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Comparison of the Application of Zakat and Taxes in the Perspective of Social Finance: A Case Study of the Kingdom of Saudi Arabia and Japan

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ABSTRACT: This study examines a comparative analysis of social finance practices between the Kingdom of Saudi Arabia, as a member of the Organization of Islamic Cooperation (OIC), and Japan, a non-OIC secular country. The focus of the study lies on the role of zakat and taxes as instruments of wealth redistribution and social justice, by examining the institutional framework, fiscal mechanism, and socio-economic impact of each system. Saudi Arabia represents an Islamic-based hybrid fiscal system, where zakat is administered by the Zakat, Tax, and Customs Authority (ZATCA), while Japan exhibits a highly efficient secular tax system under the authority of the National Tax Agency (NTA).

Using qualitative-descriptive research methods, as well as secondary data reports and academic literature from 2015–2025, this study evaluates key indicators of social finance such as distribution justice, poverty alleviation, and governance efficiency. The results show that zakat in Saudi Arabia is firmly rooted in spiritual obligations and the principles of maqashid sharia (welfare goals), while the Japanese tax system has managed to achieve high compliance and effective redistribution through fiscal education and administrative efficiency. This study highlights that although zakat and taxes are ideologically different, they have a common goal in realizing social welfare.

KEYWORDS: Zakat, Taxes, Social Finance, ZATCA, NTA, OIC

I. INTRODUCTION

1. Background

In the past decade, the concept of social finance has received increasing attention as an important part of an inclusive and sustainable global financial system. Social finance encompasses a wide range of financial instruments and approaches that aim to create positive social impact, particularly in poverty reduction, welfare improvement, and equitable economic development. According to Dusuki and Abozaid (2007), Islamic social finance offers unique advantages because it combines spiritual, ethical, and social responsibility values in financial practices. In this context, zakat occupies a leading position as the main pillar of social finance in Islam which is mandatory and has broad fiscal and social implications.

Zakat, as a religious obligation as well as a mechanism for wealth distribution, has been systematically implemented in several Muslim countries, one of which is the Kingdom of Saudi Arabia. This country makes zakat part of the state financial system managed by the General Authority of Zakat and Tax (GAZT), and contributes directly to poverty alleviation efforts and financing the country's social, Adachi, M. (2018, May 25). Zakat in Saudi Arabia is not only seen as an instrument of worship, but also as a fiscal policy tool based on sharia values (Nasim Shah Shirazi, Mohammed Obaidullah, 2015). With a structured approach, Saudi Arabia creates a social financial system that is integrated with national macroeconomic policies.

On the other hand, Japan is a non-OIC developed country with a well-established and efficient tax system structure. Japan's tax system is broad in scope and is supported by a high level of public compliance, a culture of fiscal discipline, and transparency in the management of public budgets. Taxes are used to finance infrastructure, healthcare, education, and social security, which makes its fiscal system one of the most stable in the world (OECD, 2022).

Comparing the application of zakat in Saudi Arabia with the tax system in Japan is important in the context of global social finance. Although both have different ideological backgrounds, the social goals they pursue, such as wealth redistribution, improved welfare, and inclusive development, show interesting conceptual similarities to examine. Previous studies have highlighted the potential for integrating spiritual values into modern fiscal systems to achieve more comprehensive social justice (Ahmed et al., 2015; Mirakhor & Iqbal, 2017).

Research by Baihaqi, A., Chairi A, Prabowo TJW. (2025), also confirms that a state-managed zakat system can increase the economic resilience of low-income communities if supported by transparency and accountability of management. Meanwhile, Takahashi, R. (2025), emphasized the importance of bureaucratic efficiency and public trust in the success of the Japanese tax system. Thus, the comparison between these two systems not only provides an understanding of the effectiveness of the social instruments used, but also opens up space for cross-cultural and religious learning in designing fiscal policies that favor the community.

Social finance is a financial approach that is not only oriented towards financial gain, but also on social impact and distribution equity. In an Islamic perspective, social finance is manifested in the form of instruments such as zakat, infaq, alms, and waqf, which are an integral part of the Islamic economic system. One of the countries that implements institutionally-based sharia-based social finance is the Kingdom of Saudi Arabia, especially through the zakat mechanism. Zakat not only functions as an individual worship, but also as a state fiscal instrument in alleviating poverty and distributing welfare.

In contrast, countries such as Japan, which are not members of the Organization of Islamic Cooperation (OIC), developed a fiscal system based on modern taxation. Taxes in Japan are collected comprehensively with a robust and efficient system, which funds various public sectors, including social security and economic development. Although the ideological background and normative system are different, both zakat and taxes have the same goal, which is to create equity and community welfare.

In the past decade, the concept of social finance has increasingly emerged in the global financial discourse in response to the need for a fairer, more inclusive, and more sustainable financial system. Social finance not only includes social impact-based financing activities, but also touches on redistributive instruments such as taxes and zakat that are part of fiscal policy and religious values. According to Ahmed et al. (2019), Islamic social finance has a peculiarity because it is rooted in the principles of sharia maqashid which emphasizes justice, benefit, and economic equity.

In the context of an Islamic state, the Kingdom of Saudi Arabia is an important example where the zakat instrument is implemented as a sharia obligation and also as a state instrument. Saudi Arabia through the General Authority of Zakat and Tax (GAZT), which later developed into Zakat, Tax and Customs Authority (ZATCA), carries out the function of collecting zakat from individuals and entities that are obliged to zakat, especially business entities engaged in the domestic sector. This zakat is managed as part of the government's social policies allocated for poverty programs, social development, and humanitarian assistance (Sawmar, A., & Mohammad, M. (2019),; ZATCA Annual Report, 2022). In addition to zakat, starting in 2018, Saudi Arabia also implemented a Value Added Tax (VAT) of 5% which was then increased to 15% in 2020 as part of post-pandemic economic diversification and reduced dependence on oil (IMF, 2021).

Meanwhile, Japan, as a non-OIC country, has a structured and well-established national tax system. Income tax, consumption tax (VAT), corporate tax, and property tax are the main sources of state revenue. The system is managed by the Japan National Tax Agency (NTA) and has become a model of fiscal efficiency, with a high level of tax compliance. This is supported by Japan's social culture that upholds ethics, collective responsibility, and public discipline (Beyer, Vicki. (1994).; OECD, 2022). Japan uses its tax revenues to fund universal social security (universal health care, pensions), education, and high-quality public infrastructure.

However, it is interesting to note that in Japan, where the majority of the population is non-Muslim, the implementation of zakat, infaq, and shodaqah continues to take place voluntarily among minority Muslim communities, which are estimated to number more than 200,000 people. Although not a state obligation, Muslim institutions in Japan, such as the Japan Islamic Trust, the Japan Muslim Association (JMA), and the Tokyo Camii Mosque, have played an important role in collecting and distributing zakat, infaq, and alms institutionally. The funds raised are used to help the Muslim community in Japan, financing Islamic education, halal food distribution, assistance to converts, and also interfaith social activities (Yulita, I., & Ong, S. (2019). In addition, many Muslim diasporas living in Japan also send their zakat to their home countries or through international organizations such as Islamic Relief and Human Appeal.

The practice shows that although Japan is not an Islamic country and does not have a formal zakat system within the framework of the state, Islamic social values are still implemented through civil society and non-governmental organizations, creating a form of transnational social finance based on community solidarity. This is in line with the findings of Baihaqi, A., Chairi A, Prabowo TJW. (2025). that institutional strengthening of zakat does not always have to come from the state, but can also be through a hybrid model between the role of communities and non-state organizations.

Against this background, it is important to examine and compare in depth how the Kingdom of Saudi Arabia implements zakat as a formal fiscal policy and imposes taxes (VAT) as part of its economic reforms, as well as how Japan implements a modern tax system while accommodating socio-religious values among its minority Muslim community. This comparison will not only enrich the discourse of social finance, but also provide inspiration in designing a value-based, inclusive, and contextual fiscal system according to the needs of the community.

The comparative study between the application of zakat in Saudi Arabia and taxes in Japan is interesting, especially in the context of how these two instruments are managed, distributed, and have an impact on the socio-economic conditions of the community. It can also enrich the global social discourse of finance by offering approaches from two different economic and cultural systems.

II. LITERARURE REVIEW

1. Grand Theory: Social and Economic Justice Theory

In the study of Islamic economics and conventional economics, social justice theory is the main foundation in the development of the social fiscal and financial system. This theory refers to the concept of distributive justice (Rawls, 2001 & 2017), in which the state is expected to ensure a balanced allocation of resources so that social inequality does not occur. In the perspective of Islamic economics, this theory is based on the principles of maqashid sharia, namely the maintenance of religion, soul, intellect, descent, and property. This theory is the basis for the implementation of zakat, waqf, and other social instruments as a form of managing community wealth for the public benefit (Chapra, 2016; Dusuki & Bouheraoua, 2011).

2. Social Finance in Islam

a. The Concept of Sharia Maqashid, Social Justice, and Wealth Redistribution

The concept of social finance in Islam is firmly rooted in the maqashid sharia which emphasizes social justice, poverty alleviation, and community welfare. According to Chapra (2016), sharia maqashid is not only a spiritual foundation but also a public policy framework that must reflect the principles of distributive justice and a balance between the interests of individuals and society.

Sharia maqasid in the context of social finance is translated into the practice of redistribution through zakat, infaq, alms, and waqf. The goal is to prevent the accumulation of wealth exclusively in a certain group, as mentioned in the Qur'an. Al-Hashr [59:7], Ahmed, H., Mohieldin, M., Verbeek, J., & Aboulmagd, F. (2015).

b. The Role of Zakat, Waqf, and Infak as Part of Sharia Social Finance

Zakat is an annual obligation of a fiscal and spiritual nature, with a specified nisab and haul, paid by individual Muslims for certain property. According to Beik, Irfan & Tsani, Tiara (2015), zakat plays a role as a legitimate and effective means of income distribution in reducing poverty. Infak and alms are voluntary, while waqf plays a role as a long-term financing instrument, especially for social services and education and health infrastructure (Cizakca, 2019).

A study by Obaidullah (2017) states that the integration of these instruments can create a sustainable Islamic social financial system if supported by good governance and transparency.

3. Zakat as a Fiscal Instrument

a. Zakat in Saudi Arabia

Saudi Arabia is a country that makes zakat an official fiscal system. Zakat is collected by the state through Zakat, Tax and Customs Authority (ZATCA). According to Aysha N. Al-Salih, (2020), Saudi Arabia applies zakat to Muslim domestic entities and uses the funds to fund social projects, social subsidies, and disaster relief. The ZATCA report (2022) states that the zakat collected has increased significantly in the last five years due to the increasing digitalization of reporting and compliance systems.

This form of implementation makes zakat a complement to the tax system (VAT), and is part of Vision 2030 to build a national fiscal system that is fair and independent of oil revenues (IMF, 2021).

b. Implementation of Zakat, Infaq, and Alms in Japan

Although Japan is not a Muslim country, the Muslim community in Japan actively carries out zakat, infaq, and alms obligations collectively through mosques and Islamic institutions such as the Japan Islamic Trust (JIT), Japan Muslim Association (JMA), and Tokyo Camii. According to Erasiah, E., & Pratama, F. S. (2024)., this practice is not regulated by the state, but organized by the Muslim community as a form of social solidarity and strengthening religious identity.

The funds raised are used for the social needs of the Muslim community, educational assistance, and other social programs including food sharing during Ramadan, da'wah programs, and assistance for converts (JIT Report). This practice shows a community-based form of social finance that acts as a non-state social finance institution.

4. Modern Tax System in Secular Countries

a. Japan: National Tax Structure, Compliance and Efficiency

Japan's tax system is managed by the National Tax Agency (NTA) and includes personal income tax, corporate tax, consumption tax (VAT), and local taxes. The consumption tax in Japan is 10% since October 2019. According to the OECD (2022), Japan shows a high level of compliance due to a culture of hard work and public ethics. Japan is recognized as one of the countries with strong fiscal governance, demonstrated by how tax revenues are effectively mobilized to finance major public programs such as pensions, universal health services, and education. Okamoto (2025) shows that Japan's pension reforms rely heavily on stable fiscal revenues to maintain the sustainability of social security in the context of an aging population. In the health sector, analyses by Nozaki, Kashiwase, and Saito (2017) as well as 25.

Minchung Hsu, Tomoaki Yamada (2011), affirm that the financing of Japan's universal health-care system is strongly supported by tax contributions and a disciplined fiscal structure. To reinforce this effectiveness, the digitalization of tax administration—particularly through the e-Tax system—plays a significant role in improving collection efficiency and reducing potential tax evasion, as demonstrated by Chatfield et al. (2009) and Hoshiai (2024). Policy assessments by the OECD (2023) further emphasize that the combination of fiscal transparency and tax digitalization forms a foundation that positions Japan's public finance system as a credible and accountable model of modern fiscal management.).

b. Implementation of Taxes and Zakat in Saudi Arabia Simultaneously

Interestingly, Saudi Arabia implements both systems simultaneously: zakat for Muslim domestic entities and VAT (Value Added Tax) for commercial transactions. The imposition of taxes began post-2018 as an effort to reform the fiscal. Despite much public opposition at first, the system is now a major source of national income diversification. An IMF study (2021) shows that the implementation of consumption tax side by side with zakat is not contradictory, but complements each other in fiscal management and social development.

5. Previous Comparative Studies

Comparative studies between the zakat and tax systems have been conducted by various researchers. For example, a study by Mirakhor and Iqbal (2017) compared fiscal effectiveness between Islamic-based states and secular states in the context of social justice and wealth redistribution. In the context of Saudi Arabia and Japan, there are still few explicit studies that directly compare the two countries in the context of social finance.

Several studies indicate that the effectiveness of zakat management in contributing to social redistribution is significantly influenced by the presence of robust regulatory frameworks and transparent reporting systems, which enhance public trust and institutional accountability (Judijanto, Jainudin, & Ngampo, 2025). On the taxation side, the stability of tax revenue has been shown to play a critical role in financing social development programs sustainably in advanced economies (Sakar, 2025). Furthermore, international organizations highlight that Muslim-majority countries can benefit from the efficient fiscal governance models of developed countries while integrating the social justice ethos inherent in zakat systems to achieve broader socioeconomic objectives (OECD, 2020).

This literature review shows that the concept of social finance is a meeting between the principles of Islamic social justice and the efficiency of the modern fiscal system. The implementation of zakat in Saudi Arabia as a formal fiscal instrument shows the strength of religious values in public finance. Meanwhile, Japan, with its efficient secular taxation system and high compliance culture, demonstrates the effectiveness of social redistribution through state mechanisms. The practice of the Muslim community in Japan in administering zakat and infak shows the important role of civil society in strengthening social finance across countries and cultures.

6. Novelty (Research Novelty)

A comparative approach across ideologies and state systems (Islamic vs secular) in the implementation of social finance. An in-depth study of the management of zakat by minority Muslim communities in non-OIC countries (Japan), which is rarely studied in the academic literature. Integration of two different social finance models to identify lessons and cross-border policy recommendations.

III. METHODOLOGY

This study uses a qualitative-descriptive approach with a comparative analysis method. This approach was chosen because the research aims to describe, understand, and compare the implementation of social finance in two countries with different economic and social system backgrounds: Saudi Arabia as a country based on Islamic law and a member of the OIC, and Japan as a non-OIC developed country with a secular system. The qualitative-descriptive approach is assessed appropriately in the context of a comparative study of public policy and social implementation that relies not only on quantitative data but also on contextual interpretation (Creswell & Poth, 2018; Flick, 2018).

IV. RESULT & DISCUSSION

1. Implementation of Social Finance in Saudi Arabia and Japan

1.1. Institutional and Regulatory Framework

a. The Role of ZATCA in Zakat and Taxes in Saudi Arabia

In the Kingdom of Saudi Arabia, the institutional framework for zakat is centralized under the Zakat, Tax and Customs Authority (ZATCA), a government body formed by merging the former General Authority of Zakat and Tax with the Customs Authority to administer zakat, tax, and customs collection and compliance in line with national regulation and Islamic principles (Zakat, Tax and Customs Authority, n.d.; SSCO KSA, 2023). ZATCA provides a unified digital platform where businesses and taxpayers can register, submit tax and zakat returns, and comply with regulatory requirements, strengthening accountability and ease of compliance through digital services (All About ZATCA Portal, 2023). The implementation of zakat in Saudi Arabia follows statutory regulations and implementing bylaws, underpinning the integration between fiscal governance and Shariah objectives for social welfare (Zakat Regulations, 2025)

1. ZATCA's Profile and Strategic Role

ZATCA (Zakat, Tax and Customs Authority) is an institution under the auspices of the Ministry of Finance of Saudi Arabia, which carries the mandate to:

- Managing **zakat is mandatory**, especially from business entities.
- Administering various **types of national taxes**, including value-added tax (VAT), excise tax, and foreign corporate income tax.
- Supervise customs activities and facilitate cross-border trade.

ZATCA reflects a hybrid fiscal system— where sharia values are integrated with modern tax policies to encourage fiscal reform, economic diversification, and community welfare (Obaidullah, 2020; Islamic Development Bank–IRTI, 2019; ZATCA, 2023.

2. Digital System Implementation and Transparency

The digital transformation carried out by ZATCA since 2018 has created a tax and zakat ecosystem that is more accountable, efficient, and user-friendly. Digital services such as:

- **ERAD**: A system for online tax and zakat reporting.
- **Zakaty**: Online zakat collection platform.
- **FATOORA:** The e-invoicing system has been mandatory for all business actors since 2021.

This is in line with the Saudi Vision 2030 in driving fiscal transparency and reducing dependence on oil.

3. Types of Taxes in Saudi Arabia

a) Value Added Tax (VAT/VAT)

Saudi Arabia began implementing a VAT (Value Added Tax) of 5% in January 2018 as part of the Gulf Cooperation Council (GCC VAT Agreement) agreement. This rate was later increased to 15% in July 2020 in response to the COVID-19 pandemic and the country's fiscal needs.

- VAT is imposed on domestic goods and services as well as imports.
- ZATCA establishes several categories of exemption and zero-rated items (e.g.: exports, international services).
- VAT has become one of the main sources of non-oil revenue, accounting for around 20% of total state revenue in 2023 (OECD, 2022).

b) Income Tax

Saudi Arabia does not impose income tax on individual Saudi citizens. However, an income tax of 20% is imposed on:

- Income from foreign-owned entities.
- Profit of foreign company branches.
- Non-Saudi foreign investment (including joint ventures).

This regime is **selective**, to encourage foreign participation while protecting the domestic sector.

c) Withholding Tax (WHT)

- Imposed on **non-resident income** from Saudi sources, such as royalties, technical services, interest, and dividends.
- WHT rates vary between 5% to 20% depending on the type of income and *Double Tax Avoidance Agreements* (DTAs).

d) Excise Tax

Implemented since 2017, this tax is imposed on products that have **a negative impact on health**, such as:

- **100%** for tobacco and its derivative products.
- **50–100%** for energy and sugary drinks.

Excise is part of a fiscal strategy to control consumption and at the same time increase state revenue.

4. Harmonization between Zakat and Taxes

Saudi Arabia implements **a crediting mechanism between zakat and income tax**. Meaning:

- Local companies are subject to zakat (usually 2.5% of the zakat base).
- Foreign companies are subject to income tax.
- Joint venture companies can be charged both proportionately.

The calculation of zakat is also regulated in financial regulations based on contemporary fiqh law which is described in a fatwa by the Council of Senior Scholars (*Hay'at Kibar al-'Ulama*), and strengthened by ZATCA through **zakat base rules** (Zakat Based Calculation Manual, 2021).

b. Japan's National Tax System and Its Tax Authorities

Japan operates a highly structured and comprehensive fiscal system in which the National Tax Agency (NTA) functions as the central authority responsible for administering national taxes, including income tax, consumption tax, corporate tax, and inheritance tax. According to the Ministry of Finance Japan (2022), taxation is grounded in constitutional obligations particularly Article 30 of the Japanese Constitution which requires citizens to contribute to public expenditures as part of the nation's commitment to distributive justice and the financing of essential sectors such as healthcare, education, and social welfare.

The administrative capacity of the NTA has been widely recognized in international evaluations: the Inter-American Development Bank identifies the Japanese Tax Administration as one of the most efficient in Asia, with a well-defined structure, modern enforcement mechanisms, and a high degree of institutional transparency (Okada, Y. (2010) IADB. The OECD (2022) similarly highlights Japan's consistently high tax compliance rates, which are supported by strong administrative governance, digitalized tax processes, and long-established public education efforts about fiscal responsibility. Together, these features position Japan as a leading example of a mature, stable, and socially oriented tax system.

1.General Characteristics of the Japanese Tax System

Japan has a **progressive and multifunctional tax system**, which plays an important role in:

Distributive justice;

- **Public sector funding** such as *universal healthcare*, education, the National *Pension System*, and social assistance;
- **Macroeconomic stability**, through fiscal instruments.

The legal basis for tax collection is regulated in **Article 30 of the Japanese Constitution**, which states that all citizens are obliged to pay taxes in accordance with applicable law. The tax enforcement authority is held by the **National Tax Agency (NTA)** under the Ministry of Finance.

"No taxation shall be imposed unless authorized by the law." *(The Constitution of Japan, Article 30, 1947).*

2. Japan's National Tax Structure

Japan's tax system consists of **three levels**: central (national), prefectural (provincial), and municipal (city/regency). Its main components:

a) Individual Income Tax

- Progressively charged up to **45%.**
- Applicable to all citizens and permanent residents, based on global income.
- Supported by an **automatic tax withholding system by the company (withholding system).**

b) Corporate Income Tax

- Base rate: around **23.2%** (plus local surtax up to 30% effective).
- Encourage efficiency and transparency through accrual financial statements and audit standards.

c) Consumption Tax

- Charged on the purchase of goods and services, equivalent **to VAT.**
- Standard rate: **10%** since October 2019.
- Special rate of 8% for food and basic necessities (two-rate structure).

d) Inheritance and Gift Tax

- One of the highest in the world: it can reach **55%** for recipients with a long connection.
- Designed to **reduce intergenerational inequality**.

e) Property Tax and Local Tax

- Annual taxes on the value of fixed assets such as land and buildings.
- It is distributed to finance public needs at the regional level (prefecture and city).

3. High Tax Compliance Rate

Japan is known for its **high rate of voluntary tax compliance**, with two main explanations:

a) Social Culture and Collective Ethics (Shame Culture)

- The concept *of "hajj"* (shame) has become a powerful informal social mechanism in encouraging compliance with public norms, including paying taxes.
- Japanese taxpayers demonstrate consistently high levels of compliance, a pattern that scholars attribute not only to the administrative strength of the National Tax Agency but also to deeply rooted social norms that shape attitudes toward taxation. Empirical evidence from survey-based studies shows that individuals in Japan tend to maintain strong intrinsic tax morale and display reluctance toward tax evasion, even when tax policies become more stringent or controversial—an indication that social expectations and reputational considerations play a meaningful role in taxpayer behavior (Miyazaki et al., 2019). Comparative institutional research further supports this view, revealing that normative and cultural-cognitive factors significantly influence how Japanese citizens perceive tax evasion, with social disapproval functioning as an informal enforcement mechanism that discourages non-compliance (Suez-Sales & Okabe, 2025). Taken together, these findings suggest that Japanese society places considerable importance on maintaining social reputation and avoiding the stigma associated with being viewed as a tax evader.

b) Tax Education From an Early Age

- The Japanese government has integrated **fiscal and tax literacy** into the curriculum since elementary school.
- NTA actively runs the *Tax Education Campaign* program in collaboration with schools and universities (NTA, 2023).

4. The Role of the National Tax Agency (NTA)

The main functions of NTA:

- Administration and collection of central taxes.
- Supervision of corporate tax accounting.
- Law enforcement against tax evasion and embezzlement.
- Digital and direct education and fiscal public services.

Digital Innovation:

- e-Tax system (since 2004): online tax reporting and payment system.
- MyNumber System: a taxpayer's identity number associated with the banking, insurance, and civil records systems.
- The e-tax reporting rate reached 86% in 2023 (OECD, 2023).

5. Critical Analysis and Social Relevance of Finance

Although Japan is not a country with an Islamic finance approach, its tax system strongly prioritizes:

- The principle of redistribution and equity.
- Efficiency of fiscal allocation in the public sector.
- Transparency and accountability of institutions.

It is substantively similar in value to the maqashid sharia in Islam (especially in the aspects *of 'adl* and *maslahah*), although it is applied in a secular framework. This means that Japan is an example of how social fiscal can function without having to be based on religion, but still ensuring social justice.

6. Contextual Comparison

The table below shows the contrast between Islamic countries with a hybrid system (Saudi Arabia) and a secular country with a modern system (Japan). Although the approaches are different, both use fiscal instruments for social justice and public welfare. Japan excels in terms of efficiency and compliance, while Saudi Arabia demonstrates a model of integration between religious values and the country's fiscal system.

Table 1. Tax and Social Finance Contextual Comparison Table: Saudi Arabia vs Japan

Tax Components	Saudi Arabia (Islamic Hybrid System)	Japan (Modern Secular System)
Income Tax	Only applicable to expatriates and non-Saudi companies	General applies to citizens and companies
VAT (Consumption Tax)	Yes, since 2018, it is now 15% (after a revision from 5% in 2020)	Yes, it is called "Consumption Tax", 10% since 2019
Excise Tax	Yes, for negatively impacted goods (sugary drinks, cigarettes, etc.)	Yes, especially cigarettes, alcohol, motor vehicles
Zakat	Mandatory, institutional, for Muslims and Muslim businesses	Not applicable, only community voluntary philanthropy
Governing Body	ZATCA (Zakat, Tax and Customs Authority)	NTA (National Tax Agency)

Source: Processed from various Reference

Comparative Evaluation and Analysis of Tax and Social Finance Contextual Comparison Study between Saudi Arabia and Japan**:**

1) Income Tax

- **Saudi Arabia**:
  - Abolish income tax for citizens as part of the oil rentier state's policy.
  - In contrast, expatriates are subject to "income tax" and foreign companies are subject to corporate tax as a form of fiscal compensation (Alnasser, 2020).
  - This model shows limitations in the national tax base and high dependence on the energy sector.
- **Japan**:
  - It has a progressive and comprehensive system, aiming to support the redistribution of wealth, with a tax rate of 45% for high-income individuals.
  - Income tax is also an instrument of moral and fiscal citizenship.

Evaluative Bias: Japan is superior in long-term fiscal stability, while Saudi Arabia faces the challenge of diversifying national income (Vision 2030). However, Saudi Arabia integrates sharia principles directly through the elimination of taxes on Muslims and the strengthening of zakat.

2) VAT (Value Added Tax) / Consumption Tax

- **Saudi Arabia**:
  - Introduced in 2018 through the GCC VAT Framework Agreement.
  - The increase from 5% to 15% in 2020 was carried out as a strategy to cover the budget deficit during the pandemic and oil price fluctuations (IMF, 2021).
- **Japan**:
  - It has been enacted for a long time since 1989. The increase was gradual from 3% → 5% → 8% to now 10%.
  - Imposition of two-tier tariffs: standard 10%, basic needs 8%.

Evaluative Review: Both countries use consumption taxes as the main source of non-oil revenue. Japan is more mature in implementation, Saudi Arabia is relatively new, but it is rapidly developing and starting to be efficient through digitalization.

3) Excise Tax

- **Saudi Arabia**:
  - Focus on excising high-risk items such as cigarettes, energy drinks, and sugary drinks.
  - Excise is used as an incentive for healthy behavior and increases non-oil income.
- **Japan**:
  - Excise is applied systematically and is part of environmental (vehicle), health (cigarettes and alcohol), and regional fiscal policies.

Evaluation Review: Both countries emphasize the regulatory function of taxes, but Japan is broader in diversifying its fiscal scope and allocation.

4) Zakat

- **Saudi Arabia**:
  - Zakat is a **mandatory component**, with legal and administrative status regulated by the state (ZATCA). Focus on Muslim companies, not individuals.
  - It is managed through digital platforms such as *ERAD* and *Zakaty*, and its use is directed to the country's social programs (Obaidullah, 2020).
- **Japan**:
  - There is no official zakat, because it is not a Muslim country and does not apply Islamic law.
  - However, the Muslim community conducts zakat, infaq, and alms voluntarily through mosques and institutions such as Tokyo Camii, Kobe Muslim Mosque, and Japan Islamic Trust.

Evaluation Study: Saudi Arabia stands out as a country with formal zakat integration, while Japan shows a participatory and philanthropic, but not structural, community-based zakat practice.

5) Governing Body

- **ZATCA (Saudi Arabia):**
  - It is unique because it integrates zakat, taxes, and customs in one institution.
  - Implementing *sharia-fiscal* principles while introducing modern governance (digitalization, risk-based audits).

- **NTA (Japan):**
  - Focus on tax collection efficiency, fiscal education, and anti-tax evasion.
  - It is one of the most credible and efficient tax institutions globally (OECD, 2022).

Evaluation Study: Both show institutional maturity, but with different orientations: the religious-administrative ZATCA, the secular-technocratic NTA.

c. The Role of Religious/Non-Profit Institutions in Social Fund Management

In Saudi Arabia, the administration of zakat is fully institutionalized and managed directly by the state through the Zakat, Tax and Customs Authority (ZATCA), which serves as the official governmental body responsible for the assessment, collection, and enforcement of zakat at the national level. In contrast, Japan does not have a state-administered zakat system, and the management of Islamic social funds—such as zakat, infaq, and voluntary alms—relies heavily on the initiatives of religious social organizations within the Muslim minority community.

Institutions such as the Japan Islamic Trust (JIT), along with major mosques including Tokyo Camii and Kobe Muslim Mosque, function as central hubs for socio-religious activities and play a significant role in facilitating the voluntary collection and distribution of charitable funds among Muslims in Japan. Operating as faith-based philanthropic organizations, these institutions depend on the active engagement and self-governed participation of community members, thereby highlighting the decentralized and community-driven nature of Islamic social finance in the Japanese context.

1.2. Social Instruments: Zakat vs. Taxes

a) Zakat as a Religious Obligation and Redistribution System in Saudi Arabia

Zakat in Saudi Arabia functions as a religion-based fiscal instrument. Unlike zakat in many other Muslim countries which is voluntary, zakat in Saudi Arabia is mandatory mainly for companies and business entities. The funds collected are channeled for poverty alleviation, cash assistance programs, scholarships, and health support (Mirakhor & Iqbal, 2017). In this case, zakat also functions as an *automatic stabilizer*, supporting economic stability among the lower classes.

The distribution of zakat is managed based on eight asnaf as mentioned in the Qur'an (QS. At-Taubah: 60), and its systems have been digitized to ensure accuracy of targets and accountability.

b) Taxes as a State Obligation in the Secular System of Japan

Japan's tax system is a manifestation of the social contract between citizens and the state. Taxes are used to finance a variety of public services including the universal social security system, education, and public infrastructure. Japan does not have a religious basis in its tax structure, but it still prioritizes the values of solidarity and justice through redistribution (Tachibanaki, 2006).

Japan's advantage is its efficient, integrated, and service-oriented tax system. The Japanese government actively disseminates the importance of taxes and its management is also audited by independent institutions.

c) Comparison of the Principles of Justice and Social Fund Management

Both systems aim to create social justice, but from different approaches:

- **Saudi Arabia**: Zakat is religious, emphasizing spiritual responsibility and solidarity with fellow Muslims.
- **Japan**: Social contract-based tax, emphasizing citizenship obligations.

Although rooted in distinct ideological foundations, both Saudi Arabia and Japan support mechanisms for redistributive welfare. In Saudi Arabia, the institutionalized practice of zakat embedded in Islamic moral values serves as a key instrument for poverty alleviation and social welfare (Al-Salih, 2020; OECD, 2020). In contrast, Japan’s redistributive outcomes are primarily facilitated through its comprehensive tax and social security system, which reflects strong institutional efficiency and structured public participation in tax-financed social protection (Steinmo, Kuno, & others, 2017; OECD, 2024).

1.3. Management of Zakat, Infaq, and Alms in Japan

a) Case Study: Japan Islamic Trust, Tokyo Camii, Kobe Muslim Mosque

Several mosques and Islamic institutions in Japan, such as *the Japan Islamic Trust (JIT)* in Tokyo, *Tokyo Camii* (the largest mosque in Japan), and *the Kobe Muslim Mosque*, have taken the initiative in collecting and distributing zakat, infaq, and alms to the Muslim community, especially international students, underprivileged families, and disaster victims.

These institutions operate independently and rely on voluntary donations from local and expatriate Muslim communities. In the absence of a national zakat body, organizations such as the Japan Muslim Association and community centers like the Islamic Centre of Japan provide social support and engage in various community activities, including charitable assistance during Ramadan, education, and welfare programs that benefit Muslims in Japan (Japan Muslim Association, n.d.; Islamic Centre of Japan, 2021). Voluntary charitable behavior is found across Japanese society and can provide a broader social context for such institutional practices (Nakamura et al., 2025)

b) Community-Based Social Distribution Model

In Japan, zakat distribution is carried out informally and community, relying on networks of Muslim community organizations rather than a formal national system. This model is flexible but poses challenges in terms of standardization and accountability, as there is no national database, official sharia audit, or government regulation overseeing zakat management in the secular legal framework of the Japanese state (Osman, 2025; Firdaus, Fahlefi, & Wadi, 2025).

c) Challenges of Muslim Minorities in the Implementation of Zakat

The main challenges of the Muslim community in Japan include:

- Lack of officially registered Islamic financial institutions.
- There is no legal recognition of zakat as a tax deduction.
- Limited access to zakat education and understanding of Islamic financial literacy.

2. Social Effectiveness and Economic Impact

2.1. Contribution of Zakat to Social Welfare in Saudi Arabia

a) Allocation of Zakat Funds for Basic Needs, Education, and Health

Zakat in Saudi Arabia is institutionally managed through **Zakat, Tax and Customs Authority (ZATCA),** and is directed into **the country's social programs**, which specifically include:

- **Basic Needs**: The allocation of zakat supports programs to provide food assistance, housing for the poor, and support for families without breadwinners.
- **Education**: Zakat funds are allocated for scholarships, support for education costs for orphans, and literacy programs for vulnerable communities.
- **Health**: Financing of free health services, treatment for the poor, and the construction of health facilities in poor areas.

According to a report from the King Khalid Foundation (2019**)** and the Vision 2030 Progress Reports, zakat has become part of the transformation of the Saudi welfare system into an inclusive and digital one, integrated with *the "Citizen's Account"* and *"Social Security Reform" programs*.

Obaidullah (2020) noted that Saudi Arabia is one of the few countries that formalizes zakat as a state instrument through digitalization and a public accountability system, with real-time distribution reporting.

b) Poverty and Inequality Data in Saudi Arabia

Zakat is an important instrument in overcoming social inequality that still occurs in the midst of high national wealth. Some important data:

- **The absolute poverty rate** is not officially announced by the government, but World Bank estimates (2021) show about **12–15% of the population** living with incomes below the national poverty line (~$5.5 PPP).
- **The Gini coefficient** (measuring income inequality) has been in the range **of 0.37–0.39** in the last decade. This figure shows moderate inequality, but improved compared to the 2000s (Gini Coefficient >0.42).
- The contribution of zakat to poverty reduction is measured through the *Citizen Account Program* and *Social Insurance*, with an average annual budget of 10–14 billion Riyals from zakat and social assistance.

Zakat in Saudi Arabia, with its central management by ZATCA and integration in the country's welfare programs, **successfully plays an alternative fiscal role** that equals the tax function in the context of a secular state. It is not only *philanthropic*, but has become an instrument **of social development, distributive justice, and social stabilization**.

2.2. Taxation's Contribution to the Social System in Japan

a. Redistribution through Social Security, National Health Insurance, and Education

Japan's tax system has a **strong redistributive** function, in line with the principles of the modern welfare state. Taxes in Japan are not only an instrument of state revenue collection, but also a **tool for shaping social justice and national solidarity**.

Social Security and Health

- **Japan's National Health Insurance (Kokumin Kenko Hoken)** is funded partly by national taxes and partly by community dues. This program guarantees almost all citizens to get access to quality health services.
- According to the **Ministry of Health, Labour and Welfare (2023),** around **18% of Japan's total state budget is allocated to social security**, including pensions, unemployment benefits, child benefits, and long-term care insurance.

Education

- Primary to secondary education in Japan **is subsidized almost entirely by public taxes**, including *a free tuition* program for low-income families.
- Taxes are also used to subsidize public universities and provide *scholarship grants*.
- The OECD (2021) calls Japan's education system a "tax-financed equity model" with high quality and wide access that is a model for other countries.

V. CONCLUSIONS

This study comparatively examines the *social finance system* between **Saudi Arabia** (zakat-based) and **Japan** (secular tax-based), to understand fiscal effectiveness, social justice, and contribution to community welfare.

1. Convergence of Objectives, Divergence of Systems

Although zakat and taxes differ ideologically, historically, and spiritually, they have convergent goals, namely:

- Creating wealth redistribution
- Improving social well-being
- Reducing inequality and poverty

Zakat is a compulsory worship in Islam, accompanied by the intention and expectation of ukhrawi rewards, while taxes in Japan are civic obligations, enforced secular without a spiritual basis, but strong in terms of system and community compliance.

2. Saudi Arabia: Integration of Islamic Values in the Fiscal of the State

Saudi Arabia shows that Islamic values such as sharia maqashid and social justice can be systematically integrated into the national fiscal system:

- Through ZATCA, the state manages zakat and taxes in one institutional platform.
- Zakat is used for direct social interventions (basic needs, education, health) and is considered a social policy instrument.

However, the challenges faced include the need to increase transparency, public reporting, and efficiency of zakat distribution so that the benefits are broader and empirically measurable.

3. Japan: Efficiency, Education, and Fiscal Discipline

Japan built an efficient, fair, and zero-leakage tax system, thanks to:

- Modern institutional structure (*National Tax Agency*)
- Digitization of tax administration
- Fiscal education from an early age and culture of shame as a fiscal morale booster

As a result, Japan has a relatively low Gini Index and poverty, as well as a very high level of Human Development Index (HDI). Although it does not have a zakat system, Japan has succeeded in building an inclusive and sustainable universal social security system.

4. Synergy Potential: Spirituality and Efficiency

An important finding of this study is that the spiritual approach and the structural approach need not contradict each other. In fact, when combined, it can enrich the value:

- The modern tax system can adopt the ethical and social solidarity dimensions of zakat
- Meanwhile, the zakat system needs to adopt the managerial, reporting and modern public audit aspects of the secular tax system

RECOMMENDATION

1. For Muslim-Majority Countries (OIC)

- It is necessary to strengthen the digitization of the zakat system as ZATCA has done in Saudi Arabia.
- Increase public education about the social function of zakat, not only as a ritual worship, but as a pillar of development.
- Design the integration of zakat into the national fiscal policy framework with public reporting and high transparency to attract public trust.

2.For Non-Muslim Countries with Muslim Minorities

- The government and society can provide space for the Muslim community to develop a financial system based on zakat, infaq, alms and waqf through:
    - Partnerships with philanthropic institutions
    - Fiscal incentives for religious donations
- Countries like Japan can leverage *the faith-based finance* model as a complement in poverty alleviation for minority communities.

3. General Recommendations (Integrative and Inclusive)

- Encourage the development of **a "hybrid social finance model"**, namely:
    - Taxes as a universal financial instrument
    - Zakat as a moral and spiritual instrument in value-based development
- Develop **inclusive regulations** and incentives that strengthen the role of social institutions, both religious and secular, in the distribution of social funds.
- For further research, it is important to explore the quantitative impact of zakat and taxes on **individual welfare, economic equity, and social stability**, using longitudinal data and empirical approaches (*e.g.* Panel regression, qualitative-narrative analysis).

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This study concludes that social finance in Islam (zakat) and the modern fiscal system (tax) both have complementary strengths in creating a just, inclusive, and sustainable society. Spiritual and structural approaches do not have to be separated, but can be synergized to address future social justice challenges.

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