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### ANALYSIS OF HARMONIZATION OF SHARIA FINANCING TAX REGULATIONS BETWEEN DSN-MUI FATWA NO. 123/DSN-MUI/XI/2018 AND PP NO. 25 OF 2009

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**Abstract.** This research is a juridical analysis that examines the harmony of legal norms governing the tax treatment of Islamic financing in Indonesia, drawing on MUI DSN Fatwa No. 123/2018 and Government Regulation No. 25 of 2009. The results of the study show juridical disharmony, where the Fatwa prohibits the recognition of tax from customers as income by Islamic financial institutions (LKS). At the same time, government regulations treat it as a valid income tax asset. This discrepancy creates potential normative conflicts and legal uncertainty, and can weaken the principles of *maqashid sharia* in national economic practice. The findings underscore the pressing need for legal harmonization by applying the non-contradiction principle to reconcile positive law with Sharia principles. In practical terms, revising PP No. 25 of 2009 or issuing new technical regulations is necessary to accommodate the characteristics of Islamic law. Furthermore, the study recommends future research on integrating the Sharia taxation system within the national legal framework. It encourages comparative studies with other Muslim-majority countries to support the realization of a fair, sustainable, and law-abiding Sharia financing system.

**Keywords:** *Tax Regulations, Sharia Finance, Financing Institution, Islamic Perspective on Tax*

#### A. Introduction

According to the Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) Number 123/DSN-MUI/XI/2018, funds that should not be recognized as income by Sharia Financial Institutions (LKS), Sharia Business Institutions (LBS), and Sharia Economic Institutions (LPS) must be clearly segregated to ensure the accuracy of financial reporting and the proper management of zakat, infak, and other social funds. This provision highlights the Sharia-compliant governance of funds, which is oriented towards justice and blessings in economic transactions (Atçıl & Markiewicz, 2024).

The tax regulation stipulated through Government Regulation No. 25/2009 on Income Tax for Sharia-Based Business Activities presents a different reality. The

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prevailing income tax system recognises Income from Islamic business activities, including third-party rights to profit-sharing, margins, and bonuses explicitly stipulated in the PP as tax objects (Al-Rahamneh & Bidin, 2022). In other words, this tax regulation presents a picture of "das sein" or factual conditions that contradict the concept of "das sollen" in the DSN MUI Fatwa, especially in terms of revenue recognition and tax treatment of Islamic transactions (Atçıl & Markiewicz, 2024).

The discrepancy between the Sharia norms in the DSN MUI Fatwa and the existing tax provisions creates a significant legal gap. This gap has implications for disharmony in the Islamic financing system, which can hinder the development of the Islamic economy and create a legal dilemma for Islamic institutions in running their business in a Sharia-compliant manner while complying with applicable tax regulations. Previous studies, such as those by Wang & Mayburov (2025) and Yang & Zhang (2025), have generally focused on the fiscal policy implications and technical adjustments to tax regulations in Islamic economic systems. However, these studies have not yet specifically examined the juridical alignment between Sharia norms and Indonesian positive law in the taxation context, particularly concerning the legal object (*mahkum fihi*) of tax assets and their treatment in Islamic financial transactions. Therefore, this study seeks to fill that gap by providing a normative juridical analysis that links the *das sollen* of Sharia law with the *das sein* of Indonesian tax regulations.

This research aims to analyze the alignment between Sharia norms and Indonesian positive law in the taxation of Islamic financing, and to conduct an in-depth juridical analysis to assess the harmonisation or disharmony of this tax system in the context of Islamic financing (Wang & Mayburov, 2025). Through a review of Fatwa DSN MUI Number 123/DSN-MUI/XI/2018 and Government Regulation Number 25 of 2009, this research aims to unravel how the tax system can be harmonized with Sharia transactions, especially in terms of revenue recognition and fund treatment in financial institutions and Sharia businesses (Yang & Zhang, 2025). This juridical approach aims to provide solutions to bridge the gap between *das sollen* and *das sein*, enabling the tax system to operate in harmony with Sharia principles and supporting the development of sustainable, law-abiding Islamic financing in Indonesia (Oyerogba et al., 2024).

## B. Method

The research employs an enhanced normative juridical approach that expands upon traditional doctrinal legal research by integrating comparative normative analysis and thematic content analysis to achieve a deeper understanding of the legal relationship between Sharia norms and Indonesian positive law. This new methodological framework remains grounded in literature-based examination. However, it introduces a structured analytical process that not only interprets existing legal texts but also compares the coherence between religious and state legal systems within the context of Islamic taxation. The primary legal materials, Fatwa DSN MUI Number 123/DSN-MUI/XI/2018 and Government Regulation Number 25 of 2009, serve as the core data sources, while secondary materials, such as academic journals, legal commentaries, and expert opinions, are used to contextualize the discussion and validate findings. The data collection process involves systematic mapping of legal norms to identify areas of convergence and divergence, followed by interpretative analysis using a normative qualitative lens to evaluate the legal implications for Sharia-compliant institutions.

Furthermore, the author introduces a triangulation of sources method by cross-referencing doctrinal interpretations, expert commentaries, and jurisprudential literature to ensure analytical accuracy and legal consistency. Through this enhanced approach, the study does not merely describe existing legal principles. However, it critically reconstructs the alignment between Sharia-based norms and positive law, thereby offering a comprehensive juridical explanation of how both systems can harmoniously function within Indonesia's taxation framework for Islamic financing.

### C. Result and Discussion

Based on DSN MUI Fatwa No. 123/DSN-MUI/XI/2018, tax in the context of transactions of Sharia Financial Institutions (LKS), Sharia Business Institutions (LBS), and Sharia Economic Institutions (LPS) has a position as a *legal object that cannot be recognised as income* (Shinta Hardiyanti et al., 2024). Legal subjects that must pay attention to this provision are LKS, LBS, and LPS, as Sharia business entities that carry out activities based on Sharia principles and are subject to national positive law, including the tax, which should not be considered as business revenue or profit from Sharia transactions. The legal event occurs when the tax is collected or received by LKS, LBS, or LPS, for example, when collecting Value-Added Tax (VAT) in an ijarah or wakalah bil ujarah contract.

Within the national Islamic financing system, which adheres to Indonesian tax regulations and Sharia principles, institutions are obligated to remit taxes to the state rather than incorporate them into their income. Taxes should not be recognised as income, as this Fatwa affirms the principles of justice and transparency: assets levied for the public good (Sinaga et al., 2023) should not be owned unilaterally.

From the perspective of *mahkum fihi* (legal object), the central concept analyzed in relation to the tax system and Islamic financing concerns the status of tax assets within the operations of Islamic financial institutions. Based on the description above, taxes deposited by Islamic financing institutions to the state should not be recorded or recognised as income. It is because these assets are not the result of legitimate business according to Sharia principles, but public obligations (Fadilah Zustika et al., 2025). As stated in Q.S. An-Nisa (4:29):

“... يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِّنْكُمْ ”

*“O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent among you.”*

Explicitly prohibits the unlawful use of wealth, while Q.S. Al-Maidah (5:2):

“... وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ ”

*“And cooperate in righteousness and piety, but do not cooperate in sin and transgression.”*

Emphasizes the importance of cooperation in goodness and piety, and forbids cooperation in sin and transgression. Thus, tax in this context becomes a legal object that

must be separated from institutional ownership and can only be managed by state authorities.

According to the review of *mahkum alaihi* (the subject of law) in Q.S. An-Nisa: 29, *Islamic financing institutions* operate within the national financial system and are subject to state tax regulations. They are required by regulation to remit taxes to the state without claiming it as the property or source of income of the institution. The legal capacity of this subject is a moral and juridical obligation to adhere to the principles of justice in the distribution of wealth and avoid violating the *maqashid* of sharia, especially in safeguarding wealth (*hifzh al-mal*) (Fadilah Zustika et al., 2025).

The *mahkum bihi*, in this context, refers to the prohibition on recognising tax as income while affirming the obligation to remit it to the state. This ruling is based on the principles of justice, transparency, and the sanctity of wealth transactions in Islam. This ruling is binding and strict: if violated, it will have legal implications, both formal (in tax reporting) and sharia-based (related to the management of illicit assets) (Parsih & Hasan, 2024). This provision is also reinforced by the Qur'an's normative framework, which ensures that transactions in the Islamic financial system remain within the limits of *halal*, fairness, and *maslahah*. Therefore, the implementation of this decree is the responsibility of all stakeholders in the Islamic financing ecosystem.

Domain analysis of these three elements shows that the tax system in Islamic financing is not only a technical issue of fiscal administration, but also involves deep Islamic normative values. Taxes as a state financial instrument should not be manipulated or claimed as the property of the institution, because it violates the principles of honesty (*amanah*) and social responsibility (Fadilah Zustika et al., 2025). The key domain in this system lies at the balance point between *Sharia commitment* and *compliance with state regulations*, making Islamic financing institutions both moral and economic agents (Darmayasa et al., 2024).

In essence, the two verses prohibit the unlawful taking of assets and encourage cooperation in goodness, not in violation. Suppose the tax collected by Islamic institutions is recognised as income. In that case, it violates Sharia principles and may entail legal consequences, including taxation (for improper reporting) and Sharia ethics (for the prohibition of unlawful assets). The juridical analysis of the harmonization of the tax system in Islamic financing in Indonesia, as outlined in this Fatwa, confirms that taxes are state obligations rather than business revenues; therefore, they should not create ownership rights for Islamic institutions and must be remitted to the authorities instead (Hakam et al., 2024).

Legal subjects under Government Regulation of the Republic of Indonesia Number 25 of 2009 are Sharia Financial Institutions (LKS), Sharia Business Institutions (LBS), and Sharia Economic Institutions (LPS). These three institutions conduct business activities in accordance with Sharia principles, including the prohibition of usury, *gharar* (uncertainty), and speculation, and uphold the principles of justice, *halal*, and mutual benefit. In their capacity as legal entities, these institutions have tax obligations as Corporate Taxpayers under the Income Tax Law (Putra et al., 2022).

The legal object in this case is the income earned from Sharia-based business transactions, including *margins*, *bonuses*, *profit-sharing*, and other Sharia-based returns. In addition, costs arising from Sharia transactions are considered an important element,

including profit-sharing to fund owners and losses from contracts such as *mudharabah* and *musyarakah*. The legal object of this tax is treated on par with conventional income to create a *level playing field* between business actors.

In the *self-assessment* system generally adopted in Indonesia today, the implementation of tax obligations requires adequate supervision and legal certainty. Another element that is no less important is legal certainty, because without it, embodied in the clarity of subjects, objects, rates, and procedures, both taxpayers and tax officers will have difficulty exercising their rights and obligations. Tax obligations arise when income is generated or when payments are made to third parties, such as customers or investors.

This provision is crucial, as the tax system previously did not fully accommodate the characteristics of Sharia transactions, resulting in unequal treatment between the conventional and sharia systems. It has the potential to weaken the principle of fiscal justice and create regulatory distortions. As stated, the principle of fairness in taxation needs to be explicitly stated in legal norms to prevent multiple interpretations that could lead to criminalization, which is contrary to the *ultimum remedium* principle.

The application of the law is done by equalizing the income tax (PPh) treatment of Islamic transactions with conventional transactions as equivalent through the principle of *mutatis mutandis*. It means that the general provisions of the Income Tax Law also apply to Islamic transactions, with substantial adjustments made in accordance with the contract. For example, the margin from *murabahah* is treated similarly to loan interest, and the profit-sharing from *mudharabah* is treated as a deductible expense (Fadilah Zustaka et al., 2025). Furthermore, technical calculations, reporting, and deductions are regulated through the Minister of Finance Regulation (PMK).

In the practice of taxation on Sharia-based business activities in Indonesia, there are currently two sources of law that need to be considered carefully, namely Fatwa DSN-MUI No. 123/DSN-MUI/XI/2018 and Government Regulation of the Republic of Indonesia No. 25 of 2009 concerning income Tax on Sharia-based business Activities. Both regulate the taxation aspects of institutions that implement Sharia principles. However, their approaches may lead to normative misalignment, especially regarding the legal status of tax rates levied by Sharia institutions and their treatment in bookkeeping and financial reporting (Febrianty et al., 2025). For this reason, this paper uses the principle of non-contradiction, which is a logical principle in law that states that two norms cannot apply simultaneously if they produce conflicting consequences, in order to avoid *legal uncertainty* and provide direction for the harmonization of Sharia regulations and national taxation (Apriantoro & Maulana, 2025).

From the perspective of Sharia law, taxes are a mandate from the community channeled to the state, not the result of business or profit (Baramurti et al., 2025). Therefore, if Islamic institutions make taxes part of their income, then the event is considered taking assets unlawfully, violating the principles of transparency, justice, and trustworthiness as stated in

Q.S. An-Nisa: 29

“... يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِّنْكُمْ”

*“O you who have believed, do not consume one another’s wealth unjustly but only [in lawful] business by mutual consent among you”*

Q.S. Al-Maidah: 2

“... وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ”

*“And cooperate in righteousness and piety, but do not cooperate in sin and aggression.”*

These verses highlight that wealth must be managed with fairness and that any misappropriation of others’ property constitutes an unlawful act. In this context, Fatwa DSN MUI positions tax as a legal object that LKS cannot own, but can only temporarily deposit until it is deposited with the state. This provision applies to every Sharia transaction involving tax collection, such as in an *ijarah* or *wakalah bil ujah* contract. It serves as a normative basis for LKS not to recognize tax collection as its own.

Government Regulation No. 25 of 2009 provides different treatment. Article 2, paragraph (1) explains that income tax treatment for Sharia-based business activities includes income, costs, and tax withholding or collection. Then, Article 2 paragraph (3) further states that tax collection activities are also carried out on Sharia-based elements, such as profit-sharing, bonuses, and margins. Furthermore, Article 3 states that all of these provisions apply *mutatis mutandis* to the provisions in the Income Tax Law. Thus, PP No. 25/2009 confirms that any tax collected, including by LKS, is part of the taxation system and must be reported and recognised in the calculation of income and expenses.

The conflict arises because PP No. 25/2009 does not explicitly prohibit recognizing taxes collected as revenue; therefore, it can be inferred that Islamic institutions may include taxes in their cash flow reporting as part of *gross revenue* before reporting the final (*net*) revenue. In accounting practice, this often means that taxes are treated as a component of cash inflows, even though they are eventually returned. It creates a loophole for the interpretation that taxes levied can temporarily be reflected in the institution's income statement before being corrected (Al-Refiay et al., 2025). This provision is, in principle, against the spirit of the DSN-MUI Fatwa, which considers that such recognition violates the principle of property ownership in Islam, as it is not valid to own something that is not the result of effort.

The discontinuity of this norm can be explained through the approach of legal subject, legal object, and legal event, as the identification method in the principle of non-contradiction. The legal subject, according to Fatwa DSN-MUI, is Sharia institutions such as LKS, LBS, and LPS, while in PP No. 25 of 2009, it is referred to as “Sharia-based businesses,” which include financial institutions, insurance, and the like. It means there is consistency in who is subject to the obligation. However, the legal object is subject to different interpretations (Abu-Rajab et al., 2024). In the Fatwa, the legal object is a tax that cannot be income, whereas in the PP, there is no such restriction. In fact, taxes are treated as part of the accounting structure and reporting of income and expenses in business activities.

The legal event under discussion is the moment when the LKS collects taxes from customers under specific contracts. The Fatwa states that when the tax is collected, the

property rights do not transfer to the LKS but are transferred directly to the state. Meanwhile, in the Government Regulation, there are no restrictions on the ownership of taxes collected by Sharia-based businesses. It is the central contradiction and crucial point of disharmony between the two legal norms (Putra et al., 2022).

The consequences of this contradiction affect financial statements, tax reporting, and Sharia compliance. If LKS follows PP No. 25 of 2009 without taking into account Fatwa DSN-MUI No. 123/2018, potential violations of Sharia ethics will occur (Alexandri et al., 2024). Conversely, if only following the Fatwa without heeding the PP, the LKS can be considered non-compliant with national tax regulations, which have positive legal force. It is the juridical gap, or legal gap, that arises from the lack of synchronization between the positive law of the state and the Fatwa law, as a source of moral law and Sharia ethics in financial transactions (Ladhari et al., 2025).

In the context of implementation, Islamic institutions are often in a dilemmatic position (Khasanah, 2021). On the one hand, they must comply with the taxation authority (Directorate General of Taxes), which refers to PP No. 25 of 2009. On the other hand, they are also bound by Sharia principles and the supervision of the Sharia Supervisory Board (DPS), as stipulated in the DSN MUI Fatwa. This conflict creates legal uncertainty and can even open up space for disputes in the examination of financial statements or Sharia audits (Usman et al., 2025).

Regulatory harmonization can be achieved through a normative revision of PP No. 25/2009 by adding a clause that explicitly aligns with the Sharia restrictions as stipulated in the DSN-MUI Fatwa (Bjørneby et al., 2023). The clause could read, *"Taxes collected by Sharia-based business institutions cannot be recognised as income of the institution, and must be recorded as a liability to the state."* In addition, the Ministry of Finance, together with BPKH and OJK, can also issue technical accounting and taxation guidelines for Islamic institutions to avoid dualism of interpretation between Fatwa and positive law.

In essence, applying the principle of non-contradiction in this case shows that there are normative inconsistencies between Fatwa DSN-MUI No. 123/2018 and PP No. 25/2009, especially in Articles 2 and 3. It creates a legal gap that has a profound impact on the integrity of the Islamic financial system and national tax compliance. Harmonization needs to be carried out immediately to ensure the taxation system is not only legally valid but also sharia-compliant, thereby supporting sustainable and reliable Islamic economic growth (Alexandri et al., 2024).

To juridically harmonize the Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) on the use of funds that should not be recognised as income for Islamic financial institutions (LKS), Islamic business institutions (LBS), and Islamic economic institutions (LPS), with Government Regulation (PP) No. 25 of 2009 on Income Tax for Sharia-Based Business Activities, there are several contradictory norms, which need to be analyzed through the principle of non-contradiction. This principle states that two contradictory regulations cannot coexist in the same legal system, as legal principles must support one another rather than negate one another (Putra et al., 2022).

DSN-MUI Fatwa Number 123/DSN-MUI/XI/2018 states that funds received from transactions not in accordance with Sharia principles, including interest income (riba) and Sharia transactions that do not meet the required provisions, may not be recognised as income by Islamic financial institutions. The funds received must be used for the benefit

of the people, such as assistance to disaster victims or Islamic education facilities (Parsih & Hasan, 2024). Meanwhile, Government Regulation No. 25 of 2009, specifically Article 2 paragraph (2), states that fees from Sharia-based business activities include margins, profit-sharing, and losses from profit-sharing transactions. The withholding tax imposed on these margins or profit-sharing indicates that these funds are recognized as taxable income.

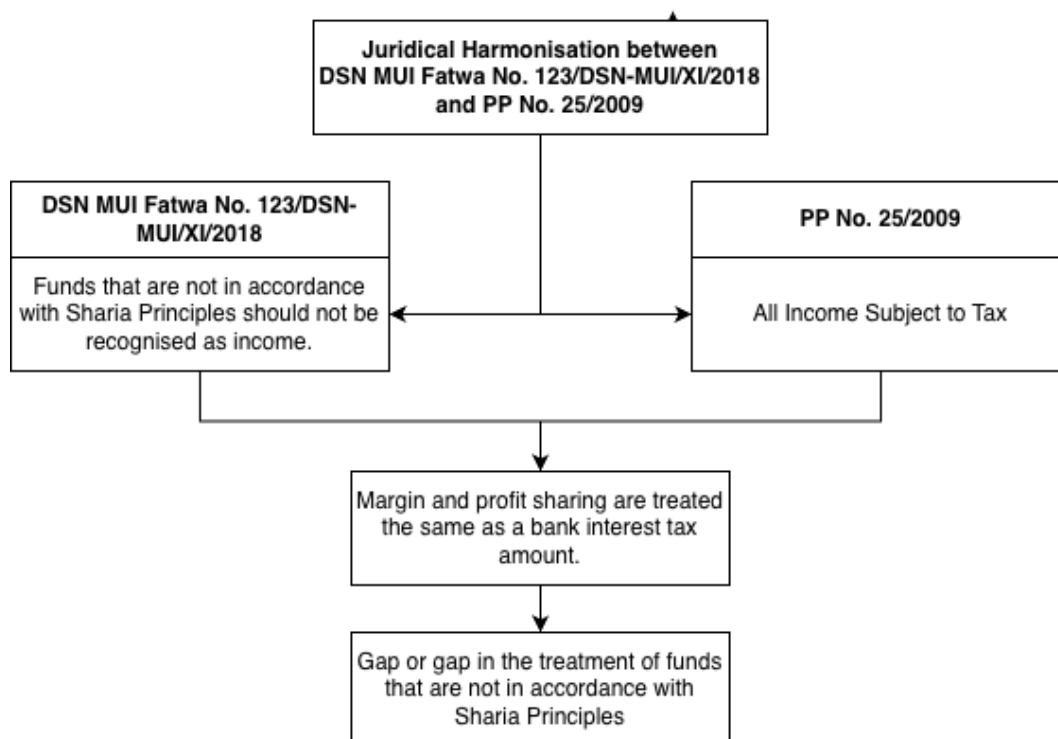
The central contradiction lies in the tax treatment of margins and profit-sharing. The DSN-MUI Fatwa states that funds obtained from transactions not in accordance with Sharia principles should not be recognised as income (Febrianty et al., 2025). Meanwhile, GR No. 25 of 2009 recognizes margin and profit-sharing as part of income that must be taxed. Article 2, paragraph (3), of PP No. 25 of 2009 asserts that third-party rights to profit-sharing and margins are tax objects, which potentially contradicts Sharia principles, as these principles stipulate that transactions involving non-halal or unauthorized funds cannot constitute legitimate income.

To bridge the gap between the two regulations, adjustments that accommodate Sharia principles in taxation are necessary. In this case, the use of funds that cannot be recognised as income by DSN-MUI should also not be taxed according to the Sharia principles contained in GR No. 25 of 2009. For example, funds derived from transactions that are not in accordance with Sharia principles, such as *riba*, should be excluded from the tax object, with stricter adjustments in the implementation of taxation for the Sharia-based business sector (Al-Rahamneh & Bidin, 2022).

The conclusion of the gap between the DSN-MUI fatwa and PP No. 25 of 2009 lies in the discrepancy in the treatment of funds that do not comply with Sharia principles in the context of taxation. The DSN-MUI emphasizes that such funds should be allocated for the benefit of the *ummah* and should not be recognised as income, whereas PP No. 25 of 2009 tends to classify them as taxable income. Therefore, in-depth harmonization is required to ensure compatibility between tax law and broader Sharia principles.



**“Juridical Harmonization between DSN-MUI Fatwa No. 123/DSN-MUI/XI/2018 and PP No. 25/2009 in the Context of Taxation on Islamic Financial Institutions”**



**Figure1.** Gap Analysis between DSN-MUI Fatwa No. 123/DSN-MUI/XI/2018 and PP No. 25 of 2009

This scheme illustrates the juridical gap between DSN-MUI Fatwa No. 123/DSN-MUI/XI/2018, which states that funds not in accordance with *Sharia Principles* should not be recognised as income, and Government Regulation (PP) No. 25/2009, which stipulates that all income is subject to tax. The discrepancy arises because margin and profit sharing are treated the same as bank interest for tax purposes, leading to a misalignment between Sharia-based and conventional tax treatments. Therefore, harmonisation is needed to ensure tax law compatibility with broader *maqashid shariah* principles, particularly *hifzh al-mal* (Abu-Rajab et al., 2024)

The mediating factor in this juridical analysis is the Sharia principle in tax management by Islamic financial institutions. This principle serves as a mediator between Islamic institutions' obligation to comply with state taxation rules and their obligation not to recognise taxes as income or profit. This Sharia principle aims to treat the taxes collected by LKS, LBS, and LPS as an obligation to be deposited with the state, rather than as a source of income for the institutions. In this case, the principles of fairness and transparency stated in Fatwa DSN MUI act as a mediator, explaining that taxes are not the result of the institution's business or profit, but rather a state obligation that must be managed separately from Sharia transactions (Agusti & Rahman, 2023).

The findings highlight that taxes imposed on Islamic institutions cannot be recognized as income, as this would contradict the ethical and financial integrity mandated by Sharia principles. It aligns with previous studies, such as Zhan (2024), who

emphasized that tax policies serve as tools for promoting responsible and sustainable financial behavior. However, this study differs by integrating the concept of “amanah” (honesty) and the Sharia objective of wealth preservation (*hifzh al-mal*) into the taxation context. While earlier research mainly focused on fiscal sustainability and public finance, this study expands the scope by showing how Sharia-compliant taxation management serves both ethical and regulatory purposes within Islamic institutions.

The results reveal that national tax regulations act as moderating variables that influence how Sharia financial institutions implement their taxation systems. Previous studies, such as Dwindahany & Efendi (2024), discussed the technical implications of VAT and related tax laws. However, the present study uniquely emphasizes their moderating role—that these regulations either strengthen or weaken the harmony between Islamic financial governance and national taxation laws. This distinction marks an analytical advance, as it explores not only compliance but also the interaction between Sharia norms and state policy frameworks.

The research identifies the mediator variable as the mechanism that explains how Islamic transactional characteristics can adapt to state tax systems. Compared with previous findings (e.g., Febrianty, 2025), which focused solely on the legal framework of taxation in Islamic contexts, this study offers a more dynamic explanation: the mediator variable clarifies the pathway through which Islamic principles (e.g., the prohibition of *riba* and *gharar*) integrate with tax obligations. This new insight bridges the gap between theoretical Sharia compliance and practical taxation policy, making it more operational in financial governance.

The findings further indicate that both mediator and moderator variables are essential for achieving equilibrium between compliance and Sharia integrity. Earlier studies, such as Pradnyanitasari (2025), mainly focused on the ethical dimension of Sharia compliance without fully addressing structural tax integration. This study differs by offering a dual-variable model in which the mediator aligns Islamic practices with taxation logic, and the moderator ensures that regulations remain transparent and supportive. This combined perspective introduces a new contribution to the field, suggesting that sustainable Islamic financial systems require both ethical mediation and regulatory moderation to function coherently within national taxation frameworks.

These two variables have significant implications for the tax management of Islamic financial institutions. Given the characteristics of Islamic transactions as a mediator, Islamic financial institutions can conduct economic activities while still observing Sharia principles, even though they are required to fulfil tax obligations under state regulations (Kaharuddin et al., 2024). Meanwhile, the regulation stipulated in GR No. 25/2009 ensures that income tax on Islamic transactions is treated equally with that on conventional transactions, creating a fair opportunity for Islamic institutions to develop and operate within the broader Indonesian economic system.

In the context of taxation of Islamic financing, there is a mismatch between DSN-MUI Fatwa No. 123/DSN-MUI/XI/2018 which states that funds obtained from sources that are not in accordance with Sharia principles such as late fees, usury bonuses, or proceeds from other haram transactions should not be recognised as income by Sharia Financial Institutions (LKS), with the provisions in PP No. 25 of 2009 which treats all institutional income, without distinguishing between halal/haram sources, as income tax objects. This

mismatch has the potential to create legal uncertainty, undermine the integrity of the Islamic financial system, and compromise the principle of sustainability in the Islamic financing sector.

To reconcile the two, an approach is the *non-contradiction principle*, which prevents the emergence of two conflicting norms in the same legal system (Febrianty, 2025). The state can integrate Sharia norms into positive law through progressive interpretation and substantive regulatory adjustments to prevent conflicts between the national legal system and the Sharia principles applied by Islamic financial entities.

The paragraph presents an analytical interpretation of policy alignment between taxation and Sharia principles. It proposes issuing a Minister of Finance Regulation (PMK) or Directorate General of Taxes (DGT) Circular Letter to exempt non-halal funds if allocated for public benefit from taxable income. This reasoning is grounded in Law No. 7 of 2021, Article 4, paragraph (3) (a), which excludes donations from tax objects; thus, expanding the meaning of "donations" to include non-halal funds ensures coherence with Islamic ethical norms. Furthermore, the doctrinal interpretation complements this policy view by asserting that non-halal funds represent moral and spiritual obligations rather than business profit, thereby failing to meet the "substance over form" principle required for income recognition. Together, these perspectives emphasize both legal and theological justification for excluding non-halal funds from taxation..

#### **D. Conclusion**

Based on the analysis of DSN-MUI Fatwa No. 123/DSN-MUI/XI/2018 and PP No. 25 of 2009, it can be concluded that there is juridical disharmony in the treatment of taxes in Islamic financing in Indonesia. Fatwa DSN MUI strictly prohibits Islamic financial institutions (LKS, LBS, and LPS) from recognising taxes collected from customers as income, as they are considered public assets entrusted to the state and must be deposited with the state, in accordance with the principles of justice, trust, and *hifzh al-mal* in *maqashid* Sharia. In contrast, GR No. 25 of 2009 treats all revenues, including those from Sharia transactions such as margins and profit-sharing, as legitimate income tax objects that can be included in the institution's profit and loss statement. If left unharmonized, this discrepancy has the potential to cause normative conflicts, legal uncertainty, and violations of Sharia principles in national financial practices. Theoretically, these findings reinforce the importance of applying the non-contradiction principle in a legal system that integrates positive and religious laws. An ideal harmonization would not only ensure formal compliance with state regulations but also preserve the spiritual and ethical legitimacy of the Islamic economic system. The practical implications of this research indicate the urgency for the government to revise tax regulations (especially PP No. 25 of 2009) or at least issue Minister of Finance Regulations (PMK) and technical guidelines that exclude non-halal taxes from recognition as income and tax objects, following the interpretation of the substance of Sharia law. Future research is recommended to explore the model of Sharia tax integration within Indonesia's positive legal framework, including comparative studies with other Muslim-majority countries, and to assess the impact of accountability and transparency in Islamic financial institutions on tax compliance and the sustainability of the Islamic financial system at the national level.

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