimate zakat on the banking sector categorized in this section (CBRT, 2022c). Most companies in the banking sector conduct interest-bearing transactions and earn interest income, except those operating based on Islamic finance principles.[81] Although interest-bearing transactions are prohibited and the interest earned from these transactions is not subject to zakat, the principal amounts invested, lent, or borrowed should be included in the zakat base. Since the balance sheet items, such as deposit accounts, securities, derivatives, etc., are recorded in terms of principal values and do not cover the interest, the accounts on the assets and liabilities side can be taken into account in the zakat calculation. However, as

[80] For instance, it is required to know the six-digit categories for economic activities under the NACE class "46.34 wholesale of beverages" or "28.93 manufacture of machinery for food, beverage, and tobacco processing" to figure out the forbidden activities, such as "46.34.01 wholesale trade of alcoholic beverages" or "28.93.04 manufacture of machinery used in the preparation and processing of tobacco." Sometimes, even six-digit NACE codes are insufficient to identify the prohibited activities. For instance, the six-digit codes under the NACE class "56.30 beverage serving activities" cover both serving alcoholic and non-alcoholic beverages, as in the case of "56.30.03 beverage serving activity in lounges" and "56.30.04 Beverage serving activities in bars, taverns, and beer houses." Since the CAS categorizes the companies through only the four-digit codes (classes), it is not clear which subcategory the activities of the relevant companies fall under in the cases explained above and similar ones. Thus, we opt not to exempt any of these companies from the zakat base, resting on further assumptions.

[81] The balance sheets of the Islamic banks (participation banks) are separately presented by the CBRT.

presented in Appendix C, certain balance sheet items require special considerations. Interest earnings generally impact balance sheets through profits, most of which are composed of net interest income recorded under equity accounts. For instance, 78.4% of the revenues of the Turkish banking sector in 2022 were composed of interest income (Kartal, 2023: 10). Therefore, we have deducted 80% of the profits from the zakat base of the conventional banking sector. It is also worth noting that we have ignored the fact that the assets included in the zakat base may be financed from unlawful earnings from the previous periods, since it would make the issue more complicated. Finally, 35% of the zakat obligation of deposit banks and development-investment banks is deducted, considering the public banks' share in the total equities of these banks (BAT, 2022a). In addition, 43% of zakat due on participation banks is reduced based on the same indicator for the participation banking sector (PBAT, 2022).

Table 5.4: The Prohibited Economic Activities Excluded from the Zakat Base

Section	Division	Group	Class	Activity
A	01	01.4	01.46	Raising of swine/pigs
C	11	11.0	11.01	Distilling, rectifying and blending of spirits
C	11	11.0	11.02	Manufacture of wine from grape
C	11	11.0	11.03	Manufacture of cider and other fruit wines
C	11	11.0	11.04	Manufacture of other non-distilled fermented beverages
C	11	11.0	11.05	Manufacture of beer
C	11	11.0	11.06	Manufacture of malt
C	12	12.0	12.00	Manufacture of tobacco products
G	46	46.3	46.35	Wholesale of tobacco products
G	47	47.2	47.26	Retail sale of tobacco products in specialized stores
R	92	92.0	92.00	Gambling and betting activities

Source: Prepared by the author.

* We thank Dr. Ozan Maraşlı for sharing his findings and opinions regarding the prohibited economic activities in the NACE Rev.2 with us.

The sectoral-level exemptions of the prohibited activities and the examination of balance sheet items of the banking sector are not sufficient to exclude all unlawfully acquired assets and profits in the Turkish economy from the zakat base. The balance

sheets of the companies classified under sectors other than banking and those involving prohibited activities should also be examined. The natural consequence of the NACE sectoral categorization of the companies, which is also followed by the CAS micro dataset, is that a company may have multiple fields of activity, although its NACE section is assigned according to the main field of activity. Hence, a company mainly operating in a legitimate sector in terms of Islamic law may carry out prohibited activities and have forbidden assets and revenues. However, it is not possible to confirm whether a specific company is involved in prohibited activities and detect the portion of its revenues or profits generated from these activities through the balance sheets provided by the CAS. Thus, this matter must be regarded as one of the limitations of the calculation method of zakat due on business assets and profits based on their balance sheets.

The balance sheet items of the companies covered by the CAS dataset may require further consideration due to the interest-bearing accounts and the differences between the accounting approach and zakat assessments, as in the case of banking sector companies. However, we have not made any adjustments in their balance sheet items, and calculations have been carried out directly on the values reported in the balance sheet due to the lack of standards asserting how to approach balance sheet items in calculating the zakat base for non-financial companies.

d) Companies Operating in Livestock, Agriculture, and Mining Sectors

The last point we want to raise in this subsection is the zakat assessment of the companies operating in sectors whose output is subject to a specific zakat schedule, such as livestock, agriculture, and mining.

i) Livestock Sector

When we consider the classical zakatable assets and the relevant conditions, it is shown that camels, cows, and sheep are subject to zakat when they are naturally pastured[82] for most of the year and not devoted to work, such as agriculture and transportation.

[82] Fodder expense accounts for 2/3 of the costs in animal breeding (Kopuzlu, 2023: 42). Thus, animal breeders are saved from serious expenses by meeting this need from pasture areas.

This is the view of most jurists, except Imam Malik, who considers all these animals to be subject to zakat regardless of these two conditions (Erkal, 2008: 176). Concerning the other domestic animals (excluding working ones), naturally pastured and raised for breeding and animal products, there are two contemporary views, as stated in Table 5.3. While some argue that they are not subject to zakat as stated in the relevant Shari'ah standard of the AAOIFI, others, such as Abu Zahrah and al-Qaradawi, are of the opinion that 2.5% zakat should be imposed on the current value of these animals. At this point, the primary matter that needs to be addressed in the context of estimating zakat potential in Türkiye is the practice of Turkish companies and livestock farmers regarding the condition of natural pasturing. We could not identify a dataset showing the percentage of animals' feed needs met through pastures on the regional or provincial levels. However, according to the estimations of Yavuz et al. (2020: 349), dry grass from pastures can provide only 28% of the total fodder needed in Türkiye as of 2020. In addition to such estimates at the country level, there are also provincial and regional studies. For instance, Oran and Yıldız (2023: 540) found that pastures can meet 40.1% of the total fodder needed in Muş, where the ratio of pasture areas to total area (49.7%) is well above the average of Türkiye (18.8%). Based on these findings, we can conclude that animals raised in Türkiye do not satisfy the condition of natural pasturing for most of the year, being aware of the possibility that certain types of animals may be naturally pastured for most of the year in particular areas.

The analysis and the conclusion in the preceding paragraph do not imply that contemporary scholars totally exempt the economic activity of raising animals from zakat when they are not naturally pastured for most of the year. Table 5.3 presents the views about the zakatability of non-pastured animals, including camels, cows, and sheep, which are mentioned among the classical assets subject to zakat, as well as other animals like poultry, rabbits, bees, and silkworms raised for animal products. In this regard, al-Hadi (d. 868) and al-Mu'ayad (d. 1078) suggest imposing 2.5% zakat on the current value of animals and their products when the total reaches the nisab of gold. On the other hand, al-Qaradawi, Günay, Dumlu, and Paçacı are of the opinion that the zakat base of such activities should be the profit generated, despite their disagreements on the rate of zakat. Lastly, the AAOIFI holds the view of subjecting the current value of their products to zakat at the rate of 2.5%. It is worth noting that Paçacı (2015: 181)

and Günay (2017: 593) argue that industrial camel or sheep farming does not differentiate from camel and sheep breeding through small and medium-sized peasant/farmer models in terms of productivity and profitability. Therefore, they only subject camels and sheep to zakat when naturally pastured. On the other hand, they deem industrial cattle farming zakatable because of the change in productivity and profitability at the industrial level compared to the small and medium-sized peasant/farmer model. However, we argue that industrial livestock farming is expected to increase profitability through economies of scale, technology, nutrients, breeding methods, and marketing regardless of the animal kind (Günlü, 2023). Thus, we deem industrial breeding of all animals to be zakatable. Since the CAS dataset includes enterprises above a specific size, as noted above, we consider the companies carrying out economic activities of animal production (NACE Group 01.4 under Section A) to be industrial-level animal farmers. We follow Equations 3[83] and 4 for these companies, as in the case of those in the other sectors, to calculate the zakat base via their balance sheets, because they also own zakatable assets other than animal products and their profits.

ii) Agricultural Sector

Agricultural production is the second economic activity whose output is subject to a specific zakat schedule. Scholars unanimously agree that 5% or 10% zakat (ushr), depending on the irrigation method, is obliged to be paid for the agricultural production undertaken on ushri land, despite their disagreements on the condition of nisab and the kinds of agricultural produce subject to ushr (Erkal, 2008: 145–149). Contemporary literature confirms that the same obligation applies to industrial agricultural activities, as stated in Table 3.6. At this point, we should clarify the zakat calculation method for

[83] It is important to note that the view imposing zakat on the net equity (net worth) of the companies in the animal production sector, as implied in Equation 3, includes the animal holdings recorded as fixed assets into the zakat base. Therefore, this view aligns with the opinion of Imam Malik, who does not require natural pasturing as a necessary condition of zakatability, and that of al-Hadi and al-Mu'ayad, who include the current value of non-pastured animals in the zakat base.

the companies that grow non-perennial and perennial crops (NACE Groups 01.1 and 01.2 under Section A).

According to most jurists, the condition of nisab, which is determined as five wasq by the Prophet ﷺ, is necessary for the accrual of the obligation (Al-Qaradawi, 1999a: 65). Five wasq as a volume measure corresponds to an amount between 653 and 1000 kilograms, depending on the agricultural products. Productivity indicators per decare or tree in TurkStat's Crop Production Statistics (CPS) allow us to determine the average land size and number of trees required to achieve production above the nisab at the crop level (TurkStat, 2022a). Considering the nisab as 1000 kg, enterprises with a land size of over 20 decares can reach production above the nisab in all product groups. According to the Agricultural Farm Structure Survey 2016, the share of holdings below 20 decares in total agricultural land is below 5% (TurkStat, 2018). Therefore, the contribution of enterprises likely to produce below the nisab to total production in Türkiye is quite limited. These observations bring us to the point that estimating zakat potential on agricultural production through the CAS dataset will result in a substantial loss of zakat base because the CAS only covers companies that keep records on a balance sheet basis and thus represents enterprises above a specific size. It is highly possible that the high percentage of agricultural enterprises producing above nisab is not included in the CAS dataset. Consequently, calculating potential zakat proceeds from agricultural products based on product-level production and price data—rather than using the CAS dataset—is expected to yield more accurate results. However, this study does not estimate zakat on agricultural production using the CPS dataset. Instead, it refers to the estimations conducted by Maraşlı et al. (2025) for the year 2021, with their findings adjusted in this study according to the GDP figures for 2022.

Last but not least, we do not totally exclude the companies categorized in NACE Groups 01.1 and 01.2 from the zakat calculation, although the zakat of their agricultural production is covered in the estimation based on the CPS dataset. It is necessary to exclude the balance sheet items representing the crops' stocks, which are produced in the corresponding accounting period, so as not to lead to double zakat on the same produce. In addition, we opt to exempt the current period profits and receivables—most of which are derived or stemming from crop sales—from zakat for

the same reason. However, the other zakatable items owned by these companies in the form of current assets, such as local and foreign currencies, stock, bonds, and other securities, receivables stemming from activities other than crop production, and in the form of fixed assets like buildings, vehicles, machinery, and industrial equipment, must be taken into consideration. Appendix D presents the necessary explanations for the zakatability of relevant balance sheet items based on the above considerations. Consequently, Equations 3 and 4 are applied to these companies after excluding their assets, profits, and receivables concerning the crops they produce, stock, or sell.

iii) Mining Sector

Mining extractions constitute the third economic activity whose output is subject to a specific financial obligation. As elaborated in Chapter 3, the hadith reported by Abu Huraira, which states that "one-fifth (khums) is obligated on rikaz,"[84] can be considered the most decisive factor in determining the nature and rate of the financial obligation on the mineral extracted. Hanafite scholars regarded the term rikaz as a concept covering buried treasure and minerals. According to the other three leading schools of Islamic jurisprudence, rikaz are the valuable items buried by non-Muslims in the jahiliyyah (ignorance) period and found in the Islamic period (Adalı, 1987: 65). Therefore, they do not adopt the rate of 20% for financial obligation on minerals extracted and consider that minerals are subjected to 2.5% zakat. The scholarly disagreement over the rate of levy on minerals reflects differing interpretations of the nature of this obligation. While the Hanafis do not classify it as zakat and apply a 20% rate (khums), the other three major schools of Islamic jurisprudence regard it as zakat on minerals.

The majority of scholars agree that the condition of passage of one lunar (hijri) year does not apply to minerals, as in the case of agricultural products (Al-Qaradawi, 1999a: 229). So, the minerals are subjected to khums or zakat after their extraction. In other words, the output of the companies whose main field of activity is the mining of coal

[84] The full text of the hadith translated by Monzer Kahf is as follows: “Harm inflicted by animals is unclaimable, and harm inflicted while (working inside) a well is unclaimable, and harm inflicted while (extracting) minerals is unclaimable, and one-fifth is obligated on rikaz” (Al-Qaradawi, 1999a: 226).

and lignite (Division 05), extraction of crude petroleum and natural gas (Division 06), mining of metal ores (Division 07), or other mining and quarrying (Division 08) according to the categorization in NACE Section C (Mining and Quarrying) are subject to either 2.5% of zakat or khums at the rate of 20%.[85]

The balance sheet items in the CAS dataset, which show the stock of mining companies, can give an idea about the value of minerals extracted but not sold yet. However, it may consist of the minerals from previous accounting periods. In addition, the portion of minerals sold cannot be seen among the stocks. The same problem is valid for the income statement variables that the CAS dataset presents. Since estimating the potential of the zakat/khums imposed on the minerals extracted annually is not possible through the CAS dataset due to the reasons specified above, we have resorted to the Mineral Production Statistics compiled by the General Directorate of Mining and Petroleum Affairs (MAPEG). The methodology adopted to calculate the zakat/khums potential collected from minerals extracted in 2022 has been elaborated in Chapter 5.1. As in the case of companies in the agricultural sector, Equations 3 and 4 are applied to mining companies after excluding their assets, profits, and receivables concerning the minerals they produce, stock, or sell. Appendix D presents the necessary explanations for the zakatability of relevant balance sheet items.

5.2.2. Earned Incomes

The classical zakatable items comprise capital assets, such as trade goods, livestock, gold, and silver, and income flows, such as harvested crops and extracted minerals. Regarding capital assets, zakat is due once a year, as both classical and contemporary scholars agree upon. On the other hand, it is also unanimous among the jurists that income items above nisab are subject to zakat upon acquisition (Al-Qaradawi, 1999a: 71-72). In the case of capital assets acquired during the year, the scholars consider the relationship of the acquired assets with the other zakatable capital assets already

[85] The stance of the schools on the scope of minerals subject to zakat/khums in terms of their kind and location should be taken into consideration while determining the NACE divisions in which the financial obligations arise. Theoretical aspects of these issues are explained in Chapter 3, while the implications on the estimation of zakat/khums potential are presented in Chapter 6.

owned. For instance, when the acquired asset is derived from and of the same kind as capital assets in hand, scholars agree that they are added to the original asset while calculating the zakat obligation. On the other hand, the majority of scholars are of the opinion that acquired assets, which are not of the same kind as capital assets in hand, shall not be included in the former while considering the conditions of hawl and nisab. The last case in this context is when the acquired asset is of the same type as the capital asset in hand, but its acquisition occurs independently of it. Abu Hanifa states that the total assets, with assets acquired subsequently during the year, must be included in the zakat calculation. In contrast, Imam Ahmad and Shafi'i maintain that newly acquired assets should not be combined with those previously owned in the zakat calculation. Although Imam Malik's view regarding the naturally pastured animal obtained throughout the year is in line with that of Abu Hanifa, he adopts the stance of Imam Ahmad and Shafi'i for money acquired during the year (Ibid: 72-73).

How income gained at intervals throughout the year, such as wages, salaries, professional incomes, rental income, and returns on securities and savings accounts, should be assessed within the context of the above discussion is highly significant today. This is because, unlike in the past, such forms of income, which can be categorized as earned income, now constitute a substantial source of revenue. Moreover, the fact that financial obligations on these incomes can be collected at the source can contribute to a more effective management of taxes or zakat. Should these types of earned income, such as agricultural produce and minerals, be subject to zakat at the time of acquisition? Or should they be treated like capital assets acquired throughout the year—subject to zakat only after a lunar year has passed, either by being added to existing holdings of the same kind or assessed independently?

Contemporary literature presents two opinions regarding the zakatability of earned incomes, both of which have a basis in the classical views to some extent. Among these, the mainstream view is that earned incomes shall be added to the other zakatable assets of the same kind in zakat calculation. According to this view, the saved or unexpended portion of the total is subject to zakat if it is above the nisab after one lunar (hijri) year has passed since reaching the nisab for the first time. If the person is already a zakat-payer and has an ongoing zakat calendar, then the sum of the zakatable assets, including the saved part of the earned income, provided that the total is above the nisab, will constitute the zakat base. Many scholars and institutions have adopted

this view concerning the zakatability of several new wealth and income items listed in Table 5.3 above. For instance, IIFA, AAOIFI, HBRA, Erkal, and Günay think that the proceeds of the rental income-generating real estate, vehicles, and other assets are not subject to zakat until one lunar (hijri) year has passed after reaching the nisab unless there are other assets of the same kind that are subject to zakat. Similarly, they hold the same view on the earnings generated from machinery and industrial equipment in the manufacturing sector and capital goods in the service sector, as well as salaries, wages, and professional incomes. In other words, they do not deem these assets or their revenues as another zakatable category different from cash holdings or savings, as Paçacı (2015: 235) rightly points out. He considers that they exempt the assets from zakat and treat the earned income as saved cash, gold, and silver regarding zakatability. Lastly, it is worth noting that their stance conforms with Abu Hanifa's view of the acquired assets.

On the other hand, some contemporary scholars disagree with the mainstream view concerning the zakatability of earned income. Their objection stems from their understanding of whether a lunar (hijri) year must elapse over the nisab for earned income to be subject to zakat.[86] Both al-Qaradawi (1999a: 256) and Dumlu (2008: 149) maintain that the relevant ahadith pose the condition of nisab for zakatability on the one hand and the annuality of zakat payments on the other. However, according to them, no authentic hadith states that a year must pass over the nisab. They consider that these considerations also apply to earned income. Moreover, al-Qaradawi (1999a: 260) argues that it is not just to impose 5% or 10% of zakat on the crop produced by a farmer on rented land at the time of harvest while requiring one lunar (hijri) year to pass after reaching the nisab for rental incomes of the owner of the land. Similarly, Dumlu (2008: 122) emphasizes that people with the same income level may have different spending habits, which may lead to a varying residual income at the end of

[86] In fact, this issue relates to all capital assets subject to zakat. As noted before, we have adopted the view of al-Qaradawi (1999a: 256), stating that it is sufficient to observe the nisab only at the end of the year for the capital assets in the empirical part of this thesis for several reasons. However, earned income—being an income item in its own right—warrants separate consideration since it differs from capital assets, such as trade goods, which generally require time to yield returns from the principal (Ibid: 259-260).

the year. Therefore, according to him, subjecting the earned income to zakat after one lunar (hijri) year has passed after it reaches the nisab will result in people with the same economic power being liable for different amounts of zakat. It is important to note that he acknowledges the variation in the basic necessities of individuals and their households. However, by spending habits, he means expenditures beyond basic needs, especially luxury consumption, wastefulness, and extravagance. Based on the above considerations, al-Qaradawi (1999a: 259), Dumlu (2008: 124), and Paçacı (2015: 137) assert that earned income is subject to zakat as soon as it is received, without waiting for a lunar (hijri) year to pass. Although this view was not supported by the imams of the schools of Islamic jurisprudence, it is reported that Ibn Abbas (ra), Ibn Mas'ud (ra), Mu'awiyah (ra), Umar b. Abd al-Aziz (ra), among Companions and the Successors (Tabi'un), were of this opinion and that their practices, especially in the context of stipends (atiyyah) distributed by the state, were in this direction (Dumlu: 2008: 119).

The contemporary view of subjecting earned income upon acquisition does not ignore the annuality of zakat payments and the condition of nisab. The annuality of zakat payments implies that zakat can only accrue on the same item of wealth and income once a year. The condition of nisab, on the other hand, indicates that only assets that reach a certain amount can be subject to zakat, except for the part allocated for basic needs and debt repayment. Since earned income is received periodically throughout the year, it is essential to determine how these two conditions should be treated in the context of these revenues. At this point, contemporary scholars offer alternative proposals. Paçacı (2015: 137) argues that 2.5% of the earned income exceeding the poverty line—corresponding to the period in which the income is periodically received—should be given as zakat, especially in the context of civil servant salaries and the wages of workers entitled to unemployment benefits. On the other hand, Al-Qaradawi (1999a: 247) suggests that zakat on earned income should be calculated by aggregating the income received throughout the year in the same way that the zakat base of minerals extracted or crops harvested at short intervals is determined by summing their total yield. Thus, according to him, zakat on earned income can be calculated annually. However, he further asserts that zakat on income above the nisab should be paid as soon as it is earned (Ibid: 263). When income below the nisab is earned in the month in which zakat accrues on other assets of the same kind, he notes that it should be added to other assets in the zakat calculation. For those with no assets

subject to zakat and earning income below the nisab, al-Qaradawi considers them zakatable after they have accumulated until reaching the nisab.

Al-Qaradawi remains somewhat vague on determining the zakatable base of the earned income, particularly in relation to the third scenario mentioned above. Since such income is often spent on basic needs and other expenses throughout the year, it is crucial to clarify how these expenditures are considered when assessing nisab, especially in cases where periodic income remains below the nisab threshold. At this point, holding a similar perspective to al-Qaradawi, Dumlu sheds light on the practical aspects of calculating the zakat base of earned income and considering the nisab condition. According to Dumlu (2008: 122), the zakat base of the earned income should be calculated by discounting the part corresponding to basic needs (al-hawaij al-asliyyah) from the total income earned in a year. In this way, he thinks that differences in the zakat base due to variations in the spending habits of people with the same level of income, and therefore economic power, can be prevented. On the other hand, he also recognizes the practical difficulty of setting a binding limit for everyone for the basic needs of individuals and families, which vary according to demographic characteristics, region, and time. Thus, he suggests that this issue should be left to the conscience of individuals, referring to the worship aspect of zakat.

We have estimated the zakat potential due on earned income in Türkiye by 2022 based on the second approach, which subjects these incomes to zakat as soon as it is received, without waiting for a lunar (hijri) year to pass after reaching the nisab. In fact, as noted above, the first view does not suggest imposing zakat on earned income, except for its saved or unexpended portion, provided that nisab and hawl conditions are met. Therefore, according to this view, zakat on the saved parts of earned incomes should be calculated along with other zakatable wealth items such as cash, gold, silver, and trade goods, which are examined in a separate section.

The following two subsections are devoted to the data and method used to estimate the zakat potential due on earned income in Türkiye by 2022. The first section presents the alternative datasets, their usability in this context, and the one we opt to base our empirical analysis on, along with the underlying reasons. The second section explains how the contemporary view we adopted is formulated using the data under different scenarios varying depending on the zakat bases and rates.

5.2.2.1. Data

We have identified two micro datasets consisting of information about individual and household incomes and the sources from which they are generated in Türkiye. These are the Income and Living Conditions Survey (ILCS) (cross-sectional) and Household Budget Statistics (HBS), both produced and compiled by the TurkStat. Both datasets provide households' annual disposable net income, and the income sources at the individual and household levels are presented similarly. While the ILCS has more variables regarding the households' debt status, rent payment, housing-related expenses, and households' ability to meet their general economic and basic needs, the HBS contains extensive statistics on the consumption expenditures of households.

Data in the HBS and ILCS (cross-sectional) are collected through questionnaires conducted on a sample representative of Türkiye. Therefore, surveys are implemented over a specific period, and the survey date differs for each household. At this point, the reference period of the data, in other words, the period to which the data belongs, becomes essential. In 2022, the HBS was conducted with an average of 1,296 households per month, with consumption data reflecting the conditions of the respective month, while the reference period for income data was the preceding 12 months (TurkStat, 2023b: 13). However, to ensure comparability across households interviewed in different months, total disposable household incomes received over the past year were adjusted for inflation and standardized to reflect end-of-year values, aligning the reference period for all income data. So, the variables related to income are presented with their values in December 2022 (Ibid: 18). On the other hand, the reference period for income-related variables in the ILCS (cross-sectional) is the previous year, indicators related to living conditions reflect the situation at the time of the surveys (TurkStat, 2023d: 10).

Estimating zakat potential due on earned income requires considering the part of the income allocated to basic needs, as discussed above. The mismatch between income and living conditions data in terms of the reference period for the ILCS (cross-sectional) dataset makes such a consideration challenging. Since the ILCS (cross-sectional) samples change over the years, it is also not reasonable to use the income variables of ILCS 2023 and the living conditions variables of ILCS 2022 to address the mismatch between their reference periods (Ibid: 9-10). It should be noted that ILCS

(longitudinal) data collected from a sub-sample consisting of the same households that have been followed for four years provides a solution to this issue. However, we must acknowledge that when we carried out this study, we could not make use of that ILCS (longitudinal) dataset, as we only had ILCS (cross-sectional) data for the years 2022 and 2023. Consequently, zakat on earned income in Türkite for 2022 is estimated based on the microdataset HBS 2022, following the method described in the following subsection.

5.2.2.2. Method

HBS micro dataset presents three sets of variables. These include households, individuals, and expenditure variables. Although the first two sets of variables provide information about dwelling type, property ownership, heating methods, household amenities, durable goods, real estate, and vehicle ownership, as well as age, gender, educational background, marital and employment status of household members, we are primarily interested in variables related to income. In this regard, income sources at the individual level are composed of wages, salaries or daily fees, entrepreneurial income, agricultural income, interest on bank deposits, income from social and private pension systems, as well as transfers to older adults, widows, orphans, the handicapped, veterans, the unemployed, students, and farmers. Rent income generated from real estate, such as detached dwellings, flats, summer houses, fields, orchards, greenhouses, lands, shops, and hotels, as well as some transfer payments from state institutions or other households, constitute the income sources at the household level. The annual net income from each income source at the individual and household levels is separately recorded in the HBS micro dataset.

We opt to calculate the zakat due on earned income based on the HBS micro dataset at the household level for several reasons, although it records the incomes of each household member on an individual basis. First, as expounded below, at least the income allocated for basic needs must be exempted from the zakat base. The expenditures for basic needs and others are generally covered by income-earning members of the household. Even though individuals have their own income, they act as a single unit (household) to a large extent in terms of expenditures. Therefore, we think it would be more accurate to calculate zakat on the total household income rather than subjecting the income of the household members to zakat individually, since it

will not be possible to determine the share of household expenditures attributable to each household member. Second, incomes recorded at the household level, such as real estate rental incomes, are not assigned to a specific person in the household. In other words, these earnings are deemed as the household's joint income. According to our calculations based on the HBS, the incomes recorded at the household level in Türkiye by 2022 account for 16.8% of total yearly household disposable incomes on average. Thus, zakat due on the joint incomes of households can only be calculated at the household level. Third, the household heads responsible for managing the household's income and expenses and making decisions on legal, social, or economic matters on behalf of the households generate 74.1% of the total yearly household disposable incomes on average in 2022. Assuming that household heads also control the income generated at the household level, we can say that they hold over 90% of the household income on average. These indicators imply that almost all of the zakat calculated at the household level is actually the zakat obligation of the household head.

The total household incomes are presented net of taxes, annual aids given to other households regularly, social insurance contributions, and expenses incurred to generate the income. In other words, the net yearly disposable household income variable is available among the household variables. However, in its current form, this variable is not suitable for calculating the zakat base since it consists of income earned by individuals under 15 years of age, interest income, and profits from the sale of agricultural produce. Considering the view of Hanafites that do not think those who have not reached the age of puberty to be liable for zakat, except, in the case of zakat on agricultural production, we have deducted income earned by individuals under 15 years of age from the net yearly disposable household income (Erkal, 2008: 49). Among the contemporary scholars asserting views concerning zakat on bonds, commercial papers, and time/term deposit accounts, some include interest derived from them in the zakat base while others consider only the principal amounts zakatable, as summarized in Table 5.3 above. In line with these perspectives, we constructed two scenarios to calculate the zakat base—one that includes interest income and another that excludes it. Lastly, the annual net agricultural income, comprising total revenue from the harvested crops, is excluded from the zakat base because of the fact that the zakat due on agricultural production is separately calculated based on macro-level data as explained later and income from agricultural production

for which zakat has been paid should not subject to zakat again in the same year to avoid double zakat. It is worth noting that deducting income earned by individuals under 15 years of age and the annual net agricultural income from the net yearly disposable household income led to an average reduction in total income of only 0.02% and 4.9%, respectively.

The next step after determining total household income subject to zakat by deducting the parts that are not zakatable is to calculate the zakat base for each household. As noted before, regarding zakat on earned income, we have adopted the view which subjects these incomes to zakat as soon as it is received, without waiting for a lunar (hijri) year to pass after reaching the nisab. However, when estimating zakat on yearly income, the portion spent on basic needs during the relevant year should not be included in the zakat base (al-Qaradawi, 1999a: 264).[87] In this context, we agree with Dumlu that it is difficult to determine a standard amount representing basic needs for each household. Being aware of this issue, we have decided to use two criteria to define the upper and lower limits for basic needs. On the one hand, the poverty line set by the TurkStat for 2022, based on 50% of the median disposable income of the equivalent household per individual, adjusted according to the number of equivalent individuals in households, represents the lower limit for the households' basic needs. On the other hand, the actual total expenditure of each household obtained from the HBS dataset represents the upper limit for basic needs. Thus, the estimations made for each case (with and without interest earnings) have two subcases showing the minimum and maximum values depending on the scope of basic needs exempted from the zakatable earned incomes.[88]

[87] This approach resembles the tax imposition method of Dahhak b. Abd al-Rahman, who was sent to Cazirah by Caliph Abd al-Malik b. Marwan and observed the prevailing taxes low. In order to determine the new taxes, he found out how much money could be saved in a year by taking into account the possible yearly earnings and the cost of eating, drinking, dressing, and other expenses, assuming that people were workers with their hands (Ebu Yusuf, 2019: 78).

[88] At this point, it should be noted that neither the poverty line nor the expenditure criteria clearly take into account the indebtedness of households. This leads to the fact that the amount allocated to debt repayment from the income earned during the year remains within

One may suggest another case in which the nisab of agricultural production represents the households' annual subsistence level based on al-Dihlawi's statement. As noted before, he argues that the nisab condition of zakat on agricultural production exempts a part of the production, corresponding to a family's annual livelihood (Islahi, 2011b: 84; Salama, 1982: 344). However, five wasq varies significantly in terms of value depending on the agricultural products. When we take five wasq, which is a measure of volume ranging from 653 to 1000 kg depending on the agricultural product, as 1000 kg, the value of 5 wasq of sugar beet amounts to 1,500 TL in 2022, while that of asparagus exceeds 124,000 ₺ (TurkStat, 2022a). The average value of five wasq of plant products in Türkiye is equivalent to 14,860 ₺ in 2022, even lower than the poverty line (32,109 ₺) determined according to 50% of the median income. Considering these facts, a case based on the nisab of agricultural products, in addition to the cases mentioned in the previous paragraph, has not been developed to exclude the portion corresponding to necessities from zakatable earned incomes.

The zakat rate imposed on the calculated zakat bases is another essential component of estimating zakat due on earned income. As seen in Table 5.3, al-Qaradawi proposes different zakat rates for income derived from labor and capital, although the zakat rate prescribed by scholars for the relevant income items is generally 2.5%. According to al-Qaradawi (1999a: 264), net revenue generated from capital assets should be subject to 10% zakat, while the rate of zakat on labor income must be 2.5%. Considering the view of al-Qaradawi, we have constructed two more subcases under the subcases constructed for basic needs exemptions. While the first subcase applies 2.5% to all earned income, the other subcase distinguishes between real estate income and others, subjecting the former to zakat at 10% and the latter at 2.5%. Since the zakat must be calculated based on the lunar (hijri) calendar, but the values in the HBS are compiled according to the Gregorian calendar, the rates are adjusted to 10.3104% and 2.5776%, respectively, as commonly suggested in the contemporary literature (Kahf, 2017: 13).

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the zakat base. However, as will be seen in the following sections, we expect that taking into account the total debts of individuals and households when determining the zakat on wealth items will rectify the overestimation in estimated zakat potential due on earned income.

All cases varying depending on the scope of zakatable income, deductible basic needs, and zakat rates are presented in Table 5.5.

Table 5.5: Cases for Estimating Zakat Potential on Earned Incomes

Zakatable Income	Zakat Base	Zakat Rate*	Cases
Including interest earnings	Based on the Poverty Line	2.5% for all	1.1.1
		10% for real estate income 2.5% for others	1.1.2
	Based on Expenditures	2.5% for all	1.2.1
		10% for real estate income 2.5% for others	1.2.2
Excluding interest earnings	Based on the Poverty Line	2.5% for all	2.1.1
		10% for real estate income 2.5% for others	2.1.2
	Based on Expenditures	2.5% for all	2.2.1
		10% for real estate income 2.5% for others	2.2.2

Source: Prepared by the author.

* Please note that the column devoted to the zakat rate shows the rates for the lunar (hijri) calendar for a simpler appearance, although we have applied the adjusted zakat rates according to the Gregorian calendar, as noted above.

Zakat obligations due on earned incomes at the household level have been calculated by applying the rates on the zakat base of households above the nisab of gold.[89] The summation of the calculated zakat obligations of the households meeting the nisab condition is reported as the total zakat potential on earned income for each case described above in Chapter 6. The interpretations of the results and their possible deficiencies are also presented in the same section of Chapter 6.

5.2.3. Wealth Items

Wealth items occupy an essential place among the zakatable assets. Three of the five classical categories of zakatable assets comprise wealth items: animals, gold and

[89] As of the end of 2022, the price per gram of gold is shown as 1,091.57 ₺ in the Gold Statistics of the Central Bank of the Republic of Türkiye (CBRT, 2022b). The value of gold nisab is calculated by multiplying this price by 80.18 grams, which is determined as the nisab in terms of grams by the High Board of Religious Affairs of Türkiye (HBRA, 2017d).

silver, and trade goods. In addition, new zakatable wealth items have originated in the last centuries in various forms. These include non-financial assets, such as real estate, vehicles, machinery, industrial equipment, and capital goods in the service sector, as well as financial assets, such as local and foreign cash currencies, gold and silver certificates, time/term deposit accounts, saving accounts, stocks, shares, bonds, commercial papers, and other securities, as presented in Tables 3.6 and 5.3.

Concerning these classical and contemporary wealth items, we have discussed the zakatability of animals raised in Türkiye and how to approach non-pastured animals raised for animal products in the section devoted to business assets. In addition, trade goods and other zakatable wealth items held by companies have been covered in the same section above. This section mainly focuses on the wealth items owned by the households in Türkiye.

Jurists have identified conditions related to assets to be subjected to zakat, considering the common characteristics of the classical categories of zakatable wealth and income items and the relevant narrations indicating the zakatability criteria. As with other assets subject to zakat, wealth items must meet certain conditions in order to be subject to zakat, such as complete and absolute ownership, actual or discretionary growth (nama), nisab level, the passage of one lunar (hijri) year (hawalan al-hawl), being other than essential needs, and being free of debt. In the context of nisab and hawalan al-hawl conditions, it is worth reiterating that we have adopted the view of al-Qaradawi, which was also in conformity with the stance of Imam Malik, for several reasons, and observed the nisab only at the end of the year without requiring a lunar (hijri) year to pass after reaching the nisab for zakatability, as discussed at the beginning of Chapter 5.2. Regarding the condition of being other than essential needs, we have exempted income allocated for households' basic needs or expenses while estimating the potential of zakat on earned income based on the method presented in Chapter 5.2.2. However, this condition is not confined to family expenses in monetary units but also suggests that the assets in personal use are also exempted from zakat, which has implications for the zakatability of wealth items, particularly non-financial assets, as elaborated below.

The condition of being free of debt could not be taken into account in the estimations concerning earned incomes due to the data constraints. Thus, the earned income devoted to debt repayment remained in the zakat base specified for the earned income

of the households, leading to an overestimation of the zakat potential. As referred to in Chapter 5.2.2, we expect that deducting the debts of individuals when determining the zakat base of wealth items will rectify the overestimation in estimated zakat potential due on earned income.

The condition of actual or discretionary growth (nama) seems more associated with the nature of the property itself compared to the other conditions. The other conditions pertain to the ownership of the property, its volume, the holding period, and whether it is allocated for essential needs or debt, as underlined before. This aspect, which differentiates the nama condition from other conditions related to zakatable assets, is particularly prominent in financial assets. For instance, gold and silver are deemed to satisfy the nama condition due to their potential for growth, even if they are not allocated to income-generating investments (Erkal, 2008: 59). When we examine the contemporary views asserted for the zakatability of the new financial assets, such as local and foreign cash currencies, gold and silver certificates, time/term deposit accounts, saving accounts, stocks, shares, bonds, commercial papers, and other securities, in Table 5.3, we can conclude that the same consideration is present there as well. However, in the case of non-financial assets, except naturally pastured animals, the jurists do not view them as possessing actual or discretionary growth potential, even if they exceed the owner's needs and are rented out to generate revenues. According to the mainstream view in the literature, non-financial assets, such as residential, commercial, industrial, or agricultural real estate, land, water or air vehicles, and other movable assets, are not subject to zakat unless they are held for trade (AAOIFI, 2015: 875; IIFA, 2021: 3).

Households may hold non-financial assets for various purposes, including personal or family use, income generation through rental, or potential gains from trading. Within the framework of the mainstream view outlined above, non-financial assets become zakatable only when held for trading purposes. However, some scholars argue that assets generating rental income should be subject to zakat not only on the income they produce but also on their capital value. At this point, it is crucial to note that we could not find any data available for Türkiye that we can use to infer the purposes for which households hold their non-financial assets. Moreover, as discussed in the next section, even the data on household holdings of non-financial assets and their distribution are notably limited. Consequently, regardless of which view is adopted, such data

constraints do not allow us to estimate the potential of zakat on households' non-financial asset holdings. Therefore, we have to limit our estimations to the households' financial wealth using the data and method outlined in the following two subsections.

5.2.3.1. Data

To estimate zakat on wealth items, the key information required is the amount of zakatable wealth held by individuals whose wealth, constituting the zakat base, exceeds the nisab level. In contrast to business assets and earned incomes, which have been covered before, we do not have any micro dataset presenting the wealth items at the individual or household level in Türkiye. In this case, the information needed can be obtained through wealth distribution indicators. However, Türkiye does not currently have official wealth distribution data, which requires us to resort to other sources.

The UBS Group, an investment banking and wealth management firm headquartered in Switzerland, has been publishing wealth distribution estimates at the country, regional, and global levels since 2000. The Global Wealth Reports prepared by the UBS for each year focus on how individual net worth is distributed both within and between markets. While the phrase "markets" stands for countries as well as economically autonomous regions, they define net worth as the total market value of financial and non-financial assets minus outstanding debts (UBS, 2024: 4). Thus, the Global Wealth Reports show net financial and non-financial wealth levels and their distribution for the concerned markets. In this regard, financial wealth comprises liquid assets, such as equities, bonds, mutual funds, savings accounts, and other tradable financial assets in the markets. On the other hand, the primary components of non-financial wealth are land, real estate, and other tangible assets (UBS, 2025: 13). The unit of analysis is individuals aged 20 and over, i.e., adults (UBS, 2024: 5). Although the Global Wealth Reports present a summary of the estimates, the Global Wealth Data Books (GWD), which are generally published one year after the reports, consist of detailed data.

GWD 2023 presents estimates for 217 markets, including Türkiye, in 2022. Data for Türkiye is compiled from sources like the Unicredit Central and Eastern Europe Households' Wealth and Debt Monitor and the Central Bank of the Republic of Türkiye (CBRT) (Ibid: 10). According to their assessment, the data quality for Türkiye

is labeled as satisfactory (Ibid: 24). Satisfactory rating is given to markets where original household balance sheets are available for financial assets, and explanatory variables are sufficient to estimate non-financial assets through regression-based techniques (Ibid: 18). In other words, non-financial wealth in total and per adult given for Türkiye are the outputs of the estimates, not the original observations. In addition, Türkiye is not among the 40 markets having wealth distribution data (Ibid: 14-17). For 140 markets, including Türkiye, that lack wealth distribution data but have income distribution data, preliminary estimates of wealth distribution are derived using the relationship between wealth and income distribution observed in comparable markets within the same region. These initial estimates are then refined by adjusting the distribution of the wealthiest segments based on the World's Billionaire List by Forbes (Ibid: 4). Consequently, the following indicators have been derived for Türkiye through either original data or the estimation processes outlined above:

- The number of adults aged 20 and over (thousand)
- Share of adults in the world (%)
- Total gross wealth (USD billion)
- Share of total gross wealth in the world (%)
- Financial and non-financial wealth in total (USD billion) and per adult (USD)
- Debt per adult (USD)
- Median wealth per adult (USD)
- Distribution of adults by four-category wealth range
- Percentage membership of global wealth deciles and top percentiles
- Wealth shares by decile

Although GWD reports the level of financial wealth in total and per adult in 2022 for Türkiye, we have relied on the CBRT's Financial Accounts (FA) dataset for a more detailed analysis. In this approach, while the wealth distribution indicators are drawn from the GWD, the financial wealth is taken from the FA dataset. The FA shows financial net worth both for the total economy and according to the different economic units, such as non-financial and financial corporations, central and local governments, non-profit institutions, and households (CBRT, 2022a). The dataset compiled for the households presents the aggregated financial net worth of all individuals in Türkiye, meaning that it is not restricted to adults aged 20 and over, as in the case of the GWD.

In addition, it provides the components of financial assets and liabilities. This feature of the FA allows us to exclude some parts of the assets and liabilities, like the investments in shares and the long-term liabilities, from the zakat base, as discussed in the methodology part below.

5.2.3.2. Method

This section presents the methodological steps we have followed to estimate zakat's potential on households' financial wealth. As noted before, we have two datasets showing the households' total financial wealth in Türkiye as of 2022, with some differences in some respects. Since they are not micro datasets that provide financial wealth figures at individual levels, they do not enable us to consider the nisab condition. Therefore, we need to use the wealth distribution estimates of the UBS Group, which are presented in the GWD 2023 with significant details, to calculate the population holding financial wealth above the nisab and the portion of the total financial wealth owned by them in Türkiye by the end of 2022.

The GWD 2023 features three tables, each offering a distinct view of wealth distribution in Türkiye. Table 3-1, titled "Wealth pattern within markets, 2022", shows the percentage and number of adults in Türkiye according to four-category wealth ranges (UBS, 2024: 126). However, these wealth ranges are too broad, and thus, it is not appropriate to minutely identify the adults with wealth above nisab. Table 3-4, titled "Percentage membership of global wealth deciles and top percentiles by market of residence, 2022", presents each market's share of adults within every wealth decile, along with the minimum net total wealth level for each decile, based on a global ranking of adults from the least to the most wealthy (Ibid: 132). This table directly implies the share of adults residing in Türkiye within each decile. Given that the total adult population across all markets in the report is known, as well as the number of adults in each decile, we can use Türkiye's share presented in Table 3-4 to estimate the number of adults residing in Türkiye within each decile.[90] Thus, we can obtain

[90] It should be noted that the rounded ratios presented in Table 3-4 of the GWD 2023 lead to some deviations in our calculations. However, Table 2-2 of the same report directly reports the adult population in Türkiye. The availability of the actual adult population enables us to revise our calculations. By comparing the summation of the calculated number of adults

information on the distribution of the adult population in Türkiye according to the minimum total wealth levels specified for each global wealth decile in Table 3-4 of GWD 2023. Applying the share of financial wealth in the total wealth for Türkiye (22.5%) as of 2022, which has been estimated by the UBS Group, to the minimum net total wealth of each decile, we can also infer the minimum net financial wealth for each decile.[91] By comparing each decile's minimum net financial wealth with the nisab level, we can reach the cumulative sum of the number of adults in Türkiye with net financial wealth higher than nisab. This finding reveals the share of the adult population who are obliged to pay zakat on their financial wealth.

The share of the total net financial wealth owned by adults having net financial wealth above nisab can be derived from Table 4-5 of the GWD 2023, titled "Wealth shares and minimum wealth of deciles and top percentiles for regions and selected markets, 2022". This table shows the distribution of total gross wealth by decile in Türkiye. Assuming that net wealth distribution is the same as gross wealth, we can infer the share of the adult population above nisab in the total net financial wealth to reach the zakat base of the net financial wealth in Türkiye. After specifying the percentage of net financial wealth possessed by zakat-liable adults, this ratio can be applied to the total financial net worth of households in Türkiye as of 2022, based on the aggregated data provided by the CBRT's Financial Accounts (FA). This application intrinsically assumes that the financial wealth of adults is identically distributed to that of all individuals, including the non-adult population. Finally, total financial net worth owned by zakat-liable individuals, i.e., the zakat base, as determined through the methodical steps outlined above, is subject to zakat at a rate of 2.5776% to estimate the zakat proceeds derived from the financial wealth of households in Türkiye at the end of 2022.

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in each decile with the figure in Table 2-2, we generated an adjustment rate to be applied to all deciles, thereby eliminating the overall deviation.

[91] It is worth noting that the wealth composition of the individuals may differ as the wealth level changes. As rightly pointed out in GWD 2023, wealthy individuals tend to hold a larger proportion of financial assets within their total wealth than others (UBS, 2024: 122). However, since we do not have an indicator to confirm this for the case of Türkiye, we assume that the wealth composition is the same for all wealth groups.

5.3. Data and Methods for Assessing Selected Public Revenue Sources in Türkiye

The second set of reforms presented in Chapter 6 deals with the existing public revenue sources and examines the structure of selected taxes from the theoretical framework outlined in Chapter 3. In this regard, the domestic taxes on goods and services and VAT on imports, i.e., consumption taxes, and personal income tax have been selected for the assessment due to their high share in the public budgets, corresponding to 54.31% of public revenues on average between 2006 and 2023. The following subsections introduce the data and quantitative methods used to derive the relevant indicators, such as the consumption tax burden and non-taxed personal income for wage earners, which are needed while assessing the selected tax types according to taxation principles propounded before.

5.3.1. Consumption Tax Burden Estimation Method and Data

Taxes on goods and services, i.e., consumption taxes, applied in Türkiye have predominantly the nature of objective taxes, which leads to a financial obligation at the same rate regardless of the economic situation of individuals, as presented in Chapter 4. Given the broad range of goods and services subject to various consumption taxes—many of which are staples in the consumption baskets of all income groups—and the phenomenon of forward shifting of these taxes, it is evident that individuals across different income levels bear a substantial consumption tax burden. The fact that they are indirect taxes on transactions makes it difficult to measure the total tax burden they impose on individuals. Despite this, understanding the distribution of the consumption tax burden among the income groups is crucial to assess these taxes based on the taxation principles in Islamic public finance theory, specifically principles of justice and taxing richness beyond needs, as discussed in Chapter 6. Since the estimations for consumption tax burdens by income groups in Türkiye are limited, and the most recent study in this context that we could identify covers the period between 2003 and 2008, we have developed a method to estimate the consumption tax burdens on households by income quintiles in 2022 as outlined below (Zenginobuz, Adaman, Gökşen, Savcı, & Tokgöz, 2010; Zenginobuz, Özertan, Sağlam, & Gökşen, 2006).

5.3.1.1. Data

The ideal way of precisely estimating the consumption tax burden on households by income quintiles in Türkiye is to apply the prevailing tax rates on the relevant expenditures of households using the Household Budget Statistics Micro Dataset published by the TurkStat every year. In fact, Zenginobuz et al. (2010) follow a similar methodology to calculate value-added tax (VAT) and special consumption tax (SCT) burdens on households by income quintiles. However, due to the scope of the thesis, we opted to utilize the following macro statistics, which were compiled from microdata by the relevant institutions. To test the reliability of our estimates based on macro data, we conducted tax burden calculations not only for 2022 but also for 2007 and 2008, and compared the results with the findings of Zenginobuz et al. (2010) for the corresponding years. The details of this comparison are provided in Appendix F.

- Central Government Budget Statistics 2022, The Ministry of Treasury and Finance
- Local Administration Budget Statistics 2022, The Ministry of Treasury and Finance
- Total Household Monthly Consumption Expenditure by Income Quintiles (COICOP-3) - Household Consumption Expenditure Statistics 2022, Turkish Statistical Institute
- Distribution of Annual Household Disposable Income (Average) - Income and Living Conditions Survey 2023, Turkish Statistical Institute
- Household Count 2022 - Household Consumption Expenditure Statistics 2022, Turkish Statistical Institute

The central government and local administration budgets, published by the Ministry of Treasury and Finance, provide the total annual public revenues generated from taxes on goods and services. In this regard, the types of consumption taxes recorded in the central government budget as a separate budget item include the VAT (including VAT on imports), Banking and Insurance Transaction Tax, Gambling Tax, Special Communication Tax, Digital Services, Accommodation Tax, and the SCTs on Petroleum and Natural Gas, Motor Vehicles, Beverages, Tobacco, Coke, and Durable Goods and Others. The types of taxes on goods and services that separately appear in the local administration budget are Entertainment Tax on Joint Bets, Entertainment

Tax for Places Entered with and without Tickets, Environmental Cleaning Tax for Residences and Workplaces, Fire Insurance Tax, Announcement and Advertising Tax, Communication Tax, and Tax on Electric and Coal Gas Consumption for Households and Workplaces.

The Household Consumption Expenditure Statistics compiled by the TurkStat contains the total average monthly expenditures of the households from each income quintile, which are classified at the third level categorization of the COICOP-1999[92] developed by the United Nations Statistics Division. These statistics allow us to know the total value of average monthly household expenditures for each income quintile and their respective shares in overall household consumption across all income groups. Moreover, the detailed classification of spending based on the COICOP enables us to match the household expenditure category with the relevant consumption taxes, as expounded in the following subsection.

Lastly, the data on the distribution of annual household disposable income, calculated based on the Income and Living Conditions Survey (2022) by the TurkStat, shows the average annual income of households by income quintiles. We used this data to get each income group's annual disposable income by multiplying the average income by 20% of the total number of households, as reported in TurkStat's household count statistics. This approach allowed us to calculate the denominator of the tax burden formula for each income quintile, as detailed in the following subsection.

5.3.1.2. Method

Our method for estimating the total consumption tax burden on households by income quintiles involves allocating the total proceeds from each consumption tax to the household groups based on the share of their spending in the corresponding expenditure category, subject to that tax. This method rests on the fact that consumption taxes are imposed either as an ad valorem tax (a proportional tax imposed on the value of goods) or a specific duty per consumption unit, and thus, the higher the

[92] The abbreviation COICOP stands for "The Classification of Individual Consumption According to Purpose." Although the latest version of the COICOP was released in 2018, TurkStat has followed its previous version dated 1999 for the Household Consumption Expenditure Statistics until 2023.

expenditures on the taxable goods and services, the higher the total tax paid. In this regard, the first step before calculating tax burden is to match the consumption tax types in the central government and local administration budgets with the expenditure categories in the COICOP-based Household Consumption Expenditure Statistics of the TurkStat. The list of taxes on goods and services and the corresponding expenditure category is presented in Table 5.6 below.

A distinct approach should be taken for VAT in matching expenditure categories with consumption taxes. Unlike other consumption taxes, VAT is collected on a wide range of goods and services, and public budgets include the total amount of VAT collected as a single budget item. Given the broad scope of VAT, the distribution of all expenditure categories across households by income can be assumed to represent the distribution of the VAT payments. However, as explained in Chapter 4, VAT is applied at different rates to three categories of goods and services. Therefore, if the share of expenditures on goods and services subject to different VAT rates varies across household groups by income, which is highly likely, it may result in a misallocation of the VAT payments. In this context, the expenditure categories corresponding to food products subject to 1% VAT and goods and services subject to 8% VAT as of early 2022 are separately identified and presented in Table 5.7. Before distributing the VAT payments among the household groups by income, we first calculate the VAT due on the expenditure categories in Table 5.7 by multiplying the VAT rates by the total value of household expenditures in the corresponding categories. Secondly, VAT due on goods and services subject to the 18% rate is calculated by subtracting the VAT proceeds from the goods and services subject to the 1% and 8% rates from the total VAT revenues in the central government budget. Finally, the total VAT payments stemming from the mentioned expenditure categories are allocated to the household groups based on the share of their spending in the corresponding expenditure category. Tax payments arising from transactions subject to the 18% VAT rate are allocated across household groups according to their share in total spending for goods and services other than those subject to the 1% or 8% rate.

Table 5.6: COICOP Expenditure Categories Matched with Consumption Taxes

Taxes on Goods and Services	Expenditure Category (COICOP)
Banking and Insurance Transaction Tax	125 Insurance
	126 Financial services n.e.c.
Gambling Tax	094 Recreational and cultural services
Special Communication Tax	083 Telephone and telefax services
Accommodation Tax	112 Accommodation services
Petroleum and Natural Gas (SCT)	072 Operation of personal transport equipment
Motor Vehicles (SCT)	071 Purchase of vehicles
	092 Other major durables for recreation and culture
Beverages (SCT)	021 Alcoholic beverages
Tobacco (SCT)	022 Tobacco
Coke (SCT)	012 Non-alcoholic beverages
Durable Goods and Others (SCT)	053 Household appliances
	082 Telephone and telefax equipment
	091 Audio-visual, photographic, and information processing equipment
	093 Other recreational items and equipment, gardens, and pets
	121 Personal care
Entertainment Tax on Joint Bets	094 Recreational and cultural services
Entertainment Tax for Places Entered w/o Tickets	
Entertainment Tax for Places Entered w/ Tickets	
Environmental Cleaning Tax for Residences	044 Water supply and miscellaneous services relating to the dwelling
Environmental Cleaning Tax for Workplaces	
Fire Insurance Tax	125 Insurance
Communication Tax (SCT-L)	081 Postal services
	083 Telephone and telefax services
Tax on Electric and Coal Gas Consumption for Households (SCT-L)	045 Electricity, gas, and other fuels
Tax on Electric and Coal Gas Consumption for Workplaces (SCT-L)	

Source: Prepared by the author.

* Please refer to the United Nations Statistics Division website for the whole structure of the COICOP-1999, including all sub-categories and explanatory notes (United Nations, 2024). We could not find a corresponding expenditure category at the third level classification in the COICOP-1999 for two types of consumption taxes applied in Türkiye: Announcement and Advertising Tax and Digital Services Tax. Since these two taxes account for 0.5% of the total consumption tax proceeds in 2022, their omission is not expected to cause significant bias in estimations. While the abbreviation SCT specifies the special consumption taxes in the central government budget, SCT-L implies the special consumption taxes collected by the local administration budget.

After the matching between the expenditure categories and the consumption taxes, as shown in Tables 5.6 and 5.7, and calculating the shares of household groups in total expenditures for each category and in total tax payment due on them, the next step is to estimate the tax burden on household groups by income quintiles.

Table 5.7: COICOP Expenditure Categories Subject to 1% and 8% VAT in 2022

VAT Rates Applicable in 2022	Expenditure Category (COICOP)
1%	011 Food
8%	031 Clothing
	044 Water supply and miscellaneous services relating to dwelling
	051 Furniture and furnishings, carpets, and other floor coverings
	052 Household textiles
	061 Medical products, appliances, and equipment
	062 Outpatient services
	063 Hospital services
	095 Newspapers, books, and stationery
	101 Pre-primary and primary education
	102 Secondary education
	103 Post-secondary non-tertiary education
	104 Tertiary education
	105 Education not definable by level
	111 Catering services
	112 Accommodation services
	124 Social protection

Source: Prepared by the author.

The following equation formulates the tax burden (τ_i) on households by income quintiles (i). The index j represents consumption tax types listed in Tables 5.5 and VAT with its three rates, while R_j stands for the total proceeds of tax j. Thus, n becomes 19 in total, together with the subdivisions of VAT according to its rates, and SCT based on its subject matters. The share of household group i in the total tax proceeds of tax j is indicated by the parameter s_{ij}, which actually corresponds to the shares of household groups in total expenditures for each category of zakatable goods and services. I_i is the value of the annual average disposable income of a single

household in group i. When it is multiplied by 20% of the total number of households, as shown in the equation, the result gives the total annual disposable income of all households in the corresponding income quintile. The burden of each consumption tax on household income groups and its total magnitude, calculated through Equation 5, is presented in Appendix F.

$$\tau_i = \sum_{j=1}^{n} \frac{s_{ij}.R_j}{I_i.HC.0.20} \quad (5)$$

The methodology outlined above, along with the findings obtained thereby, has been instrumental in assessing the possible implications of the restructuring of consumption taxes as proposed in Chapter 6 on the amount of taxes paid by household groups, the tax burdens they bear, and public revenues.

Last but not least, the methodology for calculating the consumption tax burden on households by income quintiles is not free of deficiencies. First of all, it should be noted that the expenditure categories associated with consumption taxes do not fully correspond to the actual tax bases of the respective taxes. These categories inevitably include goods and services that fall outside the scope of the relevant tax. However, except for the method applied in the case of VAT, expenditure categories are not directly used as tax bases for other taxes; instead, they serve as proxy variables reflecting the share of each household group in the corresponding consumption tax payments. Secondly, the use of average household disposable income while calculating the total annual disposable income of the household groups may cause deviation due to the outlier value affecting the average upward or downward. This issue should also be taken into account when interpreting the results.

5.3.2. Data and Method for Estimating Non-Taxed Wage Income

Taxes on income, profits, and capital gains in Türkiye, whose first precedents were implemented in the Ottoman period starting from the 1860s, currently constitute the second most income-generating tax category after the domestic taxes on goods and services in Türkiye, as presented in Figure 4.7 before. Both personal and corporate incomes are subject to taxation in Türkiye. However, we have focused on personal income tax in Chapter 6.3.2 from the perspective of taxation principles in Islamic public finance theory, especially regarding the principle of taxing richness beyond

needs. Therefore, this section explains the data sources used and outlines the method for estimating non-taxed personal income tax for wage earners in Chapter 6.3.2.

5.3.2.1. Data

Unlike taxes on expenditures, detailed statistics on the sources of income tax revenue are not publicly available. The Ministry of Treasury and Finance divides income tax revenue into two main headings: personal and corporate income taxes. These are further broken down based on the revenue collection method rather than the revenue sources. For example, personal income tax revenue is basically reported according to collection methods such as declaration, withholding, and lump sum. These classifications allow us to make only superficial inferences about the tax burden on the taxable income sources and taxpayers. However, they do not provide insight into personal income tax revenue distribution across taxpayers or income sources.

On the other hand, the relevant micro datasets compiled by TurkStat, namely the Income and Living Conditions Survey (ILCS) and Household Budget Statistics (HBS), are also not appropriate sources for estimating individuals' income tax burden. This is because all income items in these datasets represent net income after deducting taxes and the expenses incurred to generate such income. In other words, the income variables in these datasets reflect disposable income at the individual and household levels. Moreover, the datasets do not include variables on either pre-tax income or taxes paid. Due to these limitations, we have not been able to identify a reliable way to estimate the income tax burden at the individual or household level using these datasets.[93]

[93] Zenginobuz et al. (2010: 31) estimated the income tax burden of households by income groups between 2003 and 2008, assuming that income tax is paid on all incomes reported by the HBS. However, they do not disclose much detail on the methodology they follow. In this context, their approach appears to lack precision, both because the income figures in the HBS are net of taxes and because calculating the tax burden by simply applying the income tax tariff to total household income does not accurately reflect the structure of the Turkish personal income tax system, which is characterized by extensive use of exemptions, exceptions, deductions, and withholding taxes, as discussed in Section 6.3.2.

Despite the above-mentioned limitations concerning the available data sources, as explained in the following section, Tax Expenditure Reports published annually by the Presidency of Revenue Administration (PRA) since 2006 enable us to draw some insights into the prevailing personal income tax structure in the context of the principle of taxing richness beyond needs. The PRA's reports provide estimates of tax expenditures arising from exemptions, exceptions, and deductions in personal income, corporate income, value-added, special consumption, banking and insurance transactions, motor vehicles, and special communication taxes (Gelir İdaresi Başkanlığı, 2023: 2). In this regard, tax expenditure refers to the amount of tax foregone due to exemptions, exceptions, and deductions. In addition to the tax expenditure distribution among concerned tax types, the reports also present the estimated tax expenditure resulting from each statutory article that stipulates exemptions, exceptions, and deductions in the corresponding laws. As elaborated in the section devoted to the method, the PRA's Tax Expenditure Report 2023, which consists of estimates for tax expenditures in 2022, is the main data source for the analysis. In addition, we have resorted to various other data sources when needed. These are listed below. The following section explains how and for what purpose these data are used.

- Tax Expenditure Report 2023, Presidency of Revenue Administration
- Household Budget Statistics 2022, Turkish Statistical Institute
- Paid Employee Statistics 2022, Turkish Statistical Institute
- Distribution of Annual Household Disposable Income (Average) - Income and Living Conditions Survey 2023, Turkish Statistical Institute
- Poverty Statistics 2023, Turkish Statistical Institute

5.3.2.2. Method

The principle of taxing richness beyond needs implies that people who cannot afford their necessary expenses should not be obliged to pay taxes. In addition, those who can cover these expenses shall not be taxed on the resources they allocate for these needs. After meeting basic needs, the remaining resources must exceed the richness level (nisab) to be taxable. Therefore, tax can only be imposed on richness beyond needs, provided the taxation conditions presented before are realized.

In a case where we cannot calculate the tax burden caused by income tax in terms of the taxpayer and income sources due to data constraints, the PRA's estimates of tax expenditures provide essential data on the income sources and amounts of income excluded from income tax. The PRA's data are helpful because we need the sources and amounts of non-taxed income to assess the personal income tax system in terms of the principle of taxing richness beyond needs.

Not all tax expenditures in the context of personal income tax result in partial or complete exclusion of concerned income sources from tax obligation due to various reasons explained in Chapter 6.3.2. Therefore, we first opted to begin by examining the nature of exemptions, exceptions, and exclusions from tax declarations, which lead to tax expenditures according to the methodology of the PRA. As a result of this examination, tax expenditures and the relevant articles of law that exclude personal income from taxation were identified.

In the second stage, the average income excluded from taxation per wage earner in Türkiye for 2022, due to some tax expenditures, which are confirmed to eliminate taxation on the part of wage income in the first stage, is estimated. The starting point of this estimation process is the total tax expenditures identified by the PRA for each relevant exception for wage income. However, in their current form, these amounts do not directly represent income excluded from tax obligation. They only show the tax revenue foregone due to the exceptions. To estimate the total non-taxable wage income based on the tax revenue foregone, we first need to understand the concept of tax expenditure adopted by the PRA.

In determining tax expenditures, the PRA first calculates the tax liability that would arise if all gross income—in our case, gross wage net of social security and unemployment insurance premiums—were taxed according to the progressive income tax tariff in Article 103 of the ITL without exemptions, exceptions, withholding, or exclusion from tax declarations. Then, the calculated liability is compared with the tax collections under the current arrangements. The difference in favor of the former is recorded as the amount of tax expenditure.

Considering the PRA's tax expenditure estimation procedure briefly explained above, in order to reach the total non-taxable wage income out of the total tax expenditures, we need to identify the tax rate that the wages, excepted from tax obligation, would have been subject to if the exception had not been applied. At this point, we first determine which income tax bracket the average annual equivalized household per capita disposable income for each ventile (20 equal-sized percentiles) based on TurkStat's ILCS falls into according to the income tax tariff 2022 and the corresponding tax rates (see Figure 5.1). Then, a weighted average of the tax rates for each ventile is taken. This weighted average tax rate is assumed to be the tax rate that would be applied to income excluded from tax due to the exception in the counterfactual scenario without exceptions.[94]

[94] Please note that the incomes presented in Figure 5.1 are annual disposable incomes per capita in equivalized households, which may divert the weighted average of income tax rate on wages for two reasons. First, income tax brackets are typically defined on the basis of gross income net of social security and unemployment insurance premiums. Therefore, the tax bracket corresponding to disposable income may differ from the income bracket applicable to pre-tax gross income. This issue may lead to underestimating the weighted average income tax rate. Second, personal income is subject to tax on an individual basis. The total household income per equivalent individual may be different from the individual income of each person in the household. Similarly, this discrepancy may affect the income tax bracket and the corresponding tax rate determined for each ventile, causing the weighted income tax rate to deviate from its real value. Despite all these, we believe the calculated weighted tax rate will give an approximate parameter for Equation 6.

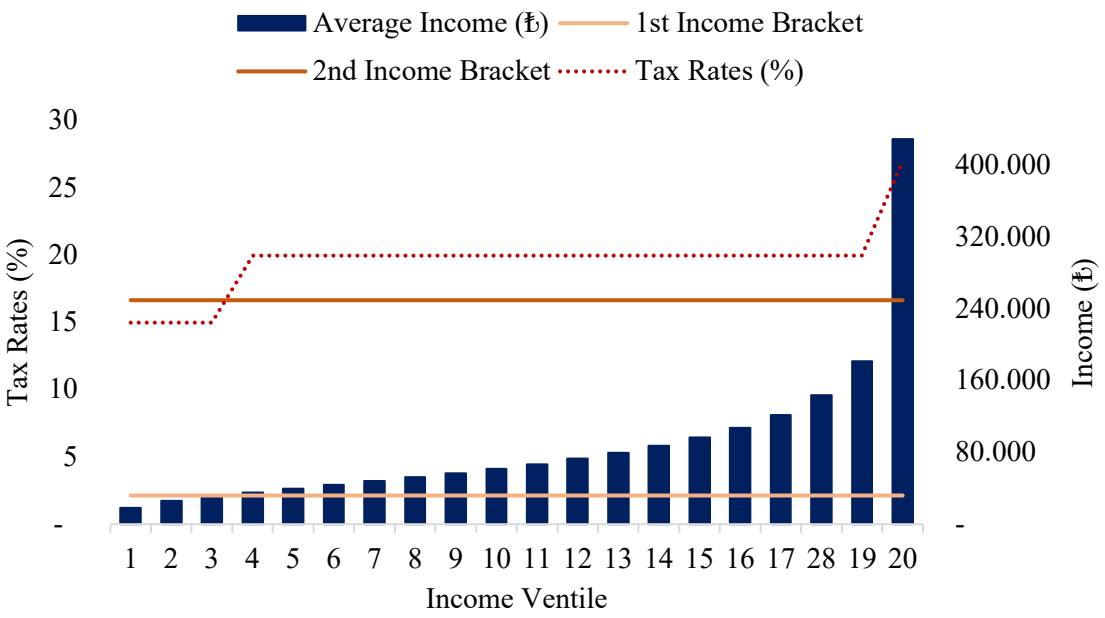

Figure 5.1: Average Annual Equivalized Household Per Capita Disposable Income by Ventile and Corresponding Tax Rates According to the Income Tax Schedule in 2022

Source: T. C. Resmi Gazete, 2021; TurkStat, 2023c

* Please note that the straight lines in orange tones show the upper bound of the income tax brackets for wage incomes.

Using the equation below, the total tax expenditure amounts are applied to the inverse of the weighted tax rate to arrive at the total excepted income and then divided by the number of wage earners to calculate the average non-taxable wage income per wage earner.

$$\sum_{i=1}^{n} \frac{TTE_i / r_w}{N_w} \qquad \text{where } r_w \in [0,1] \qquad (6)$$

Variable TTE_i stands for the total tax expenditure stemming from the statutory article i stipulating exceptions for wage income in the Income Tax Law. Parameter r_w represents the weighted average income tax rate applied to wages, which is estimated based on the data in Figure 5.1. Lastly, N_w is the variable showing the average number of paid employees in 2022, which is derived from the monthly Paid Employee Statistics of the TurkStat. While the numerator shows the total amount of the wage income exempted from income tax due to each statutory article granting exceptions

for wage earners, the whole equation, with other parts, gives us the average non-tax wages in a year for paid employees in Türkiye.

The third stage of the method is to compare calculated average non-tax wages in a year for paid employees in Türkiye with the thresholds representing the income allocated for needs in the same year, 2022, to understand whether the prevailing exemptions granted for the wage earners in Türkiye comply with the principle of taxing richness beyond needs. In this regard, we can set lower and upper limits based on the poverty line and actual expenditures, similar to the method we follow in determining the amount of income allocated for needs in the context of zakat on earned income. The lower bound is the poverty line (32,109 ₺) determined by TurkStat based on 50% of the median income of equivalized household per capita disposable income (TurkStat, 2023f). At the other extreme, the average of households' annual consumption per equivalent individual (81,969.78 ₺) calculated from the Household Budget Statistics (HBS) 2022 represents the upper bound (TurkStat, 2023b). Thus, the wage income expected to be exempted from income tax for an individual in 2022 should be between 32,109 ₺ and 81,969.78 ₺ to ensure the principle of taxing richness beyond needs is respected, at least for the wage earners to a large extent. We cannot say that this exception fully respects this principle because those with incomes between these limits and the nisab (87,522.08 ₺) continue to be taxed on their incomes above the limits but below the nisab—the criterion for determining richness. This concern is prominent, especially when the lower bound is adopted, since it is considerably below the nisab level. However, in the case of the upper bound, the difference drops to insignificant levels.

The additional tax expenditure—in other words, the additional personal income tax to be foregone—resulting from the amount of income that must be exempted in order to bridge the gap between the identified thresholds and the average untaxed wage income calculated under the method described above, is obtained by reversing the operation in Equation 5. More precisely, the additional income tax exemption introduced per paid employee was first multiplied by the number of paid employees to calculate the total amount of income tax to be exempted. Subsequently, the estimated amount of forgone income tax revenue was calculated by applying the average income tax rate to this income. The equation representing this calculation is presented below. In general, the notation used in Equation 5 is also employed in Equation 6, with the distinction

that ATE denotes the aggregate additional tax expenditure, and AWE refers to the annual additional wage exemption per paid employee.

$$ATE = AWE.N_w.r_w \qquad \text{where } r_w \in [0,1] \qquad (6)$$

CHAPTER VI
FINDINGS ON BUDGETARY IMPACTS OF ZAKAT POTENTIAL AND PROPOSED TAX REFORMS IN TÜRKİYE

This thesis examines the public revenue system in Türkiye from the perspective of Islamic economics, aiming to explore how Islamic public finance theory envisions transformations in the existing revenue structure and how such changes might impact the public budget. In this regard, Chapter 3 sets out the theoretical framework of Islamic public finance, including its revenue sources. Chapter 2 provides a critical analysis and synthesis of classical and contemporary literature on Islamic public finance, which serves as the foundation for the framework developed in Chapter 3. In addition, Chapter 4 presents the prevailing public revenue system and its components in Türkiye, providing their historical background. Together, these three chapters form the essential basis for addressing the thesis's first two research questions, which discover the extent of alignment between Islamic public finance theory and Türkiye's current public revenue structure, and inquire about the potential reforms and amendments in the prevailing structure to enhance this alignment.

In this respect, the study proposes two sets of reforms. The first set of reforms proposes new public and semi-public revenue sources for the Turkish public finance system. These mainly include public revenues generated from properties under the state's ownership or rule and disposal, as well as semi-public revenues originating from zakat proceeds. Concerning the properties under the state's control, the case of minerals and hydrocarbons (crude oil and natural gas) is investigated, although this investigation can be extended to other natural resources, such as lands and waters, discussed in Chapter 3. Regarding zakat proceeds, business assets, earned incomes, and financial wealth are taken into account while estimating potential semi-public revenues in Türkiye. On the other hand, the second set of reforms deals with the existing public revenue sources and examines the structure of selected taxes, which account for a significant portion of Turkish public revenues. Accordingly, the domestic taxes on goods and services and VAT on imports, i.e., consumption taxes, and personal income tax have been selected for the assessment due to their high share in the public budgets, corresponding to 54.31% of public revenues on average between 2006 and 2023. More

precisely, the reform proposals, which have been elaborated in the following sections, can be outlined below:

1. Revising the Rates of the State's Right/Shares in Minerals and Hydrocarbons
2. Inclusion of Zakat as a Semi-public Revenue Source
3. Eliminating the Consumption Tax Burden on Low-Income Groups
4. Exempting Income Allocated to Necessities from Tax

The following sections separately present the details of the reform suggestions along with their justifications based on the Islamic public finance theory outlined in Chapter 3. Pertaining to the third research question inquiring into the potential budgetary impacts of the suggested reforms for Türkiye, the findings of the estimations based on the quantitative methods in Chapter 5 are also introduced and interpreted below.

6.1. Assessment of Fiscal Status of Minerals and Hydrocarbons in Türkiye from the Perspective of Islamic Public Finance Theory and Budgetary Implications

Natural resources, in general, and minerals, in particular, are considered national wealth that have implications for energy production, industrial development, public budget, balance of payments, and many other aspects of the economy. Türkiye does not rank high in terms of the production of natural resources. However, exploration and extraction activities have been accelerated by both state enterprises and private companies in the last decade. This section is devoted to analyzing the status of natural resources in the Turkish public revenue system and its assessment from the perspective of Islamic public finance theory. The first subsection aims to examine the minerals in terms of the regulatory framework, ownership status, the current level of reserves, and contributions to the treasury and other public institutions based on the current regulations in Türkiye. The second subsection assesses the prevailing regulatory framework, particularly the ownership status of and financial obligations arising from minerals and hydrocarbons, and presents the estimated potentials of zakat, khums, and public share on these natural resources, considering the classical and contemporary views in Islamic law.

6.1.1. The Prevailing Fiscal Status of Minerals and Hydrocarbons in Türkiye

The section starts with definitions and classifications specified in Turkish laws regarding minerals and hydrocarbons in order to discover their scope. The second

subsection presents the mineral and hydrocarbon reserves in terms of their kind and the changes in recent years. The third subsection addresses the ownership status of minerals and hydrocarbons in Türkiye based on the relevant articles in the laws. The state's rights/shares have been defined, and the contribution of the public revenues generated from these natural resources to the budget has been presented in the fourth subsection.

6.1.1.1. Minerals and Hydrocarbons in the Turkish Legislation

Türkiye has two main laws that define and regulate the concerned natural resources: the Mining Law and the Turkish Petroleum Law. In this subsection, we aim to show how Turkish legislation categorizes and describes the minerals and hydrocarbons based on these laws. We refer to other implementing regulations when deemed necessary.

The Mining Law, numbered 3213, aims to regulate the exploration and operation processes of minerals (T.C. Resmi Gazete, 1985: 1). The main function of the Mining Law is to define rights over minerals. Thus, it has detailed sections and articles about ownership of minerals; obtaining, maintaining, and canceling mining licenses; rights and obligations of the license holder; scope and duration of the license; transfer of mining rights and dispute resolution processes regarding mining rights, and so on (ETKB & TOBB, 2021: 59). The Law considers all materials with economic and commercial value and naturally found in the earth and water as minerals, except crude oil, natural gas, and geothermal water resources. After defining the scope of minerals, the Law categorizes them into five main groups. Although the basis of the categorization is not clearly mentioned in the Law, the Mining Law Implementing Regulation states that the minerals are classified in terms of their mineralogical, physical, and chemical properties and areas of use (T.C. Resmi Gazete, 2022: 4).

According to the classification of minerals in the Mining Law, Group I consists of types of sand and gravel used in building and road construction, clays used in brick, tile, and cement production in dams, ponds, and similar structures, and rocks used in cement and ceramic industries. On the other hand, Group II involves stones for use on areas such as roads, dams, ponds, and harbors without changing their geometric shapes, building stones used in filling, retaining, and other building walls (excluding stones for decorative purposes), rocks employed in the production of ready-mixed

concrete and asphalt. Stones produced as blocks, such as marble, stones given geometric shape by sizing, natural stones used for decorative purposes, and rocks used as raw materials in integrated cement, lime, and calcite grinding, iron and steel plants, power plants, and metal production facilities are also included in Group II.

When we look at the minerals categorized under Group III, salts dissolved in sea, lake, and spring waters, as well as carbon dioxide gas and hydrogen sulfide found outside geothermal, natural gas, and crude oil fields, come into prominence. Industrial raw materials such as sodium and potassium, energy raw materials such as lignite and hard coal, metallic minerals such as gold and silver, and radioactive minerals such as uranium and thorium are classified under Group IV. Lastly, Group V consists of precious or semi-precious minerals such as diamonds and rubies. The lists of all minerals produced in Türkiye as of 2022 and their corresponding groups according to the Law are presented in Appendix A.

As noted earlier, crude oil and natural gas are not listed in any groups stipulated by the Mining Law. Exploration and production of crude oil and natural gas, as well as issues regarding subsidies, supervision, and data collection in this context, are regulated by the Turkish Petroleum Law (T.C. Resmi Gazete, 2013: 1/2). Although the name of the Law does not explicitly mention crude oil and natural gas, the phrase petroleum is used for both crude oil and natural gas in the Law. While crude oil is defined as natural hydrocarbons in liquid and solid form, natural gas stands for gaseous natural hydrocarbons that can be extracted from the ground (T.C. Resmi Gazete, 2013: 2).

6.1.1.2. Mineral and Hydrocarbon Reserves and Production in Türkiye

Türkiye does not rank high in terms of the production of minerals, crude oil, and natural gas. However, the current situation does not mean that Türkiye is not rich in natural resources. On the contrary, Türkiye hosts rich mineral resources in its territory, but these resources were fragmented and dispersed in the form of smaller deposits due to the repetition of orogenesis (mountain formation) several times in the same region. 70 out of 90 types of natural resources are located within the borders of Türkiye, and 60 mines are traded. Türkiye is ranked 22nd in terms of quantity (ton) and 28th in terms of value (USD) among 168 countries when the production of 65 minerals at the country level is considered (ETKB & TOBB, 2021: 51).

The most prominent types of minerals found in Türkiye in terms of reserves are boron, trona, perlite, and bentonite (Ibid: 51). When we consider the production rather than the reserve, boron, pumice, and feldspar are the minerals that Türkiye is the leading producer in the world (Hastorun, 2022: 1). Türkiye's rankings according to its share in the world reserves and production of the prominent minerals are listed in the table below.

Table 6.1: List of Minerals in which Türkiye has the Largest Share in the World in terms of Reserves or Production

Mineral Reserve		**Mineral Production**	
Türkiye's Ranking	Mineral Type	Türkiye's Ranking	Mineral Type
1	Boron	1	Boron, Pumice, and Feldspar
2	Trona	2	Chromite, Magnesium, Perlite and Soda Ash
3	Perlite and Bentonite	4	Bentonite and Gypsum
4	Feldspar, Chrome, and Cement	6	Antimony
5	Barite and Gypsum	7	Cement, Sand, Gravel, Zeolites
6	Antimony	8	Barite and Raw Steel
11	Lead	9	Kaolin and Selenium

Source: ETKB & TOBB, 2021: 51; Hastorun, 2022: 1

The crude oil reserve of Türkiye amounts to 1.2 billion tons, of which 239 million tons can be considered recoverable or producible by 2022. The total cumulative production until 2022 is 168 million tons, meaning that the remaining producible crude oil in Türkiye is approximately 70 million tons (MAPEG, 2024). 3.4 million tons of crude oil production by Türkiye corresponded to 0.08% of the world's total crude oil production in 2021 (Reichl & Schatz, 2023: 151–152). Türkiye's crude oil production in 2022 increased by 4.1%, reaching 3.58 million tons (MAPEG, 2024).

Türkiye's natural gas reserves are estimated at 567 billion cubic meters, of which 561 billion are classified as producible. The cumulative sum of the natural gas production by 2022 is 17 billion cubic meters, meaning that Türkiye has around 543 billion cubic meters of remaining producible natural gas (Ibid). Türkiye's share in the world's total natural gas production in 2021 was only 0.009% (Reichl & Schatz, 2023: 149–151).

Natural gas production of Türkiye in 2022 was 1.7% lower than the previous year (MAPEG, 2024).

Crude oil and natural gas production in Türkiye by year is presented in the figure below, which covers the years between 1999 and 2022. While there has been an increasing trend in crude oil production since 2008, natural gas production has decreased after the peak in 2008.

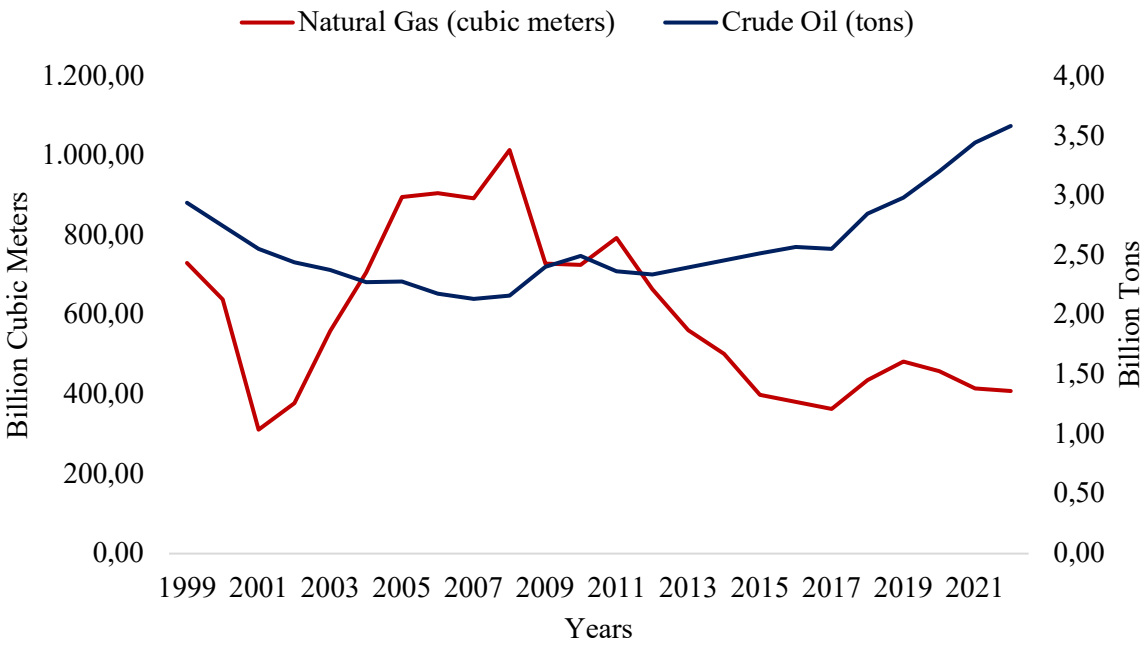

Figure 6.1: Yearly Crude Oil and Natural Gas Production of Türkiye (1999-2022)
Source: MAPEG, 2024; Reichl & Schatz, 2023

6.1.1.3. Ownership Status of Minerals and Hydrocarbons in Türkiye

The minerals were generally found in state (miri) lands during the classical period of the Ottomans (Balcı, 1994: 15). The state used the minerals to coin money and produce warfare equipment. Assigning officials to contact and agree with the miners in the region to extract the minerals and collect the share of the state was the most common method of operating mines in the classical period of the Ottomans (Ibid: 26). In brief, minerals were monopolized by the state until the Tanzimat reform era (1839-1876) (Ibid: 32).

The Imperial Edict of Reorganization (Tanzimat Fermanı) and the following laws and regulations regarding lands and minerals brought changes in various aspects of mining

lands and their operations. For instance, article 107 of the Land Law, dated 1858, defined the ownership status of minerals based on the land types where minerals were found (Çağatay, 1943: 120; Keskin, 2011: 127). Even though the ownership status of minerals was linked with land ownership, the state could appropriate the minerals found when the landlord was not eligible to operate them (Balcı, 1994: 13). The Mining Regulation, dated 1861, enabled foreigners to be partners in the mines, and the state encouraged foreign investors by granting concessions in the mining sector starting from the 19th century. However, these concessions did not entitle the investors to the ownership of mines; instead, they always remained in the hands of the state (Ibid: 62).

The minerals continued to be under the authority of the state after the proclamation of the republic (Kartalkanat, 1991: 63). As stated in Article 168 of the Constitution of the Republic of Türkiye, all natural resources are under the rule and disposal of the State (T.C. Resmi Gazete, 1982: 168). Based on the relevant article in the Constitution, the Mining Law of Türkiye rules that the mines are under the rule and disposal of the State and are not subject to the ownership of the land in which they are located (T.C. Resmi Gazete, 1985: 16). Both the Constitution and the Mining Law authorize the state to transfer the right to explore and operate to natural and legal persons for a specific period.

Concerning the transfer of rights by the state, mining rights shall be granted to Turkish citizens who are competent to exercise civil rights, to companies with legal personality established following the laws of the Republic of Türkiye, to state economic enterprises and their affiliates, and other public institutions, organizations, and administrations authorized in this respect (Ibid: 6). Mining rights consist of the rights of first application, exploration license, discovery, apparent reserve development, and operating license. These rights cannot be divided into shares but can be transferred to another party. Mining rights and obligations are inherited upon the death of the rights holder (Ibid: 5).

The Turkish Petroleum Law, numbered 6491, which regulates the exploration and production of crude oil and natural gas, also rules that petroleum resources in Türkiye are under the rule and disposal of the state (T.C. Resmi Gazete, 2013: 3). The state is authorized to transfer the petroleum rights that represent the rights arising from

research permits, and exploration or operating licenses to natural and legal persons for a certain period.

6.1.1.4. Contribution of the State's Right/Share to the Public Budget

This subsection focuses on the state's rights defined by the Mining Law and the state's share specified by the Turkish Petroleum Law while investigating the link between mineral production and the public budget. Apart from these, the laws consist of various public revenue items transferred to different public authorities, such as license fees, transfer fees for mineral and petroleum rights, business opening permit fees, afforestation fees, and administrative fines. However, these revenue items are not taken into consideration in this subsection because most of them are minor compared to the state's rights or shares and are not transferred to the general budget.

The Mining Law of Türkiye defines the state's right as the share of the state in the revenue generated by the extraction of minerals that the license holder is obliged to pay (T.C. Resmi Gazete, 1985: 3). As the phrase revenue in the definition implies, extracted and produced minerals are not subject to the state's right unless they are sold as unprocessed or after enrichment processes. As a matter of fact, the state's right declaration form attached to the Mining Regulation clearly shows that the share of the state is calculated on the value of the mineral sold (T.C. Resmi Gazete, 2022). On the other hand, the Turkish Petroleum Law calculates the state's share based on the crude oil and natural gas produced by the license holder rather than sales or revenues (T.C. Resmi Gazete, 2013: 2). Even the state's share can be paid in kind upon the request of the Ministry of Energy and Natural Resources of Türkiye (Ibid: 9).

Calculating the value of the state's right or share requires specifying the price of minerals sold and crude oil and natural gas produced. In this regard, the Mining Law differentiates between unprocessed and enriched minerals. In the case of unprocessed minerals, the sale price of crude ore at the mine is taken into consideration. If the minerals undergo an enrichment process before the sale, the state's rights are calculated based on the final sale price of the enriched mineral after deducting transportation, energy, depreciation, personnel, consumables, water, maintenance and repair, technological testing, and packaging costs (T.C. Resmi Gazete, 1985: 14). The license holder, who operates a mine, must report the prices and costs to the MAPEG along with all other relevant information needed for calculation of state's rights. The prices

declared by the license holders cannot be lower than the benchmark prices announced by the MAPEG annually, considering the mineral types, regions, quality, and other technical details. Another measure taken to ensure that the state's right collected is kept above a certain level is the requirement for the licensee to pay at least the state right equal to the operation license fee every year, regardless of the production and sales amount (Ibid: 14). According to the Turkish Petroleum Law, the state's share to be paid by the oil producer is calculated based on the market price of domestic crude oil per barrel. Natural gas producers are obliged to pay the state's share, which is determined by using the natural gas sales price to distribution companies or eligible consumers (T.C. Resmi Gazete, 2013: 9).

Another aspect of the state's rights or share that needs to be mentioned is the rates specified for minerals, crude oil, and natural gas. The Turkish Petroleum Law applies 12.5% to crude oil and natural gas produced (Ibid: 9). The rates designated by the Mining Law differ depending on the mineral types and vary between 1% and 14% (T.C. Resmi Gazete, 1985: 14). Figure 6.2 summarizes the rates used for calculating the state's rights for each mineral group or sub-group.

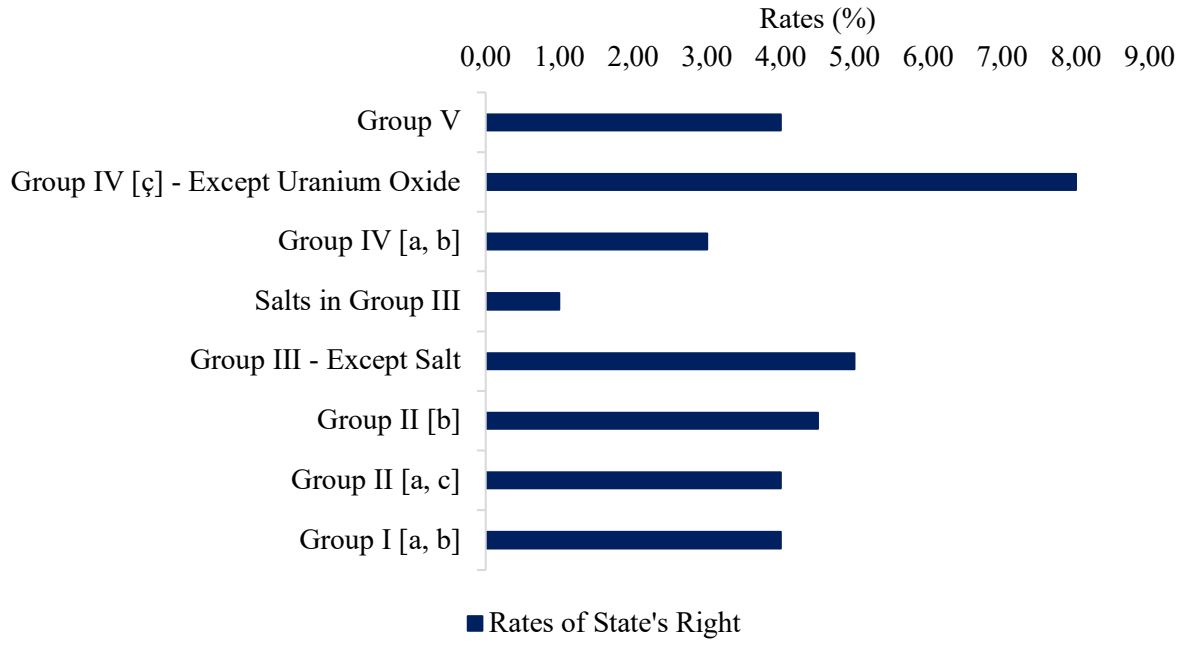

Figure 6.2: The Rates of the State's Rights in terms of Mineral Groups

Source: T.C. Resmi Gazete, 1985

* For explanations of the mineral groups, please refer to the relevant section on minerals in Turkish legislation. See Appendix A for a complete list of minerals categorized under each group and sub-group.

The sub-category of Group IV, denoted with the letter c, which consists of metallic minerals such as gold and silver, and uranium oxide from Group IV [ç] do not appear in the figure above because the rates for these minerals are not fixed, and determined considering the annual average price on the London Stock Exchange (LSE). For the ones that are not traded in the LSE, the benchmark prices are announced by the Ministry of Energy and Natural Resources. The list of minerals classified in Group IV [c], including uranium oxide[95] in Group IV [ç], and corresponding rates of the state's right in 2022 are presented in Figure 6.3 below.

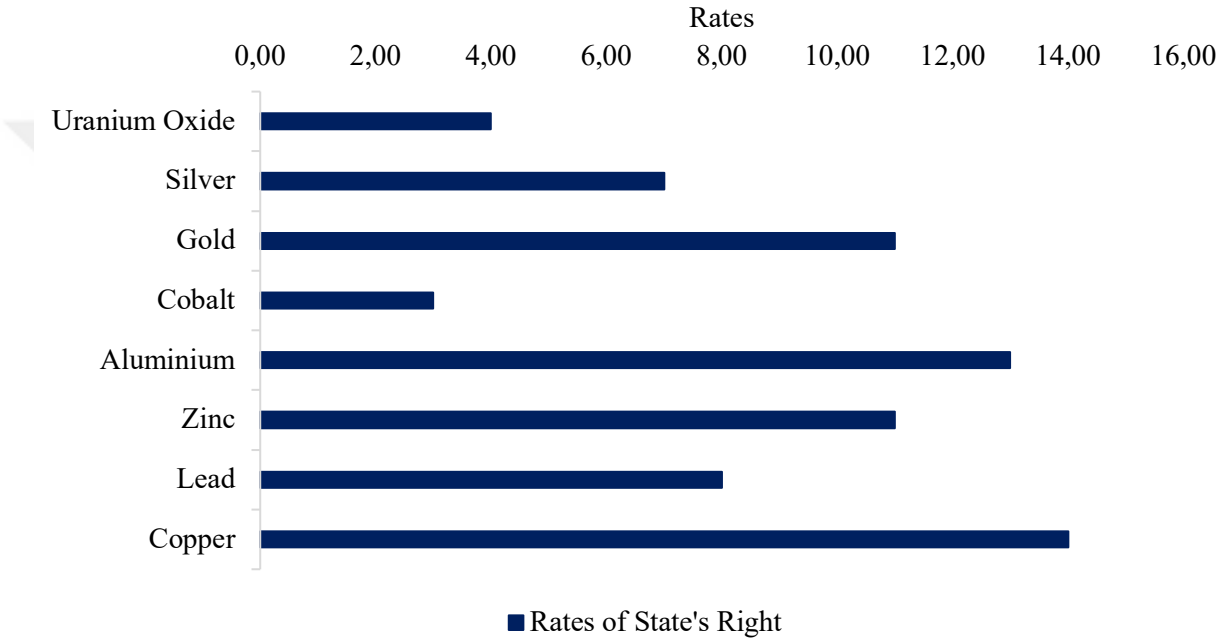

Figure 6.3: The Rates of the State's Rights for Uranium Oxide and Metallic Minerals in 2022

Source: MAPEG, 2023c; Statista, 2023

Figure 6.4 shows the yearly accrued and payable state's rights between 2016 and 2022. The payable state's right (PSR) represents the amount calculated by deducting the

[95] In contrast to the metallic minerals, the MAPEG did not announce the the annual average price in the London Stock Exchange (LSE) of uranium oxide and its corresponding rate of the state's right in 2022. Thus, we calculated its annual average price based on the date provided by Statista (2023), and found the corresponding rate from the table in the Mining Legislation (T.C. Resmi Gazete, 2022).

incentives from the accrued state's right (ASR). The ratio of the former to the latter (PSR/ASR) lingers between 76% and 87% during the period. Since we could not reach the data that separately shows the accrued and payable state's shares in petroleum production, only the collected state's shares are presented in Figure 6.5. The figure demonstrates yearly state's shares collected from crude oil and natural gas production with separate lines between 2016 and 2022. It is evident that around 90% of the collected state's share stems from crude oil, and the share of natural gas is minor.

The total value of the collected state's rights and shares amounts to 12.22 billion ₺ in 2022, according to data presented in Figures 6.4 and 6.5. The shares of the minerals, crude oil, and natural gas in the total amount are 51.6%, 42.2%, and 6.2%, respectively.

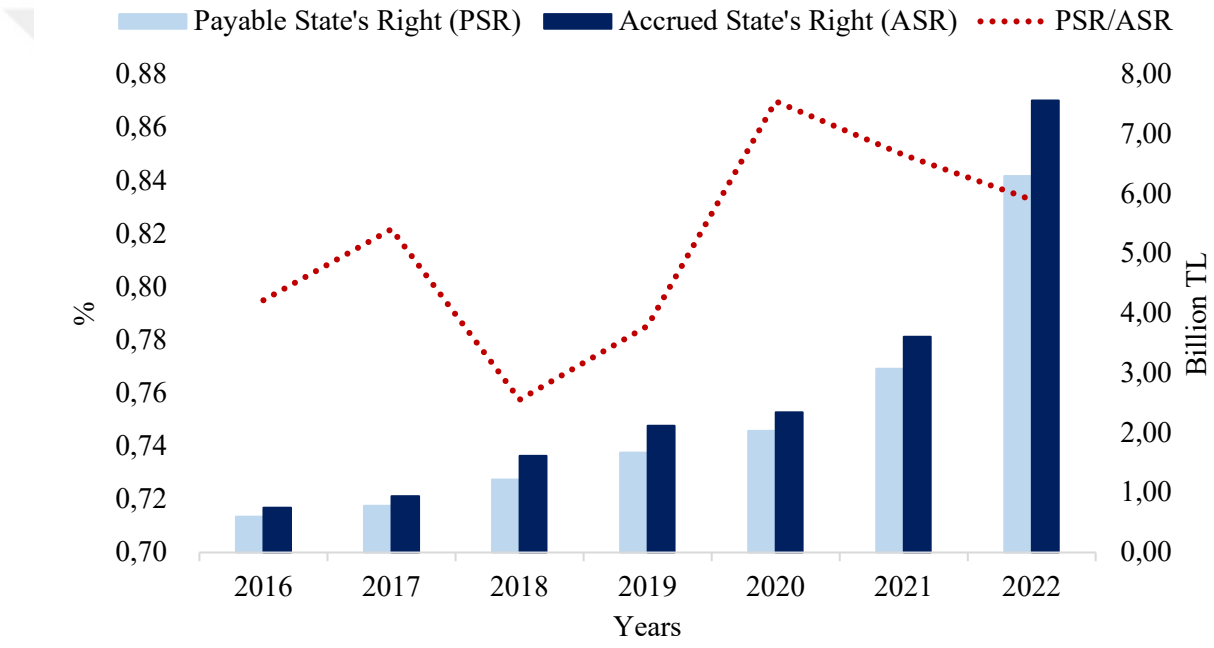

Figure 6.4: Yearly Payable and Accrued State's Rights between 2016 and 2022
Source: MAPEG, 2023d

The allocation of the collected state's rights differs depending on the type of municipalities where the minerals are extracted. In the case of metropolitan municipalities, the whole amount of the state's right is transferred to the general budget. However, the Minister of Interior is authorized to allocate 50% of the total value of the state's rights to the Ministry's budget to be transferred to investment monitoring and coordination directorates, provided that half of it will be used in rural areas. If the minerals are found in the borders of the other municipalities, the collected

amount is shared between the general budget (50%), the Village Service Delivery Unions (25%), and the Special Provincial Administration (25%) (T.C. Resmi Gazete, 1985: 14). The table below summarizes the allocation of the collected state's rights. On the other hand, the revenues generated from the state's shares in petroleum production are directly recorded as income to the general budget (MAPEG, 2023a: 89).

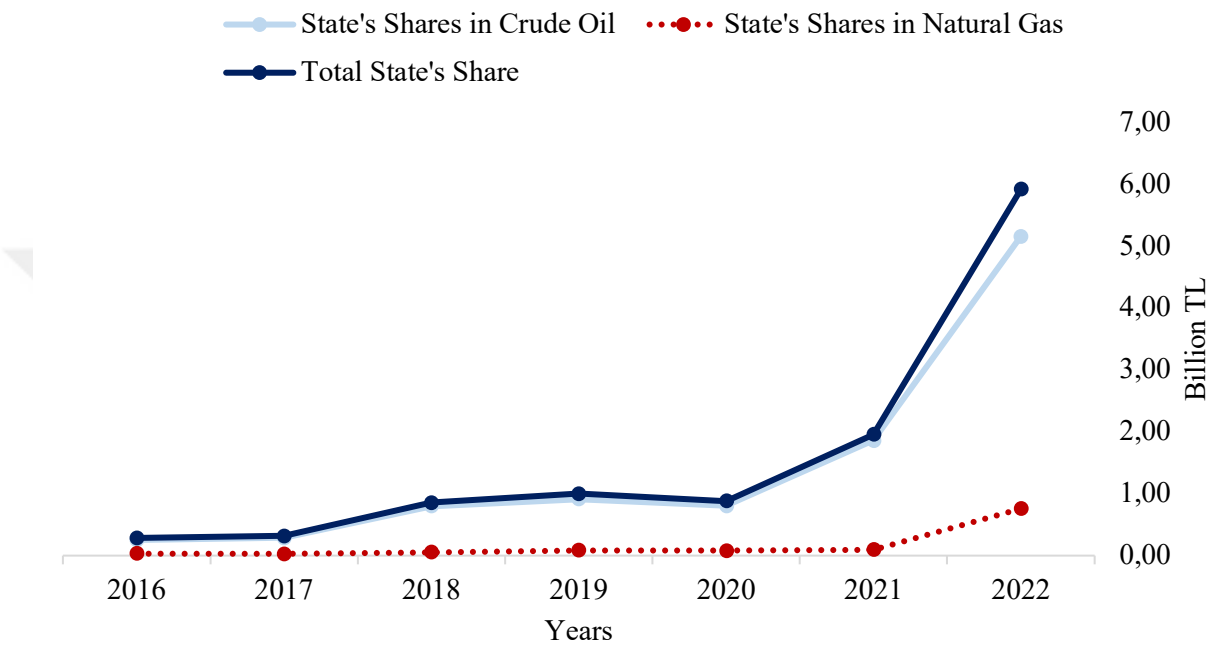

Figure 6.5: Yearly State's Shares Collected from Crude Oil and Natural Gas Production between 2016 and 2022

Source: MAPEG, 2023a: 40

The values of state's rights and shares in the relevant public budgets can be calculated based on the figures in the General Government Budget Revenues, Special Budget Institutions, and Local Administrations Budget Revenues, as shown in Table 6.3. The calculation clearly provides that the state's rights over minerals transferred to the general budget were 2.81 billion ₺, while the state's shares in petroleum contributed 5.63 billion ₺ to the general budget.

Table 6.2: Allocation of the Collected State's Rights

Metropolitan Municipalities		Other Municipalities	
Allottee	Share	Allottee	Share
General Budget	100%*	General Budget	50%
*The Minister of Interior is authorized to allocate 50% of the total value of the state's rights to the Ministry's budget.		Village Service Delivery Unions	25%
		Special Provincial Administration	25%

Source: T.C. Resmi Gazete, 1985: 14

It is worth noting that the collected state's rights or the part transferred to the general budget is considerably lower compared to the payable state's rights announced by the MAPEG, which amounts to 6.31 billion ₺ and is presented in Figure 6.4. The difference between the two figures may stem from the fact that not all the payable state's rights were paid by the obligants. On the other hand, the state's shares recorded in the general budget slightly differ from the collected state's shares announced by the MAPEG in 2022, which amounts to 5.92 billion ₺, as presented in Figure 6.5. We do not have a satisfying explanation for this difference, corresponding to approximately 0.29 billion ₺.

Table 6.3: State Rights in the Government Budgets for 2022

Budgets *(billion ₺)*	**State's Rights**	**State's Shares**	**Other Shares**	**Total****
General Budget	*2.81**	*5.63**	*0.10**	8.56
Special Budget Institutions	0.01		0.78	0.79
Local Administrations Budget	0.06			
General Government Budget	2.89	5.63	0.89	9.42

Source: T.C. Hazine ve Maliye Bakanlığı, 2024

* The values written in italics are calculated by the author considering the other values given in the public budgets. ** Due to the rounding, the sum of the individual values may not exactly equal the values in the last columns and rows.

6.1.2. Assessment from the Perspective of Islamic Public Finance Theory

This subsection aims to assess minerals and hydrocarbons in the Turkish public revenue system in terms of ownership status and financial obligation arising from them, considering primary rulings and principles in Islamic law regarding minerals and hydrocarbons in Chapter 3 and the current legislative framework for them in Türkiye from the aspect of public finance in the previous subsections. In addition, Türkiye's potential of zakat, khums, or public share on minerals and hydrocarbons in 2022 is estimated based on the quantitative methods outlined in Chapter 5 under the scenarios constructed according to different classical and contemporary jurisprudential interpretations.

6.1.2.1. Ownership Status of Minerals and Hydrocarbons

The Constitution of the Republic of Türkiye, the Mining Law, and the Turkish Petroleum Law assert that natural resources in general and minerals and hydrocarbons in particular are under the rule and disposal of the state (T.C. Resmi Gazete, 1982: 168, 1985: 16, 2013: 3). In addition, the Mining Law rules that minerals are not subject to the ownership of the land in which they are located (T.C. Resmi Gazete, 1985: 16). On the other hand, the schools of Islamic jurisprudence approach the issue of the ownership status of minerals, including hydrocarbons, considering the mineral types, whether minerals are at their source or extracted, the ownership status of lands where minerals are found, as discusses in detail above.

The first issue that we want to note concerning the ownership status of minerals is the difference in the classification of minerals between Turkish legislation and Islamic law. The relevant laws and regulations in Türkiye categorize minerals into five main categories in terms of their mineralogical, physical, and chemical properties and areas of use, some of which also include sub-categories. However, this categorization does not affect the ownership status of the minerals since all minerals are considered under the state's rule and disposal. On the contrary, the two primary classifications adopted by the schools of Islamic jurisprudence divide minerals into either apparent (zahir) and hidden (batin) or liquid and solid. To the best of our understanding, the focal point of these classical categorizations is whether the nature of the mineral requires to be accessed by the public to meet their needs. Thus, the ones with such a nature, which

are classified as apparent (zahir) or liquid minerals, are ruled to be not subjected to private ownership at their source, granting (iqta), and revival (ihya). On the other hand, all schools of Islamic jurisprudence except the Malikites assign the bare ownership of hidden (batin) and solid minerals at their source to the landowners, and they can be subjected to grant (ihya) when located in the state (miri) and dead (mawat) lands.

The second issue leading to the difference between Turkish legislation and Islamic law is the link between ownership statutes of minerals and the lands where they are located. We can say that Turkish legislation adopts the theory of domanialiter (minerals under the state's ownership) by referring to the three main theories about the ownership status of minerals (Demir, 2012: 248). However, the views about the ownership of hidden (batin) or solid minerals are based on the accession theory that considers minerals as inseparable parts of the lands. Therefore, the minerals found in lands owned by private individuals, states, or awqaf are ruled to be possessed by the proprietor according to most schools of Islamic jurisprudence, except the Malikites, who deem state ownership over all minerals regardless of the lands in which they are discovered.

The first two issues concern the ownership status of minerals at their source rather than the possession of the extracted ones. When it comes to owning the minerals extracted, the license holders to whom the state transfers the right to explore and operate mining lands for a specific period own the minerals or hydrocarbons obtained within the license area according to the relevant articles of the Turkish legislation cited in the previous subsection. The licensing methods and the maximum size of the license area differ depending on the mineral types. While licenses are entitled through auctions for most kinds of minerals, mineral rights are transferred considering the priority of the applications in the case of minerals categorized under Groups IV and II [b] (T.C. Resmi Gazete, 1985: 16). In addition, all lands regardless of their ownership status can be licensed according to the Turkish legislation. Even a license can be issued on privately owned lands through expropriation. It is worth noting that mining rights and obligations are inherited upon the death of the rights holder. Regarding crude oil and natural gas productions regulated by the Turkish Petroleum Law, the exploration license applications for the fields open to petroleum explorations are evaluated considering the compliance of the application with the legislation, the financial competence of the applicant, and the ability of the committed work and investment program to fulfill the purpose of this Law in a shorter period compared to other

applications (T.C. Resmi Gazete, 2013: 7). In areas where operating rights have expired, new operating licenses may be granted through auctions, the procedures and principles of which are determined by regulation (Ibid: 8).

In the classical Islamic law literature, the phrase licensing is not available. However, the grant (iqta) and revival (ihya) concepts can be compared with exploration and operation licenses in Turkish legislation since they somewhat fulfill similar functions. First, it should be noted that the grantee owns the minerals extracted from the granted land, as the license holder possesses the minerals produced in the licensed area. However, the scope of lands and mineral types, which can be subjected to grant (iqta) or license, differs because of the fact that the grant is applicable for dead (mawat) and state (miri) lands, while licenses can be issued without such a limitation, as noted above. At this point, the option of expropriation (istimlak) can be applied by the state for privately owned lands, but the conditions of expropriation (istimlak) are stringent in Islamic law, and its practice throughout Islamic history has been limited (Aktan, 2001: 365–366). Undeniably, the Malikite view, which deems state ownership over all minerals, would provide more flexibility in this context. Another issue that limits the scope of the grant (iqta) is the rulings about apparent (zahir) and liquid minerals, which prevent grants of lands involving these types of minerals.[96]

6.1.2.2. Financial Obligations Arising from Minerals and Hydrocarbons

This subsection focuses on assessing the state's rights imposed on minerals and the state's shares in crude oil and natural gas production, which the license holders are obliged to pay, from the perspective of Islamic public finance. In this regard, the first point where the prevailing legislation in Türkiye and Islamic public finance diverges

[96] Nevertheless, contemporary scholars have different views on the minerals categorized under apparent (zahir) and liquid minerals, referred to in the subsection below about estimating the zakat, khums, or public share potential of minerals in Türkiye. Lastly, we would like to note that grant and licensing differ in terms of many other aspects, such as the duration allowed to the grantee and license holder for exploration and operation activities, application and assignment processes, and conditions required for the applicants, but we opt not to go into these issues as they are beyond the scope of this thesis and dependent on prevailing conditions.

is the charge rates on minerals. According to the relevant articles of the Mining Law of Türkiye and Turkish Petroleum Law, the license holders are charged the state's rights between 1% and 14% for the minerals sold and the state's shares corresponding to 12.5% for crude oil and natural gas produced. On the other hand, the schools of Islamic jurisprudence dispute the nature of the levy on minerals, leading to different rates. While Hanafites, who categorize this levy as khums, adopt the rate of 20%, the other three leading schools of Islamic jurisprudence name it zakat on minerals and impose 2.5%. Based on a view attributed to Imam Malik, minerals extracted with ease and at a lower cost are subjected to 20%, while 2.5% is applied to the others that are extracted more costly.

The scope of the minerals subjected to the levy is the second point where the prevailing legislation in Türkiye and Islamic public finance differ. According to the relevant laws in Türkiye, the state's right applies to all minerals at different rates depending on their kind, and the state's share is charged from all crude oil and natural gas production. However, the types of minerals that are subject to zakat or khums differ according to the views of the schools of Islamic jurisprudence. While Shafi'ite and Malikite scholars do not impose zakat on minerals other than gold and silver, Hanbalites impose zakat on all minerals without any distinction. Hanafites exempt liquid minerals from the scope of khums based on the analogy they established between these kinds of minerals and water. They subject only the minerals that can be melted and poured into molds among the solid minerals by referring to the hadith, which exempts stones from due.

The third point we would like to draw attention to is the definition of the state's rights in the Mining Law, which restricts the charge to the revenues generated, meaning only for the minerals sold. In other words, extracted and produced minerals are not subject to the state's right unless sold as unprocessed or after enrichment processes. Although the state's right is expected to be imposed on the minerals reserved for a while in the following years when they are sold, the timing of the payment differs from that of the zakat and khums charged for all minerals produced in the corresponding year. As a matter of fact, the difference between the total production and sales can be substantial. For instance, the total amount of produced raw coal amounts to 105.5 million tons in 2022, according to statistics of the MAPEG, while the sum of the saleable coal production corresponds to 82.34 million tons based on the data of the Turkish Statistical Institute (TKİ, 2023: 36). In this regard, we would like to point out that the

state’s shares in petroleum are defined based on production and collected from the value of the produced crude oil and natural gas rather than sales or revenues (T.C. Resmi Gazete, 2013: 2).

The MAPEG announces benchmark prices for minerals sold without undergoing an enrichment process, and the prices declared by the license holders cannot be lower than these prices. However, in the case of minerals sold after enrichment processes, the state’s rights are calculated based on the final sale price of the enriched minerals after deducting transportation, energy, depreciation, personnel, consumables, water, maintenance and repair, technological testing, and packaging costs. Zakat or khums on minerals is calculated without deducting the expenses in principle. Although some jurists assert that minerals extracted with ease and at a lower cost are subjected to 20%, while 2.5% is applied to the others that are extracted more costly, based on a narration from Imam Malik and Shafi’i, deducting costs is controversial (Al-Qaradawi, 1999a: 228). Thus, it constitutes the fourth main point in the current legislation, leading to a contradiction with the rulings in Islamic public finance. Undoubtedly, deducting the costs lowers the revenues generated from the enriched minerals for the budget. It is worth noting that the considerations above are not valid for crude oil and natural gas because the state's share to be paid by the oil producer is calculated based on the market price of domestic crude oil per barrel, and natural gas producers are obliged to pay the state's share, which is determined by using the natural gas sales price to distribution companies or eligible consumers (T.C. Resmi Gazete, 2013: 9).

The next point of contradiction between the current legislation in Türkiye and the rulings in Islamic public finance concerning financial obligations arising from minerals is the obligation to pay the minimum state’s right regardless of the amount of production or sale. According to Article 14 of the Mining Law, the licensee is required to pay the state’s right at least equal to the operation license fee every year. On the other hand, one cannot be responsible for paying a pre-determined amount of zakat or khums on minerals when there is no extraction and production. Such a stipulation cannot be accepted even though it may ensure that the state's right collected is kept above a certain level.

The current legislation in Türkiye for minerals and hydrocarbons subjects the production of public economic enterprises to the state’s right and share. As far as we can ascertain, the relevant laws do not consist of any article that states a general

exemption for public economic enterprises.[97] When we consider the facts that state economic enterprises are 100% state-owned entities, and the state is not one of the obligants of zakat or khums on minerals, the articles that impose levy on the minerals produced by the state contradict the rulings about the obligants in Islamic public finance (Karadâğî, 2017: 996). Therefore, mineral and hydrocarbon production by the state economic enterprises must be exempted while estimating the potential of zakat or khums on minerals for Türkiye, as noted in Chapter 5.

Another point that may affect the scope of obligants is the nature of the levy on minerals and hydrocarbons from the perspective of Islamic public finance. As explained before, the scholars of Islamic jurisprudence have two main views concerning the nature of the levy on minerals. While most scholars deem the due on minerals as zakat, Hanafites consider it fai'. This dispute is essential to identify who is obliged to pay the due, especially for a sector in which international companies operate, such as mining. According to the former view, only Muslims are responsible for paying it. When the latter view is adopted, all the producers must pay it regardless of their religion. However, it must be noted that non-Muslims may be required to pay a tax based on their agreement with the public authority when the former view is adopted (Aktan, 1986: 49). In this case, the rate determined in the agreements becomes one of the determinants of the public revenues generated from the minerals, especially when the nature of the levy is deemed as zakat.[98]

[97] However, exceptional cases are mentioned explicitly by the Mining Law. For instance, the first additional clause of the Law asserts that no state's right shall be charged for the activities to be carried out by the public for the hard coal in the Ereğli Coal Basin. Also, state's rights are not imposed on the minerals produced within the scope of the permit obtained from the MAPEG for the production of building and construction raw materials to be used in the construction of projects such as roads, bridges, dams, ponds, ports by public institutions and organizations (T.C. Resmi Gazete, 1985: 14).

[98] As noted before, this study adopts the view of al-Qaradawi (1999a: 35–38) that suggests taxing non-Muslim citizens of today's Muslim-majority nation states equivalent to zakat, which will correspond to jizyah without labeling as such. Therefore, the estimated zakat potential from minerals and hydrocarbons includes jizyah proceeds, which have the same

The points highlighted above do not cover all problematic issues in the current legislative framework in Türkiye from the perspective of Islamic public finance. They have been selected considering their relevance to the public budget. Other than these points, incentives, exemptions, and exceptions, payment schedules, fines imposed in the case of non-payment, etc., constitute the matters that the current legislation deviates from the ruling and principles of Islamic public finance, and further studies addressing these aspects are also needed.

6.1.2.3. Estimated Potentials of Zakat, Khums, and Public Shares on Minerals and Hydrocarbons

The analysis and assessment until this point show that the potential zakat or khums on minerals and hydrocarbons in Türkiye is expected to be different from the revenues generated through the state's rights over minerals and the state's share in petroleum. The difference mainly stems from the structural divergences between the current legislative framework of Türkiye and the rulings of Islamic public finance in terms of the scope of minerals subjected to the levy, those who are obliged to pay, the rates imposed, discounting costs, minimum payment obligation, and incentives, exemptions, and exceptions.

The two methods (Equations 1 and 2) specified for calculating the value of minerals, crude oil, and natural gas produced have been used accordingly for the 2022 data, as presented in Chapter 5. The estimated production values of all mineral kinds produced in Türkiye are separately recorded in Appendix B. According to scholarly views summarized in Table 3.1, the bases of zakat and khums have been determined under different scenarios, considering the scope of minerals subjected to each levy by the corresponding opinions. The potential zakat and khums values obtained by applying the rate adopted by each view to the relevant bases, net of the portion produced by public enterprises, are shown in Figure 6.6. The figure also consists of the summation

base and rates as zakat. In other words, the estimated amount must be considered the total proceeds of zakat and jizyah.

of the state's rights[99] and shares, calculated based on the current legislation in Türkiye, to compare it with the overall results.

Figure 6.6 indicates that the highest potential public revenue from minerals, corresponding to 253.78 billion ₺ khums in 2022, is generated when the view of Abu Hanifa and Abu Yusuf is adopted.[100] The potential values of zakat on minerals according to Hanbalites, Malikites, and Shafi'ites are 35.60, 31.72[101], and 0.86 billion ₺, respectively. The variations stem from the differences regarding the scope of minerals subjected to zakat/khums and the rates imposed on them. All the views of scholars/schools of Islamic jurisprudence, except that of Shafi'ites[102], result in higher revenues than the summation of payable state's rights and shares based on current legislation, which amounts to 12.23 billion ₺. The shares of zakat/khums potential in the general budget 2022 can reach 9.27% when the view of Abu Hanifa and Abu Yusuf is adopted, as presented by the dashed line in Figure 1.7. In terms of other schools, it

[99] We prefer to present the payable state's rights rather than the amount collected and transferred to the general budget. Such a comparison would be more reasonable because the other side of the comparison constitutes the potential quantities, not the actual.

[100] Minerals produced in Türkiye during 2022 and subjected to khums, according to the views of Abu Hanifa and Abu Yusuf, exactly match each other because of the following limitations, as noted before. First, the disputes regarding the location of the minerals do not cause any difference in classification because the mineral types subjected to zakat or khums, according to the scholars, who exempt the production in the sea from the levy, are produced on lands in Türkiye, and the data on production held in residences are not available. Secondly, the statistics provided by MAPEG do not show any production of precious and semi-precious minerals, which can be used in the jewelry industry. Thus, the dispute between Abu Hanifa and Abu Yusuf regarding stones used as jewelry does not lead to any difference in classification and the estimation of khums based on their views.

[101] The potential zakat is calculated for Malitike school by imposing a 2.5% tax on minerals in Group IV [c], based on the view of Imam Malik, which implies that the minerals that can be melted and poured into molds can be taxed at 2.5%.

[102] We adopted the classical view in Shafi'te school, that subject only gold and silver to zakat, while calculating zakat potential. However, it is important to note that some Shafi'ite jurists consider other metals as zakatable based on an analogy to gold and silver.

varies between 1.30% and 0.03%, while the payable state's right and share correspond to 0.45% of the general budget.

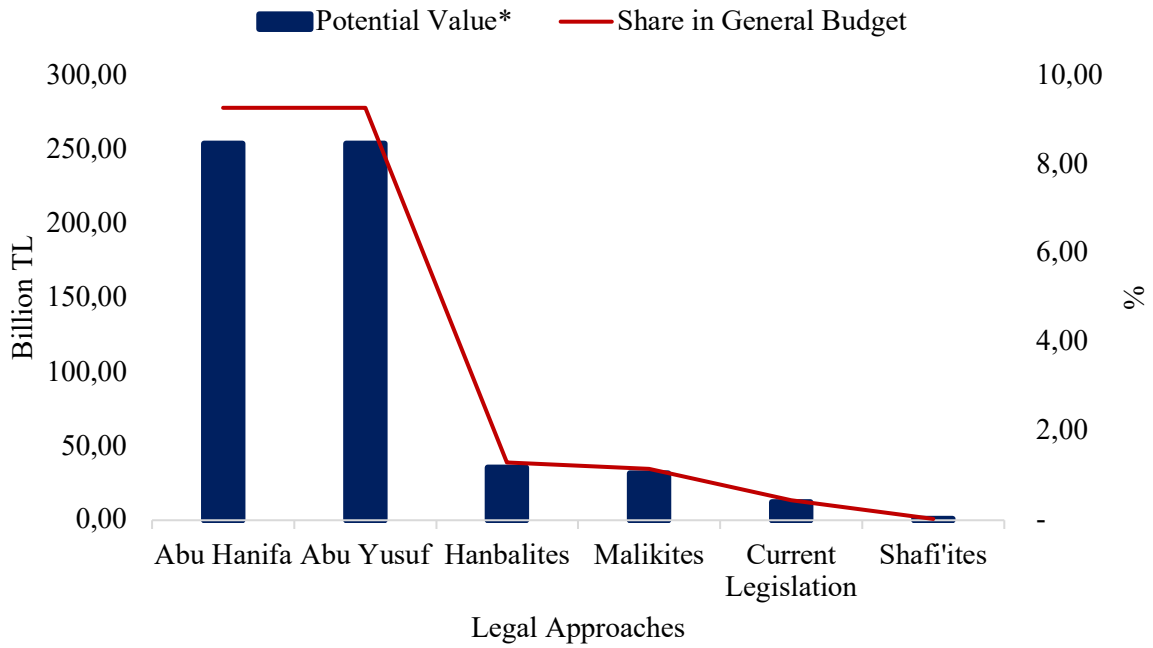

Figure 6.6: Potential of Zakat/Khums on Minerals in 2022 by Legal Approaches

Source: Author's Calculation

* We note that the nisab condition was ignored when calculating the potential value of zakat on minerals according to Hanbalites, Malikites, and Shafi'ites, who deem the levy on minerals as zakat. It is because of the fact that microdata about the mining enterprises, which can show the ones who produce minerals above nisab in 2022, are not publicly available.

We want to conclude this subsection by referring to the contemporary discussions on the scope of minerals subjected to zakat/khums and rates imposed, which are elaborated on in Chapter 5, and their possible impacts on the results above. First, there is a contemporary stance holding that liquid minerals such as crude oil and natural gas, due to the specialized expertise and high costs required for their extraction, can be privately owned through licensing or grants and are therefore subject to zakat and khums. In adopting this view, crude oil and natural gas production should be included in estimations. Accordingly, the estimation for Hanafites (Abu Hanifa and Abu Yusuf) in Figure 6.6 goes up by 2.37 billion ₺, reaching 256.1 billion ₺ in total (9.35% of the

general budget). From the perspectives of other schools, except Hanbalites[103], the total zakat potential is expected to increase by 0.30 billion TL, constituting a 0.01% increase in the share of the general budget when crude oil and natural gas are subjected to a 2.5% zakat.

Secondly, in the case of adopting the contemporary views subjecting all minerals to zakat/khums due to their economic value discovered in recent centuries and increasing importance for economic development, the potential value of khums (20%) and zakat (2.5%) reach 284.80 billion ₺ and 35.60 billion ₺, which constitute 10.40% and 1.30% of the general budget, respectively. As expected, when all are subjected, the potential of zakat on minerals equals the estimation done considering the Hanbalite school in Figure 6.6. On the other hand, the potential of khums on minerals goes up by 31.02 billion ₺, i.e., a 12.23% increase, compared to the calculation based on the views of Abu Hanifa and Abu Yusuf presented in Figure 6.6.

Varying levy rates on minerals based on extraction costs by contemporary scholars can be taken as the third case. Scholars generally propose two different ratios for high-cost and low-cost minerals in this context. Since there is insufficient cost data for each mineral kind and due to the ambiguity of differentiating the high- and low-cost mineral productions, we have applied average rates of the suggested two sets of extremes. When all minerals are subject to an 11.25% levy—derived from the 2.5% and 20% rates indicated by Al-Qaradaghi (2017: 996)—it results in 160.20 billion TL potential revenues, equivalent to 5.85% of the general budget of 2022. On the other hand, the potential revenue amounts to 106.80 billion TL (3.90% of the general budget) when a 7.5% rate, the average of the two rates proposed by Al-Qaradawi (1999a: 229), i.e., 10% and 5%, is imposed on all minerals.

Lastly, it is worth noting the implications of the view of Malikites, who accept state ownership over all minerals, regardless of their kind and the land on which they are discovered, on the public revenues. As noted before, under the assumption of state ownership of mineral resources, it is presumed that the state and private enterprises

[103] Since Hanbalites subject all minerals to zakat, regardless of whether they are apparent, hidden, solid, or liquid, the estimation for Hanbalite school already includes hydrocarbons, i.e., crude oil and natural gas.

share the extracted minerals in fixed proportions. In other words, the enterprises get their remuneration in exchange for the extraction activities in mining lands as a share of the produced minerals. In contrast to fixed zakat and khums rates, despite the contemporary views suggesting varying rates, the state ownership of minerals allows setting the proportion of shares in accordance with mineral kinds, state economic policies, changing circumstances, extraction costs, profitability margins, etc. Therefore, compared to the above scenarios, the public share may increase or decrease according to the determined ratios.

6.2. Zakat Potential Estimations

This section presents the findings of estimations for zakat potentials generated from business assets, earned incomes, and financial wealth items, as a part of the first set of reforms, i.e., inclusion of zakat as a semi-public revenue source, based on corresponding quantitative methods in Chapter 5.

6.2.1. Business Assets

Companies that occupy a significant position in today's economies require further consideration since the capital, current, and fixed assets, as well as the profits they hold, are composed of different kinds of wealth and income items, which can be conceptualized as business assets. It is not practical to calculate zakat due on these business assets based on the individual opinions presented for each new wealth and income item. In this regard, two comprehensive approaches are suggested for calculating the zakat obligation stemming from the business assets through the companies' balance sheets. As elaborated on in Chapter 5, Equations 3 and 4 formulate these approaches and constitute the primary methods for estimating zakat potential on business assets in this study.

In estimating the zakat on business assets, we first resorted to the CAS micro dataset for the companies that keep records on a balance sheet basis and operate in non-financial sectors, as noted in Chapter 5.2.1. After specifying relevant balance sheet items corresponding to the components of the zakat base in Equations 3 and 4, we have calculated the zakatable assets of each company according to these two approaches, as reflected in the equations. At this stage, zakatable assets owned by companies carrying out the prohibited economic activities listed in Table 5.4 are totally excluded from

calculations. In addition, some balance sheet items of companies in the agricultural and mining sectors are deducted from their zakatable assets due to the reasons specified in Chapter 5.2.1. The lists of balance sheet items representing the components of the zakat base in Equations 3 and 4, and those deducted from zakatable assets in the case of companies whose main field of activity is agriculture or mining, are presented in Appendix D, along with explanatory notes. Consequently, the zakatable business assets of each company are compared with the Turkish lira equivalent of the gold nisab (87,522.08 ₺) to determine the companies having zakatable assets valued above nisab. Figure 6.7 shows the total number of companies in each sector and the percentage of zakat-payer companies that own zakatable business assets above nisab in the corresponding industry based on the two approaches towards zakatable business assets and thus zakat base.

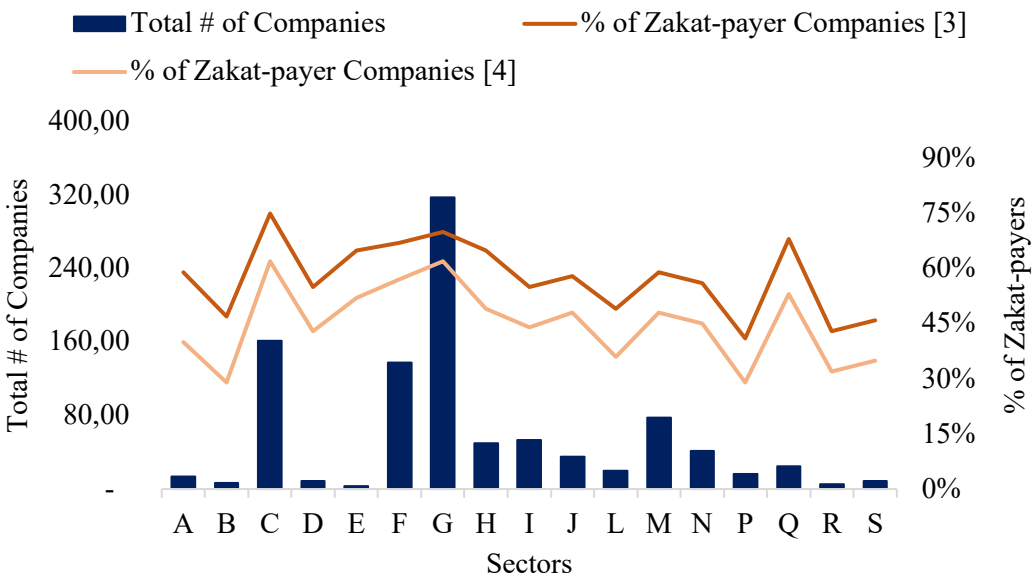

Figure 6.7: The Percentage of Zakat-Payer Companies by Sector in 2022

Source: Author's calculation using the CAS micro dataset

Note: The sector indicated by each letter in the graph is listed in Appendix E. The numbers in square brackets at the end of the legends show which of the equations (3 or 4) presented in the section devoted to methods was used as the basis for the calculations.

According to the estimates presented in Figure 6.7, the average ratios of zakat-payer companies are 58% and 45% for Equations 3 and 4, respectively. The findings in Figure 6.7 clearly show that Equation 3 produces a higher percentage of zakat-payer companies for every sector than Equation 4. This situation is due to the broader scope

of company assets subject to zakat in the approach represented by Equation 3. As a matter of fact, while Equation 3 takes into account all assets and liabilities of companies in the calculation of zakat and bases it on companies' net worth, in Equation 4, only current assets, current receivables, and profits are included in the zakat base on the asset side. Despite this divergence in the percentage of zakat-liable companies by sector, the correlation between the two estimations is around 0.96. Such a high correlation indicates that the two approaches produce similar results in the sectoral distribution of zakat-liable companies. At the sectoral level, there is a reasonably strong positive direct relationship between the total number of companies and the percentage of zakat-liable companies. In other words, in sectors where the number of operating companies is larger, the ratio of zakat-payer companies is also higher. This relationship is relatively more evident in the estimations based on Equation 4. The sectors with the highest and lowest proportion of zakat-liable companies support this observation. Sectors C (Manufacturing) and G (Wholesale and Retail Trade), which have the highest percentage of zakat-payer companies, are also the two sectors with the highest number of companies. On the other hand, Sectors P (Education) and R (Arts, Entertainment and Recreation), which have the lowest ratio of zakat-liable companies, rank last among all sectors in terms of the number of companies.

Following the identification of zakat-payer companies, zakat bases at the sectoral level have been calculated, considering the assets subject to zakat for these zakat-payer companies. Finally, 2.5776% of the zakat rate is applied to zakat bases at the sectoral level to reach the zakat potential due on business assets in Türkiye by 2022. The values of the estimated zakat potential at the sectoral level under the two scenarios, represented by Equations 3 and 4, are presented in Figure 6.8 below.

Figure 6.8 enables us to compare the differences in total and average zakat obligations across sectors. As clearly shown in the figure, sectors C (Manufacturing) and G (Wholesale and Retail Trade) are estimated to have the highest incidence of total zakat liability. Depending on the approach adopted, these sectors account for 36-37% and 20-23% of the total zakat potential due on business assets, respectively. The significantly higher number of companies operating in these sectors, the high percentage of zakat payers, and their substantial share in zakatable business assets have collectively contributed to their large share in total zakat liability. Differences in the

shares of other sectors in the estimated total zakat potential can be attributed to the same factors that led to the prominence of sectors C and G in this context.

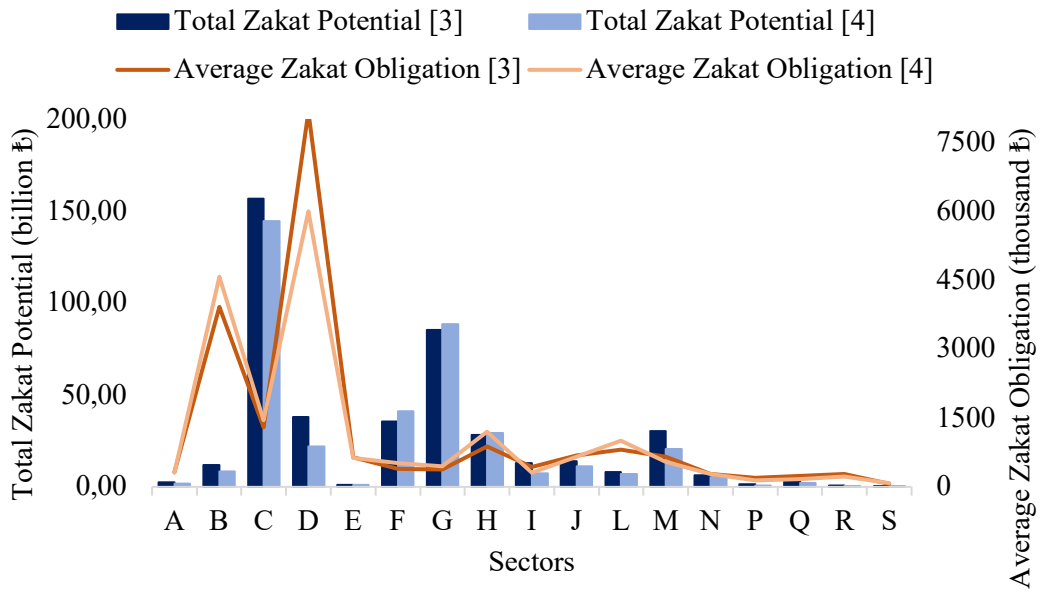

Figure 6.8: The Estimated Zakat Potential Due on Business Assets and Average Zakat Obligation by Sectors in 2022

Source: Author's calculation using the CAS micro dataset

Note: The sector indicated by each letter in the graph is listed in Appendix E. The numbers in square brackets at the end of the legends show which of the equations (3 or 4) presented in the methodology section was used as the basis for the calculations.

Sectoral zakat potential estimates based on the first approach (Equation 3) generally result in higher zakat obligations across most sectors compared to those derived from Equation 4. This is an expected outcome since the first approach adopts a broader zakat base than the second approach, as noted before. However, there may be deviations from this general trend according to the asset and liability structures of zakat-liable companies in some sectors, as in the case of sectors F (Construction), G (Wholesale and Retail Trade), and H (Transportation and Storage), where the second approach yields higher zakat obligations.

The zakat liabilities estimated per company across sectors considerably vary depending on the approach adopted. In nine out of 17 sectors, the average zakat liability calculated using the first approach exceeds that of the second approach, whereas the opposite holds true in the remaining eight sectors. As previously mentioned, the proportion of zakat-liable companies is higher in all sectors according

to the first approach. Therefore, in a scenario where the total estimated zakat liability at the sectoral level is the same for each approach, Equation 4 is always expected to lead to a higher average zakat liability. However, given that the first approach yields a higher total zakat liability in most sectors, the results deviate from expectations in certain sectors. In other words, the total zakat liability at the sectoral level and the number of zakat-liable companies are the primary factors determining which approach results in a higher average zakat liability.

The zakat potentials presented in Figure 6.8 include zakat corresponding to the assets of state- and awqaf-owned companies, which are not considered as zakat payers in this thesis. As explained in Chapter 5.2.1, the ratio of the total value of public enterprise revenues in the HMB report and budget item Corporation Revenues in the public budget statistics to the aggregated gross revenues of the corporations in the CAS, which is calculated as 1.62%, is deducted from the total zakat potential to ensure the exemption of state-owned enterprises from zakat. In a similar vein, the ratio of financial assets net of short-term financial liabilities owned by non-profit institutions serving households to the total financial assets net of short-term liabilities in the overall economy, which corresponds to 0.52%, is deducted from the total zakat potential to exclude the zakat due on business assets owned by awqaf. Consequently, the total zakat potential due on business assets is estimated to be 427.79 billion ₺ under the scenario represented by Equation 3, while it is found to be 383.40 billion ₺ in the case of Equation 4 adopted.

As noted before, the CAS dataset does not include companies operating in the financial sector. Therefore, we have used the aggregated balance sheets at the sectoral level, which are compiled by the CBRT, to obtain the variables in Equations 3 and 4 for the companies in the banking sector. However, some balance sheet accounts must be examined to exclude their interest-bearing parts and address the differences between the accounting approach and zakat assessments, as discussed in Chapter 5. In this regard, the conclusions we have reached for the relevant balance sheet accounts in the above-mentioned respects are presented in Appendix C, which shows the original values of the balance sheet items and their modified values according to the explanations at the end of the corresponding rows. The tables in Appendix C also categorize the assets and liabilities in the balance sheets into current assets, receivables, and debts accrued or due within one year, as Equation 4 implies. After the

required modifications and zakat bases calculated accordingly, the total values of the variables in Equations 3 and 4 are presented in Table 6.4 below for the companies operating in the banking sector.

Table 6.4: Zakat Bases of Companies in Banking Sector (2022)

Components of Zakat Base	Deposit and Development-Investment Banks		Participation Banks	
Billion ₺	**Eq. 3**	**Eq. 4**	**Eq. 3**	**Eq. 4**
Total Assets	11,492.15		1,069.80	
Current Assets		329.17		25.49
Receivables		11,035.32		1,033.28
Total Liabilities	- 11,446.94		- 548.53	
Debts Accrued or Due Within One Year		- 9,852.14		- 506.05
Profits		76.00		29.44
Zakat Base for All Banks	**45.21**	**1,588.35**	**521.27**	**582.16**
Zakat Base Excluding State Banks	**29.39**	**1,032.43**	**297.13**	**331.83**

Source: Author's calculation based on the aggregated balance sheet of the banking sector published by the CBRT

Before interpreting the differences in zakat bases presented in Table 6.4, it is worth noting that the modifications and adjustments related to the asset side of the balance sheets are considered while determining the value of total assets, current assets, and receivables subject to zakat. Thus, they have affected the variables concerning assets in both equations. On the side of liabilities, the adjustments in the value of relevant accounts due to their interest-bearing parts and the differences between the accounting approach and the zakat assessments are reflected in corresponding variables, namely total liabilities and debts accrued or due within one year, which appear in Equations 3 and 4, respectively. However, adjustments made according to the maturity of liabilities are applied only to the variables in Equation 4. In other words, all liabilities, regardless of maturity, are included in the zakat base of Equation 3.

The substantial difference between the zakat bases calculated according to Equations 3 and 4 in regard to deposit and development-investment banks primarily stems from the fact that the approach adopted in Equation 3 deducts all liabilities from the zakat base, while only liabilities accrued or due within one year are taken into consideration in Equation 4, as noted above. The reason for the absence of a similar difference in the

case of participation banks is that participation/investment accounts, which constitute a large part of the liabilities side of these banks, are considered as a trust rather than a liability in terms of zakat accounting, as stated in the Shari'ah Standard No. (35) of the AAOIFI. Therefore, the amount corresponding to participation/investment accounts is not deducted from the zakat base in both equations.

Table 6.4 shows the total zakat bases of banks, including the state-owned conventional and participation banks. As explained in Chapter 5, considering that most jurists are of the opinion that state and awqaf properties are not subject to zakat (Erkal, 2008: 57), the portion of zakat bases corresponding to the shares of state-owned banks in the total equities of deposit, development-investment, and participation banks should be deducted. In this regard, the Bank Ranking by Asset Size report prepared by the Banks Association of Türkiye (BAT) shows that conventional state banks hold 43% of total equity in the conventional banking sector. On the other hand, Participation Banking Financials, published by the Participation Banks Association of Türkiye (PBAT), indicates that participation state banks own 38% of the total equity in the participation banking sector. Excluding the zakat base corresponding to the share of state-owned banks in the total equity of the relevant banking sectors, the bases subject to the zakat potential calculation for the conventional and participation banking sectors become 29.39 or 1,032.43 billion ₺ and 297.13 or 331.83 billion ₺, respectively.

Figure 6.9 shows the estimated zakat due on deposit and development-investment banks as well as participation banks when a 2.5776% zakat rate is applied on the zakat bases calculated according to Equations 3 and 4. While the zakat obligation due on the privately owned conventional banks is estimated as 0.76 billion ₺ based on the approach formulated by Equation 3, the zakat obligation calculated for the same banking sector is found to be 26.61 billion ₺ according to the other approach represented by Equation 4. The estimates for the participation banking sector based on Equations 3 and 4 yield 7.66 and 8.55 billion ₺, respectively. In total, the estimated zakat potential due on the banking sector is either 8.42 billion ₺ or 35.16 billion ₺, depending on the approach adopted.

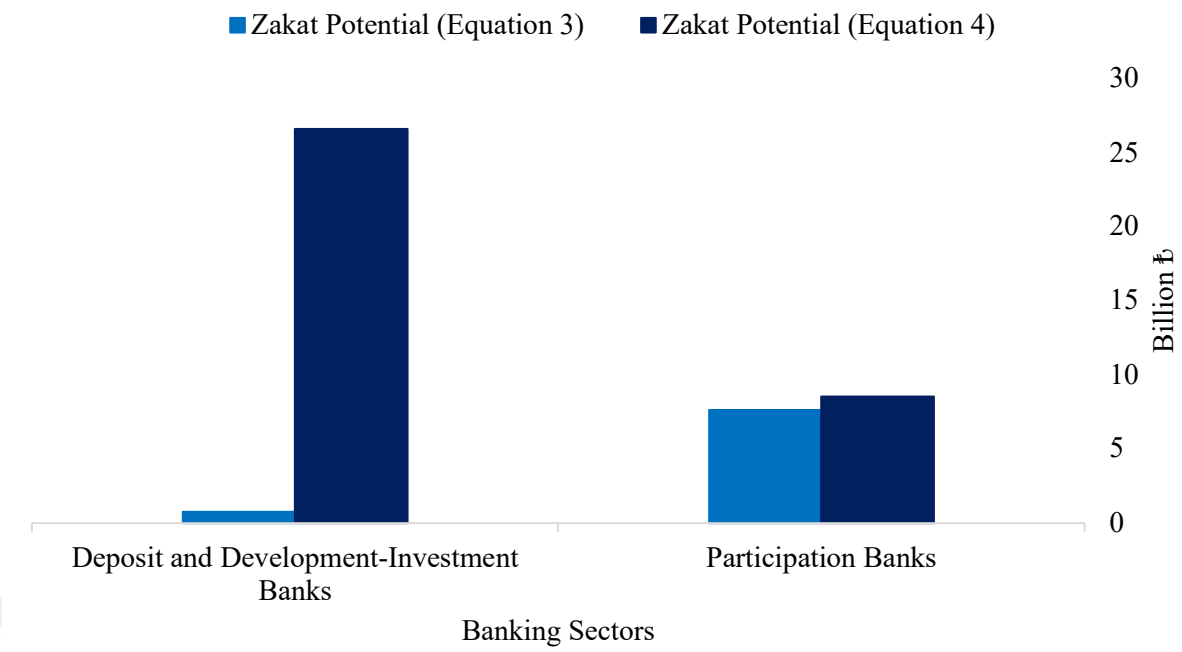

Figure 6.9: Estimated Zakat Obligation Due on Conventional and Participation Banks in Türkiye (2022)

Source: Author's calculation based on the aggregated balance sheet of the banking sector published by the CBRT

When we consider the estimated zakat potentials through the CAS dataset for the non-financial companies and the aggregated balance sheets published by the CBRT at the sectoral level together, the total potential zakat proceeds that can be generated from business assets in 2022 are estimated to be between 418.56 billion ₺ and 436.21 billion ₺, based on Equation 4 and 3, respectively. In terms of the total consolidated revenues of the central government and local administration budgets, these estimated potentials account for between 12.89% and 13.43%, while their shares in the GDP correspond to 2.79% and 2.91%, respectively.

6.2.2. Earned Incomes

This section presents the results of estimations for zakat potential due on earned income using the HBS 2022 micro dataset for each case described in Table 5.5. The method outlined in Chapter 5.2.2 suggests four different values of each household's zakat base depending on the cases concerning zakatable income and deductible basic needs. Therefore, households with a zakat base above the nisab of gold should be

identified for each case. Figure 6.10 shows the total number of households from each income quintile whose zakat base is above the nisab for different cases.

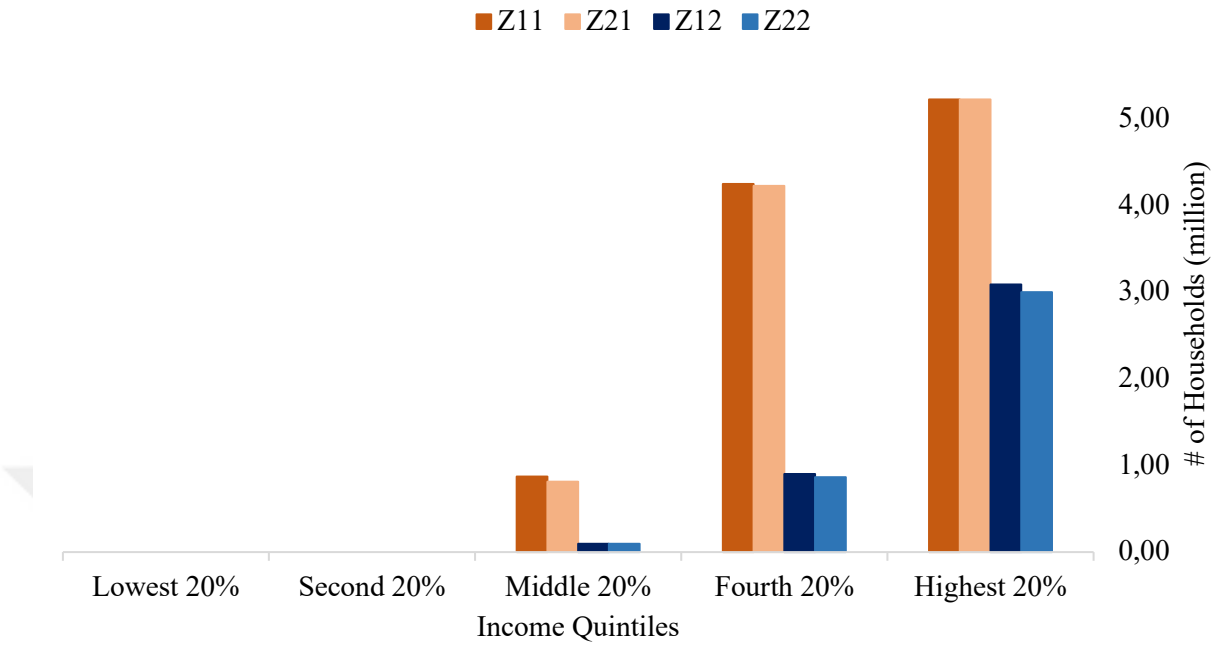

Figure 6.10: Number of Households Having Earned Income above Nisab by Income Quintiles in Türkiye (2022)

Source: Author's Calculation.

* Z11: Zakatable incomes including interest earnings minus poverty line, Z21: Zakatable incomes excluding interest earnings minus poverty line, Z12: Zakatable incomes including interest earnings minus household expenditures, Z22: Zakatable incomes excluding interest earnings minus household expenditures.

According to Figure 6.10, the number of households with zakat bases above the nisab is considerably higher in the cases of Z11 and Z21 compared to those of Z12 and Z22. This outcome is expected because the zakat bases in cases Z11 and Z21 are obtained by deducting the poverty line adjusted for equivalent household size from the zakatable earned income of households, while the zakat bases in cases Z12 and Z22 are derived by deducting households' consumption, which is generally above the poverty line, especially for the higher income groups. Therefore, the same households have higher zakat bases in cases Z11 and Z21 compared to Z12 and Z22, which increases the number of households above the nisab.

Figure 6.10 also reveals key insights on the number of households above the zakat base by income group in each case. For instance, no single household from the lowest

and second income quintiles is above the nisab for all cases. On the other hand, all households in the highest income quintile are liable for paying zakat on their earned incomes in cases Z11 and Z21. However, in the cases of Z12 and Z22, 58.1% and 57.4% of households from the highest income quintile are found to be zakat-payers, respectively.

One last remark in Figure 6.10 is that including the interest earnings in the zakat base, as in the cases of Z11 and Z12, slightly increases the number of households subject to zakat due to their total earned incomes. According to our calculations, the total number of zakat-liable households in case Z12 reaches 10.34 million households, an increase of 101 thousand households (0.96%) compared to case Z21, where interest income is not included in the zakat base. On the other hand, the total number of zakat-liable households in case Z12 increases by 128 thousand (3.25%), reaching 4.08 million households, compared to case Z22, which does not include interest earnings in the zakat base.

Zakat on earned income of each quintile has been calculated by applying the relevant rates to the corresponding zakat bases of households exceeding the nisab for the four cases above. Considering the views regarding the zakat rates, two more subcases are included under each of the four cases, as shown in Table 5.5. Thus, the total number of cases reaches eight in terms of the estimated zakat potential. However, we opt to present the variations in zakat potentials, which stem from differences in zakat rates, as the highest and lowest estimated zakat potentials. Thus, we can organize the eight cases into four scenarios, as in Figure 6.10 above. Figure 6.11 shows the results for these four scenarios with their highest and lowest estimates.

The highest estimates under each case in Figure 6.11 have been generated by applying a 10.3104% zakat rate on rental income and a 2.5776% zakat rate on other earned incomes in line with the view of al-Qaradawi, explained in Chapter 5. On the other hand, the lowest estimates represent the cases where a 2.5776% zakat rate is imposed on all earned income without distinguishing its sources as labor and capital, as expected.

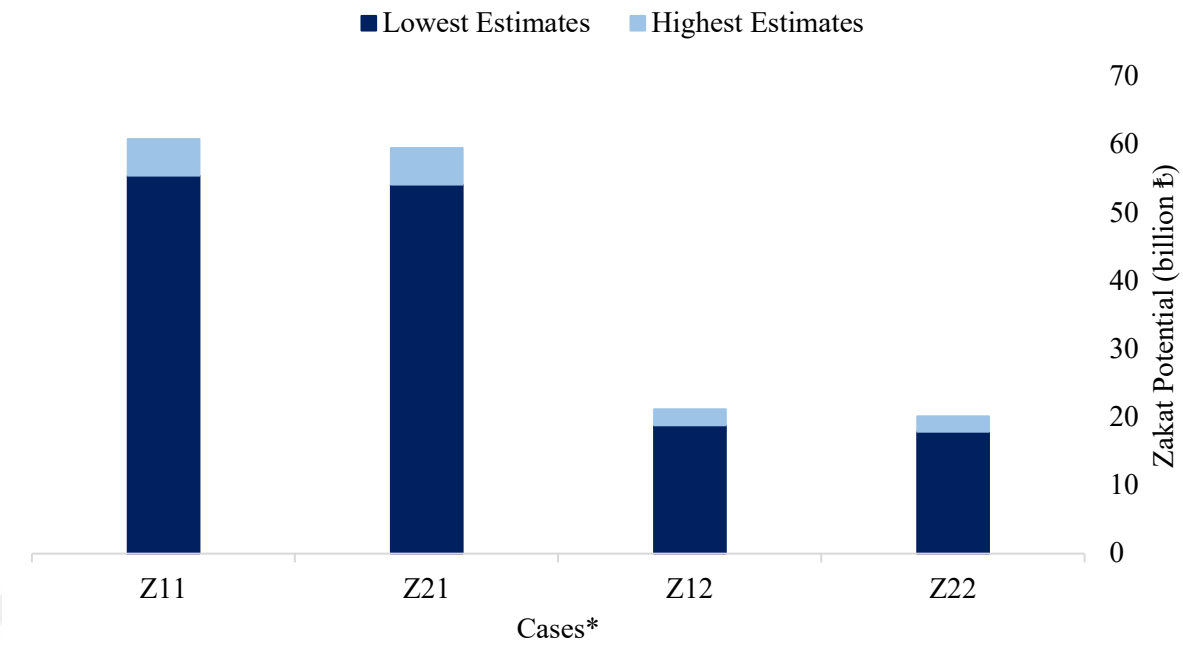

Figure 6.11: Estimated Potential of Zakat on Earned Incomes under Different Cases in Türkiye (2022)

Source: Author's Calculation

* Z11: Zakatable incomes including interest earnings minus poverty line, Z21: Zakatable incomes excluding interest earnings minus poverty line, Z12: Zakatable incomes including interest earnings minus household expenditures, Z22: Zakatable incomes excluding interest earnings minus household expenditures.

Cases Z11 and Z21 differ from Z12 and Z22 in terms of deductions for basic needs, i.e., zakat bases, as explained above. This difference affects both the number of zakat-paying households (see Figure 6.10) and their earned income included in the zakat base. Therefore, in scenarios Z11 and Z21, which propose a broader zakat base, the estimated zakat potential ranges between 60.90 and 59.57 billion ₺, while in scenarios Z12 and Z22, the zakat potential estimates vary between 21.18 and 20.20 billion ₺.[104] The differences between Z11 and Z21 as well as between Z12 and Z22, concerning the estimated zakat potential, arise from whether interest earnings are included in the zakat base. Naturally, including interest earnings leads to an increase in the zakat base

[104] The estimated zakat potentials in the cases of Z11 and Z21 account for 1.87-1.83% of public budgets, while they correspond to 0.41-0.40% of GDP in 2022. On the other hand, the same indicators are 0.65-0.62% and 0.14-0.13%, respectively, for the cases of Z12 and Z22.

and a higher zakat potential. However, the variation stemming from including interest earnings in the zakat base is not substantial. It is limited to between 0.03 and 1.29 billion ₺, depending on the cases.

Figure 6.12 shows the distribution of estimated total zakat obligations across income groups under different scenarios. Unlike the previous figure, subcases due to zakat rates are also presented separately. Therefore, there are eight different cases in total. Several conclusions can be drawn from Figure 6.12. First, the share of the highest income quintile in the total zakat liability is considerably higher in scenarios where the zakat base is calculated by deducting household expenditures compared to scenarios where the base is determined based on the poverty line adjusted for equivalent household size.[105] Such a difference in the distribution of zakat obligations stems from the limited income remaining after household expenditures are deducted in lower-income groups. Second, although not evident in the figure, applying a 10.3104% zakat rate on real estate incomes,[106] as suggested by al-Qaradawi, reduces the share of total zakat liability of all income groups except the highest income group in all scenarios. The share of the highest income group increases by 0.80 percentage points on average. This is because real estate income accounts for a larger share of the total income of households in the highest income group. Finally, the inclusion of interest earnings in the zakat base[107] does not significantly impact the distribution of total zakat liability

[105] The second digit in the scenario codes represents how the zakat base is determined. If the second digit is 1, as in the case of Z111 or Z212, it implies that the poverty line adjusted for equivalent household size is deducted from the zakatable earned income to reach the zakat base. When the second digit is 2, as in the case of Z122 or Z221, it means that the zakat base is calculated by deducting household expenditures from the zakatable earned income.

[106] The third digit in the scenario codes indicates the zakat rates applied to the corresponding zakat bases. If the third digit is 1, as in the case of Z111 or Z221, it implies that a single zakat rate (2.5776%) is imposed on all earned income. In contrast, the value of 2 in the third digit, as in the case of Z112 or Z222, means real estate incomes are subjected to zakat at 10.3104%, while 2.5776% is applied to all other types of earned income.

[107] The first digit in the scenario codes implies whether interest earnings are included in zakat bases. If the first digit is 1, as in the case of Z112 or Z121, it indicates that interest earnings are deemed zakatable. However, the value of 2 in the first digit, as in the case of Z211 or

across income groups. In some scenarios, like Z211 and Z212, including interest earnings in the zakat base appears to raise the share of the fourth income quintile in the total zakat obligation. Still, this rise is limited to a maximum of 0.20 percentage points.

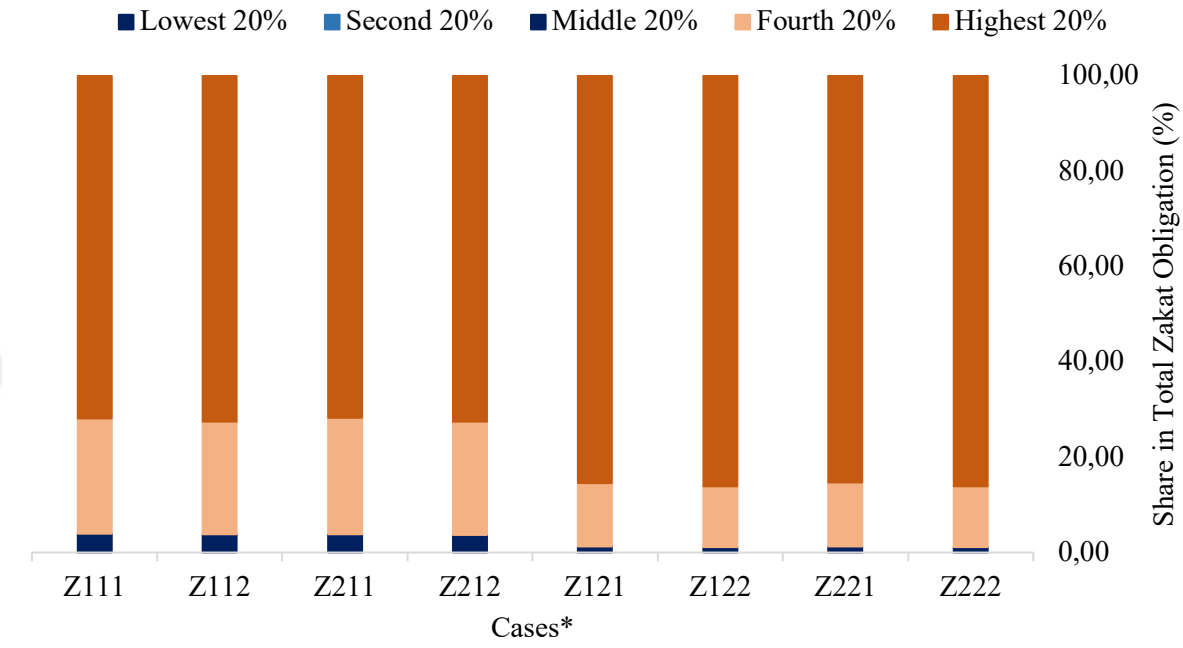

Figure 6.12: Distribution of Estimated Zakat Obligations on Earned Incomes by Income Quintiles in Türkiye (2022)

Source: Author's Calculation

* Z111: Zakatable Incomes w/ Interest Earnings minus Poverty Line (single rate), Z112: Zakatable Incomes w/ Interest Earnings minus Poverty Line (differentiated rates), Z211: Zakatable Incomes w/o Interest Earnings minus Poverty Line (single rate), Z212: Zakatable Incomes w/o Interest Earnings minus Poverty Line (differentiated rates), Z121: Zakatable Incomes w/ Interest Earnings minus Household Exp. (single rates), Z122: Zakatable Incomes w/ Interest Earnings minus Household Exp. (differentiated rate), Z221: Zakatable Incomes w/o Interest Earnings minus Household Exp. (single rate), Z222: Zakatable Incomes w/o Interest Earnings minus Household Exp. (differentiated rate).

6.2.3. Financial Wealth Items

This section presents the results of the estimations for the potential of zakat on the households' financial assets in Türkiye at the end of 2022 based on the data and method

Z212, means interest earnings are excluded from the zakatable incomes, thus the zakat base.

elaborated on in Chapter 5.2.3. We first show the number of adults in Türkiye whose net financial wealth is below and above the nisab of gold according to our estimates, considering the UBS Group's Global Wealth Data Book (GWD) 2023. Then, the zakatable financial wealth and the calculated zakat proceeds are presented under different scenarios. The scenarios differ depending on the coverage of the financial assets and deductible liabilities.

Our estimates regarding the distribution of the adult population in Türkiye according to the minimum net financial wealth of each global wealth decile in the GWD 2023 are shown in Figure 6.13 below. The figure also presents the minimum net financial wealth adults own in each decile, as represented by red dashed lines on the left axis. When the minimum net financial wealth is compared with the nisab of gold (orange solid line), it is shown that all adults in the first seven deciles own financial assets net of liabilities under the nisab level.

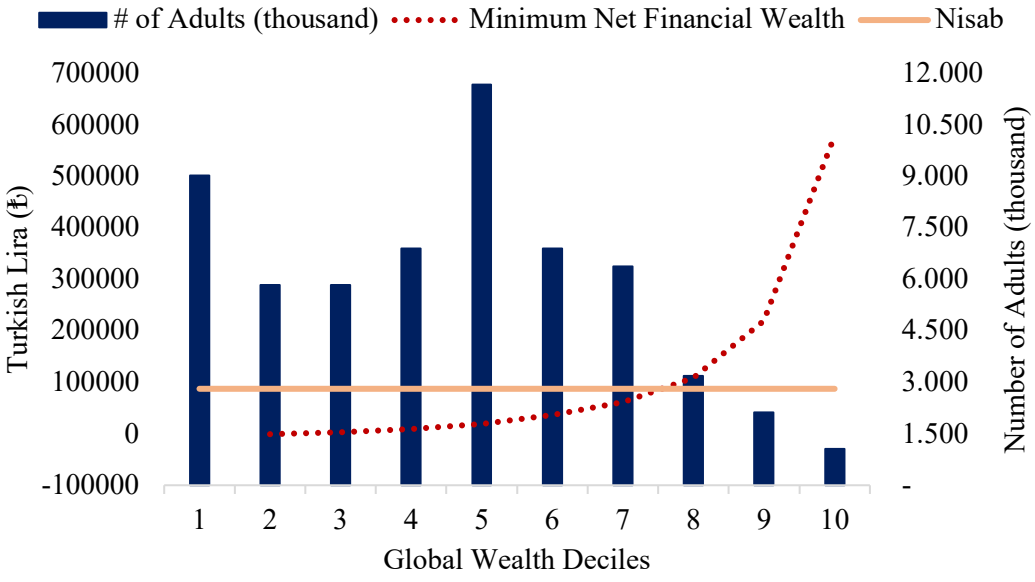

Figure 6.13: The Distribution of Turkish Adult Population by Global Wealth Deciles (2022)

Source: Author's Calculation based on the Global Wealth Data Book 2023

It is important to note that some adults in the 7th global wealth decile are expected to have net financial wealth above the nisab since their financial assets net of liabilities vary between 61,551 ₺ and 108,297 ₺. However, we do not have any information regarding the distribution of financial wealth within the deciles. Therefore, we had to

exclude those with zakatable financial wealth above the nisab in the seventh decile while calculating the potential of zakat on financial wealth. We think this exclusion complies with the general approach in the thesis, which aims not to overestimate the zakat potential. Based on these considerations, Figure 6.13 also indicates that 52.6 million adults are under the nisab level in terms of the net financial assets they own. In comparison, only 6.3 million adults are estimated to be above the nisab level in Türkiye as of 2022. In other words, 10.76% of the Turkish adult population is obliged to pay zakat on their financial wealth at the end of 2022.

Figure 6.13 does not inform us about the total financial wealth owned by each decile. Therefore, as discussed in Chapter 5.2.3, we should resort to wealth distribution by decile within Türkiye to reach the zakat base of the financial wealth. Figure 6.14 presents the distribution of zakatable financial assets by deciles in Türkiye under three different scenarios. The original distribution of wealth by deciles in GWD 2023 is based on the total value of wealth assets. In other words, it covers both financial and non-financial assets without deducting the liabilities, implying the gross wealth. As stated in the methodology, we assume that the financial wealth net of short- or long-term liabilities follows the same pattern as that of gross wealth. So, the total values in the figure are drawn from the CBRT's Financial Account (FA) dataset and distributed across deciles based on the wealth distribution estimates in the GWD 2023.

Figure 6.13 indicates that approximately the wealthiest ten percent of the population possesses financial wealth above the nisab, while Figure 6.14 reveals this segment of the population holds 69.80% of the total zakatable financial wealth in Türkiye. Depending on the coverage of the financial assets and the deductible liabilities, this percentage corresponds to an amount between 3,754 and 4,546 billion ₺. The zakat proceeds calculated by imposing 2.5776% on the zakatable financial assets owned by the wealthiest decile under the scenarios specified above are presented in Figure 6.15 below.

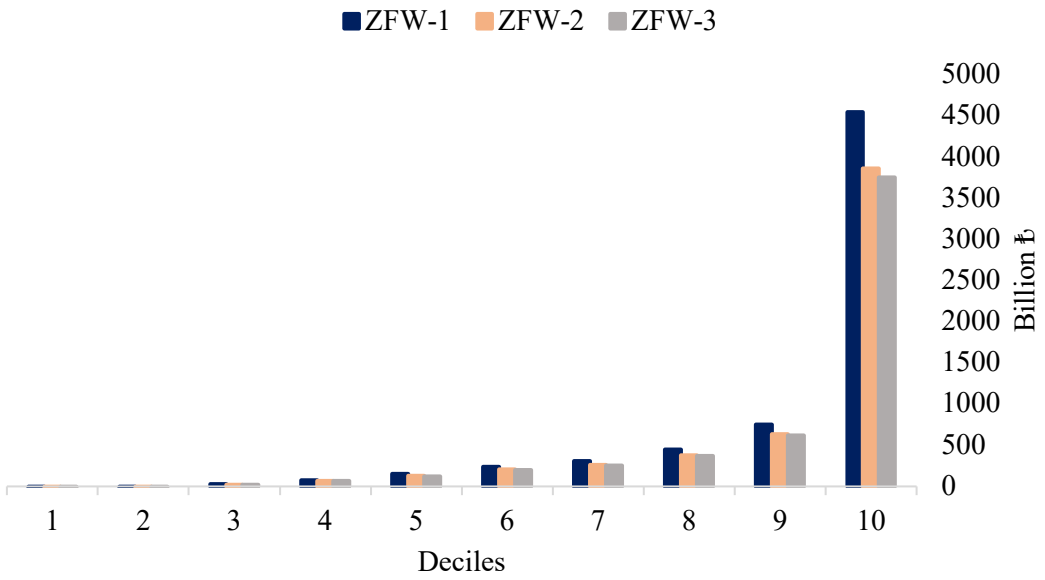

Figure 6.14: Distribution of Zakatable Financial Assets in Türkiye by Decile (2022)

Source: Author's calculation based on the CBRT's Financial Account 2022 and UBS' Global Wealth Data Book 2023 datasets

* The abbreviation ZFW stands for zakatable financial wealth, and the numbers represent the different cases varying based on the coverage of financial assets and deductible debts. ZFW-1: Zakatable financial assets net of short-term liabilities, ZFW-2: Zakatable financial assets net of short- and long-term liabilities, ZFW-3: Zakatable financial assets, excluding equity investments, net of long-term liabilities.

The estimated zakat potential on the financial assets of the households residing in Türkiye by the end of 2022 spans from 96.76 to 117.17 billion ₺, as shown in Figure 6.15. The highest potential is generated in the first case, where only short-term liabilities are deducted from the zakatable financial wealth. This case reflects the resolutions of several contemporary institutions, such as the AAOIFI and the HBRA, which state that debts accrued or payable within one year shall be deducted from the zakat base (AAOIFI, 2015; HBRA, 2017b). The second-highest zakat potential arises when whole liabilities are deducted from the zakatable financial wealth without differentiating them in maturity. Due to its narrower zakat base, this approach reduces the zakat potential by around 15%. However, we have not found any contemporary view that suggests deducting long-term liabilities in the literature. This scenario is constructed to show the difference stemming from the deduction of the long-term liabilities in addition to the short-term liabilities. Lastly, the third case excludes the equity investments from zakatable financial assets because zakat on business assets

has already been estimated at the company level in Chapter 6.2.1. Since the zakat on business assets corresponding to the shares of the equity holders or shareholders has been included in the zakat potential estimation at the company level, we opt to develop such a scenario in line with the relevant resolution of the International Islamic Fiqh Academy (IIFA, 2021: 49-50). On the other hand, the first case reflects the view of those stating that shares, especially those held for trade, constitute separate zakatable items distinct from the business assets of the corresponding companies and must be subject to zakat through their current values as trade goods (Erkal, 2008: 130-131). Therefore, the 20.41 billion ₺ difference in the estimations under the first and third scenarios highlights the implications of these two distinct approaches concerning equity investments on the estimated zakat potential.

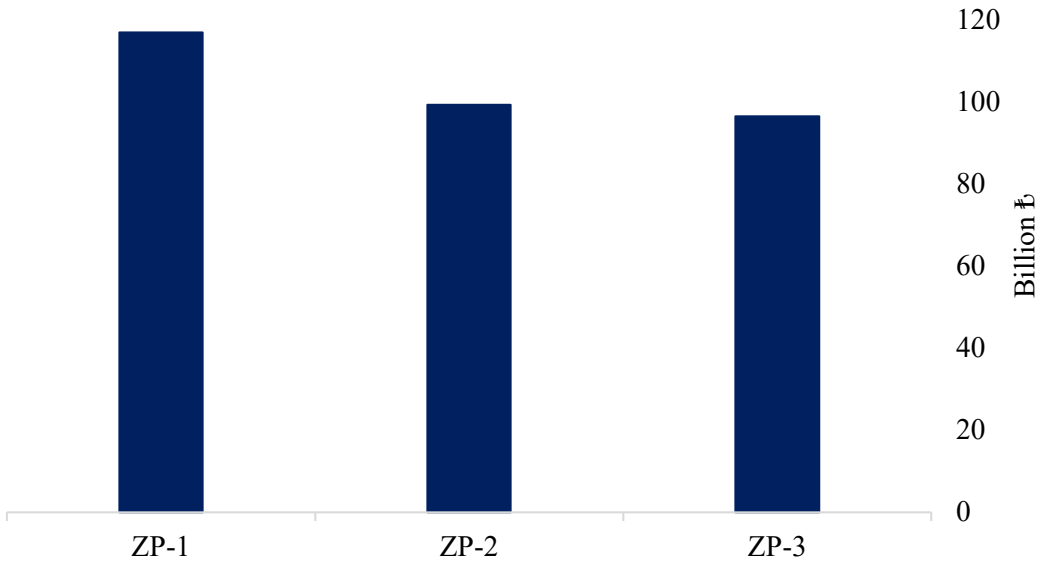

Figure 6.15: Estimated Zakat Potential on Financial Assets in Türkiye (2022)

Source: Author's calculation based on the CBRT's Financial Account 2022 and UBS' Global Wealth Data Book 2023 datasets

* The abbreviation ZP stands for zakat potential. The numbers refer to scenarios that define the zakatable financial wealth (ZFW) and, hence, the zakat base.

6.3. Assessment of Selected Tax Types in Türkiye from the Perspective of Islamic Public Finance Theory and Budgetary Implications

This section assesses the selected tax types in Türkiye, namely the domestic taxes on goods and services and VAT on imports, i.e., consumption taxes, and personal income tax, in terms of the taxation principles discussed in Chapter 3. These tax types are selected for the assessment considering their high share in the public budgets, corresponding to 54.31% of public revenues on average between 2006 and 2023. The analysis is carried out primarily based on the principles of taxing richness beyond needs and justice. Grounded in the assessment, two main reform proposals are presented. These include eliminating the consumption tax burden on low-income groups and exempting income allocated to necessities from tax. Finally, the budgetary impacts of the suggested reforms are estimated according to the quantitative methods described in Chapter 5.

6.3.1. Taxes on Goods and Services

6.3.1.1. The Overview of Taxes on Goods and Services in Türkiye

This section approaches the most prominent types of consumption taxes[108] applied in Türkiye from the perspective of Islamic public finance theory. These include the categories of domestic taxes on goods and services, and part of the taxes on international trade and transactions. Although we cover all domestic taxes on goods and services listed in Table 4.2, only value-added tax (VAT) on imports is addressed among the taxes on international trade and transactions since the other types of taxes in this category, such as customs duties and anti-dumping taxes need to be examined separately due to their differentiating aspects and connection with the ushur, Islamic tithe on trade goods.

The contribution of domestic taxes on goods and services to the central government and local administration budgets in 2022 corresponds to 20.45%, while the average contribution between 2006 and 2023 constitutes 26.88%, as shown in Figure 4.8. On

[108] The literature and regulations may use expenditure, transaction, sales, or excise taxes instead of consumption tax (Edizdoğan et al., 2021: 306).

the other hand, the share of VAT on imports in the corresponding budgets reached its highest level in 2022 with 17.82%, despite 13.25% of the average share between 2006 and 2023, as presented in Figure 4.9. In total, they account for approximately 40% of overall public revenues in both 2022 and the 2006–2023 average, excluding the budgets of social security institutions. Lastly, the most income-generating categories of mentioned consumption taxes according to the average contributions between 2020-2023 are VAT on imports (15.73%), domestic VAT (6.83%), SCT on motor vehicles (5.11%), SCT on tobacco products (3.84%), and SCT on petroleum and its products (3.23%).

Consumption taxes are imposed when income or wealth is spent in exchange for goods and services, as explained in Chapter 4. The scope of goods and services subject to these taxes is quite vast, as shown in Tables 4.3, 4.4, 4.5, and 4.6. While some types of consumption taxes apply a specific or flat-rate tariff to all goods and services within their scope, others categorize taxable items into groups and subgroups based on their nature and specific characteristics. For instance, entertainment taxes, fire insurance tax, communication tax, tax on electric and coal gas consumption, banking and insurance transaction tax, accommodation tax, special communication tax, gambling tax, and digital services tax have a flat-rate tax schedule that obligates everyone purchasing the goods and services at the same rate, as summarized in Tables 4.5 and 4.6. Although the VAT (both domestic and on imports) categorizes its tax subject into three groups and specifies three different rates accordingly, the rates do not vary within the relevant group. The same is present in the first and third groups of goods subjected to the SCT, as presented in Table 4.4. On the other hand, the tax schedules prescribed for announcement and advertising tax, environmental cleaning tax for workplaces, and motor vehicles in the second and the mobile phones in the fourth groups of goods, subject to the SCT, have varying rates considering the tax base and some characteristics of the goods and services. Thus, we can conclude that the structure of the consumption taxes applied in Türkiye has predominantly the nature of objective taxes, which leads to a financial obligation at the same rate regardless of the economic situation of individuals through a transaction.

The taxpayers specified by the relevant laws are generally sellers, service providers, manufacturers, constructors, and importers, with a few exceptions.[109] However, buyers or consumers undertake the tax burden since it is shifted to them through pricing by the official taxpayers. Beyond any doubt, numerous macroeconomic and microeconomic factors affect the distribution of the tax burden among the actors in the supply chain. In this regard, tax rates, the nature of goods and services, price elasticities of supply and demand, market structure, and the sectors' forward and backward linkage coefficients can be listed among the determinants of the direction and extent of tax shifting (Türker, 2019: 61–64). For instance, the tax on essential consumption goods is shifted forward due to the low price elasticity of demand for these goods, and the tax incidence remains on consumers.

6.3.1.2. Consumption Taxes in Terms of Principles of Taxing Richness Beyond Needs and Justice

Given the broad range of goods and services subject to various consumption taxes—many of which are staples in the consumption baskets of all income groups—and the phenomenon of forward shifting of these taxes, it is evident that individuals across different income levels bear a substantial consumption tax burden. In addition, the widespread use of specific and flat-tax schedules in consumption taxes, combined with the fact that lower-income groups allocate a larger portion of their income to consumption expenditures, raises concerns about the fairness of the tax burden distribution relative to taxpayers' ability to pay. The extensive study conducted by Zenginobuz et al. (2010) using TurkStat's Household Budget Statistics for the period between 2003 and 2008 allows us to confirm these concerns, even though it is not up to date. Figure 6.16 presents households' total consumption tax burden, which covers VATs and SCTs, by income quintiles in Türkiye for the mentioned period. As shown in the figure, the shares of consumption taxes in households' incomes decrease as income levels rise. In other words, households in lower-income groups allocate a larger

[109] For instance, the official taxpayers of the environmental cleaning tax and tax on electric and coal gas consumption are those using the residences or workplaces and consumers of electricity and coal gas, respectively, as summarized in Table 4.5.

portion of their income to consumption taxes. Therefore, these taxes exhibit the characteristics of a regressive tax.

Apart from the study by Zenginobuz et al. (2010), we could not find any studies estimating the consumption tax burden on households by income groups in Türkiye for recent years. However, the method we have developed in Chapter 5 enables us to estimate the consumption tax burden on households by income quintiles in 2022. In addition, the estimations of VAT and SCT burden we made for 2007 and 2008 offer the opportunity to compare our results with the findings of Zenginobuz et al. (2010) for the corresponding years. As shown in Appendix F, the Pearson Correlation Coefficient calculated to assess the degree of overlap between the two results is 0.82. Despite differences, both methods have yielded similar results for these years.

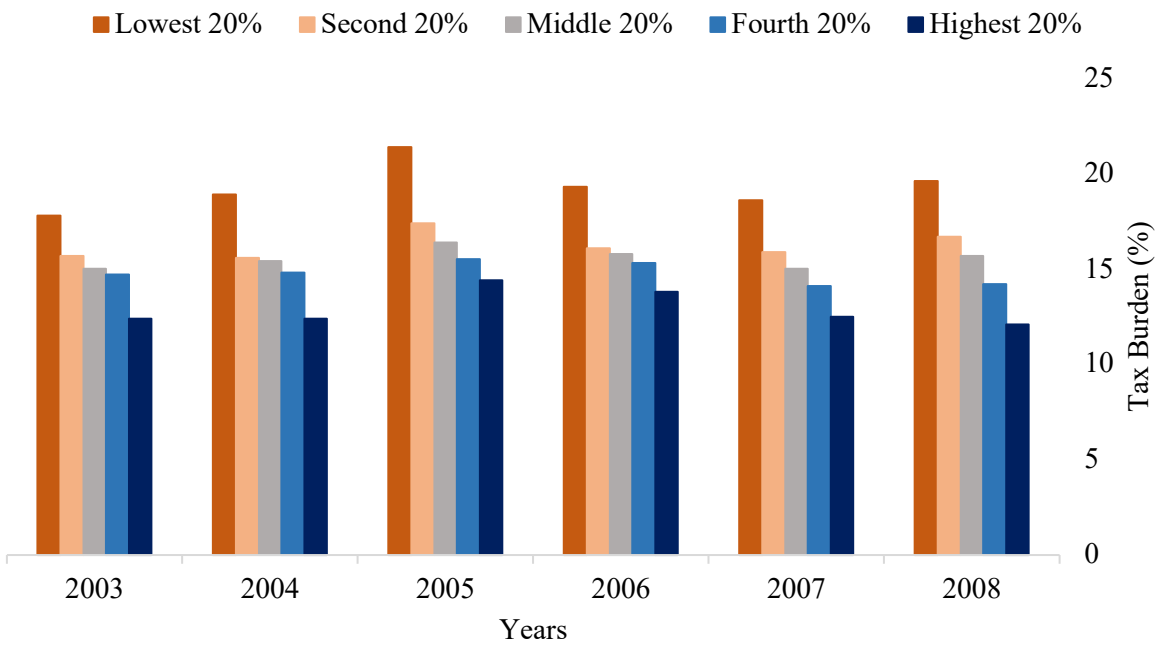

Figure 6.16: Total Consumption Tax Burden of Households by Income Quintiles in Türkiye (2003-2008)

Source: Zenginobuz et al., 2010: 70

Consumption tax burdens on households by income groups, which were calculated based on the method developed in Chapter 5, are presented in Figure 6.17 below. When the estimates for 2022 are compared with those for the periods between 2003 and 2008, it is seen that the total consumption tax burden on households in each income group was found remarkably higher. This difference is primarily attributable to the broader inclusion of consumption taxes—particularly VAT on imports, and other consumption taxes collected by local administrations—in our 2022 estimates compared to those from 2003–2008. When we restrict our estimates to the consumption taxes considered in the study, focusing on the period 2003-2008, the total consumption tax burden by income groups from the lowest income to the highest income is realized as 11.72, 13.58, 13.38, 14.43, and 11.46%, respectively. These estimates indicate that the consumption tax burden decreased for all income groups in the last 15 years.

Another difference between the estimates for 2003-2008 and 2022 is that the relative burden of total consumption taxes on households is not constantly decreasing by income level anymore. Although the highest income group still has the lowest consumption tax burden, the households in the second and fourth quintiles bear higher burdens than those from the lowest and middle-income groups. The relative decrease in tax burden on the households in the first income group can be attributed to the reduction of the VAT rate on essential food items from 8% to 1% at the beginning of 2022, which accounts for a larger share of their consumption baskets compared to other households (T. C. Resmi Gazete, 2022). Moreover, the rising contribution of the SCT on motor vehicles to total tax revenues in recent years, as illustrated in Figure 4.8, may have shifted the relative tax burden to the disadvantage of higher-income groups, given that the share of expenditures subject to this tax increases substantially with higher income levels.

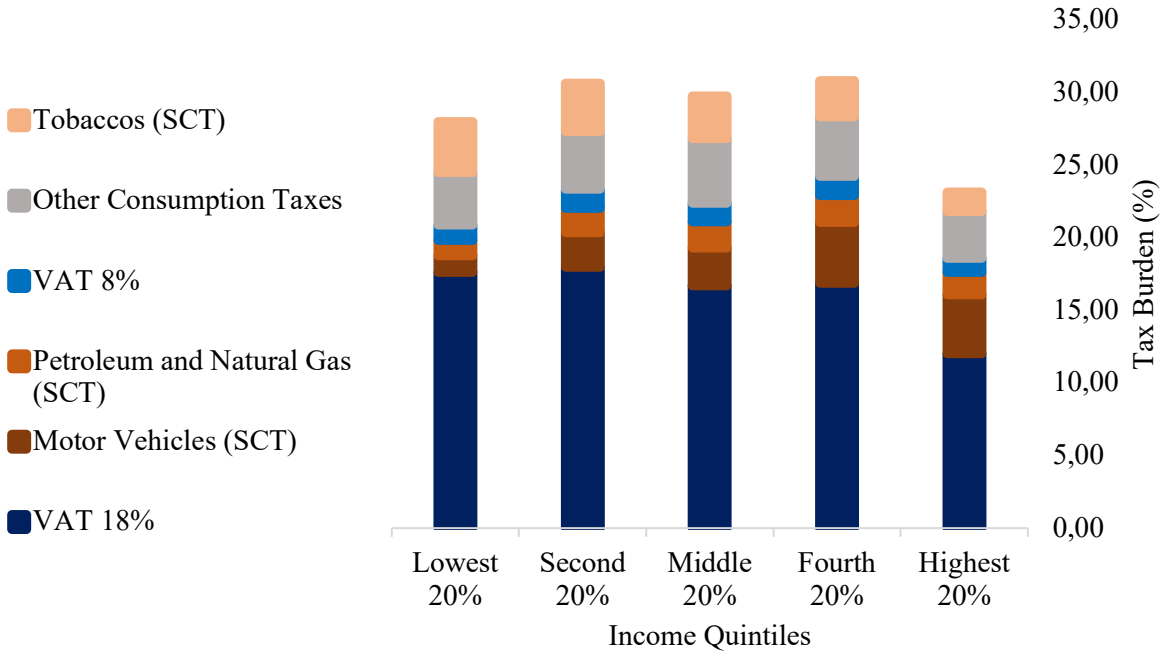

Figure 6.17: Consumption Tax Burden of Households by Income Quintiles in Türkiye (2022)

Source: Author's Calculation

* The category of other consumption taxes includes 1% VAT, Banking and Insurance Transaction Tax, Gambling Tax, Special Communication Tax, SCTs on beverages, coke, durable goods and others, Entertainment Tax on Joint Bets, Entertainment Tax for Places Entered w/o and w/ Tickets, Environmental Cleaning Tax for Residences and Workplaces, Fire Insurance Tax, Publication and Advertising Tax, Fire Insurance Tax, Announcement and Advertising Tax, Communication Tax, Tax on Electric and Coal Gas Consumption for Households and Workplaces. It is worth noting that the Digital Services Tax and Announcement and Advertising Tax could not be included in the estimation because a corresponding household expenditure category is not available in the COICOP-1999. Since these two taxes account for 0.5% of the total consumption tax proceeds in 2022, their omission is not expected to cause significant bias in estimations. The tax burdens stemming from each consumption tax are shown in Appendix F.

When we ignore whether the conditions of taxation are met in Türkiye for now and focus on the taxes on goods and services in the light of taxation principles explained in Chapter 3, we can conclude that the consumption tax burden on the lower-income groups violates the principle of taxing richness beyond needs. The violation stems from the fact that those who do not own income and wealth above their needs are obligated to pay taxes through these consumption taxes. The comparison of the average annual equivalized household per capita disposable income by income groups with the relative poverty thresholds for the last year covered by the calculations of Zenginobuz et al. (2010), namely 2008, and the base year of this thesis, 2022, reveals

the mentioned violation more clearly. As shown in Figures 6.18 and 6.19, the average equivalized household per capita disposable incomes in the first quintile are lower than the poverty lines calculated based on 50% and 60% of the median income in both years. However, the same individuals still have to pay consumption taxes, which accounted for 19.6% and 27.99% of their household income in 2008 and 2022, respectively. Similarly, those in the second income quintile with an average disposable income barely above the poverty line must pay 16.7% and 30.62% of their household incomes as consumption taxes in 2008 and 2022, respectively. Consequently, when poverty thresholds are considered indicators representing individuals' basic annual needs, the taxation of resources only sufficient to meet these needs does not align with the principle of taxing richness beyond needs that we have identified within the Islamic public finance theory framework.

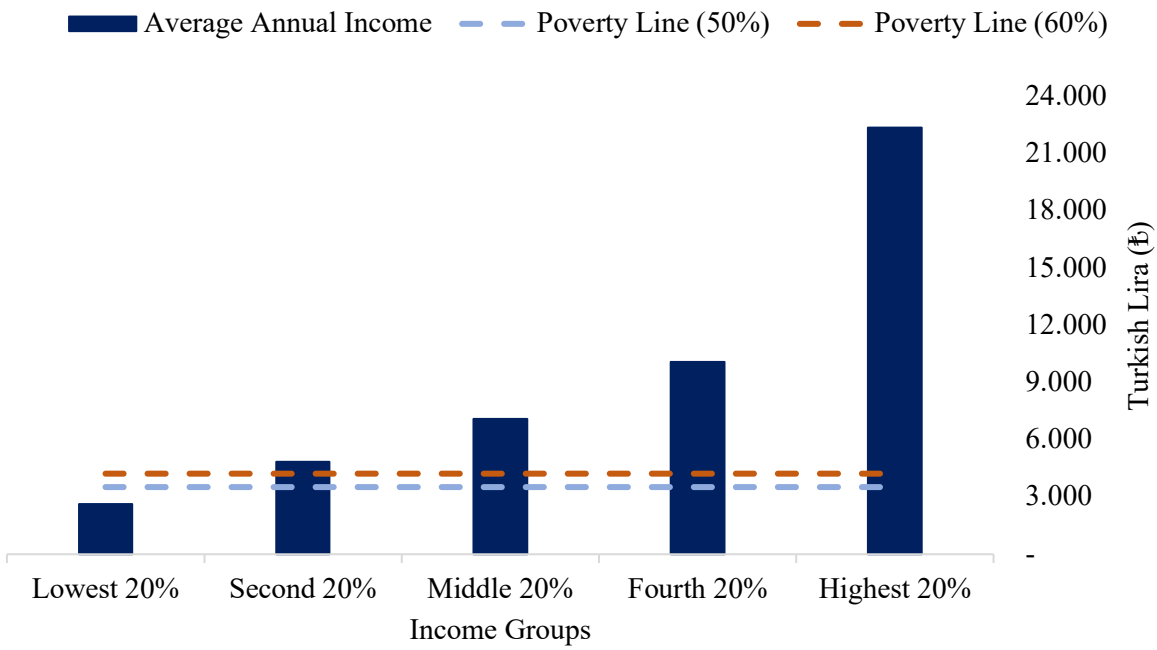

Figure 6.18: Average Annual Equivalized Household Per Capita Disposable Incomes by Quintile and Poverty Lines in 2008

Source: TurkStat, 2009a, 2009b

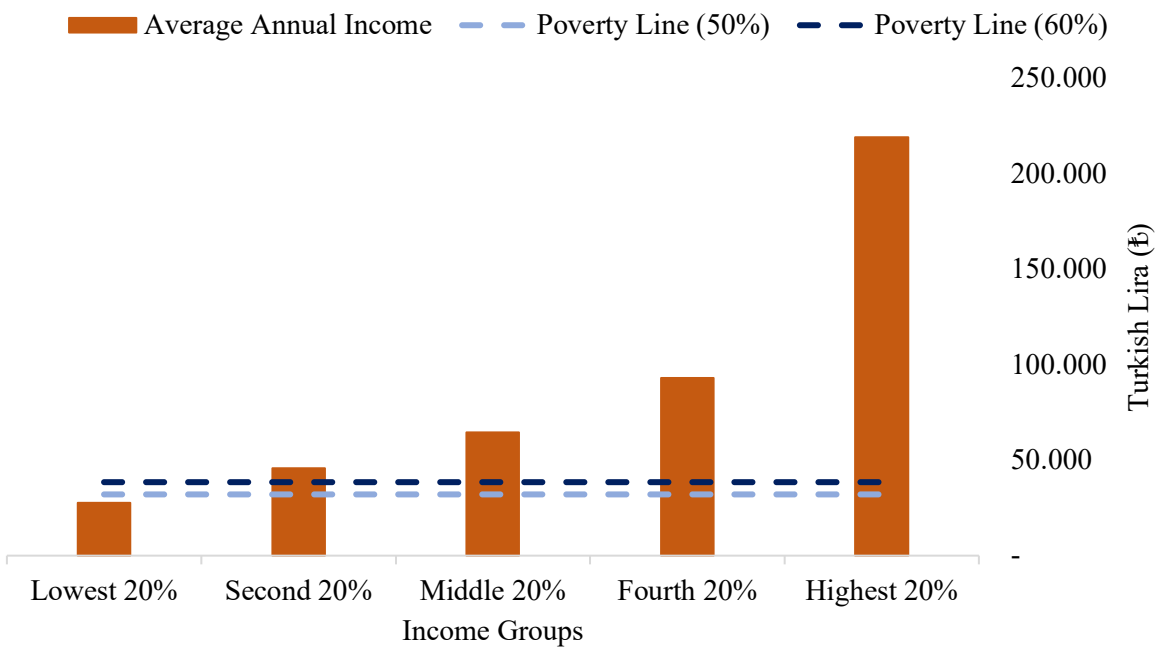

Figure 6.19: Average Annual Equivalized Household Per Capita Disposable Incomes by Quintile and Poverty Lines in 2022

Source: TurkStat, 2023c, 2023f

The structure of most taxes on goods and services in Türkiye is also not compatible with the principle of justice. As elaborated in Chapter 3, justice primarily requires taxes to be imposed on eligible persons according to their ability to pay. Second, it also signifies that equals must be treated equally. Those with average incomes much above the poverty line can be deemed eligible to pay taxes when the taxation conditions are met. However, the eligible members of society differ in terms of their ability to pay, as reflected in income variations among them. Thus, any tax structure should be able to consider these variations in order to satisfy the justice principle. The prevailing consumption taxes in Türkiye have generally specific and flat-tax schedules, which lead to equal tax per consumption unit of the same kind of goods and services, the majority of which is common in the consumption baskets of individuals from different income groups. For instance, the SCT tax rates specified for durable goods and others covering white appliances are the same for all goods regardless of their nature and quality. Undoubtedly, people prefer goods based on their income levels. Therefore, even if the tax rates remain the same, those in the lower income groups opting for more affordable goods will pay less in total taxes for these goods compared to higher income groups who choose more expensive options. However, the

price variations between the taxable goods and services preferred by individuals from different income groups may not always significantly impact the total tax payments incurred, as in the case of more standardized goods and services, such as food items and petroleum products. In addition, the income levels constituting the denominator of the tax burden formula are also highly decisive for the differences in the consumption tax burden on various income groups. Although higher-income groups are expected to pay more in consumption taxes because of the higher prices of the products they prefer and their relatively higher overall consumption levels, the proportion of these taxes relative to their income may still be lower compared to lower-income groups due to the income factor. Consequently, taxing goods and services common to all income groups, the widespread use of specific and flat-tax schedules for consumption taxes, and significant income inequalities in Türkiye result in tax burdens independent of and even in contrast to the ability to pay, as shown in Figures 6.18 and 6.19, thereby violating the justice principle.

The above considerations bring us to the point of whether consumption taxes can be restructured in a way that meets the taxation principles in Islamic public finance theory, specifically, principles of taxing richness beyond needs and justice.[110] As noted

[110] One may argue that consumption should not be subject to tax at all from the perspective of Islamic public finance theory (Eskicioğlu, 2007: 42–43). When we consider the zakatable items and the early practices of Islamic states in regard to taxation, it is fair to say that consumption was not one of the subjects of either zakat or customary taxes (Kenanoğlu, 2013: 53). Although customs duties are theoretically considered within consumption taxes, the Islamic tithe on trade goods (ushur) cannot be seen as identical to customs duties. Nevertheless, the absence of taxing consumption in the early periods does not necessarily imply that taxes on consumption are prohibited. As discused in Chapter 3, it is worth reiterating that the narrations from the Prophet ﷺ against the maks and those who collect this tax (makkas) were due to the oppression of the people with heavy taxes, persecution, bullying, and torture during collection, taking more than the official types and rates, failure to spend the collected taxes on the deserving parties (Kallek, 2003: 584). Therefore, maks, which historically encompassed various types of taxes—some resembling today's consumption taxes—was prohibited not due to its subject matter, but in the context of the above-mentioned aspects. Despite this, it is important to note that, as discussed below,

above, the principle of taxing richness beyond needs requires eliminating the tax burden on the first two income quintiles. In this regard, removing all consumption taxes can be considered as one of the options. However, this option would also eliminate consumption taxes collected from upper-income groups, corresponding to 31.5% of the current total revenues of central government and local administration budgets in 2022. Together with the tax burden on the first two income groups, the total value of consumption taxes foregone accounts for 1,263 billion ₺, i.e., 38.29% of the central government and local administration budgets in 2022.

Another option is to designate a minimum tax base per consumption unit for expenditure categories whose consumption preferences differ based on price by income groups. For instance, motor vehicles, white appliances, electronic products, and accommodation services could be subject to consumption tax when the value of each good or service exceeds the minimum tax base determined for each. Thus, the consumption of households from the first two income quintiles is expected not to be subjected to taxes on goods and services since the products they opt to buy cost less than the corresponding minimum tax bases. On the other hand, upper-income groups continue to pay consumption taxes on most of their expenditures as they exceed the minimum tax base at the product and service level.

The second option would not be feasible for standard goods and services where prices are not decisive enough to cause consumption preferences of income groups to diverge, such as most foodstuffs and petroleum products. In addition, it is hard to implement this approach for diffused consumption taxes imposed at multiple stages of production and distribution, such as VAT. This difficulty lies in setting a minimum tax base for raw materials and intermediate goods that aligns with the minimum tax base determined for final goods, given the more homogeneous nature of raw materials and the use of similar inputs across different sectors. If compatible minimum tax bases cannot be set for the relevant product groups and their corresponding raw materials and intermediate goods at each stage of production and distribution, the divergence between the VAT paid by producers on intermediate goods and the VAT charged on their final products may widen. In this case, the state must refund the difference.

restructuring consumption taxes in accordance with the principles of taxation in Islamic public finance theory is practically very challenging.

However, if refund processes are not carried out effectively and promptly, businesses may face liquidity issues. As a result, it does not seem feasible to implement this option for VAT on the grounds that its subject matter includes a large number of goods and services, many of which are standard items demanded by different income groups, and it applies not only to final products but also to raw materials and intermediate goods used throughout various stages of production and distribution.

Consequently, we suggest adopting the first option for VAT and other consumption taxes imposed on the standard goods and services, while restructuring the taxes on goods and services whose consumption preferences differ based on price by income groups, based on the second option. These proposals are valid when the taxation conditions discussed in Chapter 3 are met. They should also be weighed against other alternative forms of taxation in terms of meeting the public's revenue needs and economic implications.

The implications of the proposed changes on the budget revenues by tax types are presented in Table 6.5, below. At this point, it is worth noting several assumptions and considerations. First, we assume that the minimum tax bases could be ideally specified for each set of products and services so that household expenditures in the first two income quintiles are not subject to corresponding consumption taxes. Secondly, we neither removed nor restructured the taxes that do not pose a substantial tax burden on lower-income groups, such as the Environmental Cleaning Tax and Fire Insurance Tax. Thirdly, taxes on alcoholic beverages, tobacco products, gambling, and bets are kept as they are to discourage the forbidden activities.[111]

When the proposed measures outlined in Table 6.5 are implemented, the total forgone consumption tax revenue amounts to 866.63 billion ₺, equivalent to 26.25% of the central government and local administration budgets. Following these changes, the tax burdens on the households in the first and second quintiles drop to around 4.62% and 4.42%, respectively, most of which stem from the expenditures on alcoholic beverages, tobacco products, gambling, and bets. On the other hand, the tax burdens

[111] Ideally, people should not be allowed to carry out these activities. However, since this is an issue with legal and political dimensions, we could not discuss it in detail within the scope of this thesis.

on the middle, fourth, and highest income groups become 9.57%, 10.46%, and 8.45%, respectively.

Table 6.5: Budgetary Impacts of the Suggested Actions in Consumption Taxes (2022)

Consumption Taxes	Actions	Budgetary Impact (billion ₺)
VAT	Repeal	- 754.11
Banking and Insurance Transaction Tax	Minimum Tax Base	- 6.49
Gambling Tax	Remain Unchanged	—
Special Communication Tax	Minimum Tax Base	- 2.42
Petroleum and Natural Gas (SCT)	Repeal	- 76.77
Motor Vehicles (SCT)	Minimum Tax Base	- 14.68
Beverages (SCT)	Remain Unchanged	—
Tobacco (SCT)	Remain Unchanged	—
Coke (SCT)	Repeal	- 4.17
Durable Goods and Others (SCT)	Minimum Tax Base	- 4.79
Entertainment Tax on Joint Bets	Remain Unchanged	—
Entertainment Tax for Places Entered w/ and w/o Tickets	Remain Unchanged	—
Environmental Cleaning Tax for Residences and Workplaces	Remain Unchanged	—
Fire Insurance Tax	Remain Unchanged	—
Communication Tax (SCT-L)	Remain Unchanged	—
Tax on Electric and Coal Gas Consumption for Households and Workplaces (SCT-L)	Minimum Tax Base	- 3.21
	TOTAL	**- 866.63**

Source: Author's Calculation

When the tax burdens of middle- and upper-income groups are re-evaluated in the light of the justice principle following the changes outlined in Table 6.5, it becomes evident that, although the burdens have become more aligned compared to the initial situation, the highest income quintile still bears the lowest burden. To address this issue, progressive tax rates can be introduced in addition to setting a minimum tax base for certain product groups. For instance, a system similar to the one currently applied to

motor vehicles in Türkiye, where taxes vary based on the tax base and other characteristics of the vehicles, could be extended to white goods and electronic products.

6.3.2. Personal Income Tax

6.3.2.1. Zakatability and Taxability of Income

Taxing incomes generated from different sources at the individual level is a contemporary phenomenon initiated especially after the 19th century. Previously, taxes, especially on agricultural production, had long been one of the leading financing sources for states. However, these levies cannot be considered income taxes in today's sense because their subject matter is the produced crops rather than the income generated from these productions. Nevertheless, they resemble income taxes due to the fact that the produced amount is ultimately an income in kind.

Zakat on agricultural output, zakat/khums imposed on minerals extracted, and the practice of kharaj muqasamah can be viewed as similar to the customary levies on production worldwide. Considering the fact that production costs are not excluded from production subject to zakat, khums, or kharaj, the difference between them and today's income taxes can be seen more clearly. In the context of zakat, khums, and kharaj, the gross amount of production is subject to the corresponding obligation, leaving aside the change in the rate of ushr according to the irrigation method. Today, however, the income tax base is limited to net income, excluding all expenses related to income-generating activities. At this point, it is worth noting that contemporary views concerning zakat on agricultural production and zakat/khums on mineral extraction, which allow for cost deductions, align these obligations more closely with the structure of modern income taxation.

Classical zakatable items, classical views on agricultural production and mineral extraction, and the practice of kharaj muqasamah may lead to the conclusion that income is not directly subject to zakat or taxation within the framework of Islamic public finance. Nonetheless, it is crucial to recognize that in the historical context in which these views were asserted and associated practices were implemented, the predominant sources of earnings were agriculture and trade, with limited presence of salaries, wages, professional income, and returns from movable or immovable assets

in the broader economic landscape. Therefore, it would not be reasonable to assess the taxability of income solely on its absence in an era where income did not occupy a significant position within the economic framework as it does today.

Contemporary scholars' views on new zakatable items should also be taken into account when assessing whether income can be subject to financial obligations. As shown in Table 5.3, these items include wages, salaries, professional incomes, rental income, and returns on securities and savings accounts, which have been conceptualized as earned incomes previously. As elaborated in Chapter 5.2.2, contemporary literature presents two opinions regarding the zakatability of earned incomes. Among these, the mainstream view is that earned incomes shall be added to the other zakatable assets of the same kind in zakat calculation. According to this view, the saved or unexpended portion of the total is subject to zakat if it is above the nisab after one lunar (hijri) year has passed since reaching the nisab for the first time. In other words, they do not deem these incomes or their sources as another zakatable category different from cash holdings or savings, as Paçacı (2015: 235) rightly points out. He considers that they exempt the assets from zakat and treat the earned income as saved cash, gold, and silver regarding zakatability. On the other hand, some contemporary scholars disagree with the mainstream view concerning the zakatability of earned income. Their objection stems from their understanding of whether a lunar (hijri) year must elapse over the nisab for earned income to be subject to zakat. Based on the arguments presented in Chapter 5.2.2, al-Qaradawi (1999a: 259), Dumlu (2008: 124), and Paçacı (2015: 137) assert that earned income is subject to zakat as soon as it is received, without waiting for a lunar (hijri) year to pass.

The mainstream contemporary view in the context of zakat on earned income does not directly subject it to zakat, whereas some scholars who deviate from the mainstream view it as one of the new zakatable items. Considering both the disagreements in the contemporary literature and their origins in classical views and the fact that the form of earned income today is an essential source of earning and implies significant ability to pay, we conclude that it cannot be justified to hold a position that excludes income from being the subject of taxation in absolute terms. However, this consideration does not indicate that taxes on income are free from limitations. As specified in Chapter 3, all taxation principles must also apply to income taxes. As a matter of fact, the subsequent section focuses on personal income tax on wage earners in Türkiye within

the framework of these taxation principles by utilizing the method outlined in Chapter 5.3.2.

6.3.2.2. The Overview of Personal and Corporate Income Taxes in Türkiye

The first example of modern corporate income taxes in the Ottomans was the profit tax (temettü vergisi), which had been gradually introduced together with property taxes (emlak ve arazi vergileri) starting from the 1860s (Türklü, 2016; Yaraşlı, 2003: 20). The profit tax (temettü vergisi) was substituted with income tax (kazanç vergisi) in 1926 due to several reasons mentioned before. Income tax (kazanç vergisi) differentiated from the profit tax (temettü vergisi) in terms of the tax subject by including incomes of wage-earners and moneychangers as well as banking-related securities incomes, which were not subject to the profit tax (temettü vergisi) previously (Yaraşlı, 2003: 20). As a matter of fact, the burden of income taxes on civil servant salaries and worker wages started to increase by the 1930s (Tezel, 1982: 393). Income tax (kazanç vergisi), introduced in 1926, was replaced with three separate laws: Income, Corporate, and Artisan Tax Laws in 1950 (İnan, 2010: 356). The new Income Tax Law started to calculate the tax liabilities by collecting the natural person's income from various sources, rather than separately taxing them as in the previous law. It included revenues from movable and immovable capital fully within the scope of the tax (Ibid: 353-354). Among these three laws, the first two have maintained their existence until today with amendments.

As explained in Chapter 4.2.3, Income Tax Law (ITL) 193 stipulates the rulings about taxing the incomes of natural persons, while Corporate Tax Law (CTL) 5520 is about the income of corporations, businesses, and institutions specified in the law. The ITL specifies the tax subject as the net earnings and revenues a natural person obtains in a calendar year. As summarized in Table 4.7 before, the ITL describes seven types of earnings and revenues subject to income tax, along with expenses deductible from the gross income to reach the taxable income for each type. Considering the first six categories of earnings and revenues defined in the ITL, it can be concluded that the personal income tax structure in Türkiye is aligned with the source-based theory of taxable income. This theory describes taxable income as a return derived from a permanent and identifiable economic factor, such as labor, capital, or land. Therefore, it excludes unrealized gains in the value of production factors and assets—such as

inheritances and donations—that do not originate from these factors (Arıkan & İnneci, 2016: 14). However, in the case of the seventh category titled, "other earnings and revenues," the net accretion theory, which includes all economic gains regardless of source or regularity in the taxable income, is applied partially (Ibid: 20). The net accretion theory is partially applied in the seventh category since it covers part of appreciation gains arising from the disposal of certain goods and rights, such as stocks, other capital market instruments, licenses, trade names, trademark rights, land, buildings, ships under particular conditions, and some incidental gains (T. C. Resmi Gazete, 1960: 80-82). Consequently, although the scope of the first six categories is quite broad, and the seventh category includes some non-regular income that is not earned through production factors, it cannot be said that the net accretion theory is fully applied since the income tax law does not tax all economic gains. Therefore, Arıkan and İnneci (2016: 20) state that the income tax law in Türkiye has a mixed system based on both theories.

The second important issue after determining the scope of taxable income is the type of tax system adopted to calculate tax liability. In this regard, two tax systems are identified in theory and reflected to varying degrees in practice. Among these, the global or unitary tax system aggregates all taxable income that natural persons earn to be taxed, considering a single tax schedule (Ibid: 20-21). In other words, the source of earnings or revenues does not affect how the income is taxed. On the other hand, in the schedular income tax system, each income category is separately taxed without aggregation. Thus, tax rates and deductible expenses may differ depending on the income category. As a natural consequence of this tax system, losses incurred in one income category are not offset against income from another (Ibid: 21).

The income tax system in Türkiye seems unitary according to Article 104 of the ITL, which stipulates the calculation of income tax liability according to a single tariff on the annual sum of taxable incomes (T. C. Resmi Gazete, 1960: 104). However, several features of the ITL lead to deviations from a unitary tax system. These include cases where tax returns are not submitted, exemptions and exceptions, and withholding tax mechanisms (Arıkan & İnneci, 2016: 22-24). For instance, according to Article 94 of the ITL, wage income, rental income from workplaces, dividend income of natural persons, interest and income from securities such as government bonds, treasury bills, and lease certificates, interest income from deposits, dividends paid to profit and loss

participation accounts, payments made to farmers not taxed under the actual (real) taxation method, payments made to persons within the scope of tradespeople exemption, income from investment funds and real estate investment trusts are taxed by withholding tax. For most of them, these withholding rates are final taxation. Those who earn these incomes do not have a declaration obligation for these incomes (T. C. Resmi Gazete, 1960: 94). Therefore, they are not included in the annual sum of taxable incomes to be taxed according to the progressive tax schedule in Article 103 of the ITL. The withholding tax rates imposed on the relevant incomes at their source under a flat tax system vary between 0% to 20% depending on the type of income, except for the wage incomes that are subject to the progressive tax schedule specified in Article 103 (T. C. Resmi Gazete, 2009). Considering that 92.43% of personal income tax revenues over the past five years have been collected through withholding, it can be argued that Türkiye has largely departed from a unitary personal income tax system (HMB, 2023).

Corporate Tax Law (CTL) 5520 regulates tax on corporate income. The CTL specifies the tax base as the net corporate income calculated considering the rulings about the commercial earnings stipulated in the Income Tax Law (ITL) (T. C. Resmi Gazete, 2006: 6). The deductible expense items for the commercial earnings summarized in Table 4.7 are also valid for the corporate income, but Law 5520 lists the following additional expense items that can be deducted from the gross corporate earnings, such as securities issuance expenses, establishment and organization expenses, and others (Ibid: 8). The other deductible spending items defined in Article 10 of Law 5520 resemble those listed in Article 89 of the Income Tax Law 193 to a large extent, except for grants to food banks for the needy and education and health expenditures made for the taxpayers themselves, their spouses, and minor children.

Regarding taxable personal income, what we have stated above in the context of the source-based theory and the net accretion theory of taxable income applies to the corporate tax to a large extent. It is because, as in the case of personal income tax, the incomes subject to corporate income tax are composed mainly of returns derived from a permanent and identifiable economic factor. Compared to personal income tax, corporate income tax follows a more unitary structure as all earnings of corporations are consolidated and taxed collectively as corporate income, and practices such as

withholding tax are more limited.[112] However, the numerous corporate income exempted[113] under Articles 5, 5/A, and 5/B of the CTL led to a departure from a unitary system of corporate income taxation, similar to what is observed in personal income tax, as noted above.

In contrast to the progressive tax schedule stipulated in the ITL, the corporate tax base, which is determined by considering the deductible expenses and other deductible spending items, exemptions, and exceptions, is taxed at a flat rate. Although the ordinary corporate tax rate is 25%, it differs depending on various factors, such as sectors, initial public offering on the stock exchange, etc. As shown in Table 4.9 of Chapter 4.2.3, the corporate income tax cannot be lower than 10% of the amount found by adding unallowable expenses to the commercial balance sheet profit at the end of the accounting period and deducting the exemptions and reductions specified in Article 32/C, which represents the domestic minimum corporate tax.

6.3.2.3. Income Tax in Türkiye in Terms of the Principle of Taxing Richness Beyond Needs

The principle of taxing richness beyond needs has been proposed in Chapter 3, referring to classical and contemporary literature. As elaborated there and applied in the case of consumption taxes before, this principle implies that people who cannot afford their necessary expenses should not be obliged to pay taxes. In addition, those who can cover these expenses shall not be taxed on the resources they allocate for these needs. After meeting basic needs, the remaining resources must exceed the richness level (nisab) to be taxable. Therefore, tax can only be imposed on richness beyond needs, provided the taxation conditions presented before are realized.

The ideal way to assess the income taxes on individuals and corporations in terms of the principle of taxing beyond needs is to derive the income tax burden on them through micro datasets. However, due to the reasons explained in Chapter 5.3.2, the available micro datasets do not allow us to carry out such assessments, especially for

[112] The fact that only 0.21% of corporate tax revenues in the last five years have been collected through withholding tax demonstrates the unitary structure of corporate tax (HMB, 2023).

[113] A summary of earnings exempt from corporate income tax can be found in Chapter 4.2.3.

personal income taxes. Furthermore, estimating the effective income tax burden for income groups using macro datasets is challenging because of the lack of data on pre-tax income distribution and the characteristics of income taxation in Türkiye, consisting of exemptions, exceptions, deductions, withholding tax practices, and other factors that affect the tax base coverage and applied tax rates. More precisely, even if we make some estimations about the pre-tax income levels of income groups under various assumptions, it is quite impractical to determine the extent to which each income group benefits from the exemptions, exceptions, and deductions defined in the tax system for the resources that constitute the total pre-tax income of each income group. Therefore, it is not feasible to obtain the effective personal income tax burden at the income group and individual levels.

Despite the constraints summarized above and elaborated on in Chapter 5.3.2, the Presidency of Revenue Administration's (PRA) Tax Expenditures Reports enable us to draw some insights into the prevailing personal income tax structure in the context of the principle of taxing richness beyond needs. The PRA's reports provide estimates of tax expenditures arising from exemptions, exceptions, and deductions in personal income, corporate income, value-added, special consumption, banking and insurance transactions, motor vehicles, and special communication taxes (Gelir İdaresi Başkanlığı, 2023: 2). In this regard, tax expenditure refers to the amount of tax foregone due to exemptions, exceptions, and deductions. In addition to the tax expenditure distribution among concerned tax types, the reports also present the estimated tax expenditure resulting from each statutory article that stipulates exemptions, exceptions, and deductions in the corresponding laws.

According to the PRA's report published in 2023, tax expenditures in the scope of personal and corporate income taxes account for 39.12% and 31.58% of the total tax expenditures, respectively—together comprising over 70% of all tax expenditures (Ibid: 286). When we look at the proportion of tax foregone to tax collected for each tax type, the figures stand at 96.67% for personal income tax and 54.80% for corporate income tax (HMB, 2023; Gelir İdaresi Başkanlığı, 2023). These ratios are far beyond those for other tax types, as shown in Figure 6.20. In the case of personal income tax, the amount of foregone tax is nearly equal to the amount collected. These indicators highlight the challenges in estimating the effective income tax burden on individuals or income groups, primarily due to the extensive use of tax expenditures through

exemptions, exceptions, and deductions in the personal income tax legislation in Türkiye.

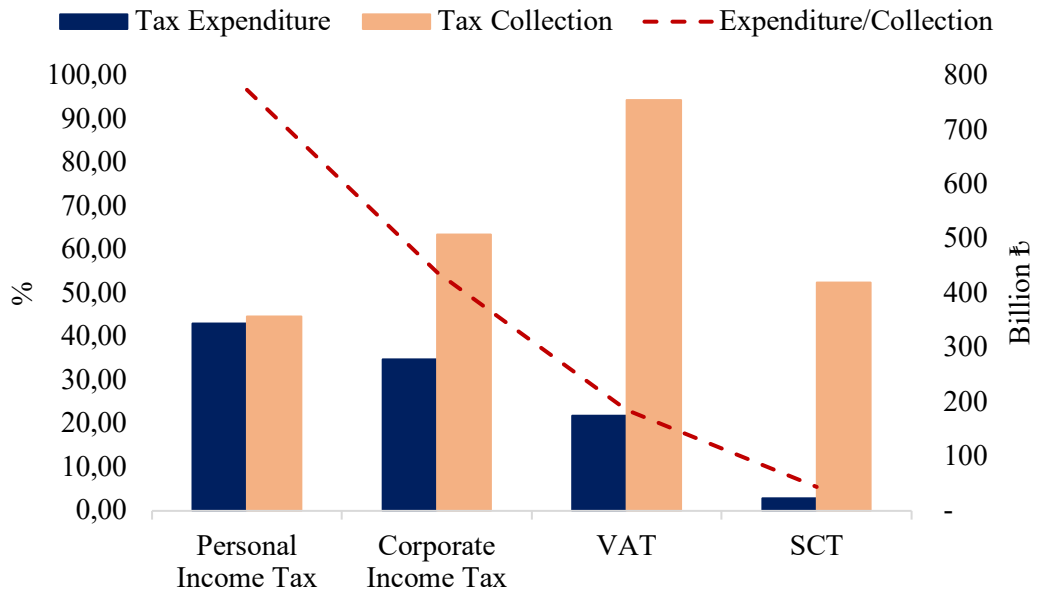

Figure 6.20: Proportion of Tax Expenditures to Tax Collection by Tax Types in Türkiye by 2022

Source: HMB, 2023; Gelir İdaresi Başkanlığı, 2023

The Income Tax Law (ITL), which leads to tax expenditure almost equal to tax collected, includes numerous exemptions, exclusions, and allowances, both all-inclusive and specifically targeted at low-income individuals. For instance, according to Article 23 of the ITL, the wages of the employees corresponding to the monthly gross minimum wage net of social security and unemployment insurance premiums are excepted from income tax starting from 2022 (T. C. Resmi Gazete, 1960: 23). Furthermore, small tradespeople are exempt from income tax. This exemption applies to those engaged in retail trade on a mobile basis, those who collect or purchase all kinds of scrap materials on a mobile basis and sell these goods, those who sell the products they manufacture in their homes over the internet and similar electronic media, provided that they do not use driving force and do not hire outside workers, and other similar traders and artisans. In addition to exemptions and exceptions, the ITL allows certain income to be excluded from tax declaration, provided that the relevant conditions are met (Ibid: 86). This allowance is mainly recognized for small farmers, wage earners, real estate and movable capital income earners and limited taxpayers (Gelir İdaresi Başkanlığı, 2023: 59). Table 6.6 presents the key exemptions,

exceptions, and allowances, along with their descriptions and the corresponding total tax expenditures associated with each.

The total value of tax expenditures associated with the listed exemptions and exceptions from income tax and exclusions from tax declarations in Table 6.6 corresponds to 297.75 billion ₺, accounting for 86.41% of total tax expenditures in the scope of the ITL and 96.67% of the personal income tax collections in 2022. However, most tax expenditures do not exclude a portion of income from the tax obligation. More precisely, tax expenditures associated with income sources subject to withholding do not lead to the partial or total exclusion of concerned incomes from the tax system unless they are directly attributable to an exception to the amount of income subject to withholding, as in the case of the minimum wage exception. This observation also applies to tax expenditures in the context of income sources taxed through both declaration and withholding, such as dividend income, self-employment earnings, and income of traders and artisans. Consequently, only the minimum wage and rental income exceptions among the tax expenditures in Table 6.6 can ensure that a portion of people's income is excluded from the tax obligation.

The PRA's report consists of other tax expenditures, which allow partial or complete exclusion of various wage incomes despite their small share in total tax expenditures. Some of these tax expenditures stem from the complete exemption of the wages of employees working in specific sectors or regions from income tax. These include the wages of workers employed in hand-woven carpets and rugs in villages and those employed by private individuals in non-commercial places for private services, such as nursemaids, nannies, and gardeners (T. C. Resmi Gazete, 1960: 1, 6). Another set of tax expenditures in this regard is raised due to the exception of the wages given to employees to be spent on food, rent, transportation, and similar essential needs from income tax within the specified thresholds (Ibid: 8, 9, 10, 16). Other tax expenditures related to wage income arise from income tax exceptions granted to retirement, disability, widow, and orphan pensions (Ibid: 11, 13).

Table 6.6: Kinds of Tax Expenditures in the Income Tax Law and Associated Tax Expenditures in 2022

Kinds of Tax Expenditures	Relevant Article of the ITL	Explanation	Associated Tax Expenditure (thousand ₺)
Tax exemption for small tradespeople	Article 9	It exempts traders and artisans who gain earnings that do not exceed specified levels as a result of the activities they independently carry out using primitive tools without opening a workplace from income tax.	None
Excepted self-employment income from intellectual and artistic activities	Article 18	Self-employment income derived from original works in literature, science, fine arts, or copyright-based activities is excepted from personal income tax up to 880,000 ₺ in 2022.	12,301
Excepted earnings of small businesses	Repeated Article 20/A	The total earnings of the small businesses satisfying the conditions for being taxed under the simplified procedure are excepted from income tax.	779,323
Rental income exception	Article 21	9,500 ₺ of the revenue from renting buildings as dwellings is exempt from income tax under specific conditions in 2022.	2,495,810
Dividend income exception	Article 22/3	Half of the dividends received by natural persons from full-fledged taxpayer corporations are excluded from income tax.	12,033,857
Minimum wage exception	Article 23/18	The wages of the employees corresponding to the monthly gross minimum wage net of social security and unemployment insurance premiums are excepted from income tax	176,648,608

Exclusion of some financial instrument earnings from tax declaration	Temporary Article 67	Revenues from financial instruments, such as securities trading gains, interest income from government or private sector bonds and bills, and deposits, and income from repurchase agreements, futures, and options contracts, have not been declared since 2006 and are taxed only by withholding tax.	53,644,217
Exclusion of agricultural income from tax declaration for small farmers	Article 86/1-a	Small farmers satisfying the conditions in Article 54 of the ITL do not have to file an income tax return for their agricultural earnings. The tax collected by withholding tax is the final tax for them.	13,106,752
Exclusion of securities income not exceeding specific amounts from tax declaration	Article 86/1-c	There is no declaration obligation for securities income not exceeding 70,000 TL for those subject to withholding tax and 13,000 TL for those not subject to withholding tax in 2022.	39,035,841

Source: Gelir İdaresi Başkanlığı, 2023; T. C. Resmi Gazete, 1960

* In determining tax expenditures, the PRA first calculates the tax liability that would arise if all gross income in question were taxed according to the progressive income tax tariff in Article 103 of the ITL without exemptions, exceptions, withholding, or exclusion from tax declarations. Then, the calculated liability is compared with the tax collections under the current arrangements. The difference in favor of the former is recorded as the amount of tax expenditure.

Exemptions, exceptions, and exclusions from tax declarations do not necessarily eliminate withholding obligations. For instance, although Article 9 of the ITL exempts small tradespeople from income tax, their earnings may still be subject to withholding under Article 94 of the same law. A similar case is valid for small farmers who are not obliged to declare their agricultural income but are still subject to withholding tax at 1%, 2%, and 4% on their revenues. In this regard, the reason for the absence of tax expenditures due to the tax exemption for small tradespeople is that the tax revenue generated through withholding tax on the earnings of the same taxpayers is equal to or more than the tax foregone due to the exemption.

Please note that tax expenditures under Repeated Article 20/A of the ITL are not limited to the excepted earnings of small businesses. It also covers other exceptions, which seem to be intended to support and encourage artistic and scientific activities, educational services, young entrepreneurs, digital content producers, etc. (T. C. Resmi Gazete, 1960: 20/A).

Table 6.7 presents, for the year 2022, the maximum amount of income that could be out of tax for an individual due to tax exceptions concerning wage earnings. Accordingly, assuming that a female employee benefits from all exemptions in Table 6.7 to the maximum extent in 2022, the highest amount of income exempted from income tax in a year can reach 82,311.6 ₺. In the case of a male employee, this amount can reach a maximum of 71,984.1 ₺, as he will not be able to benefit from the childcare allowance.

Table 6.7: Income Exemptions for Wage Earners in 2022

Kinds of Exemptions	Monthly Excepted Income (₺)	Annually Excepted Income (₺)
Minimum wage exemption	4,253.40 *(Jan-Jun)* 5,500.35 *(July-Dec)*	58,520.1
Meal allowance exemption (off-premises)	748	8,976
Public transport benefit exemption	374	4,488
Childcare benefit exemption for female employees	750.6 *(Jan-Jun)* 970.65 *(July-Dec)*	10,327.5
TOTAL		**82,311.6**

Source: T. C. Resmi Gazete, 1960; 2021

* The maximum income tax exemption amount arising from childcare benefits is calculated for only one child.

Similar to the method we follow in determining the amount of income allocated to needs in the context of zakat on earned income, we can set lower and upper limits based on the poverty line and actual expenditures, respectively. In this context, the lower bound is the poverty line (32,109 ₺) determined by TurkStat based on 50% of the median income of equivalized household per capita disposable income (TurkStat, 2023f). At the other extreme, the average of households' annual consumption per equivalent individual (81,969.78 ₺) calculated from the Household Budget Statistics (HBS) 2022 represents the upper bound (TurkStat, 2023b). Thus, the wage income expected to be exempted from income tax for an individual in 2022 should be between 32,109 ₺ and 81,969.78 ₺ to ensure the principle of taxing richness beyond needs is respected, at least for the wage earners to a large extent. We cannot say that this exception fully respects this principle because those with incomes between these limits

and the nisab (87,522.08 ₺) continue to be taxed on their incomes above the limits but below the nisab—the criterion for determining richness. This concern is prominent, especially when the lower bound is adopted, since it is considerably below the nisab level. However, in the case of the upper bound, the difference drops to insignificant levels.

Given the maximum wage income exemption presented in Table 6.7, the total exempted amount exceeds both the lower and upper limits defined in the preceding paragraph, suggesting alignment with the principle of taxing richness beyond needs. Nevertheless, it cannot be said that all wage earners benefit from the exemptions in Table 6.7 to the same extent. For example, for those earning less than the minimum wage, the income that can be excluded from tax due to the minimum wage exemption is limited to the income they receive. In addition, we cannot say that food, transportation, and daycare benefits are available for all wage earners. With these considerations in mind, Table 6.8 shows the average amount of wage income exempt from income tax per wage earner in Türkiye by 2022, calculated according to the method presented in Chapter 5.3.2. As shown, this average amount is considerably lower than the maximum exemption amount in Table 6.7, highlighting that the average wage earners are more dire regarding the principle of taxing richness beyond needs.

The average annual income of wage earners exempt from income tax (63,196 ₺) is above the lower bound (32,109 ₺), referring to the poverty line as a proxy indicator for income allocated for needs. However, it remains below the upper bound (81,969.78 ₺), another proxy indicator for the same cause, which is calculated considering the households' average annual consumption per equivalent individual. In this context, if we intend to increase the average wage income exemption from 63,196 ₺ to 81,969.78 ₺ as required by the upper bound, we estimate the additional tax expenditure to be 54.47 billion ₺ following the method in Section 5.3.2. In other words, excluding income allocated for the needs from taxation—measured by households' average annual consumption per equivalent individual—would mean forgoing 15.81% of personal income tax revenues in 2022.

Table 6.8: Average Income Exemptions for Wage Earners in 2022

Kinds of Exemptions	Total Tax Expenditure (billion ₺)	Average Tax Rate (%)	Total Exempted Income (billion ₺)	# of Wage Earners (million)	Average Exempted Income
Minimum wage exemption	176.65	20.00	883.24	14.51	60,878.99
Meal allowance exemption (off-premises)	5.30	20.00	26.52	14.51	1,827.71
Public transport benefit exemption	1.30	20.00	6.48	14.51	446.40
Childcare benefit exemption for female employees	0.12	20.00	0.62	14.51	42.99
TOTAL	**183.37**	**-**	**916.86**	**-**	**63,196**

Source: Author's calculation using the data from the Presidency of Revenue Administration (Gelir İdaresi Başkanlığı, 2023: 298-299) and TurkStat (2022b).

* Please note that the amount of income that can be excluded from income tax due to the minimum wage exemption is limited to the gross minimum wage net of social security and unemployment insurance premiums, corresponding to 58,520.1 ₺ per employee annually in 2022. However, due to the average rates used and assumptions made, the amount estimated here deviates slightly from this amount.

The above-mentioned proposed amendment on personal income taxes only ensures that taxation on wage income complies with the principle of taxing richness beyond needs. However, the tax burden on income sources other than wage income could not be assessed within the framework of this principle due to data limitations. Nonetheless, our assessment of the tax expenditures within the scope of personal income tax leads us to conclude that they do not actually exclude income sources other than wages partially or completely from taxation due to withholding practices, despite their tax burden-reducing aspects. In other words, almost all sources of personal income other than wages are subject to income tax in some way, which violates the relevant taxation principle. However, we do not have sufficient data to estimate the budgetary impact of the possible improvements to be made within the framework of the principle in question for these income sources.

CHAPTER VII

CONCLUSION

Contemporary societies have experienced a growing presence of the state in the social, economic, political, and other spheres of life, especially after the Industrial Revolution and the formation of nation-states. This phenomenon has implications for the increasing roles and extended responsibilities of modern states, which are directly undertaken by them or assigned by their citizens. In return, states are entitled to take the necessary measures to finance these roles and responsibilities. The public sector's high involvement in the economy implies that the impact of public expenditure and revenue structure on the actors and sectors can be significant. Therefore, this situation brings along many debates on how public revenues and expenditures should be.

In the case of the Republic of Türkiye, the answers given to the questions about the public finance structure and the subsequent reforms and amendments have been shaped by various factors and different interest groups. The role of theories, laws, and institutions that originated in Western countries in shaping the public finance system in Türkiye cannot be denied. For instance, the general sales tax (umumi istihlak vergisi), the first systematic transaction tax in Türkiye, introduced to compensate for the fiscal gap that emerged after the repeal of ashar (âşâr), was inspired by the systems in Germany and France (Mutlu, 2009: 81–82). Fritz Neumark, a German economist, and the tax system that the Federal Republic of Germany previously used were dominant determinants in the tax reforms of Türkiye starting from the 1950s (Bulutoğlu & Thirsk, 1999: 364). In addition, economic crises, as one of the main reasons for tax reforms in Türkiye, were highly related to the tone of foreign aid (Ibid: 367). This phenomenon may imply interference by international institutions through aid conditions.

In contrast to the significant influence of systems in Western countries on Turkish public finance, we argue that Türkiye has not been able to benefit from the scholarly and practical heritage of Islamic public finance, even with its religious, historical, and cultural ties. This heritage manifests itself in different literature branches related to public finance and taxation law, such as kharaj, amwal, al-ahkam al-sultaniyyah, siyasatnamah, and other books or legal codes since the 8th century. These literature

branches are valuable in terms of both quantity and quality. For instance, Erkal (2009) notes 21 treatises titled "Kitab al-Kharaj" and three treatises named "Kitab al-Amwal" written between the 8th and the 15th centuries. Grounded on the review of classical treaties and the secondary literature on Muslim economic thought, we can mention 26 surviving classical works partly or wholly related to Islamic public finance, which were written between the 8th and 20th centuries. Among these, at least 12 books and tracts can be classified under the kharaj literature. The number of surviving treatises in the amwal literature amounts to at least seven for the same period. Additionally, four treatises from al-ahkam al-sultaniyyah literature and three from siyasatnamah literature can be included, considering their content is adequately related to themes of public finance and taxation.

Contemporary literature on Islamic public finance, which is inspired by classical treatises, continues to contribute to the discussions within the framework of the principles and provisions of Islamic public finance, considering the changing circumstances. Even these studies suggest reforming the current public finance structures and tax systems based on principles and perspectives in the classical literature (Ahmed et al., 1983; Chapra, 1979; Chaudhry, 1992; Kahf, 1987a). Similarly, some studies examine and analyze Türkiye's current public finance structure from an Islamic public finance perspective (Aslan, 2021; Eskicioğlu, 2007; Yağmur, 2021).

Notwithstanding these contemporary studies, omitting the Islamic public finance theory in designing the public revenue and expenditure systems may be caused by various reasons, depending on ideological, juridical, institutional, etc., matters. Apart from these, the absence of studies that estimate the possible impacts of suggested reforms on public revenues may impede the embracement of Islamic public finance reform since decision-makers want to anticipate what the proposed amendments in the public finance structure will bring.

Based on the considerations above, this thesis focuses on the public revenue system in Türkiye from the perspective of Islamic economics to understand how classical and contemporary Islamic public finance theory envisions transformations in the current revenue structure and the possible effects of these transformations on the public budget. In other words, the thesis approaches the issue from juridical and budgetary aspects, being aware of the fact that any public revenue system also has political,

administrative, technological, criminal, and other dimensions. The juridical aspect refers to the analysis of the current structure and components of the Turkish public revenue system in comparison with the rulings, principles, and policies in Islamic public finance theory. The budgetary aspect of the thesis corresponds to the estimation of the impact of the reform proposals, arising from the analysis of the legal dimension, on Turkish public revenue items. In other words, this aspect focuses on the potential revenue generation from the proposed new public and semi-public revenue sources and the changing proceeds due to the restructured or annulled revenue items.

The thesis, which deals with juridical and budgetary aspects of the Turkish public revenue system, aims to answer the following main research questions:

1. What is the degree of connection between Islamic public finance rulings, principles, and practices and the present Turkish public revenue structure?
2. What are the potential reforms and amendments in the Turkish public revenue system intended to increase the level of connection?
3. What are the potential budgetary impacts of the suggested reforms for Türkiye?

7.1. Classical and Contemporary Literature on Public Finance

In the context of the first research questions and sub-questions associated with it to be answered in line with the aim of the thesis, both classical and contemporary Islamic public finance literature have been reviewed in order to explore the foundational elements for constructing an Islamic economics perspective on public finance, the main public and semi-public revenue sources to finance the roles and responsibilities assigned to the Islamic state, and the conditions and principles of taxation. In this regard, classical literature—comprising treatises on public finance and taxation law written particularly between the 8th and 15th centuries, in which the Islamic legal system developed—is essential for understanding the relevant rulings, principles, and practices. These treatises are also crucial for grounding the perspective of Islamic economics, as they represent the most authentic contributions compared to works from later periods. Concerning contemporary literature that addresses public revenue sources and fiscal systems from the perspective of Islamic economics as of the 20th century, particular emphasis is placed on the studies examining and evaluating modern states' public revenue structures based on the Islamic public finance theory. In addition, we would also prefer to cover the body of research conducted in a theoretical

and historical manner. Although these studies rarely discuss the implications of the theories constructed or the historical practices referred to in contemporary fiscal systems, especially for specific country cases, they may offer valuable insights while interpreting the contemporary application in the public finance domain from the standpoint of Islamic economics.

It is fair to say that most contemporary studies on Islamic public finance are descriptive and historical (M. N. Siddiqi, 1980: 211). These studies offer valuable insights into both the juridical and practical aspects of Islamic public finance (Azmi, 1998; Erkal, 2009; Mannan, 1980; Sıddıkî, 1972; Tabakoğlu, 2016a; Tuğ, 1961; Yeniçeri, 1984). Nevertheless, it is possible to come across discussions on contemporary fiscal systems and public revenues in general without going through a country case despite their descriptive approach (Ahmad, 1989; Dökmen & Yeşilyurt, 2016; F. R. Faridi, 1983; Fazlur Rahman Faridi, 1980; Hamidullah, 2007; Hasanuzzaman, 1993; Iqbal & Khan, 2004; Kahf, 1983, 1987a; Qureshi, 1978; Salama, 1983; Yağmur, 2021). Those aiming to investigate specific country cases from the perspective of Islamic public finance theory take two distinct stances towards the contemporary sources of public finance. On the one hand, very few criticize modern public revenues, particularly taxes, which comprise a significant part of the total public revenues today (Awad, 2000; Eskicioğlu, 1996b, 2007). In contrast, other country-specific studies generally adopt a more affirmative approach to contemporary tax structures (Chaudhry, 1992; Hamdi & Widiastuti, 2021; Mayer, 1986; Salama, 1982). It is worth noting that this latter stance is present in the descriptive studies that deal with modern public revenue systems in general terms.

In the context of public revenues, the contemporary literature presents divergent approaches and ideas, some of which either require or exclude one another. For instance, those who conceive of the state's roles and responsibilities in a broader sense, encompassing welfare and developmental functions, are inclined to adopt a more affirmative stance toward modern public revenues, particularly taxation (Chaudhry, 1992; Fazlur Rahman Faridi, 1980; Iqbal & Khan, 2004; M. N. Siddiqi, 1992). Conversely, when the state's functions are viewed more narrowly, the emphasis on the need for taxation diminishes significantly (Dökmen & Yeşilyurt, 2016; Eskicioğlu, 1996b, 2007; Es-Sadr, 1980; Kahf, 1983, 1987a; Yağmur, 2021). Moreover, the studies focusing on fiscal policy tools and goals attach high importance to taxation,

often deeming it essential, compared to works that rarely address fiscal policy (F. R. Faridi, 1983; Fazlur Rahman Faridi, 1980; Salama, 1982, 1983). The search for supplementary resources for the public, other than traditional public revenues, is also notable in the studies that presume a low potential for traditional public revenues in contemporary contexts compared to public expenditures (Iqbal & Khan, 2004). There is no doubt that those studies held a view of the expanded state's roles and functions. Furthermore, some studies argue that the subjects and rates of zakat may be modified depending on the changing circumstances and give a broader interpretation of the prescribed zakat beneficiaries (Hamidullah, 2007; Mannan, 1980). We contend that such arguments often stem from positioning zakat as the primary and sole public revenue source, apart from misinterpreting the silence of the Holy Qur'an on the subjects and rates of zakat. Lastly, the underestimation of Islamic law and legal principles concerning the public finance sphere leads some writers to incorporate modern public revenue structures to a large extent (Ahmad, 1989; Qureshi, 1978).

7.2. Foundations of Islamic Public Finance Theory

Critical analysis and synthesis of classical and contemporary literature on Islamic public finance allow us to explore the foundational elements for constructing an Islamic economics perspective on public finance, the main public and semi-public revenue sources to finance the roles and responsibilities assigned to the Islamic state, and the conditions and principles of taxation. In this context, we have observed that the Muslims' well-established obligations and duties, such as zakat and socially obligatory duties (fardh al-kifayah), whose objectives coincide with the roles and responsibilities of the state to a large extent, and foundational principles of an Islamic society, covering brotherhood, solidarity, cooperation, altruism, and voluntarism, envision a socio-economic structure in which the provision of public goods and services is not restricted to the state. In this regard, awqaf, sadaqah, infaq, and other channels of voluntary contributions to societal needs can be deemed as the practical implications of the fardh al-kifayah and the abovementioned foundational principles of an Islamic society. Also, liabilities on Muslims' property other than zakat, such as the free donation of the usufructs of productive capital, the collective obligation to pay the blood money compensation, obligatory safeguarding of the relatives, accommodating passengers and guests, etc., ensure that socially obligatory duties are

adequately performed. This socio-economic structure is expected to have consequences in the presence of the state in the economic and public finance sphere. These consequences emerge depending on the people's individual and collective efforts to fulfill socially obligatory duties. It further poses a basis for taxation, meaning that the state can force its citizens when the societal needs in the scope of socially obligatory duties are not adequately met. This understanding mainly emerges from the fact that Muslim authors have separated the source of public needs from those of individuals, recognizing the state as a transcendent collective sovereignty above individuals.

7.3. Islamic Public Revenue System

Concerning the public revenue sources that have been identified based on the classical and contemporary literature of Islamic public finance, revenues generated from properties under the state's ownership or rule and disposal, classical public revenues consisting of ghanimah, kharaj, and jizyah, zakat, public enterprises, voluntary contributions, miscellaneous revenues, such as zakat/sadaqah al-fitr (fast-breaking zakat), unclaimed properties, including heirless inheritances, kaffarah (expiations), fidyah (obligatory payment for missed fasts during Ramadan), gifts, foreign aid, confiscation, and other financial penalties, and finally taxes come into prominence. However, they do not have equal value in generating monetary sources for public expenditures and the same degree of relevance for today.

7.3.1. Properties under the State's Ownership or Rule and Disposal

Islamic public finance theory assigns the discretionary power to the state over free (mubah), public, and state properties through its ownership or rule and disposal authority. Such vast resources entrusted to the control of the state are expected to have implications for public finance revenues. Considering their current potential on the one hand and well-established Islamic rulings and historical practices on the other, minerals, lands, and waters have been theoretically examined in the thesis from the Islamic public finance perspective, primarily referring to the views asserted by the classical scholars and the schools of Islamic jurisprudence. The theoretical examination aims to reveal the possible channels through which the mentioned properties under the state's ownership or rule and disposal contribute to public finance

revenues. The theoretical link between these three categories of property and the public budget is discussed in the following paragraphs. Among these properties, minerals are also addressed in the empirical part of the thesis with regard to their potential contributions to the treasury.

The review of views asserted by the classical scholars and the schools of Islamic jurisprudence on the ownership status of minerals propounds that minerals extracted from private, state, dead (mawat), and public lands can be subject to private ownership under certain conditions. Among these scholars and schools, the Malikites have a different stance, which accepts state ownership over all minerals regardless of the lands in which they are discovered. The private ownership of minerals raises the question of financial obligation due to the minerals extracted. The nature of the levy can be either of two forms: zakat or khums (as part of fai' revenues). In the case of state ownership of minerals, private initiatives may be involved in extracting minerals on behalf of the state or with its permission. The remuneration may be set as a predetermined payment, a share of the extracted minerals, or determined through an alternative method. The revenue generation from the extracted minerals above the remuneration given to the private sector or the public share in the extracted minerals can be considered a source of public revenue distinct from those derived from financial obligations such as zakat or khums, particularly when minerals are under private ownership.

Lands, as the second property under the state's ownership or rule and disposal, can generate public revenues through various channels. In this regard, we have identified three options for the state concerning state-owned, public, and dead (mawat) lands, which are required to be managed for the public welfare in general. First, the state may engage in agricultural and industrial production activities on these lands. Economic activities can generate net revenue for the treasury according to the relative magnitude of costs and returns. Another form of state disposal over these lands is to allocate them for public use. Considering the cost burden of making lands available for public use in various forms, such as roads, marketplaces, fairs, ports, public gardens, pastures, and copses, on the treasury, the state may impose fees, charges, or taxes to finance these expenses, especially when lacking other financial resources. Nevertheless, charging public goods at a price higher than their production cost can be problematic, as it would limit people's right to claim them freely, as the nature of public goods implies.

Consequently, lands designated for public use do not generate net revenue for the treasury and can, at best, only cover their own costs. The third form of state disposal over lands is granting (iqta) them to people for remuneration or free of charge. The idle lands under state ownership or in the status of dead (mawat) lands can generate net revenues for the treasury when rented to the appropriate tenants. Even granting (iqta) of these lands free of charge may positively impact public revenues through the zakat (ushr) or kharaj on agricultural production.

Waters, the third kind of property that may fall under state ownership, authority, or disposal, is categorically a free (mubah) property. However, it can be considered public and private property depending on whether water is meant for its source and watercourse, whether it has been duly acquired, and the land's ownership status. Today, the high rate of urbanization, the financial inadequacies of the public sector, concerns about water scarcity and efficient water management, and ideological policies have resulted in the involvement of private enterprises in water supply and management processes. On the one hand, this situation somewhat takes the financial burden of water supply from the public sector. On the other hand, it may have negative repercussions on public welfare due to price increases. In order not to limit people's access to water sources, which are public property according to the Islamic property theory, the state should manage the water market either through pricing policies or providing water cost subsidies to consumers using revenues from companies to which the state has granted concessions for the use of water resources. Although this second option would entail an expenditure item, it would provide nominal public revenue to the treasury. Preventing the possible harm to public welfare due to the privileging of some commercial operators on public property, which, in principle, must be open to the equal use of all, constitutes the primary rationale behind such approaches.

7.3.2. Classical Public Revenues: Ghanimah and Fai'

Classical treatises concerning the public treasury classify the state revenues into three main categories: ghanimah, fai', and zakat/sadaqah. Ganimah is generally defined as captives and all kinds of property captured by Muslims from non-Muslims through war, although the immovables were not included in ghaminah in practice, based on the discretionary power given to the head of state by referring to Caliph Umar's treatment of Sawad lands. The distribution of ghanimah is prescribed in verse 41 of Surah al-

Anfal. According to the verse, one-fifth of the ghanimah is allocated to Allah, the Messenger ﷺ, his close relatives, orphans, the poor, and needy travelers, while the rest is distributed among mujahids. The one-fifth, conceptualized as khums, is vital for public finance since the beneficiaries include the head of the state and those that the state and society must care for. However, it is fair to say that the fiscal value of ghanimah for contemporary Muslim-majority countries is too complex to be predicted because of its circumstantial nature. In addition, there exist ongoing discussions regarding the applicability of ghanimah in prevailing international legal frameworks, its scope in modern settings, and its disbursement in an era dominated by regular and salaried armies. Due to these reasons, ghanimah could not be included in the empirical part of this thesis despite its legal, historical, and systemic importance.

Fai', the second classical revenue category in Islamic public finance theory, covers all properties obtained from non-Muslims through a peace agreement or without a war. Although some argue that it represents all state revenues other than zakat and ghanimah, such as heirless inheritance and gifts from non-Muslim states, it primarily comprises kharaj, jizyah, and ushr. In contrast to zakat and ghanimah, which are deemed semi-state revenues, fai' is considered a full-state revenue. Among public revenue sources under the fai' category, kharaj mainly refers to land tax, although it has various connotations, including other state revenues, such as market and poll taxes. In practice, kharaj is levied on arable lands left to their previous owners following conquest—whether through a peace treaty or war— excluding the sawafi lands (ownerless lands at the direct disposal of the head of state) and dead (mawat) lands. Kharaj proceeds constituted an important state revenue source starting from the period of Caliph Umar (ra). Thus, many Islamic states have enacted measures and policies to preserve the status of land subject to kharaj and to distinguish between ushri and kharaji lands. As has been the case throughout history, the status of lands in present Muslim-majority nation-states is vital for both taxpayers and public finance. There were several views concerning the relevance of kharaj in the contemporary world. However, we have adopted the fatwa issued by the High Board of Religious Affairs under the Directorate of Religious Affairs in Türkiye, stating that the lands in Türkiye are qualified as ushri lands based on the fact that they were left as private property to the landholders or landless farmers during the Republican period. In other words, agricultural production on the lands of Türkiye is primarily subject to ushr, not kharaj.

Nevertheless, this stance does not rule out kharaj from Islamic public finance theory. It is still essential to reveal the taxation principles we have addressed in this study.

Jizyah, the second component of fai' revenues, is the financial obligation (tax) imposed on non-Muslim subjects (dhimmi) of the Islamic state in return for the assurances of life, property, and freedom of religion (Erkal, 1993: 42). However, this obligation is not merely the remuneration for the covenant of protecting non-Mulisms against the enemy. By paying jizyah, non-Muslims also recognize that they are subject to the state's legal order and will fulfill the obligations of accepting the Islamic state's sovereignty. The relevance of the jizyah today is a crucial point of discussion in public finance. Considering the nation-state structures and the notion of citizenship and referring to the practice of doubled zakat imposed on Bani Taghlib, a Christian Arab tribe who refused to be liable for a levy titled jizyah because of its connotations, during the reign of Caliph Umar (ra), al-Qaradawi (1999a: 35–38) suggests taxing non-Muslim citizens of today's Muslim-majority nation states equivalent to zakat, which will correspond to jizyah without labeling as such. We have adopted this approach in the empirical part of the thesis, concerning the taxation of non-Muslim citizens in Türkiye. More precisely, the zakat potential estimations are made without distinguishing the zakatable items depending on the religious affiliation of their owners. This approach implies that a part of the estimated zakat potentials represents the jizyah obligation of non-Muslim citizens of Türkiye, which is assumed to be equivalent to zakat.

Ushur, the third component of fai' revenues, stands for the Islamic tithe on trade goods of non-Muslim foreigners (harbi) and non-Muslim subjects of the Islamic state (dhimmi). For Muslims, ushur is nothing but zakat on trade goods. Therefore, the part of ushur revenues originating from Muslims' trade goods is not considered fai' and is allocated to the zakat recipients. Ushur imposed on non-Muslim merchants is left to the discretion of the administration to be determined, considering the general welfare of Muslims. Its scope, rate, and other details can be set based on principles of foreign policy, such as reciprocity, as well as economic conditions that affect the well-being of Muslims. Proceeds generated from taxes on trade goods were one of the primary state revenue sources for most Islamic states in history. Ushur maintains its relevance today in the form of customs duties, albeit with some structural differences. Customs matter for the contemporary Muslim-majority countries both as a foreign policy

instrument and as public revenue. However, we opt to prioritize other prominent revenue sources of the Turkish public budget, such as consumption taxes and personal income tax, in the empirical part of the thesis due to their high share in the total public revenues. Thus, the current structure of customs duties has not been addressed in the assessment of Turkish public revenues from the perspective of Islamic public finance theory.

7.3.3. Zakat as Semi-Public Revenue

Zakat is covered along with other public revenue sources, such as ghanimah and fai', in both classical and contemporary literature on public finance and taxation. It is defined as the share taken from the properties of eligible wealthy Muslims, which Allah has ordained in the Holy Qur'an to be given to the specified beneficiaries. The state's involvement in its collection and distribution, starting from the early periods, associates zakat with public finance. However, as its definition implies, the designated allocation of zakat proceeds prevents it from being deemed pure public revenues. Thus, some contemporary authors classify zakat as semi-public or semi-state revenue.

The reports confirm the central role of the Islamic state in zakat management at the time of the Prophet ﷺ. However, it is also clear that the Prophet ﷺdid not force the Muslims to pay zakat on their hidden (batin) assets, such as gold, silver, and trade goods, to the officials appointed. Muslims calculated the zakat that accrued on these goods and voluntarily handed it to state officials. Such practice concerning the hidden (batin) assets was also present at the time of Caliphs Abu Bakr (ra) and Umar (ra). Caliph Uthman (ra) assigned the responsibility of distributing the zakat on hidden (batin) assets to their owners, considering the prevailing circumstances of expanding borders and increasing state revenues. Nevertheless, scholars agree that the Islamic state is authorized to collect and distribute zakat on all assets, including the hidden (batin) assets, and zakat must be paid to the state when it assumes this responsibility. Therefore, Caliph Uthman's decision does not annul the right of the state to collect the hidden (batin) zakatable items.

Zakat is the third pillar of Islam and also constitutes one of the essential attributes of those who have faith in Allah. According to the Hanafites, it is an exclusive right of Allah that is purely an act of worship. Despite having such a nature, it is considered a reference point for the theory of Islamic public finance. For instance, Hamidullah

(1950, 1955) and Eskicioğlu (1996b: 464, 2007) argue that zakat by itself presents the whole taxation system of the Islamic state. With a more restrained discourse, Awad (2000: 82) deems zakat as the core of the fiscal system and suggests a zakat-based tax structure supplemented by other taxes. Faridi (1980: 119–121), who acknowledges the importance of zakat as the "leading sector" of the revenue system of an Islamic state, points out that additional taxes must adhere to principles derived from rulings of zakat, such as nisab, deductible costs, and illegality of multiple taxation.

The zakatable items are not explicitly specified in the Holy Qur'an, although some verses indicate the zakatability of gold and silver, crops and fruits, commercial earnings, and those extracted from the ground. Therefore, the assets subject to and exempt from zakat are derived from the sayings and practices of the Prophet ﷺ. The classical treatises list the five categories of assets subjected to zakat based on the narrations from the Prophet ﷺ. These include animals, gold and silver, trade goods, minerals and treasury troves, and agricultural produce in general terms.

Considering the common characteristics of these items and the relevant narrations indicating the zakatability criteria, jurists have identified conditions related to assets to be subjected to zakat. Despite the opposing views in detail, complete and absolute ownership, actual or discretionary growth (nama), nisab level, the passage of one lunar (hijri) year (hawalan al-hawl), being other than essential needs, and being free of debt are identified as the conditions concerning the zakatable items (Erkal, 2008: 53–67). Among them, only the condition of nama (actual or discretionary capacity to grow) can be deemed to be directly related to the nature of the property itself. The other conditions pertain to the ownership of the property, its volume, the holding period, and whether it is allocated for essential needs or debt. Even the condition of nama is linked more to how an asset is used rather than its type or nature. The same asset does not meet the nama condition when used for personal needs, but it acquires the characteristic of nama when offered for sale with a commercial purpose. As a matter of fact, the nama condition has been subjected to criticism because of the lack of its inclusiveness, the arbitrariness of the concept of discretionary growth, and insufficient rationalization. Nevertheless, it has always been a fundamental criterion for determining which of the new items of wealth and income are subject to zakat.

The scope of the new wealth and income items under investigation regarding zakatability is extensive. While some items are unanimously considered zakatable, like

currencies, securities, and industrial agriculture, disputes exist on the zakatability of various forms of wealth and income, such as wages, salaries, factories, and industrial plants. It is important to note that those who agree on the zakatability of the same wealth or income item may differ regarding the zakat base and rate. Among the classical and new zakatable items, business assets, earned incomes, financial wealth items, and minerals are taken into consideration when estimating potential zakat proceeds for Türkiye in the empirical part of the thesis.

7.3.4. Other Public Revenue Sources

In addition to the above-mentioned revenue sources, public enterprises and voluntary contributions constitute the other two prominent components of Islamic public finance. Apart from being the backbone of the public sector, public enterprises utilizing the properties under the state's ownership or rule and disposal through public initiatives constitute one of the public revenue sources in Islamic public finance theory, especially in the contemporary literature. Voluntary contributions to the public treasury, in particular, and to the third sector or individuals in general, are one of the practical implications of the foundational principles of brotherhood, solidarity, cooperation, and altruism in an Islamic society. Along with the other practical implications, such as awqaf, sadaqah, and infaq, voluntary contributions underscore the distinctive character of Islamic public finance, extending beyond the domain of the state and public institutions. Lastly, various miscellaneous sources can be incorporated into the Islamic public revenue system. These include zakat/sadaqah al-fitr (fast-breaking zakat), unclaimed properties, including heirless inheritances, kaffarah (expiations), fidyah (obligatory payment for missed fasts during Ramadan), gifts, foreign aid, confiscation, and other financial penalties.

7.3.5. Taxes as the Last Resort

Taxes are deemed the last resort in the theory of Islamic public finance. There is a consensus among early and contemporary scholars that other public revenue sources, such as properties under the state's ownership or rule and disposal, ghanimah, kharaj, jizyah, ushur, zakat, public enterprises, and voluntary contributions, must be insufficient in order to impose taxes to finance real needs. Abu Yusuf regards the collection of legitimate dues and their expenditure in lawful ways as a fundamental

responsibility of the head of state. The legitimacy of the levies imposed by the contemporary Muslim-majority states in terms of Islamic law and public finance must still be a significant concern, as it was in the early periods. In this regard, our analysis reveals that the legitimacy of levies has been discussed in two dimensions in classical and contemporary literature on Islamic law and public finance. The first dimension concerns the conditions required for levies beyond zakat, while the second focuses on the principles that should be upheld when imposing additional financial obligations once these conditions are met. The real need to be fulfilled by the state and the lack of financial resources in the budget can be listed as two main conditions for financial dues. On the other hand, we figured out that richness beyond needs, justice, levy in proportion to the need, public welfare, and ensuring the balance between productivity and public revenues are the principles that shape the nature of additional financial obligations.

Concerning the real needs to be fulfilled by the state, we conclude that it would be more prudent not to have a definitive judgment regarding societal needs as a justification for taxation. As a matter of fact, providing a complete and comprehensive head of public expenditures is not feasible. Thus, we opt to let the countries determine the real needs to be fulfilled by states, reflecting on their people's demands and prevailing circumstances, including the performance of the private sector, market failures, technological improvements, etc., but without ignoring the necessities acknowledged by the classical and contemporary Islamic public finance literature. With respect to taxation principles, we have mainly drawn upon the principles of taxing richness beyond needs and justice while assessing the selected tax types prevalent in Türkiye, namely consumption taxes and personal income taxes, from the perspective of Islamic public finance theory.

7.4. Turkish Public Revenue System

The second dimension of the thesis's first research question pertains to the Turkish public revenue system, the subject matter of the study, which we attempt to approach from the perspective of Islamic economics. Accordingly, it is necessary to examine the structure and components of the Turkish public revenue system with its historical background in order to assess the extent to which it aligns with Islamic public finance rulings, principles, and practices, as outlined in the first research question. In this

regard, we have primarily carried out doctrinal (legal) research on Turkish legislation after identifying relevant legal sources, composed of the constitution, laws, presidential decrees, presidential decisions, presidential circular letters, directives, regulations, and communiques. These legal sources have been systematically analyzed to draw conclusions concerning the characteristics of public revenue sources in Türkiye. Regarding the inquiries for statistical accounting-related information about the Turkish public finance and tax system, we have refered to the official data sources, such as the Ministry of Treasury and Finance (HMB), the Presidency of Strategy and Budget (SBB), the Presidency of Revenue Administration (PRA), and the Turkish Statistical Institute (TurkStat).

The Turkish public revenue system has been amended many times for various reasons and under the influence of different interest groups in the history of the Turkish Republic. The authorities sometimes reformed the system to meet the need for immediate revenues during wartime or post-war periods. The complicated structure of Turkish public finance, by wartime amendments, was also exposed to new reforms aiming for a more straightforward revenue system. The concerns about attracting foreign capital to Türkiye led to modifications, especially in tax structure, when the competition between countries for capital has been accelerated by increasing globalization. Complaints and protests by the taxpayers, such as farmer protests at the beginning of 1980, caused the prevention or repeal of attempts to change the revenue system. Last but not least, the ideological and political inclination of the ruling governments can be listed as one of the drivers of reforms.

Starting from the late Ottoman period, the figures show an increasing trend in the public sector's presence in the Turkish economy, as reflected in the rising ratios of public revenues and expenditures to gross domestic or national product indicators. For instance, the percentages of public revenues and expenditures in the total domestic revenues were between 11% and 14% during 1887-1913, with an upward trend in general. After the proclamation of the republic, the increasing trend continued with peaks during the crises, such as in 1940 and 2001. The highest ratios of public revenues and spending to the GNP at current prices during 1924-2005 were 29.2% and 45.7%, respectively, while the average ratios were 21.4% and 26.5%, much higher than the average in the late Ottoman period. The size of the public sector in the economy seems to have stabilized after 2006, except for the 2008 Financial Crisis era and the

exceptional circumstances during the COVID-19 period. While the percentage of public revenues in the GDP is lingering around 21%, that of public expenditures is 23% on average during 2006-2023. Another noteworthy point is that budget deficits, which started in the 1970s, have become a characteristic of the country and hovered around 2% of GDP on average for the 2006-2023 period.

Beyond the increasing share of public revenues and expenditures within the economy, what holds greater significance for the objectives of this thesis is the question of which sources these public revenues are derived from. According to the data covering the period between 1849 and 1917, 81.2% of public revenues are composed of either direct or indirect taxes. Ushr, income tax, property tax, taxes on sheep, cattle, and swine, and jizyah are the primary kinds of direct taxes, collectively accounting for an average of 57.5% of public revenues during the same period. On the other hand, indirect taxes, such as customs duties, and taxes on tobacco, salt, and alcoholic beverages, correspond to an average of 19.1% of the public revenues in the given period. Lastly, lump-sum taxes from the autonomous provinces, such as Egypt, Wallachia, and Bogdania, constitute 4.6% of total public revenues. When we focus on the trends of revenue items throughout the given period, it can be said that the most prominent phenomenon is the decreasing share of direct taxes and the increasing share of indirect taxes and state economic enterprises' revenues. While direct taxes constituted 62.7% of total public revenues at the beginning of the period, they declined to below 50% at the end. The major change leading to such a decrease on the side of direct taxes was related to amendments in assessment methods, scope, and rates of profit (temettü), property (emlak), and land (arazi) taxes during the period, especially after the 1860s. On the other hand, indirect taxes, approximately corresponding to 15% of the public budget in the 1850s, started to receive a share of around 20% beginning in 1875. Regarding the increasing trend of indirect taxes, the monopolization of the production and sale of salt at the beginning of the Reorganization (Tanzimat) period, and the ban on tobacco imports and monopolization of its retail trade might contribute to the revenues generated from indirect taxes imposed on these goods.

The share of the tax revenues in the consolidated budget between 1924 and 2005 corresponds to 71.7% on average. This share is considerably lower than the average share of taxes (81.2%) between 1849 and 1917. One of the main differences between the two periods regarding taxes is that lump-sum taxes generated from the autonomous

provinces in the late Ottoman era, which accounted for approximately 4.55% of the total public revenues, were not available in the republic era because of the changes in the political borders and conversion to the unitary state. The second main difference stems from the repeal of ushr in 1925, which was generating approximately one-third of total public revenues, more precisely 27.9% of 1923's budget and 28.6% of 1924's budget. The state searched for alternative revenue sources to compensate for the loss due to the abrogation, but could not achieve the desired results for some time, particularly from income and consumption taxes.

The public financial management system regulated by the Law numbered 1040 was replaced with the Public Financial Management and Control Law (5018) enacted in 2003 and entered into force in 2006. The new law defines five main budget types: the general budget, the special budget, the budget of regulatory and supervisory institutions, the local administrations' budgets, and the social security institutions' budgets. According to average figures between 2011 and 2023, the general budget constitutes 60.7% of total revenues of the budgets, while the social security institutions' budget corresponds to 26.1%. The remaining 13.2% of total budget revenues represents the total average budget size of the special budget institutions (1.6%), the regulatory and supervisory institutions (0.4%), and the local administrations (11.2%).

The budgets, which adopted the international classification after the enactment of Law 5018, economically categorize the revenue items into six main groups: taxes; property and enterprise income; grants, aids, and special revenues; interest, shares, and fines; capital revenues; and collections from loans. Considering the main categories of the revenue items of all budgets except that of the social security institutions for the period between 2006 and 2023, it is seen that the most income-generating revenue items of the central government and local administrations are the categories of taxes, and interest, shares and fines, with the average shares of 71.8% and 15.8% for the given period, respectively. When the beginning and end of the specified period are considered, it is clearly seen that the only revenue category with an observable increasing trend is the tax revenues, which have risen from 68.8% to 75.5%. The dominance of the tax revenues becomes more evident when the central government budget revenues are taken into consideration by excluding the local administrations. Taxes constitute 82.6% of the central government budget revenues on average between

2006 and 2023. The share of tax revenues reached 86.5% in 2023, while 79.3% in 2006. These figures indicate a considerably higher share of tax revenues than the average contributions of taxes in 1924-2005 and 1849-1917, which corresponded to 71.7% and 81.2%, respectively.

The detailed data with subdivisions of the revenue items starting from 1980 enable us to look into the distribution of the tax revenues by type, which is the main revenue source with the highest share in total public revenues throughout history. The historical evolution of the tax structure shows an increasing trend in the shares of indirect taxes, which has gained momentum since the 1980s and reached its highest level in 2003. While the share of direct and indirect taxes was around 73% and 27% in 1980, respectively, the situation was almost reversed by 2023, with the share of indirect taxes in total tax revenues rising to 65% and the share of direct taxes falling to 34.7%. The main drivers of this phenomenon were the introduction of the value-added tax (VAT) by Law 3065 in 1984 and the special consumption tax (SCT) imposed by Law 4760 in 2002. In the last six years, the taxes on income, profits, and capital gains, as well as the domestic taxes on goods and services, have contributed to the total tax revenues at the same level on average (33.7%). However, the revenues generated from the latter have been considerably higher than those generated by the former since the 2000s. The gradual increase in the corporate tax rates from 20% to 25% between 2017 and 2022, imposing higher corporate tax rates for banks, financial, and insurance companies starting from 2022, excessive profitability rates of firms, especially banks, finance, and insurance companies, in the inflationary environment of recent years, the reduction in VAT rates for essential food products from 8% to 1% in 2022 and other factors may result in the convergence in the shares of the two groups of tax types in the total tax revenues in the last years.

The current structure of the Turkish public revenue system, which is presented in the context of the first research question of the thesis, shows that consumption and income taxes constitute a significant portion of the public budgets in recent decades. As of 2022, the year on which the empirical analysis of this thesis is based, domestic taxes on goods and services account for 20.45% of the central government and local administration budgets. When value-added taxes (VAT) on imports are included in these figures as another kind of consumption tax, the share increases to 38.27%. Meanwhile, personal income tax accounted for 10.97% of the central government and

local administration budgets in 2022. Combined with consumption taxes, these two sources constitute approximately half of the total budget revenues. Due to their significance within the budget, all consumption taxes at both the central and local government levels, as well as personal income tax, have been assessed in terms of the taxation principles, particularly the principles of taxing richness beyond needs and justice, outlined within the framework of Islamic public finance theory. This assessment aims to answer the thesis's first research question and estimate the budgetary implications of possible reform proposals.

7.5. Budgetary Impacts of Zakat Potential and Proposed Tax Reforms in Türkiye

The Islamic public finance theory outlined above and the prevailing Turkish public revenue structure elaboted throughout the thesis provide fundamental input to answer the first two questions of the thesis, which address the degree of connection between Islamic public finance theory and the present Turkish public revenue structure, and inquire about the potential reforms and amendments in the prevailing structure to increase the level of the connection. In this respect, we propose two kinds of reform. The first set of reforms suggests new public and semi-public revenue sources for the Turkish public finance system. These mainly include public revenues generated from properties under the state's ownership or rule and disposal, particularly minerals, and semi-public revenues originating from zakat proceeds. The second set of reforms deals with the existing public revenue sources and examines the structure of selected taxes, which account for a significant portion of Turkish public revenues. Accordingly, the domestic taxes on goods and services and VAT on imports, i.e., consumption taxes, and personal income tax have been selected for the assessment due to their high share in the public budgets, corresponding to 54.31% of public revenues on average between 2006 and 2023. More precisely, the reform proposals can be outlined below:

1. Revising the Rates of the State’s Right/Shares in Minerals and Hydrocarbons
2. Inclusion of Zakat as a Semi-public Revenue Source
3. Eliminating the Consumption Tax Burden on Low-Income Groups
4. Exempting Income Allocated to Necessities from Tax

When we turn to the third research question of the thesis, which goes into the possible impacts of the reforms on the public revenue composition of Türkiye, it requires an

empirical analysis. Considering the availability of the data, 2022 is found to be the most recent year for analyzing the impact of reforms on the budget revenue structure. However, the proposed reforms have different natures and necessitate various data sources and quantitative methods for calculating their incidence on the budget. The following paragraphs present our findings based on the assessment of selected aspects of the Turkish public revenue system from Islamic public finance theory, the details of our reform proposals based on these findings, along with their justifications, and our estimates of the budgetary impact of the reforms based on the quantitative analysis methods developed in this thesis.

7.5.1. Assessment of the Fiscal Status of Minerals and Budgetary Implications of Revising the Rates of the State's Right/Shares

The assessments of minerals and hydrocarbons in the Turkish public revenue system from the perspective of Islamic public finance theory within the category of properties under the state ownership or rule and disposal reveal several issues concerning their ownership status. First, the Constitution of the Republic of Türkiye, the Mining Law, and the Turkish Petroleum Law assert that natural resources in general and minerals and petroleum in particular are under the rule and disposal of the state, while the schools of Islamic jurisprudence, except the Malikites, approach the issue of the ownership status of minerals, including hydrocarbons, considering the mineral types, whether minerals are at their source or extracted, the ownership status of lands where minerals are found. Although the relevant laws and regulations in Türkiye also classify minerals into five main categories in terms of their mineralogical, physical, and chemical properties and areas of use, some of which also include sub-categories, this classification does not affect the ownership status of the minerals since all minerals are considered under the state's rule and disposal. Secondly, in the context of the link between ownership statutes of minerals and the lands where they are located, Turkish legislation adopts the theory of domanialiter (minerals under the state's ownership). In contrast, hidden (batin) or solid minerals found in lands owned by private individuals, states, or awqaf are ruled to be possessed by the proprietor according to most schools of Islamic jurisprudence, implying the accession theory that considers minerals as inseparable parts of the lands. Thirdly, the license holders to whom the state transfers the right to explore and operate mining lands own the minerals or petroleum obtained

within the license, following the Turkish legislation. In addition, all lands, regardless of their ownership status, can be licensed. However, the grant (iqta) and revival (ihya) concepts, which can be deemed equivalent to licensing in terms of their functions, have a narrower field of application since they are applicable for dead (mawat) and state (miri) lands and minerals other than apparent (zahir) and liquid, while licenses can be issued without such limitations. Undeniably, the Malikite view, which deems state ownership over all minerals, would provide more flexibility in this context.

The assessments of minerals and hydrocarbons in the Turkish public revenue system from the perspective of Islamic public finance theory also bring out several matters concerning financial obligations arising from them. First, the prevailing legislation in Türkiye and Islamic public finance theory diverge in the charge rates on minerals. While the license holders are charged the state's rights between 1% and 14% for the minerals sold, and the state's shares corresponding to 12.5% for crude oil and natural gas produced, the schools of Islamic jurisprudence adopt the rate of either 2.5% or 20% depending on their views concerning the nature of the levy on minerals. Secondly, the scope of the minerals subjected to the levy is another diverging matter between the prevailing legislation in Türkiye and Islamic public finance. According to the relevant laws in Türkiye, the state's right applies to all minerals sold, and the state's share is charged from all crude oil and natural gas produced. However, the types of minerals that are subject to zakat or khums differ according to the views of the schools of Islamic jurisprudence. Thirdly, the Mining Law restricts the charge to the revenues generated, meaning only for the minerals sold, while all the extracted minerals are subject to zakat or khums, regardless of whether they are sold or not. Fourthly, in the case of minerals sold after enrichment processes, the state's rights are calculated based on the final sale price of the enriched minerals after deducting transportation, energy, depreciation, personnel, consumables, water, maintenance and repair, technological testing, and packaging costs. Zakat or khums on minerals is calculated without deducting the expenses in principle. Although some jurists assert that minerals extracted with ease and at a lower cost are subjected to 20%, while 2.5% is applied to the others that are extracted more costly, based on a narration from Imam Malik and Shafi'i, deducting costs is controversial. Fifthly, the licensee is required to pay the state's right at least equal to the operation license fee every year. In contrast, one cannot be responsible for paying a pre-determined amount of zakat or khums on

minerals when there is no extraction and production. Sixthly, the current legislation in Türkiye for minerals and hydrocarbons subjects the production of public economic enterprises to the state's right and share. When we consider the facts that state economic enterprises are 100% state-owned entities, and the state is not one of the obligants of zakat or khums on minerals, the articles that impose a levy on the minerals produced by the state contradict the rulings about the obligants in Islamic public finance.

The analysis and assessment regarding the status of minerals and hydrocarbons in the Turkish public revenue system from the Islamic economics perspective shows that the potential zakat or khums on minerals and hydrocarbons in Türkiye is expected to be different from the revenues generated through the state's rights over minerals and the state's share in petroleum. The difference mainly stems from the structural divergences between the current legislative framework of Türkiye and the rulings of Islamic public finance in terms of the scope of minerals subjected to the levy, those who are obliged to pay, the rates imposed, discounting costs, minimum payment obligation, and incentives, exemptions, and exceptions. The estimated production values of all mineral kinds in Türkiye, based on the data and quantitative methods outlined in the thesis, have been used to calculate zakat/khums potential in 2022, considering scholarly views about the scope of minerals subjected to each levy and corresponding rates under different scenarios. Consequently, the highest potential public revenue from minerals, corresponding to 253.78 billion ₺ khums in 2022, is generated when the view of Abu Hanifa and Abu Yusuf is adopted. The potential values of zakat on minerals according to Hanbalites, Malikites, and Shafi'ites are 35.60, 31.72, and 0.86 billion ₺, respectively. All the views of scholars/schools of Islamic jurisprudence, except that of the Shafi'ites, result in higher revenues than the summation of the payable state's rights and shares based on current legislation, which amounts to 12.23 billion ₺. The estimated khums and zakat potentials are realized as 284.80 billion ₺ and 35.60 billion ₺, respectively, when all kinds of minerals, including crude oil and natural gas produced by the private sector, are included in khums and zakat bases, referring to the contemporary views. These estimated potentials account for 10.40% and 1.30% of the general budget 2022, respectively, while the payable state's right and share currently correspond to only 0.45%. In terms of the total consolidated revenues of the central government and local administration budgets, the estimated khums and zakat

potentials correspond to 8.77% and 1.10%, while their shares in GDP amount to 1.9% and 0.24%, respectively.

7.5.2. Estimated Zakat Potential as a Semi-public Revenue Source

The zakat potentials derived from business assets, earned income, and financial wealth items, as another part of the first set of reforms following minerals, were estimated using the data presented and quantitative methods outlined separately for each zakat item mentioned in the thesis. In regard to business assets, zakat potential is estimated to be 427.79 billion ₺ under the scenario where the net worth of private non-financial companies, i.e., total assets net of total liabilities, is subjected to zakat. In the case where the zakat base is composed of the sum of current assets, net profit, and receivables minus current debts, zakat due on business assets owned by private non-financial companies is found to be 383.40 billion ₺. In the context of the financial sector, the zakat obligation due on the privately owned conventional banks is estimated as 0.76 billion ₺ based on the first scenario, while the zakat obligation calculated for the same banking sector is found to be 26.61 billion ₺ according to the second scenario. The estimates for the participation banking sector based on the same cases yield 7.66 and 8.55 billion ₺, respectively. When we consider the estimated zakat potentials through the CAS dataset for the non-financial companies and the aggregated balance sheets published by the CBRT at the sectoral level together, the total potential zakat proceeds that can be generated from business assets in 2022 are estimated to be between 418.56 billion ₺ and 436.21 billion ₺. In terms of the total consolidated revenues of the central government and local administration budgets, these estimated potentials account for between 12.89% and 13.43%, while their shares in the GDP correspond to 2.79% and 2.91%, respectively.

Estimates for zakat potential due to earned income are carried out at the household level using the Household Budget Statistics 2022 micro dataset under eight cases. Three main elements concerning zakatable incomes, deductible basic needs, and the zakat rates imposed differentiate the scenarios from each other. In cases where the zakat base is defined more broadly by deducting only the poverty line adjusted for equivalent household size from the zakatable earned income of households, the estimated zakat potential ranges between 59.57 and 60.90 billion ₺. In contrast, in the scenarios in which the zakat base is calculated by deducting the actual annual

expenditures of households from the zakatable earned income, which generally leads to a relatively narrower zakat base, the zakat potential estimates vary between 20.20 and 21.18 billion ₺. The variations of estimated zakat potentials within the cases that differ in terms of the deductible basic needs stem from whether interest earnings are included in the total zakatable earned income of households, and whether different zakat rates are applied to labor and capital income. The estimated zakat potentials in the cases where the zakat base is defined more broadly account for 1.83-1.87% of public budgets, while they correspond to 0.40-0.41% of GDP in 2022. On the other hand, the same indicators are 0.62-0.65% and 0.13-0.14%, respectively, for the cases, which generally leads to a relatively narrower zakat base.

The potential of zakat on the households' financial assets has been estimated considering the distribution of net financial wealth obtained from UBS Group's Global Wealth Data Book (GWD) 2023, based on the quantitative method presented in the thesis. According to our findings, 52.6 million adults are under the nisab level in terms of the net financial assets they own as of 2022. In comparison, only 6.3 million adults are estimated to be above the nisab level in Türkiye. In other words, 10.76% of the Turkish adult population is obliged to pay zakat on their financial wealth at the end of 2022. The zakatable financial wealth of those above nisab has been calculated considering different scenarios, which vary depending on the coverage of the financial assets and deductible liabilities. Our analysis reveals that adults obliged to pay zakat due to their financial wealth hold 69.80% of the total value of net financial wealth in Türkiye. This percentage corresponds to an amount between 3,754 and 4,546 billion ₺, according to the adopted scenario. The estimated zakat potential on the financial assets of the eligible households residing in Türkiye by the end of 2022 spans from 96.76 to 117.17 billion ₺. These estimates range from 2.98% to 3.61% of the public budget revenues and correspond to 0.64% to 0.78% of the GDP in 2022. The highest potential (117.17 billion ₺) is generated in the case where only short-term liabilities are deducted from the zakatable financial wealth. The second-highest zakat potential (99.54 billion ₺) arises when whole liabilities are deducted from the zakatable financial wealth without differentiating them in maturity. The last case, which excludes the equity investments from zakatable financial assets because zakat on business assets has already been estimated at the company level, yields the lowest zakat potential (96.76 billion ₺).

When we aggregate the lowest and highest values of the separately estimated zakat potentials on business assets, earned incomes, and financial wealth, as well as minerals, we can say that the zakat potential in Türkiye for 2022 ranges between 536.35 and 649.88 billion ₺. In terms of the total consolidated revenues of the central government and local administration budgets, these total estimated potentials account for between 16.51% and 20.01%, while their shares in the GDP correspond to 3.57% and 4.33%, respectively. The variance in the estimations stems from the different views of classical and contemporary scholars concerning the scope of zakatable assets, composition of zakat base, deductible basic needs and liabilities, and applicable zakat rates, as detailly pointed out throughout the thesis. In other words, the substantial gap of 113.53 billion ₺ between the highest and lowest estimates reflects the cumulative effect of controversies surrounding each zakatable asset included in the calculations.

It is not fair to say that the zakat potential estimates in the scope of this study cover all zakatable items. As a matter of fact, various zakatable assets, such as non-financial wealth items, could not be included in estimations due to data constraints. In addition, sectors, like agriculture and fishing, whose outputs are subject to a specific zakat schedule, could not be adequately addressed because of time limitations. Although companies operating in the fishery and aquaculture have been subject to zakat for their business assets using the Company Account Statistics (CAS) micro dataset, the zakat schedule suggested in the classical and contemporary literature relating to their output could not be taken into consideration. Regarding companies whose main field of activity is the growing of perennial and non-perennial crops, we conclude that calculating potential zakat proceeds from agricultural products based on product-level production and price data—rather than using the CAS dataset—is expected to yield more accurate results, considering the fact that the CAS dataset does not cover most agiricultural enterprises whose output is subject to zakat. Thus, we have exempted the balance sheet items representing he crops' stocks, and the current period profits and receivables—most of which are derived or stemming from crop sales—are exempted from zakat, not to cause double zakat on the same agricultural products. However, other zakatable items owned by these companies in the form of current assets, such as local and foreign currencies, stock, bonds, and other securities, receivables stemming from activities other than crop production, and in the form of fixed assets like buildings, vehicles, machinery, and industrial equipment, are taken into consideration

while estimating zakat on business assets in the crop production sector. Concerning the potential zakat on their agricultural products, we refer to the findings of Maraşlı et al. (2025). They estimated the ratio of zakat potential to the gross domestic product (GDP) of the agriculture, forestry, and fisheries sectors by considering provincial-level agricultural production and price data for 2021, along with irrigation methods, nisab, and beka (durability), according to the views of Hanafite scholars. They found that this zakat-to-GDP ratio is expected to be 6.09% based on Abu Hanifa's view and 2.51% when the view of Imamayn is adopted. Assuming these ratios remain applicable for 2022, the zakat potential due on agricultural products is expected to range between 24.41 and 59.21 billion ₺ in 2022 (T. C. Tarım ve Orman Bakanlığı, 2024). When the zakat potential of agricultural products is incorporated into the total zakat potential estimated in this study, the overall zakat proceeds in 2022 rise to between 560.76 and 709.09 billion ₺, accounting for 17.26% to 21.83% of total budget revenues and 3.74% to 4.72% of GDP.

Several studies provide zakat potential estimates in general or specific to particular zakatable assets in Türkiye for different periods, adopting various methods. Among these studies, most primarily rest on macro data (Demir and Cevahir, 2021; Gümüş et al., 2019; Hassan et al., 2024; Kahf, 1987b; Shaikh, 2016; Shirazi and Amin, 2009; Shirazi, 2006, 2014; Tabakoğlu and Turan, 2017). If we express the estimated zakat potentials as a percentage of GDP, the findings in the literature range from 1.77% to 7.5%. The estimates presented in this thesis (3.74% to 4.72% of GDP) are consistent with the literature in this respect. The upper bound of zakat potential estimates in the literature is the scenario proposed by Kahf (1987b, 1989), in which zakat is imposed on fixed assets at a rate of 2.5%. Although we have included this approach as one of the scenarios in our study, especially for the zakat on business assets, the fact that our results did not reach 7.5% may be due to variations in quantitative methods as well as the fact that non-financial wealth items and the financial sector other than the banking sector are not fully encompassed in the zakat calculation. Furthermore, the lowest estimates of zakat potential in the literature are found in studies using only GDP-based methods, with findings ranging from 2.67% to 2.98%. In the study conducted by Demir and Cevahir (2021), where zakat was imposed at a rate of 2.5% only on the incomes of the top three income quintiles, the estimated zakat potential corresponds to 1.1% to 2% of GDP. However, the estimated zakat potential due on earned income in this thesis

varies between 0.14 and 0.40% of the GDP, depending on how the zakat base is defined. Beyond differences in quantitative methods, there may be two main reasons for our findings to be lower than Demir and Cevahir's (2021) estimates. The first is that they do not deduct the income allocated for the basic needs of the relevant income groups from the zakat base when calculating zakat on income. Second, Demir and Cevahir (2021) include the earnings of the top three income quintiles, i.e., 60% of the population, in the zakat base. However, according to our estimates based on the Household Budget Statistics micro dataset, after deducting the expenditures allocated to basic needs, the proportion of zakat-liable households is 40.8-41.2% in some scenarios, while in others it is limited to only 15.2-15.6%.

7.5.3. Budgetary Implications of Eliminating the Consumption Tax Burden on Low-Income Groups

Given the broad range of goods and services subject to various consumption taxes—many of which are staples in the consumption baskets of all income groups—and the phenomenon of forward shifting of these taxes, it is evident that individuals across different income levels bear a substantial consumption tax burden. In addition, the widespread use of specific and flat-tax schedules in consumption taxes, combined with the fact that lower-income groups allocate a larger portion of their income to consumption expenditures, raises concerns about the fairness of the tax burden distribution relative to taxpayers' ability to pay.

Consumption tax burdens on households by income groups, which were calculated based on the method developed in Chapter 5, validate concerns regarding the fairness of consumption tax structures in Türkiye. According to the findings, we can first conclude that the consumption tax burden on the lower-income groups violates the principle of taxing richness beyond needs. The violation stems from the fact that those who do not own income and wealth above their needs are obligated to pay taxes through these consumption taxes. More precisely, the average equivalized household per capita disposable incomes in the first quintile are lower than the poverty lines calculated based on 50% and 60% of the median income in 2022. However, the same individuals still have to pay consumption taxes, which accounted for 27.99% of their household income in the same year. Similarly, those in the second income quintile with an average disposable income barely above the poverty line must pay 30.62% of

their household incomes as consumption taxes in 2022. Consequently, when poverty thresholds are considered indicators representing individuals' basic annual needs, the taxation of resources only sufficient to meet these needs does not align with the principle of taxing richness beyond needs.

The estimates for the consumption tax burden distribution across income groups show that the burden on households is neither decreasing nor increasing by income level. The highest income group still has the lowest consumption tax burden (23.14%), while the households in the second and fourth quintiles bear higher burdens (30.62% and 30.79%, respectively) than those from the lowest and middle-income groups (27.99% and 29.76%, respectively). These results indicate that consumption taxes in Türkiye are also not compatible with the principle of justice since they result in a higher burden on those with a lower ability to pay in most cases. The violation of principles of taxing richness beyond needs and justice stems from the structural characteristics of consumption taxes, such as taxing goods and services common to all income groups and the widespread use of specific and flat-tax schedules, in addition to the significant income inequalities in Türkiye.

The assessment of the taxes on goods and services from the perspective of Islamic public finance theory, based on the estimates for consumption tax burden distribution across income groups, brings us to the point of whether consumption taxes can be restructured in a way that meets principles of taxing richness beyond needs and justice. In this regard, the principle of taxing richness beyond needs requires eliminating the tax burden on the first two income quintiles. To achieve this objective, removing all consumption taxes can be considered as one of the options. However, this option would also eliminate consumption taxes collected from upper-income groups, corresponding to 31.5% of the current total revenues of central government and local administration budgets in 2022. Together with the tax burden on the first two income groups, the total value of consumption taxes foregone accounts for 1,263 billion ₺, i.e., 38.29% of the central government and local administration budgets in 2022. Another option is to designate a minimum tax base per consumption unit for expenditure categories whose consumption preferences differ based on price by income groups. In this way, the consumption of households from the first two income quintiles is expected not to be subjected to taxes on goods and services since the products they opt to buy cost less than the corresponding minimum tax bases. On the other hand, upper-

income groups continue to pay consumption taxes on most of their expenditures as they exceed the minimum tax base at the product and service level.

The second option would not be feasible for standard goods and services where prices are not decisive enough to cause consumption preferences of income groups to diverge, such as most foodstuffs and petroleum products. In addition, it is hard to implement this approach for diffused consumption taxes imposed at multiple stages of production and distribution, such as VAT. This difficulty lies in setting a minimum tax base for raw materials and intermediate goods that aligns with the minimum tax base determined for final goods, given the more homogeneous nature of raw materials and the use of similar inputs across different sectors. Consequently, we suggest adopting the first option for VAT and other consumption taxes imposed on the standard goods and services, while restructuring the taxes on goods and services whose consumption preferences differ based on price by income groups, based on the second option.

Resting on the above considerations, we have suggested repealing three kinds of consumption taxes (VAT, and SCTs on Coke and Petroleum and Natural Gas), implementing minimum tax bases for six consumption taxes (Banking and Insurance Transaction Tax, Special Communication Tax, SCTs on Motor Vehicles and Durable Goods and Others, and Taxes on Electric and Coal Gas Consumption for Households and Workplaces), and keeping unchanged those imposed on alcoholic beverages, tobacco products, gambling, and bets out of 19 kinds of taxes on goods and services. When the proposed measures are enforced, the total forgone consumption tax revenue amounts to 866.63 billion ₺, equivalent to 26.25% of the central government and local administration budgets. Following these changes, the tax burdens on the households in the first and second quintiles drop to around 4.62% and 4.42%, respectively, most of which stem from the expenditures on alcoholic beverages, tobacco products, gambling, and bets. On the other hand, the tax burdens on the middle, fourth, and highest income groups become 9.57%, 10.46%, and 8.45%, respectively.

7.5.4. Budgetary Implications of Exempting Income Allocated to Necessities from Tax

The mainstream contemporary view in the context of zakat on earned income does not directly subject it to zakat, whereas some scholars who deviate from the mainstream

view it as one of the new zakatable items. Considering both the disagreements in the contemporary literature and their origins in classical views and the fact that the form of earned income today is an essential source of earning and implies significant ability to pay, we conclude that it cannot be justified to hold a position that excludes income from being the subject of taxation in absolute terms. However, this consideration does not indicate that taxes on income are free from limitations. All taxation principles must also apply to income taxes. In this regard, we have approached the personal income taxes for wage earners in terms of the principle of taxing richness beyond needs.

The ideal way to assess the personal income taxes in terms of the principle of taxing beyond needs is to derive the income tax burden on individuals through micro datasets. However, the available micro datasets, such as the Income and Living Conditions Survey and the Household Budget Statistics, do not allow us to carry out such assessments because all income items in these datasets represent net income after deducting taxes and the expenses incurred to generate such income. Moreover, the datasets do not include variables on either pre-tax income or taxes paid. Furthermore, estimating the effective income tax burden for income groups using macro datasets is challenging because of the lack of data on pre-tax income distribution and the characteristics of income taxation in Türkiye, consisting of exemptions, exceptions, deductions, withholding tax practices, and other factors that affect the tax base coverage and applied tax rates.

Despite the data constraints, the Presidency of Revenue Administration's Tax Expenditures Reports enable us to draw some insights into the prevailing personal income tax structure in the context of the principle of taxing richness beyond needs. In this regard, tax expenditure refers to the amount of tax foregone due to exemptions, exceptions, and deductions. The Income Tax Law, which leads to tax expenditure almost equal to tax collected, includes numerous exemptions, exclusions, and allowances, both all-inclusive and specifically targeted at low-income individuals. However, most tax expenditures do not exclude a portion of income from the tax obligation. More precisely, tax expenditures associated with income sources subject to withholding do not lead to the partial or total exclusion of concerned incomes from the tax system unless they are directly attributable to an exception to the amount of income subject to withholding. When we investigate all kinds of expenditures concerning personal income tax on wages, we conclude that only the minimum wage, meal

allowance (off-premises), public transport benefit, and childcare benefit exemptions can ensure that a portion of wage earners' income is excluded from the tax obligation.

Using the quantitative method outlined in the thesis, the average annual income of wage earners exempt from income tax in 2022 is estimated at 63,196 ₺, which results from specified tax expenditures that partially or fully exclude wage income from taxation. Comparing this estimated average non-tax wages in a year for paid employees in Türkiye with the thresholds representing the income allocated for needs in the same year, 2022, reveals whether the prevailing exemptions granted for the wage earners in Türkiye comply with the principle of taxing richness beyond needs. Similar to the method we followed in determining the amount of income allocated to needs in the context of zakat on earned income, we calculated lower (32,109 ₺) and upper (81,969.78 ₺) limits based on the poverty line and actual expenditures, respectively. The average annual income of wage earners exempt from income tax is above the lower bound, but remains below the upper bound. In this context, when we consider increasing the average non-tax wages for paid employees from 63,196 ₺ to 81,969.78 ₺ as suggested by the upper bound, the additional tax expenditure is found to be 54.47 billion ₺. In other words, excluding income allocated for the needs from taxation—measured by households' average annual consumption per equivalent individual—would mean forgoing 15.81% of personal income tax revenues in 2022. This additional tax expenditure accounts for 1.68% of the total consolidated revenues of the central government and local administration budgets.

7.6. The Transformation in Public Revenue Structure After Reforms

The estimated budgetary impacts of the proposed reforms reveal the transformations in Türkiye's public revenue composition envisioned by Islamic public finance theory, which form the core focus of this study. Figure 7.1 shows the potential revenue generation from the suggested new public and semi-public revenue sources and the foregone proceeds due to the restructured or annulled revenue items in terms of billion ₺. While the dark and light orange bars stand for the lowest and highest estimates for the added revenues, respectively, the dark blue bars represent the foregone public revenues after the amendments in consumption and personal income taxes. Accordingly, the proposed reforms are expected to generate additional public and semi-public revenues ranging from 591.65 to 958.29 billion ₺. Conversely, reforms

related to consumption and personal income taxes are projected to reduce public revenues by 921.11 billion ₺. The ratios of these amounts to the total consolidated revenues of the central government and local administration budgets in 2022 are 18.34%–29.50% and 27.93%, respectively.

The public revenues foregone due to the amendments in the consumption and personal income taxes are expected to be compensated by the added revenues, especially in the cases where the higher proceeds are generated. However, a significant portion of added revenues is composed of zakat proceeds, which are required to be disposed of according to the rulings and principles in Islamic law. Therefore, it cannot be stated that these proceeds fully replace foregone tax revenues. Nevertheless, by allocating zakat revenues to appropriate current public expenditures, existing public funds can be redirected to expenditure areas where zakat cannot be disbursed. In this way, further opportunities will arise for financing general public expenditures. Moreover, depending on the nature of the financial obligation on minerals and hydrocarbons extracted and the percentage of jizyah obligation on non-Muslims citizens that is set equivalent to zakat within the estimated zakat potential, a portion of these added public revenues may have broader areas of expenditure.

When the rulings and principles adopted by Islamic public finance theory are overlooked, one may argue why public revenues, which have no restrictions on their use, are abandoned in favor of a similar amount of revenue sources with limited disposal areas. In this regard, the impact of reforms is not limited to the sources and uses of public revenue. It also affects the distribution of the fiscal burden. For instance, after the amendments to the taxes on goods and services, the tax burden on the first two income quintiles could drop by around 85%. Similarly, the distribution of estimated zakat obligations on earned incomes by income quintiles confirms that there is no zakat obligation on the first and second income groups. Furthermore, the zakat burden on financial wealth falls on the top 10% of wealth holders, who hold 69.8% of zakatable financial assets. Therefore, it can be argued that the shifts in public revenue composition envisioned by Islamic public finance theory also transform the distribution of financial obligations in favor of low-income groups.

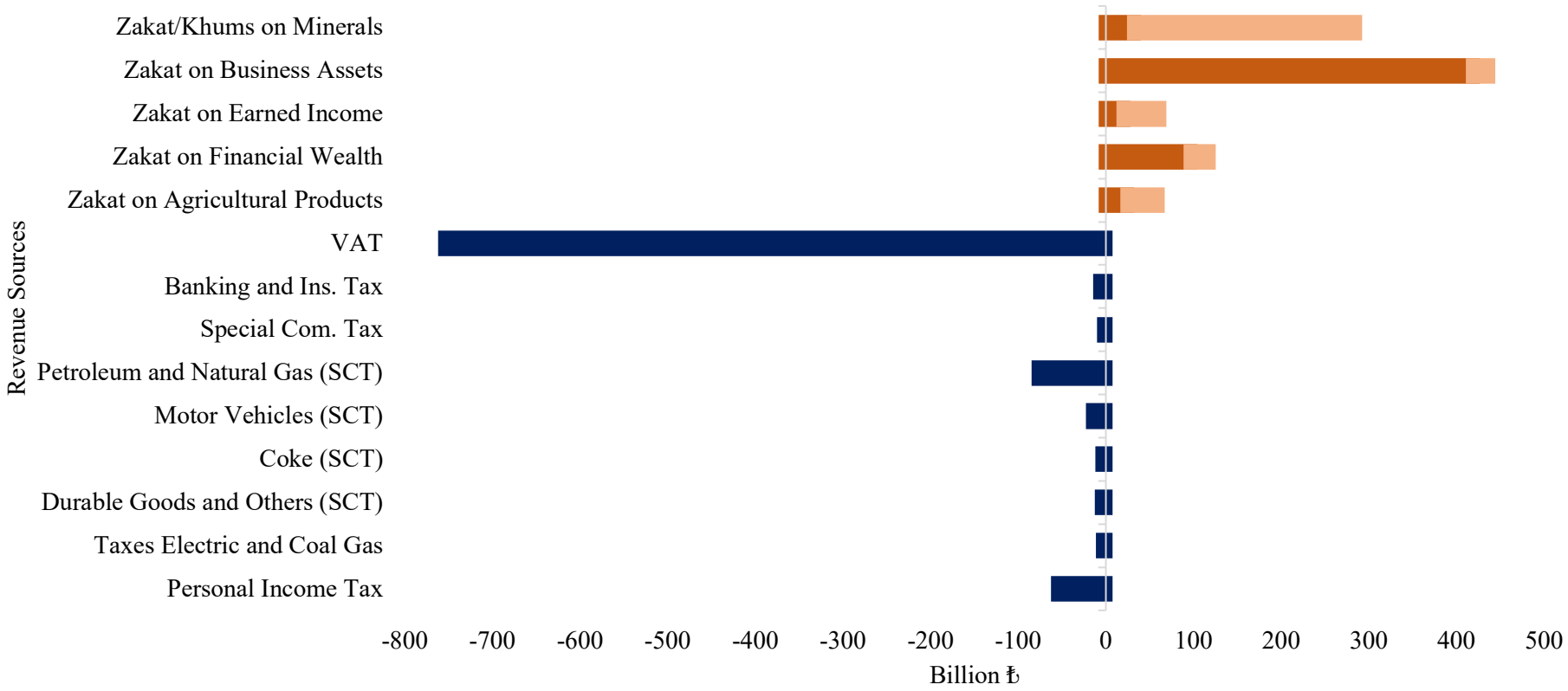

Figure 7.1: Transformation in the Public Budget Composition of Türkiye After the Reforms in 2022

As summarized in Figure 7.1, the transformations in Türkiye's public revenue composition support the argument that Türkiye has yet to fully benefit from the scholarly and practical heritage of Islamic public finance. In other words, the shifts in public revenue sources confirm dis/misconnection between the prevalent Turkish public revenue system and Islamic public finance theory. However, it is worth noting that this study estimated the potential contribution of selected Islamic public revenue sources to the Turkish public budgets, primarily zakat and khums. Similarly, only consumption and personal income taxes were assessed from the perspective of Islamic economics, considering their high share in public revenues. We anticipate that the shifts in Türkiye's public revenue composition will become more pronounced when additional Islamic public revenue sources, such as lands under the state control, ushur (Islamic tithe on trade goods), and public enterprises, are incorporated in the estimations. In a similar vein, assessing the other Turkish public revenue sources, such as taxes on property, customs duties, and corporate income taxes, through the lens of Islamic public finance theory will more clearly reveal the extent of disconnection or misalignment.

7.7. Recommendations

This study can be considered a humble endeavor that explores Islamic public finance theory, focusing on the revenue side, and estimates the budgetary implications of reforms and amendments envisaged in Türkiye from the perspective of Islamic economics using quantitative methods. Hereby, it is intended to reveal the relevance of the scholarly or practical heritage of Islamic public finance today and draw lessons from this heritage for the case of Türkiye. In terms of budgetary impacts, the estimates presented are expected to alleviate one of the reasons for the omission of both classical and contemporary Islamic public finance literature while constructing a public revenue system in the way of developing an ideal public finance structure aligned with the rulings, principles, and practices of Islamic public finance. Based on the assessment and estimations throughut the thesis, we recommend that policymakers consider revising the rates of the state's right/shares in minerals and hydrocarbons, including zakat as a semi-public revenue source in the public revenue structure of Türkiye, eliminating the consumption tax burden on low-income groups by repealing some

taxes on goods and services, and determining minimum tax bases for others, and increasing the exempted personal income tax on wage earners in a way that the incomes allocated for basic needs are excluded from taxation.

Although some of the recommendations can be implemented in the short run, incorporating zakat as semi-public revenues into the public revenue structure of Türkiye requires substantial preparatory efforts in terms of legislation, education, budgetary implementation, and social awareness. As in many areas involving juristic reasoning (ijtihad), numerous aspects of zakat are also subject to scholarly disagreement. These disputes and emerging issues make it difficult for households and companies to fulfill their zakat obligations appropriately. Therefore, there is a need for comprehensive, understandable, and applicable guidelines and standards for both households and companies regarding issues such as wealth and income items subject to zakat, expenses, costs, and liabilities that can be deducted from the zakat base, nisab and zakat payers, and applicable zakat rates, etc. It is strongly recommended that these guidelines and standards be supported by interfaces that include algorithms to simplify calculations. These steps, along with efforts to raise public awareness about zakat, will help establish the necessary groundwork for subsequent legal arrangements. One of the steps that must be taken before legal regulations are enacted is to introduce new courses—or update existing ones—in relevant undergraduate and graduate programs, particularly in finance, in order to develop human resources who are well-versed in the theoretical and practical dimensions of zakat in particular and Islamic public finance theory in general. The transformation of curricula and syllabi is crucial for developing legal regulations and budgetary practices that consider the rulings and principles related to the disposal of zakat proceeds.

Several recommendations can be proposed for future academic research to fill the gaps in the literature and address the limitations of this study. First, it is worth estimating the budgetary impacts of other Islamic public revenue sources, such as lands under the state control, ushur (Islamic tithe on trade goods), and public enterprises, as well as possible reforms arising from based on the assessment of the other Turkish public revenue sources, such as taxes on property, customs duties, and corporate income taxes. Such estimations allow for a more comprehensive exploration of the transformation in Türkiye's public revenue system through the lens of Islamic public finance theory. Secondly, it is recommended that estimations of the budgetary impacts

of the proposed changes to public revenues go beyond static analysis and incorporate the behavioral responses of relevant economic actors to yield more realistic results. Last but not least, the implications of changes in public revenue composition on other economic indicators—such as welfare, wealth and income inequality, poverty, saving, private and public investment, consumption, GDP, inflation, and unemployment—warrant further study. Such analyses should employ tools like computable general equilibrium models and consider the expenditure side of public finance.

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APPENDIX A: MINERAL KINDS AND CATEGORIES SUBJECTED TO ZAKAT/KHUMS BY SCHOLARS

Mineral Types	Category (MAPEG)	Category (Mining Law)	Minerals Subjected to Zakat/Khums According to Schools/Scholars*				
			Abu Hanifa	Abu Yusuf	Malikites	Shafi'ites	Hanbalites
Limestone	Cement and Const. Raw Materials	II-A	0	0	0	0	1
Basalt (gravel)	Cement and Const. Raw Materials	II-A	0	0	0	0	1
Marn	Cement and Const. Raw Materials	I-B	0	0	0	0	1
Sandstone	Cement and Const. Raw Materials	II-A	0	0	0	0	1
Other Clays (I-B)	Cement and Const. Raw Materials	I-B	0	0	0	0	1
Calcite	Cement and Const. Raw Materials	II-A	0	0	0	0	1
Dolomite	Cement and Const. Raw Materials	II-A	0	0	0	0	1
Brick Tile Clay	Cement and Const. Raw Materials	I-B	0	0	0	0	1
Andesite (gravel)	Cement and Const. Raw Materials	II-A	0	0	0	0	1
Amphibolite Other Const. Fillers	Cement and Const. Raw Materials	II-A	0	0	0	0	1
Other Cement Raw Materials	Cement and Const. Raw Materials	I-B	0	0	0	0	1
Tras	Cement and Const. Raw Materials	I-B	0	0	0	0	1
Shale	Cement and Const. Raw Materials	I-B	0	0	0	0	1
Pyrophyllite	Cement and Const. Raw Materials	NA**	0	0	0	0	1
Lignite	Energy Raw Materials	IV-B	0	0	0	0	1
Asphaltite	Energy Raw Materials	IV-B	0	0	0	0	1
Hard Coal	Energy Raw Materials	IV-B	0	0	0	0	1
Peat	Energy Raw Materials	IV-B	0	0	0	0	1
Bituminous Shale	Energy Raw Materials	IV-B	0	0	0	0	1
Leonardite	Energy Raw Materials	IV-B	0	0	0	0	1
Zircon (unsorted)	Energy Raw Materials	IV-B	0	0	0	0	1

Lake salt	Group-III	III	0	0	0	0	1
Sea Salt	Group-III	III	0	0	0	0	1
Carbon Dioxide	Group-III	III	0	0	0	0	1
Sodium Sulfate (Soda)	Group-III	III	0	0	0	0	1
Salt	Group-III	III	0	0	0	0	1
Trona	Industrial Raw Materials	IV-A	0	0	0	0	1
Feldspar	Industrial Raw Materials	IV-A	0	0	0	0	1
Phosphate	Industrial Raw Materials	IV-A	0	0	0	0	1
Magnesite + Hydromagnesite	Industrial Raw Materials	IV-A	0	0	0	0	1
Other Clays (IV-A)	Industrial Raw Materials	IV-A	0	0	0	0	1
Quartzite	Industrial Raw Materials	IV-A	0	0	0	0	1
Quartz Sand	Industrial Raw Materials	IV-A	0	0	0	0	1
Quartz	Industrial Raw Materials	IV-A	0	0	0	0	1
Magnesium Salt	Industrial Raw Materials	IV-A	0	0	0	0	1
Gypsum	Industrial Raw Materials	IV-A	0	0	0	0	1
Bentonite	Industrial Raw Materials	IV-A	0	0	0	0	1
Pumice	Industrial Raw Materials	IV-A	0	0	0	0	1
Rock Salt	Industrial Raw Materials	IV-A	0	0	0	0	1
Kaolin	Industrial Raw Materials	IV-A	0	0	0	0	1
Graphite	Industrial Raw Materials	IV-A	0	0	0	0	1
Barite	Industrial Raw Materials	IV-A	0	0	0	0	1
Montmorillonite	Industrial Raw Materials	IV-A	0	0	0	0	1
Abrasive +Diyasporite	Industrial Raw Materials	IV-A	0	0	0	0	1
Perlite	Industrial Raw Materials	IV-A	0	0	0	0	1
Chalcedony	Industrial Raw Materials	IV-A	0	0	0	0	1
Vermiculite	Industrial Raw Materials	IV-A	0	0	0	0	1
Olivine +Dunite	Industrial Raw Materials	IV-A	0	0	0	0	1
Talk	Industrial Raw Materials	IV-A	0	0	0	0	1
Diatomite	Industrial Raw Materials	IV-A	0	0	0	0	1
Sepiolite	Industrial Raw Materials	IV-A	0	0	0	0	1

Fluorite	Industrial Raw Materials	IV-A	0	0	0	0	1
Mika	Industrial Raw Materials	IV-A	0	0	0	0	1
Silex (Flint)	Industrial Raw Materials	IV-A	0	0	0	0	1
Zeolite	Industrial Raw Materials	IV-A	0	0	0	0	1
Nef. Syenite	Industrial Raw Materials	IV-A	0	0	0	0	1
Gargoyle	Industrial Raw Materials	IV-A	0	0	0	0	1
Radiolarite	Industrial Raw Materials	IV-A	0	0	0	0	1
Alunite (Alum)	Industrial Raw Materials	IV-A	0	0	0	0	1
Stalagmite	Industrial Raw Materials	IV-A	0	0	0	0	1
Illit	Industrial Raw Materials	IV-A	0	0	0	0	1
Sulfur	Industrial Raw Materials	IV-A	0	0	0	0	1
Obsidian	Industrial Raw Materials	IV-A	0	0	0	0	1
Boron	Industrial Raw Materials	IV-A	0	0	0	0	1
Strontium Salt	Industrial Raw Materials	IV-A	0	0	0	0	1
Copper (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Nickel (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Gold (metal)	Metallic Mineral	IV-C	1	1	1	1	1
Chromium (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Aluminum (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Zinc (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Antimony	Metallic Mineral	IV-C	1	1	1	0	1
Iron (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Lead (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Complex Mine	Metallic Mineral	IV-C	1	1	1	0	1
Silver (metal)	Metallic Mineral	IV-C	1	1	1	1	1
Bauxite (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Manganese (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Rutile (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Cadmium (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1
Molybdenum (unsorted)	Metallic Mineral	IV-C	1	1	1	0	1

Mercury	Metallic Mineral	IV-C	1	1	1	0	1
Pyrite	Metallic Mineral	IV-C	1	1	1	0	1
Marble	Natural Stones	II-B	0	0	0	0	1
Travertine	Natural Stones	II-B	0	0	0	0	1
Granite	Natural Stones	II-B	0	0	0	0	1
Basalt	Natural Stones	II-B	0	0	0	0	1
Onyx	Natural Stones	II-B	0	0	0	0	1
Decorative Stone, Mosaic, Slate etc.	Natural Stones	II-B	0	0	0	0	1
Andesite	Natural Stones	II-B	0	0	0	0	1
Ignimbirite	Natural Stones	II-B	0	0	0	0	1
Diabase	Natural Stones	II-B	0	0	0	0	1
Building Block	Natural Stones	II-A	0	0	0	0	1
Serpentine (II-A)	Natural Stones	II-A	0	0	0	0	1
Gabro	Natural Stones	NA**	0	0	0	0	1
Silica Sand	NA**	NA**	0	0	0	0	1
Total			**18**	**18**	**18**	**2**	**96**

* Regarding the minerals subjected to zakat/khums, 0 is assigned to the relevant raw and column if the schools/scholars of Islamic jurisprudence do not subject the mineral to zakat/khums. Otherwise, we assigned 1 to the corresponding cell. In the last column, the total number of minerals out of 96, which are subjected to zakat/khums by each school/scholar, can be seen.

** NA stands for the phrase not available. It is used to note that we could not find the relevant mineral in the categories of the MAPEG and the Mining Law of Türkiye.

APPENDIX B: PRODUCTION VALUES OF MINERALS AND ESTIMATED ZAKAT/KHUMS (2022)

Mineral Types	**Production** (tons)	**Production** (tons) [Excluding SEE]	**Average Price** (₺/ton)	**Production Value** (Billion ₺) [Excluding SEE]	**Khums [20%]** (Billion ₺)	**Zakat [2.5%]** (Billion ₺)
Copper (unsorted)	5,218,543	5,218,543	146,471	764.37	152.87	19.11
Nickel (unsorted)	1,286,314	1,286,314	256,680	330.17	66.03	8.25
Lignite	102,097,457	48,904,682	1,558	76.17	15.23	1.90
Gold (metal)	31	31	1,055,308,608	32.74	6.55	0.82
Chromium (unsorted)	8,278,124	8,278,124	3,554	29.42	5.88	0.74
Aluminum (unsorted)	637,997	637,997	44,975	28.69	5.74	0.72
Zinc (unsorted)	479,924	479,924	57,900	27.79	5.56	0.69
Antimony	193,464	193,464	95,397	18.46	3.69	0.46
Marble	13,179,294	13,179,294	1,325	17.46	3.49	0.44
Iron (unsorted)	19,554,384	19,554,384	828	16.19	3.24	0.40
Trona	17,626,420	17,626,420	900	15.86	3.17	0.40
Lead (unsorted)	384,866	384,866	35,765	13.76	2.75	0.34
Limestone	454,462,332	454,462,332	27	12.27	2.45	0.31
Complex Mine	4,738,763	4,738,763	827	3.92	0.78	0.10
Travertine	3,565,853	3,565,853	741	2.64	0.53	0.07
Feldspar	15,781,540	15,781,540	148	2.33	0.47	0.06
Phosphate	963,323	963,323	2,000	1.93	0.39	0.05
Silver (metal)	143	143	12,627,895	1.81	0.36	0.05
Asphaltite	1,499,605	718,311	1,558	1.12	0.22	0.03
Lake salt	4,444,706	4,444,706	240	1.07	0.21	0.03
Magnesite + Hydromagnesite	1,820,068	1,820,068	530	0.96	0.19	0.02
Bauxite (unsorted)	2,072,968	2,072,968	405	0.84	0.17	0.02
Other Clays (IV-A)	6,512,151	6,512,151	113	0.73	0.15	0.02
Quartzite	3,585,861	3,585,861	200	0.72	0.14	0.02

Quartz Sand	12,595,861	12,595,861	55	0.69	0.14	0.02
Hard Coal	1,794,712	430,731	1,558	0.67	0.13	0.02
Quartz	2,030,231	2,030,231	300	0.61	0.12	0.02
Basalt (gravel)	19,293,890	19,293,890	30	0.58	0.12	0.01
Magnesium Salt	6,572	6,572	79,759	0.52	0.10	0.01
Gypsum	10,679,212	10,679,212	48	0.51	0.10	0.01
Marn	14,475,394	14,475,394	35	0.51	0.10	0.01
Sandstone	16,610,536	16,610,536	27	0.45	0.09	0.01
Bentonite	2,018,993	2,018,993	200	0.40	0.08	0.01
Other Clays (I-B)	13,112,604	13,112,604	30	0.39	0.08	0.01
Calcite	10,713,164	10,713,164	37	0.39	0.08	0.01
Manganese (unsorted)	105,416	105,416	3,697	0.39	0.08	0.01
Dolomite	13,467,165	13,467,165	27	0.36	0.07	0.01
Rutile (unsorted)	7,226	7,226	48,724	0.35	0.07	0.01
Pumice	8,176,776	8,176,776	40	0.33	0.07	0.01
Rock Salt	3,871,300	3,871,300	75	0.29	0.06	0.01
Kaolin	2,289,367	2,289,367	125	0.29	0.06	0.01
Graphite	27,715	27,715	10,000	0.28	0.06	0.01
Granite	478,369	478,369	552	0.26	0.05	0.01
Basalt	284,873	284,873	799	0.23	0.05	0.01
Barite	344,322	344,322	600	0.21	0.04	0.01
Sea Salt	750,740	750,740	270	0.20	0.04	0.01
Carbon Dioxide	100,170	100,170	1,700	0.17	0.03	0.00
Montmorillonite	665,228	665,228	223	0.15	0.03	0.00
Onyx	41,302	41,302	3,248	0.13	0.03	0.00
Abrasive +Diyasporite	284,076	284,076	425	0.12	0.02	0.00
Perlite	1,319,432	1,319,432	81	0.11	0.02	0.00
Sodium Sulfate (Soda)	187,285	187,285	550	0.10	0.02	0.00
Chalcedony	5,414	5,414	18,563	0.10	0.02	0.00
Decorative Stone + Mosaic + Slate etc.	221,001	221,001	419	0.09	0.02	0.00

Brick Tile Clay	6,087,380	6,087,380	15	0.09	0.02	0.00
Andesite (gravel)	2,036,493	2,036,493	43	0.09	0.02	0.00
Vermiculite	21,230	21,230	4,000	0.08	0.02	0.00
Amphibolite Other Construction Fillers	2,770,105	2,770,105	27	0.07	0.01	0.00
Andesite	203,851	203,851	351	0.07	0.01	0.00
Peat	176,551	176,551	380	0.07	0.01	0.00
Olivine +Dunite	297,691	297,691	190	0.06	0.01	0.00
Other Cement Raw Materials	1,513,686	1,513,686	35	0.05	0.01	0.00
Tras	1,610,108	1,610,108	30	0.05	0.01	0.00
Talk	43,196	43,196	1,000	0.04	0.01	0.00
Diatomite	237,267	237,267	128	0.03	0.01	0.00
Ignimbirite	75,133	75,133	353	0.03	0.01	0.00
Sepiolite	55,100	55,100	450	0.02	0.00	0.00
Fluorite	17,252	17,252	1,370	0.02	0.00	0.00
Mika	6,066	6,066	2,925	0.02	0.00	0.00
Shale	494,722	494,722	30	0.01	0.00	0.00
Diabase	9,928	9,928	1,125	0.01	0.00	0.00
Silex (Flint)	5,167	5,167	2,000	0.01	0.00	0.00
Zeolite	74,548	74,548	100	0.01	0.00	0.00
Bituminous Shale	181,626	181,626	38	0.01	0.00	0.00
Salt	12,393	12,393	500	0.01	0.00	0.00
Nef. Syenite	36,100	36,100	100	0.00	0.00	0.00
Gargoyle	64,165	64,165	40	0.00	0.00	0.00
Building Block	93,945	93,945	27	0.00	0.00	0.00
Radiolarite	59,048	59,048	40	0.00	0.00	0.00
Serpentine (II-A)	5,500	5,500	27	0.00	0.00	0.00
Gabro	0	0	0	0.00	0.00	0.00
Pyrophyllite	0	0	0	0.00	0.00	0.00
Cadmium (unsorted)	0	0	0	0.00	0.00	0.00
Molybdenum (unsorted)	0	0	0	0.00	0.00	0.00

Alunite (Alum)	0	0	0	0.00	0.00	0.00
Mercury	0	0	0	0.00	0.00	0.00
Stalagmite	0	0	0	0.00	0.00	0.00
Illit	0	0	0	0.00	0.00	0.00
Silica Sand	0	0	0	0.00	0.00	0.00
Sulfur	0	0	0	0.00	0.00	0.00
Leonardite	0	0	0	0.00	0.00	0.00
Obsidian	0	0	0	0.00	0.00	0.00
Zircon (unsorted)	0	0	0	0.00	0.00	0.00
Boron	5,703,453	0	NR*	0.00	0.00	0.00
Pyrite	92,863	92,863	NA**	NA**	NA**	NA**
Strontium Salt	2,046	2,046	NA**	NA**	NA**	NA**
Total	**826,234,182**	**765,192,679**	**-**	**1,412.18**	**282.44**	**35.30**

* NN stands for the phrase not required. Since all boron production is carried out by the ETİ MADEN, a state economic enterprise, and thus is not subjected to zakat/khums, it is not required to assign a price.

** NA stands for the phrase not available. It is used to note that we could not find the price information for the relevant minerals in the sources we refer to.

APPENDIX C: AGGREGATED BALANCE SHEETS OF BANKING SECTORS (2022)

AGGREGATED BALANCE SHEET OF DEPOSIT BANKS AND DEVELOPMENT-INVESTMENT BANKS (2022)

Balance Sheet Items	Original Figures (million ₺)	Components of Zakat Base (million ₺)			Notes
		Current Assets	Receivables	Debts Accrued or Due Within One Year	
Cash in local currency	29,402	29,402			
Cash in foreign currency vault	99,270	99,270			
Money in transit	1,630	1,630			Although the bank has not received the money in this account, it can be considered an asset rather than a receivable because they are on the way during the cash transfer.
Purchased bank cheques	3		3		It stands for cheques purchased and held by banks for collection.
Securities due	0		0		This account represents the principal amount of matured securities, such as bills and bonds, that have not yet been collected.
Precious metals	14,480	14,480			
Central bank	834,071				Receivables from the Central Bank of the Republic of Türkiye (CBRT) are recorded in this account. Although there are some limitations on the usage of these accounts, they are included in the zakat base as receivables because they cannot be considered doubtful or dead debts.
Demand-free account with the central bank	574,852		574,852		
Time deposits (free and restricted accounts with the central bank)	258,111		258,111		
Blocked electronic money funds at the central bank	1,109		1,109		
Time and demand deposits at banks	869,500				Since the receivables are not differentiated in terms of their due dates while including them in the zakat base, both time and demand deposits are counted in the zakat calculation regardless of their maturity.
Domestic banks	162,085		162,085		
Foreign banks	707,415		707,415		

Receivables from money markets	44,466		44,466		Amounts lent to other banks through the CBRT, Istanbul Settlement and Custody Bank (Takasbank), and Borsa Istanbul are followed in this account.
Current and investment accounts in participation (Islamic) banks	0				
Securities held for trading (net) less those subject to repurchase agreements	2,024,584		1,653,858		It represents the value of the securities net of any provisions for impairment or valuation adjustments.
Securities subject to repurchase agreements	370,726		370,726		This sub-item refers to the securities used as collateral in repurchase transactions. Since repurchase agreements have very short maturities, we opt not to consider them collaterals exempted from the zakat base of the collateral issuing institutions.
Receivables from reverse repurchase agreements	114,226		101,661		Reserve repurchase agreements can be considered a loan that generates benefits, as in the case of bai al-wafa. Thus, it includes the excess payment to be received by the bank. To exclude the interest in the total value of receivables, the portion corresponding to 11%, the average of the CBRT one-week repo rate in 2022, is deducted from the zakat base.
Derivative financial assets	155,362	155,362			
Loans to customers	6,731,183		6,731,183		It stands for the principal amounts of the loans and should be subject to zakat regardless of their maturity.
Non-performing loans (net)	0				
Doubtful loans	153,628				This account includes doubtful debts. Thus, they are not zakatable.
Provisions for expected credit losses	-340,464				As noted above, the doubtful debts are not included in the zakat base. The provisions for expected credit losses should not be excluded from zakat because they are not realized losses and are recorded only to reflect potential losses on their balance sheets in advance, thus presenting a more prudent and transparent financial statement.

Financial leasing receivables (net)	1,279		1,279		Financial leasing receivables consist of principal and interest income. However, unearned financial leasing income (interest), the total receivable minus the cost of the leased asset, is deducted from the lease receivables account to arrive at the net investment amount, which does not include interest.
Required reserves	818,449				Required reserves, which are determined per the relevant regulations of the CBRT, are not included in the zakat base since the banks are not allowed to use these reserves freely.
Accrued interest income and other receivables	760,367		152,073		This item represents accrued but not yet received revenues, including interest earnings. Since the share of interest in the banks' total revenues was 78.4% in 2022, 80% of this item is deducted from the zakat base.
Government bonds held against legal reserves	0				Banks used to have to invest a portion of the legal reserves they set aside from their profits in government bonds, but this practice is no longer in effect today.
Investments in associates, subsidiaries, and joint ventures (net)	283,324				Zakat due on associates, subsidiaries, or joint ventures are calculated according to their balance sheets. Thus, the zakat payments corresponding to the share of the bank are paid by these entities.
Fixed assets (net)	126,986				According to Equation 4, fixed assets are not subject to zakat. Thus, this view considers that accumulated depreciation should not be deducted from the zakat base. However, the balance sheet statistics present the value of fixed assets net of accumulated depreciation in a single account. Thus, we could not identify the value of accumulated depreciation. The view adopting Equation 3 deems the net value of fixed assets zakatable.

Leasehold improvements (net)	0				It covers expenditures such as renovations and decorations made by the bank on leased immovable properties. Even if the bank does not own them, they are capitalized and accounted for because they provide benefits. It is not included in the zakat base.
Prepaid taxes	58,727				Although the tax paid in advance may be offset or refunded in the future, this amount is not subject to zakat as it is no longer the bank's property.
Deferred tax assets	37,459				This account records amounts that will be deducted from tax in the future (provisions, depreciation differences, etc.). It is considered an asset within the framework of accounting logic. However, these intangible financial rights cannot be regarded as an asset subject to zakat in the bank's ownership, nor can they be included in the zakat base as a receivable.
Consumable goods (office supplies) inventory	674				Consumable, portable, generally low-cost physical assets (stationery and cleaning materials, toner, etc.) used or held for use in the bank's operations. Not included in the zakat base according to Equation 4.
Doubtful fee, commission, and other receivables	0				This account includes doubtful receivables. Thus, they are not zakatable.
Assets held for sale	29,029	29,029			
Receivables from the sale of assets on credit terms	2,285		2,285		
Other receivables	274,209		274,209		
TOTAL ASSETS	**13,124,131**				

Total deposits	8,248,517				According to the CBRT's deposit statistics by maturity groups, 92% of Turkish lira time deposits and 90% of foreign currency time deposits have maturities of less than a year in 2022. Although interbank deposits and gold deposit accounts are not classified according to maturity groups, assuming that 90% of all time deposits have a maturity of less than one year, 10% of total time deposits, which constitute a liability for the bank, are not deducted from the zakat base since they are spread over a maturity of more than one year. It is worth noting that these amounts do not include the interest payable, which is recorded in another account.
Demand deposits	2,852,409			2,852,409	
Time deposits	5,396,109			4,856,498	
Funds borrowed from money markets	43,916			43,916	This account represents the principal amount of liabilities (payables) of banks arising from their short-term borrowings from money markets.
Liabilities from securities lending transactions	34,250			34,250	In standard market practices in Türkiye, the maturity of securities lending transactions is generally between 1 day and 3 months.
Funds from repurchase agreements	431,322			431,322	This account represents short-term funds (resources) obtained by deposit banks through repurchase agreements. It includes only the principal debt.
Loans received	1,242,601			745,561	According to the statistics compiled by the Banks Association of Türkiye on the distribution of assets and liabilities of all banks according to their remaining maturities, approximately 60% of the funds obtained from other financial institutions have maturities of less than one year. Therefore, 40% of the loans in this account are not deducted from the zakat base.
Loans from the central bank	194,519				
Domestic bank loans	77,079				
Loans from other domestic institutions	35,212				
Foreign bank loans	697,941				
Loans from foreign funds and other institutions	237,850				
Subordinated loans	172,071				It generally consists of debt with a maturity of 5 years or more. Thus, the principal amount of these debts is not deducted from the zakat base.
Provisions	293,783				AAOIFI's general stance on provisions is that these amounts should not be deducted from the zakat base.

Derivative financial liabilities	68,925			68,925	Since most of the derivative positions have maturities of less than 1 year, the entire liability in this account is deducted from the zakat base.
Lease liabilities (net)	13,588			10,870	It covers only the principal debts stemming from leased assets. According to data from the Banks Association of Türkiye, by the end of 2022, 80% of banks' liabilities have a remaining maturity of less than one year. Based on this figure, 20% of the amount in this item is not deducted from the zakat base.
Liabilities from factoring transactions	0				This item represents the bank's liability to the factoring company or regulatory body. According to data from the Banks Association of Türkiye, by the end of 2022, 80% of banks' liabilities have a remaining maturity of less than one year. Based on this figure, 20% of the amount in this item is not deducted from the zakat base.
Interest and expense accruals	95,048			47,524	It represents accrued but not yet paid expenses, including interest expenses. Since the share of interest in the total expenses of the banks was 52.5% in 2022, only half of this item is deducted from the zakat base.
Import and transfer orders	2,600			2,600	This account monitors the temporary debts (liabilities) of deposit banks arising from foreign currency transfers and import transactions carried out on behalf of their customers but not yet finalized.
Taxes, duties, fees, and premiums payable	13,057			13,057	This account represents liabilities for all kinds of taxes, duties, fees, and premiums that have not yet been paid but are the bank's liabilities to the government as of the balance sheet date.

Debt securities issued (net)	325,138			100,793	The value of debt securities issued by the bank, net of unaccrued interest expenses, discount differences, and issuance costs, is recorded in this account. According to the data of the Banks Association of Türkiye, by the end of 2022, approximately 31% of the securities issued by banks have a remaining maturity of less than one year. For this reason, 69% of the amount in this account is not deducted from the zakat base.
Funds allocated to the bank	28,596				Such funds are held in trust and do not become the bank's property. The bank allocates these funds in accordance with the purpose specified. Thus, they are not deducted from the zakat base.
Deferred tax liabilities	8,466				The liability in this account is, in a sense, the present shadow of the future tax liability, which is recorded to recognize future tax liabilities today. Similar to the approach we follow for the deferred tax asset account, we do not consider this account a real and realized liability and do not deduct it from the zakat base.
Payment orders	8,373			8,373	
Other liabilities	795,056			636,045	According to data from the Banks Association of Türkiye, by the end of 2022, 80% of banks' liabilities have a remaining maturity of less than one year. Based on this figure, 20% of the amount in this item is not deducted from the zakat base.
EQUITY	**1,298,825**				
Paid-in capital	161,341				
Nominal capital	162,822				
Capital commitments	-1,481				
Inflation adjustment on paid-in capital	0				
Capital reserves	310,951				
Profit reserves	456,611				

Current period profit or loss	380,002			76,000	78.4% of the revenues of the Turkish banking sector in 2022 were composed of interest income. Therefore, we have deducted 80% of the balance sheet items related to profits, such as profit reserves, profit and loss, and retained profit and loss from the zakat base of the conventional banking sector.
Accumulated profit or loss	-10,079				
TOTAL LIABILITIES	**13,124,131**				

AGGREGATED BALANCE SHEET OF PARTICIPATION BANKS (2022)

Balance Sheet Items	Original Figures (million ₺)	Components of Zakat Base (million ₺)			Notes
		Current Assets	Receivables	Debts Accrued or Due Within One Year	
Cash in local currency	3,474	3,474			
Cash in foreign currency vault	10,719	10,719			
Money in transit	3,601	3,601			
Purchased bank cheques	0				
Securities due	0				
Precious metals	4,621	4,621			
Central bank	52,485		52,485		Receivables from the Central Bank of the Republic of Türkiye (CBRT) are recorded in this account. Participation banks' receivables from the central bank are held in demand-free accounts. Therefore, there is no restriction on this account.
Demand free account with the central bank	52,485				
Time deposits (free and restricted accounts with the central bank)	0				
Blocked electronic money funds at the central bank	0				
Time and demand deposits at banks	66,459				
Domestic banks	16,616		16,616		
Foreign banks	49,843		49,843		
Receivables from money markets	0				
Securities held for trading (net)	210,083		210,083		

Receivables from purchase with undertaking to resell	1,725		1,535		Reserve repurchase agreements can be considered a loan that generates benefits, as in the case of bai al-wafa. It includes the excess payment to be received by the bank. Although the asset subject to trading is interest-free for participation banks, and the excess is characterized as profit, bai al-wafa is not considered permissible by the International Islamic Fiqh Academy. Therefore, we have deducted 11% of this account to exclude the questionable excess from the zakat base, considering the average CBRT one-week repo rate in 2022.
Derivative financial assets	1,544	1,544			
Loans to customers	580,471		580,471		
Non-performing loans (net)	0				
Doubtful loans	9,085				
Provisions for expected credit losses	-25,023				
Financial leasing receivables (net)	48,040		48,040		
Required reserves	124,618				
Accrued profit and other receivables	65,235		65,235		This item represents accrued but not yet received revenues, including profits. There is no need to make deductions for interest earnings as in the case of conventional banks.
Investments in associates, subsidiaries, and joint ventures (net)	2,553				
Fixed assets (net)	10,996				
Leasehold improvements (net)	0				
Prepaid taxes	4,264				
Deferred tax assets	3,365				
Consumable goods (office supplies) inventory	46				
Assets held for sale	1,526	1,526			

Receivables from the sale of assets on credit terms	63		63		
Other receivables	8,904		8,904		
TOTAL ASSETS	**1,188,855**				
Total deposits	898,709				
Current accounts	379,345			379,345	Current accounts in participation banks constitute a liability on the banks. Thus, this amount should be deducted from the zakat base as debts.
Participation/investment accounts	519,364				Investment accounts in participation banks represent a trust rather than a liability, as stated in the Shari'ah Standard No. (35) of the AAOIFI. Thus, they are not subject to zakat.
Funds borrowed from money markets	0				
Funds from sell and buy-back agreements	36,068			36,068	
Loans received	92,854			55,712	
Loans from the central bank	0				
Domestic bank loans	9,677				
Loans from other domestic institutions	55,194				
Foreign bank loans	27,984				
Loans from foreign funds and other institutions					
Subordinated loans	11,228				
Provisions	26,347				
Derivative financial liabilities	921			921	
Lease liabilities (net)	2,339			1,871	
Profit share and expense accruals	9,840			9,840	It represents accrued but not yet paid expenses, including profit share payments. There is no need to exclude interest expenses as in the case of conventional banks.
Import and transfer orders	659			659	
Taxes, duties, fees, and premiums payable	1,127			1,127	

Debt securities issued (net)	0				
Deferred tax liabilities	53				
Payment orders	1,009			1,009	
Other liabilities	24,370			19,496	
EQUITY	**83,331**				
Paid-in capital	23,007				
Nominal capital	23,007				
Capital commitments	0				
Capital reserves	15,549				
Profit reserves	16,007				
Current period profit or loss	29,444			29,444	In contrast to conventional banks, there is no need to make deductions from the profits because no profits from the prohibited sources are recorded in this account.
Accumulated profit or loss	-675				
TOTAL LIABILITIES	**1,188,855**				

* The balance sheets of deposit banks and development-investment banks, as well as deposit statistics by maturity, are taken from the Monthly Money and Banking Statistics provided by the Central Bank of the Republic of Türkiye (CBRT) Electronic Data Delivery System (CBRT, 2022c, 2022d). The notes represent our considerations, but we have mainly benefited from the "Shari'ah Standard No. (35): Zakah" published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, 2015). Regarding the meanings of balance sheet items, we refer to the document titled "Uniform Chart of Accounts and Prospectus to be Applied by Banks," prepared by the Banking Regulation and Supervision Agency (BRSA, 2019). While the share of interest income in banks' total revenues by 2022 is specified based on the findings of Kartal (2023: 10), the distribution of banks' liabilities according to the remaining maturity at the end of 2022 is obtained from the Banks Association of Türkiye (BAT, 2022b). Finally, the calculation of zakat due on deposit banks and development and investment banks in 2022 according to the two views represented in Equations 3 and 4 and using the data in this appendix are presented in Chapter 6.

* The notes written for deposit banks and development-investment banks are valid for participation banks unless otherwise stated.

APPENDIX D: BALANCE SHEET ITEMS OF NON-FINANCIAL COMPANIES IN THE CAS DATASET AND CORRESPONDING COMPONENTS OF ZAKAT BASE

Balance Sheet Items (CAS)	Description of Balance Sheet Items	Corresponding Component of Zakat Base	Explanatory Notes
CD_1001	Assets held in cash or in bank accounts, as well as those expected to be converted into cash or consumed within one year or during the enterprise's normal operating cycle under normal conditions	Current Assets	The current assets account includes current receivables by its very structure. However, we have distinguished current receivables from current assets following the components of zakat base stipulated in Equation 4. Therefore, this account refers to current assets excluding current receivables. Please note that the assets in Equation 3 cover current and fixed assets as well as current and non-current receivables, since it does not differentiate receivables from assets and considers total assets as a whole.
CD_1033	Raw materials, auxiliary materials, consumables, packaging materials, and other materials procured for use in production or other activities	Current Assets	To prevent double zakat on the same produce, the current asset items associated with the output are not included in the zakat base of enterprises operating in the mining and agriculture sectors, as explained in Chapter 5.2.1.
CD_1034	Products that are still in the production stage and have not yet become finished goods, but have incurred a proportionate share of direct raw materials and supplies, direct labor, and general production costs	Current Assets	
CD_1035	Finished goods obtained as a result of production activities and made ready for sale	Current Assets	

CD_1010	Bonds, bills, and notes issued by the private sector	Current Receivables	Current receivables are covered by the current assets account by its very structure. However, we have distinguished current receivables from current assets following the components of zakat base stipulated in Equation 4. Based on their definition, these balance sheet items are considered part of current receivables.
CD_1011	Bonds, bills, and notes issued by the public sector	Current Receivables	
CD_1014	Promissory and non-promissory receivables, expected to be converted into cash within one year, and arising from the enterprise's commercial activities	Current Receivables	
CD_1023	Promissory and non-promissory receivables that have arisen without any commercial reason and are expected to be collected within one year, along with doubtful receivables and their provisions related to this group	Current Receivables	
CD_1044	Expenses that arise in the current period but pertain to future periods, as well as revenues related to the current operating period that will be definitively recorded as liabilities after the accounting period	Current Receivables	
CD_1048	Non-deductible value-added tax for a given period recorded and tracked for deduction in the following period	Current Receivables	
CD_1049	Value-added tax paid to sellers during the purchase of all kinds of goods and services	Current Receivables	
CD_1050	Value-added tax payable but deferred during the import of incentivized investment goods until it becomes deductible	Current Receivables	
CD_1051	Income, corporate, and other taxes and funds that are prepaid in accordance with legal regulations and can be deducted within one year	Current Receivables	

CD_1052	Business advances given to personnel and non-personnel individuals who will purchase goods and services or make certain expenses and payments on behalf of the enterprise	Current Receivables	
CD_1053	Advances paid to personnel and workers to be offset against their salaries, wages, and travel allowances	Current Receivables	
CD_1015	Non-promissory receivables arising from the sale of goods and services that constitute the core business activity of the enterprise	Current Receivables	To prevent double zakat on the same produce, the current receivable items associated with the produced output are not included in the zakat base of enterprises operating in the mining and agriculture sectors, as explained in Chapter 5.2.1.
CD_1016	Promissory receivables arising from the sale of goods and services that constitute the enterprise's core business activities	Current Receivables	
CD_1017	Rediscount amounts set aside for promissory receivables in order to value them at their present value	Current Receivables	
CD_1057	Assets acquired for use in business operations over periods longer than one year or the normal operating cycle, which are not expected to be converted into cash or consumed within that period	Fixed Assets	The fixed assets account includes non-current receivables by its very structure. However, we have distinguished non-current receivables from fixed assets following the components of zakat base stipulated in Equation 4. Therefore, this account refers to fixed assets excluding non-current receivables. Please note that the assets in Equation 3 cover current and fixed assets as well as current and non-current receivables, since it does not differentiate receivables from assets and considers total assets as a whole.

CD_3001	Short-term liabilities that are to be settled within one year or by the end of the enterprise’s normal operating cycle	Short-term Liabilities	Equation 4 only considers the short-term liabilities in zakat calculation, while Equation 3 considers both the short-term and long-term liabilities.
CD_3108	Net profit or loss after taxes for the enterprise's operating period	Profits	Profits are part of the components in the zakat base according to Equation 4.
CD_1058	Promissory and non-promissory trade receivables with maturities longer than one year	Non-current Receivables	Non-current receivables are covered by the fixed assets account by its very structure. However, we have distinguished non-current receivables from fixed assets following the components of zakat base stipulated in Equation 4. Based on their definition, these balance sheet items are considered part of non-current receivables.
CD_1065	Receivables not arising from commercial transactions and expected to be collected in more than one year	Non-current Receivables	
CD_1110	Expenses incurred in the current period but related to future years, as well as revenues pertaining to the current operating period that will be collected in future years	Non-current Receivables	
CD_1114	VAT on purchased or manufactured depreciable assets, which can be deducted over a period longer than one year	Non-current Receivables	
CD_1115	Deferred, refundable, collected, and other forms of VAT amounts that extend beyond one year	Non-current Receivables	
CD_1118	Prepaid taxes and funds that can be deducted in the years following the next fiscal year	Non-current Receivables	

CD_1059	Non-promissory receivables arising from the sale of goods and services that constitute the core business activity of the enterprise	Non-current Receivables	To prevent double zakat on the same produce, the non-current receivable items associated with the produced output are not included in the zakat base of enterprises operating in the mining and agriculture sectors, as explained in Chapter 5.2.1.
CD_1060	Promissory receivables arising from the sale of goods and services that constitute the enterprise's core business activities	Non-current Receivables	
CD_1061	Rediscount amounts set aside for promissory receivables in order to value them at their present value	Non-current Receivables	
CD_3051	Enterprise's liabilities with maturities longer than one year, obtained from credit institutions, capital markets, and third parties	Long-term Liabilities	Equation 3 considers both the short-term and long-term liabilities in zakat calculation.

APPENDIX E: BROAD STRUCTURE OF NACE REV.2

Section	Title
A	Agriculture, forestry and fishing
B	Mining and quarrying
C	Manufacturing
D	Electricity, gas, steam and air conditioning supply
E	Water supply; sewerage, waste management and remediation activities
F	Construction
G	Wholesale and retail trade; repair of motor vehicles and motorcycles
H	Transportation and storage
I	Accommodation and food service activities
J	Information and communication
K	Financial and insurance activities
L	Real estate activities
M	Professional, scientific and technical activities
N	Administrative and support service activities
O	Public administration and defence; compulsory social security
P	Education
Q	Human health and social work activities
R	Arts, entertainment and recreation
S	Other service activities
T	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
U	Activities of extraterritorial organisations and bodies

APPENDIX F: CONSUMPTION TAX BURDENS ON HOUSEHOLDS BY INCOME QUINTILES

THE COMPARISON OF OUR ESTIMATES WITH THE FINDINGS OF ZENGINOBUZ ET AL. (2010) CONCERNING VALUE-ADDED TAX (VAT) AND SPECIAL CONSUMPTION TAX (SCT) BURDEN ON HOUSEHOLDS BY INCOME GROUPS (2007-2008)

Income Quintiles	VAT and SCT Tax Burden on Households by Income Quintiles (%)	
2007	**Estimates of Zenginobuz (2010)**	**Our Estimates**
Lowest 20%	18.6	17.9
Second 20%	15.9	17.7
Middle 20%	15	17.8
Fourth 20%	14.1	17.7
Highest 20%	12.5	15.4
2008	**Estimates of Zenginobuz (2010)**	**Our Estimates**
Lowest 20%	19.6	18.5
Second 20%	16.7	17.6
Middle 20%	15.7	16.8
Fourth 20%	14.2	15.9
Highest 20%	12.1	13.9
Pearson Correlation Coefficient		**0.82**

ESTIMATED CONSUMPTION TAX BURDENS ON HOUSEHOLDS BY INCOME QUINTILES (2022)

Expenditure Category	Shares of Household Groups in the Total Expenditures of the Corresponding Category (%)					Total Annual Tax Proceeds (billion ₺)		Estimated Consumption Tax Burden (%)				
	1st	2nd	3rd	4th	5th	Tax Types	Proceeds	1st	2nd	3rd	4th	5th
011 Food	13	18	20	23	27	VAT 1%	8.20	0.374	0.300	0.236	0.188	0.097
031 Clothing	6	13	18	25	38	VAT 8%	11.58	0.261	0.308	0.296	0.295	0.193
044 Water supply and miscellaneous services relating to dwelling	5	13	19	20	43	VAT 8%	1.33	0.022	0.035	0.037	0.027	0.025
051 Furniture and furnishings, carpets, and other floor coverings	1	5	6	18	70	VAT 8%	0.71	0.003	0.007	0.006	0.013	0.022
052 Household textiles	1	2	8	15	73	VAT 8%	1.26	0.004	0.006	0.015	0.020	0.040
061 Medical products, appliances, and equipment	3	7	15	26	49	VAT 8%	0.50	0.005	0.007	0.011	0.013	0.011
062 Outpatient services	1	18	10	21	51	VAT 8%	1.36	0.007	0.049	0.019	0.029	0.030
063 Hospital services	3	6	25	21	45	VAT 8%	0.44	0.004	0.006	0.016	0.009	0.009
095 Newspapers, books, and stationery	9	12	19	25	35	VAT 8%	2.40	0.081	0.062	0.064	0.061	0.036
101 Pre-primary and primary education	8	12	18	23	39	VAT 8%	3.22	0.095	0.083	0.083	0.074	0.055
102 Secondary education	7	20	18	20	36	VAT 8%	1.05	0.025	0.044	0.028	0.021	0.016
103 Post-secondary non-tertiary education	5	12	17	25	43	VAT 8%	16.57	0.270	0.396	0.397	0.416	0.309
104 Tertiary education	1	4	10	20	65	VAT 8%	1.26	0.003	0.009	0.019	0.026	0.036
105 Education not definable by level	0	8	7	33	52	VAT 8%	0.45	0.000	0.008	0.005	0.015	0.010
111 Catering services	10	16	18	22	34	VAT 8%	4.61	0.162	0.154	0.122	0.103	0.068
112 Accommodation services	5	8	18	26	42	VAT 8%	5.72	0.106	0.098	0.152	0.150	0.106
124 Social protection	6	9	22	24	40	VAT 8%	1.26	0.025	0.022	0.040	0.031	0.022

Total expenditure except the preceding ones	7	13	17	24	40	VAT 18%	692.19	17.62	17.96	16.70	16.86	12.00
125 Insurance + 126 Financial services n.e.c.	2	9	18	23	48	Banking and Insurance Transaction Tax	58.64	0.491	1.059	1.538	1.354	1.233
094. (Eğlence Ve Kültür Hizmetleri)	4	9	17	38	32	Gambling Tax	10.30	0.130	0.197	0.248	0.399	0.146
083 Telephone and telefax services	10	16	20	24	30	Special Communication Tax	9.30	0.330	0.309	0.270	0.225	0.122
112 Accommodation services	1	4	10	20	65	Accommodation Tax	0	0.000	0.000	0.000	0.000	0.000
072 Operation of personal transport equipment	4	11	16	24	46	Petroleum and Natural Gas (SCT)	76.77	1.034	1.705	1.799	1.846	1.532
071 Purchase of vehicles + 092 Other major durables for recreation and culture	2	7	11	25	56	Motor Vehicles (SCT)	167.14	1.149	2.377	2.580	4.203	4.079
021 Alcoholic beverages	6	10	16	20	49	Beverages (SCT)	43.70	0.929	0.865	0.990	0.890	0.933
022 Tobacco	10	16	20	24	30	Tobacco (SCT)	101.28	3.515	3.309	2.938	2.459	1.352
012 Non-alcoholic beverages	11	17	19	24	29	Coke (SCT)	4.17	0.165	0.147	0.116	0.100	0.053
053 Household appliances + 082 Telephone and telefax equipment + 091 Audio-visual, photographic, and information processing equipment + 093 Other recreational items and equipment, gardens, and pets + 121 Personal care	6	12	18	25	39	Durable Goods and Others (SCT)	26.74	0.598	0.645	0.680	0.684	0.459
094 Recreational and cultural services	4	9	17	38	32	Entertainment Tax on Joint Bets	0.04	0.000	0.001	0.001	0.001	0.001

094 Recreational and cultural services	4	9	17	38	32	Entertainment Tax for Places Entered w/o Tickets	0.07	0.001	0.001	0.002	0.003	0.001
094 Recreational and cultural services	4	9	17	38	32	Entertainment Tax for Places Entered w/ Tickets	0.11	0.001	0.002	0.003	0.004	0.002
044 Water supply and miscellaneous services relating to the dwelling	10	16	18	22	34	Environmental Cleaning Tax for Residences	0.39	0.014	0.013	0.010	0.009	0.006
044 Water supply and miscellaneous services relating to the dwelling	10	16	18	22	34	Environmental Cleaning Tax for Workplaces	0.79	0.028	0.026	0.021	0.018	0.012
125 Insurance	2	9	18	23	48	Fire Insurance Tax	0.11	0.001	0.002	0.003	0.002	0.002
081 Postal services + 083 Telephone and telefax services	10	16	20	24	30	Communication Tax (SCT-L)	0.07	0.002	0.002	0.002	0.002	0.001
045 Electricity, gas, and other fuels	14	19	21	22	25	Tax on Electric and Coal Gas Consumption for Households (SCT-L)	4.24	0.216	0.167	0.127	0.093	0.046
045 Electricity, gas, and other fuels	14	19	21	22	25	Tax on Electric and Coal Gas Consumption for Workplaces (SCT-L)	5.43	0.277	0.213	0.162	0.119	0.058
						Total	**1,263.38**	**27.95**	**30.60**	**29.74**	**30.77**	**23.13**

CV

SAFA YILDIRAN

WORK EXPERIENCE

Apr 2018 – Cont'd	**Research Assistant** ***Istanbul Sabahattin Zaim University*** *Faculty of Business and Administrative Sciences,* *Department of Islamic Economics and Finance, Istanbul*
Feb 2023 – May 2023	**Lecturer** ***ISAR*** *Istanbul Foundation for Research and Education, Istanbul*
Sept 2017 – Apr 2018	**Research Assistant** ***Doğuş University*** *Faculty of Economics and Administrative Sciences,* *Department of Economics, Istanbul*
Sept 2016 – Dec 2016	**Intern** ***TEPAV*** *The Economic Policy Research Foundation of Türkiye, Ankara*
Jan 2016 – Apr 2016	**Intern** ***TUR&BO*** *Turkish Research and Business Organizations, Brussel*
May 2015 – Aug 2015	**Intern** ***TOBB*** *The Union of Chambers and Commodity Exchange of Türkiye,* *Istanbul*

EDUCATION

Sept 2020 – Cont'd	**PhD** ***Istanbul Sabahattin Zaim University*** *Islamic Economics and Finance (English)*
Sept 2018 – Aug 2022	**Arabic and Islamic Sciences Education** ***Istanbul Foundation for Research and Education (ISAR)*** *Basic Education Program*
July 2017 – Sept 2020	**Master** ***Boğaziçi University*** *Economics (English)*

Sept 2012 – May 2017	**Bachelor** ***TOBB University of Economics & Technology*** *Economics*

PUBLICATIONS

June 2025	**Article *(in English)*** Kahf, M. & Yildiran, S. (2025). A Property Theory of Islamic Finance. *Oyunul Mesail Journal*, *6(3)*, 4-19. https://doi.org/10.5281/zenodo.15769754
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Oct 2019	**Translation** *(from English to Turkish)* El-Ashker, A., & Wilson, R. (2019). *Islamic Economics: A Short History* (S. Yıldıran & Z. E. Bayrak, Trans.). Iktisat Publishing.
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Dec 2018	**Edited Book** *(in English and Turkish)* Bulut, M., Korkut, C., Akosman, F. F., Doğan, F., & Yıldıran, S. (Ed). (2018). *Waqf and Sustainable Development.* Istanbul: Istanbul Sabahattin Zaim University.

PROJECTS

2024	**A Model Proposal for IZU Periodicals to be Indexed by National and International Indices: The Case of Journal of Islamic Economics and Finance** İstanbul Sabahattin Zaim University (İZÜ) ***Researcher***
2022	**Islamic Economic History Project** (https://ikt.ikam.org.tr/) Research Center for Islamic Economics (İKAM) ***Article Author***