

## ZAKAT AS AN ALTERNATIVE ISLAMIC FISCAL POLICY IN INDONESIA

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### ABSTRACT

Zakat is one of the pillars of Islam. The difference is that zakat is not only part of the routine of worship, but also has a strong relationship with social life which is directly related to socio-economic activities. This study aims to introduce zakat as an alternative to Islamic fiscal policy in Indonesia, the method is carried out using descriptive research using primary and secondary data that reveals phenomena and facts related to the management of zakat as an instrument of Islamic fiscal policy. From this study the authors get the result that from several studies conducted, many have discussed zakat as an alternative to Islamic fiscal policy, therefore zakat has a great opportunity as a source of state revenue by following the provisions of existing zakat rules or regulations.

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## 1. INTRODUCTION

Indonesia is a country with immense natural resource wealth and significant potential for zakat revenue [1]. However, it is disheartening to see that many of its citizens still live in poverty. On the other hand, the country continues to heavily rely on taxes as the primary source of state revenue, further burdening the people [2].

The high poverty rate remains a critical concern for the government's evaluation and monitoring in tackling poverty-related issues, as various policies, including sectoral, monetary, fiscal, and other measures, have yet to effectively reduce the poverty rate significantly for the nation. Currently, the poverty rate stands at 14% of the total population in Indonesia, which means there are around 30 million people living in poverty [3].

Being predominantly Muslim, Indonesia holds considerable zakat potential [4]. However, merely distributing zakat consumptively would only make the recipients reliant on it. Productive zakat distribution is necessary to empower the recipients to improve their economic condition to the extent that they can eventually become the givers of zakat [5].

Zakat played a significant role in the fiscal policy during the early days of Islam [6]. Besides serving as the primary source of income for the Islamic State at that time, zakat also supported government expenditure and transfer payments. Zakat also influenced the economic policies of the Islamic government to enhance the welfare of the people, especially the weaker segments. This is because zakat is a source of funds that will never dry up [7].

According to Kurtubi [2], Indonesia is a nation rich in natural resources. From east to west, from Merauke to Sabang, it is abundant with various natural riches, including mines, seas, and forests. This abundance signifies Indonesia's vast natural wealth. If all these natural resources were converted into cash, Indonesia is estimated to have assets worth hundreds of thousands of trillions of rupiah. "This is the estimated value of proven reserves of oil, gas, coal, copper, gold, nickel, silver, and more, assuming no new reserves are discovered. Just what has been found underground is valued at around 200 thousand trillion rupiah currently. If these data and calculations are accurate, then Indonesia should not need to impose taxes on its citizens and should be able to provide welfare to every citizen easily.

The projected potential annual state revenue is estimated at Rp 19,246 trillion. Below is a summary table of the potential annual state revenue from several mining and forest potential sources:

Table 1. Annual State Revenue Potential

Mining Goods	Production/Year (Barrel/Ton)	Price/Tons (USD) (June 13, 2022)	Value/Year (USD)	USD/IDR Rate (13/6/22)	Production Value/Year (IDR)	Age (Years)
Crude oil	240,900,000.00	120.00	28,908,000,000	14,672	424,138,176,000,000	55
Natural gas	982,000,000.00	8.60	8,474,660,000	14,672	124,340,211,520,000	55
Coal	625,000,000.00	392.35	245,218,750,000	14,672	3,597,849,500,000,000	73
Gold	78.90	58,807,394.10	4,638,903,394	14,672	68,076,662,603,957	268
Silver	397.20	683,208.75	271,370,515	14,672	3,981,548,203,415	213
Nickel	2,470,000.00	26,350.00	65,084,500,000	14,672	954,919,784,000,000	25
Copper	100,000,000.00	3,430.24	343,024,000,000	14,672	5,032,848,128,000,000	25
Tin	66,000.00	36,840.00	2,431,440,000	14,672	35,674,087,680,000	25
Bauxite	30,000,000.00	32.66	985,800,000	14,672	14,463,857,600,000	92
CPO palm					982,000,000,000,000	
Rubber					75,000,000,000,000	
Estimated Gross Revenue Per year					11,313,291,755,807,400	
Cost Assumption 80%					2,050,633,404,485,900	
Estimated Net Income Per Year (20% Assumption)					2,262,658,351,121,470	
Estimated Income from Forest (assumed planted with teak trees)					16,656,000,000,000,000	
Zakat Receiving Potential					327,600,000,000,000	
Estimated State Revenue Per Year					19,246,258,351,121,500	

Source: (Rudianto et al., 2022)

In this case, the value is so fantastic and capable of realizing the welfare of every individual in the nation. This value does not even include potential revenues from other sources, such as khumus from limited deposits of minerals managed by individuals, including potential revenues from jizyah, zakat, and others. With such a massive potential state revenue, there would be no need for taxes as a source of state income.

In the historical records of Islamic civilization, the state also played a vital role in regulating economic policies based on the principles of welfare and well-being of the people. The state's role in Islamic history on this matter was regulated through the institution of Baitul Maal. The Prophet Muhammad SAW established a state based on Islamic values known as the Madinah State. This state was founded on the spirit of Islam reflected in the Quran and the leadership of the Prophet Muhammad SAW. All aspects of community life were organized based on Qur'anic values such as brotherhood, equality, freedom, and justice. The state's financial system was developed only after various efforts to stabilize social, political, and defense security of the state. In the early days of the government, the Madinah State had almost no sources of income. Fiscal policies were not widely implemented at that time due to the absence of state revenue. The government's income only came from voluntary contributions from the community [8].

With the passage of time, the financial system underwent changes, including the Islamic public finance system. However, the mechanism of managing Islamic public finance still instills principles that align with the objectives of Islam, both in terms of revenue and expenditure. Hence, this paper will discuss Zakat as one of the alternative fiscal policies.

## 2. LITERATURE REVIEW

### Zakat

In terms of language, the word Zakat has several meanings, including "blessings," "growth and development," "purity," and "abundance." According to its terminology, although scholars present it with slightly different formulations, the underlying principle remains the same. Zakat refers to a specific portion of wealth that Allah SWT obliges its owner to give to those entitled to it, under specific conditions [9].

According to [10], Zakat, in terms of fiqh terminology, means "a certain amount of wealth obligated by Allah to be given to those entitled." It also means "giving that certain amount itself." The amount given is called Zakat because it increases, gives meaning, and protects the wealth from destruction.

Zakat is a significant, strategic, and decisive form of maaliyyah ijtimaiyyah worship. It holds a crucial place in both Islamic teachings and the well-being of the community. Zakat is one of the five pillars of Islam

(the third pillar). The Quran has twenty-seven verses that juxtapose the obligation of prayer with the obligation of zakat in various forms of speech.

Zakat is also one of the pillars (rukun) of the five pillars that constitute Islam. Zakat is a form of maaliyyah ijtima'iyyah worship that holds a strategic and decisive position in the development of the community's well-being. Zakat not only functions as a vertical worship to Allah (hablumminallah) but also as a form of horizontal worship (hablumminannas) [11].

Effective and professional zakat management only materialized in the ninth year of Hijri, when Islam had firmly established, the Islamic territory had expanded, and a large number of people had embraced Islam. At that time, zakat regulations were put in place, including the system of zakat collection, the limits and percentages of zakat for different types of property, and the determination of remuneration (rights) for zakat officers (Amil).

Zakat is one part of the social security system in Islam, encompassing both material and spiritual aspects of life. Zakat is a financial, economic, social, political, moral, and religious system simultaneously. Zakat is a financial and economic system because it is a designated wealth tax. Zakat is the continuous source of funds for the Baitul Mal in Islam. Zakat functions as a social system by rescuing society from various weaknesses, addressing disasters and accidents, providing humanitarian aid to those in need, and enabling the strong to help the weak.

### **Islamic Fiscal Policy**

According to Monzer Kahf, public finance issues, including public revenues and expenditures, must meet two criteria: (1) to serve the interests of the entire Muslim community and (2) to be regulated based on sources of revelation, namely the Quran and Hadith [12].

In conventional economic understanding, fiscal policy consists of government revenue and expenditure programs used to stimulate the economic condition. Fiscal policy is closely related to the financial targets that a country aims to achieve. According to Mannan, fiscal policy is a government's step to make changes in the revenue or expenditure system, aimed at addressing economic problems faced by the country. Furthermore, Islamic principles regarding fiscal policy and budget spending aim to develop a society based on balanced wealth distribution with material and spiritual values at the same level. From the various definitions above, it can be concluded that fiscal policy is how the government manages the revenue and expenditure of the country to achieve its objectives. Since the instruments used in fiscal policy are state revenue and expenditure, fiscal policy is closely related to the financial targets of the country to be achieved [13].

### **3. METHOD**

Based on the background above, the method used in this research is qualitative research. Qualitative research is a research process to understand human or social phenomena by creating a comprehensive and complex picture that can be presented in words, reporting detailed views obtained from informant sources, and conducted in a natural setting. The phenomenon in this research pertains to the management of natural resources and zakat as a Sharia fiscal policy, and how its implementation will be described in comprehensive and detailed words. Therefore, the approach used in this research is descriptive-analytic. In this research, both primary and secondary data are collected.

Primary data is data collected directly by the author from the primary source through direct observation (observation research) of the phenomena and facts related to the research object, namely, the management of natural resources and zakat and their relationship to people's welfare. Secondary data, on the other hand, is data collected by the author through literature review (library research) from available data sources such as books, journals, scientific works, websites, Google Scholar, official data published by the government or other credible institutions through their official websites, or data published by other credible media that contain phenomena and facts related to the management of zakat as one of the instruments of Islamic fiscal policy in Indonesia.

### **4. RELUST AND DISCUSSION**

#### **State Revenues and Expenditures in Islam**

Fiscal policy receives serious attention in the context of the Islamic economy. In the perspective of an Islamic state, fiscal policy is one of the tools to achieve maqashid Shariah or Shariah objectives, as explained by Imam Al-Ghazali, which includes improving welfare while preserving faith, life, intellectuality, wealth, and ownership. Additionally, meeting the jobs and public interests of the people is a religious and

moral obligation of the rulers. The existence of a state depends on the government's ability to collect revenue or income and distribute it to the collective needs of society.

Regarding public revenues in Islam, various forms of public funding can be observed, some of which were determined by the government at that time, such as zakat, kharaj, khums, jizyah, ushur, and others. From the various forms of public revenue instruments, the basic principles of public fundraising in early Islam can be seen in the following table:

Table 2. State Revenues During the Time of the Prophet's Government

From Muslims	From Non-Muslims	From Other Sources
1. Zakat	1. Jizya	1. Ghanimah
2. Ushur	2. Kharaj	2. Fair
3. Zakat Fitrāh	3. Ushur	3. Ransom
4. Waqf		4. Gifts from other leaders and other countries
5. Amwal Fadhia		5. Loans from Muslims and non-Muslims
6. Nawab		
7. Aims		
8. Khumil		

In the research conducted by Sugianto (2020), it discusses how Law Number 17 of 2003, concerning State Finance, manages State Finance in an orderly, compliant with regulations, efficient, economical, effective, transparent, and accountable manner, while considering a sense of justice and appropriateness. State Revenue is the Government's right recognized as an addition to the net wealth generated from tax revenues, non-tax state revenues, and grants. The concept of State Revenue Sources according to renowned Muslim scholars like Ibn Khaldun and Imam Al-Mawardi states that the main source of State Revenue should be well and properly managed to provide positive and maximum results for the welfare of society and to support the functioning of the government in a country.

The fundamental differences in the position of zakat, taxes, and natural resources in conventional and Sharia fiscal policies are as follows:

Table 3. Differences between Conventional and Sharia Fiscal Policies

	Conventional Fiscal	Sharia Fiscal
Zakat	<ul style="list-style-type: none"> <li>Not a source of state revenue;</li> <li>Managed by Zakat Institutions, separate from state finances (BAZNAS &amp; LAZ);</li> <li>Spent only for eight ashnaf.</li> </ul>	<ul style="list-style-type: none"> <li>Including one of the sources of state revenue;</li> <li>Managed directly by the state and integrated with other state finances;</li> <li>Spent only for eight ashnaf.</li> </ul>
SDAs	<ul style="list-style-type: none"> <li>Including one of the sources of state revenue, only the value is very small;</li> <li>Most of it is managed by the private sector, so that only a small portion of natural resources proceeds enters the state treasury</li> </ul>	<ul style="list-style-type: none"> <li>Including one source of state revenue with a large value;</li> <li>One hundred percent must be managed by the state, so that 100 percent of the results go into the state treasury.</li> </ul>
Tax	<ul style="list-style-type: none"> <li>Is the main source of state revenue;</li> <li>Collected from all taxpayer citizens;</li> <li>Collected continuously (regardless of a surplus or deficit in the state treasury).</li> </ul>	<ul style="list-style-type: none"> <li>The last alternative is the source of state revenue;</li> <li>Only collected when the state treasury is empty;                             <ul style="list-style-type: none"> <li>Only collected from rich Muslims;</li> </ul> </li> <li>Only to finance needs and items that must be issued, such as natural disasters, etc.</li> </ul>

Source: (Rudianto et al., 2022)

One of the legal foundations of fiscal policy is found in Surah QS. Al-Anfal: 41:

﴿وَاعْلَمُوا أَنَّمَا غَنِمْتُمْ مِنْ شَيْءٍ فَإِنَّ لِئِهِ خُمُسَهُ وَلِلرَّسُولِ وَلِذِي الْقُرْبَىٰ وَالْيَتَامَىٰ وَالْمَسَاكِينِ وَابْنِ السَّبِيلِ إِن كُنْتُمْ آمَنْتُمْ بِاللَّهِ وَمَا أُنزِلْنَا عَلَىٰ عَبْدِنَا يَوْمَ الْفُرْقَانِ يَوْمَ التَّقَىٰ الْجَمْعَانِ ۗ وَاللَّهُ عَلَىٰ كُلِّ شَيْءٍ قَدِيرٌ﴾

"And know that anything you obtain of war booty - then indeed, for Allah is one fifth of it and for the Messenger and for [his] near relatives and the orphans, the needy, and the [stranded] traveler, if you have believed in Allah and in that which We sent down to Our Servant on the day of criterion - the day when the two armies met. And Allah, over all things, is competent."

### **Zakat as an Alternative of Islamic Fiscal Policy in Indonesia**

Zakat is a portion of wealth with specific conditions that Allah SWT obliges its owner to give to those entitled, also with specific conditions. Since the second year of hijri, zakat and shadaqah have become the main income of the state. Effective and professional zakat management was only realized in the ninth year of Hijri, when Islam had solidified, and the Islamic territory had expanded, leading to a large influx of converts to Islam. At that time, zakat regulations were established, including the zakat collection system, zakat limits, and zakat rates for different types of assets, as well as the determination of remuneration (rights) for zakat officials (Amil).

Zakat is also one of the pillars of Islam. However, zakat not only constitutes part of the routine worship but also has a strong connection with social life directly related to socio-economic activities. Zakat originates from the obligation of every Muslim, and it is a significant source of funds obtained from the muzakki (zakat payers) and distributed to the mustahik (zakat recipients) with specific conditions [14].

In fiscal policies of ancient Rome, Greece, Egypt, and India, authority was centralized with the rulers. In contrast, in Islam, fiscal policy is considered a state obligation to secure the rights of the people, so fiscal policy is not just a means for economic improvement and increased welfare of the people, but also involves the creation of a fair economic distribution mechanism. The main income sources for an Islamic state are *fai*, *ghanimah*, *Kharaj*, *jizyah*, *'ushur*, and *khumus*. Zakat, on the other hand, is a tool for independent social aid, a moral obligation for the wealthy to assist the poor and the neglected [15].

By ensuring primary needs, the state builds an economic infrastructure with a fair economic distribution. People with limited economic abilities receive assistance from the state to fulfill their basic needs. Additionally, every person has equal rights and security for their wealth, efforts (in agriculture, industry, trade, services, etc.), and their life and family. Thus, public finance practiced during early Islamic times has a clear foundation in comprehensive Islamic ethics and social philosophy [16].

The function of modern Islamic government is no longer limited to the functions performed by past Islamic governments that relied on agriculture. The current economic pattern has changed, and there are more appropriate and diversified sources of income available for modern governments. These differences require new sources of income, and strategic policies should be in line with Islamic economic principles and remain compliant with Sharia. By making progressive breakthroughs and adhering to Sharia, it is expected that state revenue will be optimized, and the welfare of the people will be ensured [15].

Research by [9] explains that the commitment of the Sahabah (companions of the Prophet) in managing zakat during the era of Khulafa al-Rashidin was done professionally and transparently by the government, leading to progress and prosperity in zakat management. This condition continued to improve during the peak of Islamic state under the Bani Umayyah and Bani Abbasiyah dynasties, especially during the rule of Umar bin Abdul Azis. Within two years, there were no more poor people as everyone lived in sufficiency, making it difficult to find mustahik (zakat recipients). If the government applies zakat as a tax deduction, the muzaki (zakat payers) will be more enthusiastic in paying their zakat, leading to an increase in the number of muzaki and subsequently, an increase in the number of taxable individuals. This can be implemented by the government. For the government, equalizing zakat with taxes is not difficult. Furthermore, only a policy can establish zakat as tax deductible. Singapore, as a secular country with no import duties, openly recognizes zakat as tax deductible. Thirdly, with this policy, it is time for zakat to be controlled by the government through the finance department. With this, the power of the Islamic state will increase, having both taxes and zakat. If the management of zakat and taxes is equalized, then the prospect of zakat as an alternative of fiscal policy in Indonesia will be more promising.

As proven in Penang, Malaysia, in a study by [17], collaboration between JAWHAR and government policyholders, known as YWM (or Yayasan Wakaf Malaysia), has successfully generated income from new and existing assets such as the Prima Hotel in Malacca and The Regency Hotel Seri Warisan in Taiping.

Research by [18] states that financial regulations concerning the state budget have provided room for zakat to be included as part of state finance without changing the laws governing both zakat and the state budget. Then, zakat can also be included in the scope of state financial management, and its inclusion as part of state finance is expected to make its management more effective, efficient, and accountable with a permanent supervisory institution.

Minarni also explains in her research that zakat maal has great potential as a source of state revenue. It can be considered as one of the state's income sources in accordance with zakat and state financial regulations in Indonesia. The mechanism for collecting zakat maal into the state budget can be implemented by providing a specific zakat code as a state revenue item [19].

Research by [20] states that taxes and Zakat are complementary tools in state stabilization policy. In this regard, scholars agree that zakat can be used as an alternative source of state revenue besides taxes.

The above research demonstrates that the current government should be more modern, unlike the past, which relied on agriculture and income sources that are no longer relevant, such as *fai'*, *ghanimah*, and *jizyah*. Currently, new alternatives should be explored in modern Islamic governance, such as zakat, *infaq*, *shadaqah*, and *wakaf*, and strategic policies should be in line with Islamic economic principles while adhering to Sharia. With such progressive breakthroughs and Sharia compliance, society will undoubtedly become more prosperous. Indeed, zakat can be practiced as one of the state revenues in accordance with the regulations and rules in Indonesia.

Indonesia is not a country based on Islamic ideology, but being home to the world's largest Muslim majority, it has great potential in collecting zakat funds. Calculations by the National Zakat Agency (BAZNAS) state that the potential zakat in Indonesia is recorded at IDR 17.5 trillion per year. This potential zakat fund indicates that zakat is one of the legitimate alternative sources of potential funding that can be optimized to create prosperity for society. Therefore, zakat should be fiscalized, specifically referring to zakat *mâl*, as fiscalizing zakat can lead to a more equitable distribution of income through minimal zakat expenditure.

Through government policies and law enforcement with regulations governing zakat, zakat can be utilized as a fiscal policy instrument in Indonesia with the government as its manager, establishing a Zakat Management Office or the Directorate of Zakat under the Ministry of Finance. The collection of zakat is similar to tax collection. As for its utilization, zakat is productively distributed to the eight *asnaf* (categories of zakat recipients) specified in Surah al-Tawbah (Quran, 9:60) in a broad sense. For government activities or programs that are not covered by zakat objectives, other sources of income will be used.

### **Zakat as a Component of Fiscal Policy**

Zakat is a doctrine that underlies the growth and development of Islamic socio-economic power, just like the other four pillars of Islam. The teachings of zakat encompass several complex dimensions, including private-public, vertical-horizontal, and worldly-hereafter values, forming the basis for comprehensive development of societal life. If these dimensions within the teachings of zakat can be actualized, zakat will become a powerful force for the revival of Islamic civilization.

One advantage of zakat compared to other aspects of the pillars of Islam is that zakat has a social dimension. Therefore, zakat in the chain of increasing the welfare of the Islamic community cannot be overlooked. However, throughout the history of Islamic society, zakat with all its dimensions has often been neglected by the Muslim community. Zakat has become what is known as "*mahdhah*" worship, a personal duty of individual Muslims. From a strong and profound teaching developed by the Prophet and his companions, zakat has become a limited doctrine as the Muslim community declined and the will to exert effort (*ijtihad*) diminished.

The main purpose of zakat is to impact the *muzakki* (zakat payers), purifying their souls from greed, encouraging spending and giving, fostering good morals, expressing gratitude for Allah's blessings, detaching hearts from the love of the world, developing inner wealth, evoking sympathy, and expanding wealth. As for the zakat recipients (*mustahik*), it is aimed at freeing them from living needs and eliminating feelings of hatred and envy that may arise when seeing the stingy wealthy.

Zakat can play a significant role as an instrument of fiscal policy: First, the status and position of zakat as a fiscal policy instrument, where the state has an obligation to its people through fiscal policies in the *Baitul Maal* (treasury). This has a positive impact on economic growth since efficient zakat management contributes to economic growth. Second, the Islamic legal view of zakat as a fiscal policy instrument in Kuningan Regency is based on legal grounds such as Law Number 23 of 2011 concerning zakat management, Government Regulation (PP) Number 14 of 2014 concerning the implementation of Law Number 23 of 2011 concerning zakat management, and Regional Regulation on zakat management (Perda Zakat) No. 4 of 2012. Lastly, the role of zakat as a fiscal policy instrument is to create economic stability, promote economic growth, and distribute income more evenly. Interviews indicate that zakat plays an essential role as a fiscal policy instrument in Indonesia and the BAZNAS institution in achieving economic development goals, as efficient zakat management, despite some challenges, contributes to better economic growth.

In broad terms, Islamic fiscal policy differs from non-Islamic fiscal policy. Despite similarities in definitions and objectives, there are substantial differences in the legal foundations, methods (from collection to distribution), revenue instruments used, and systems employed. The foundation of Islamic fiscal policy always relies on the Quran and Hadith. The fiscal policy built by the Prophet Muhammad first emphasizes that the economic system must have a strong ideology based on religion because an economy without ideology will resemble capitalist economics. Denying religion altogether will remove moral values from every economic practice, leading to a lack of morality in economic transactions. In terms of state revenue instruments, there are significant differences. In Islam, zakat is one of the most favored revenue instruments compared to others. Some reasons for this are that zakat is a direct instruction from Allah SWT and has potential for economic development.

The potential of zakat in Indonesia, as described above, is enormous, reaching IDR 100 trillion per year. Compared to the 2011 State Budget, this amount is nearly one-third of the allocation of funds for Ministries and Government Institutions, amounting to IDR 395.2 trillion. This potential zakat fund is twice the allocation of the Ministry of Public Works, which received the highest budget allocation in the 2011 State Budget, amounting to IDR 56.5 trillion. If the entire zakat potential can be maximized, Indonesia may no longer have to rely on interest-based foreign loans to cover its budget deficit. If this can be fully utilized, economic stability will also be maintained, as economic crises that have occurred so far have always been rooted in the application of interest-based systems in every financial transaction of a country.

## 5. CONCLUSION

In Islam, fiscal policy is a state obligation and the right of the people. Thus, fiscal policy is not solely for economic improvement or increasing the welfare of the people but rather for creating a mechanism of fair economic distribution. Government spending in an Islamic state is based on meeting all individuals' primary needs and their secondary and luxury needs (alhajat al-kamaliyah) according to their capabilities as members of society. From the discussions above, it can be concluded that many studies have already addressed zakat as one of the alternatives for Islamic fiscal policy. Therefore, zakat has significant potential as one of the state revenues, provided it adheres to the regulations and rules of zakat. It is hoped that modern Islamic governments today will explore other sources for the state budget, such as zakat, infaq, shadaqah and waqaf as well as carrying out strategic policies that are in accordance with the principles of Islamic economics and in operation remaining compliant with sharia with breakthroughs like this, rest assured that society will be more prosperous.

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