Ending Exploitative Taxation – A Zakat-Based System for Justice, Economic Growth, and Welfare for All

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Introduction

In every age, taxation defines the moral character of a state. A just system uplifts citizens, while an exploitative one widens inequality and erodes trust. In Pakistan, despite decades of reforms, the tax structure remains regressive and extractive burdening the poor while allowing the elite to thrive untaxed. As inflation soars, middle-income families struggle under indirect taxes that penalize consumption rather than wealth. The result is a cycle of fiscal injustice, social frustration, and economic stagnation. Islam offers a timeless alternative with the name of Zakat, a divinely ordained system that merges morality with economic policy. A Zakat-based model does not merely collect revenue; it redistributes wealth, purifies earnings, and ensures social balance. Reviving this system in Pakistan is not a return to the past, but a leap toward a more ethical, growth-oriented, and welfare driven future.

The Problem: Exploitative Taxation and Its Consequences

Pakistan's current tax regime is heavily dependent on indirect taxes, which account for nearly 60% of total revenue. These taxes levied on goods, services, and utilities disproportionately affect the poor. A day laborer pays the same sales tax on food and fuel as a billionaire. Meanwhile, tax evasion by wealthy individuals and corporations deprives the state of crucial funds for education, health, and infrastructure. This imbalance breeds two dangerous outcomes: economic inequality and mistrust in the state. Even international observers like the IMF and World Bank have noted Pakistan's weak tax morale and dependence on external borrowing a symptom of a system that taxes need instead of greed.

The Islamic Alternative: Zakat as an Economic Equalizer

Zakat, one of the five pillars of Islam, is not a voluntary act of charity but an obligatory redistribution of wealth. It targets idle assets savings, gold, trade goods, livestock, and agricultural produce and transfers a fixed portion (usually 2.5%) to the needy. Unlike conventional taxation, Zakat purifies wealth while preserving human dignity. It ensures that money circulates rather than stagnates in the hands of the few. The Qur'an clearly outlines its recipients the poor, the destitute, the indebted, and those striving in the path of Allah

(Surah At-Tawbah 9:60). In an Islamic economy, this circulation of wealth transforms society. It reduces poverty without resentment, builds social cohesion, and aligns moral duty with economic productivity.

Historical and Constitutional Context in Pakistan

At independence, Pakistan's founding vision was deeply rooted in Islamic welfare principles. The Objectives Resolution (1949) enshrined that sovereignty belongs to Allah alone and that governance must be exercised within the limits prescribed by Him. Article 31 and 38(f) of the Constitution of Pakistan (1973) further obligate the state to promote Islamic social justice and eliminate Riba (usury). The institutional framework for Zakat and Ushr was formally introduced under the Zakat and Ushr Ordinance of 1980, establishing a system for compulsory deduction and disbursement. However, over time, administrative weaknesses, lack of transparency, and parallel taxation diluted its impact. A reformed, digitized, and transparent Zakat-based model integrated with the modern financial system can fulfill both constitutional mandates and economic objectives.

A Zakat-Based Model for Modern Pakistan

A 21st-century Zakat system should not simply replace taxes but restructure Pakistan's fiscal philosophy around equity and accountability. Design and implement a **digitally integrated, constitutionally-grounded National Zakat System** administered through accountable federal-provincial partnerships, linked to existing social registries and banking rails to mobilize Pakistan's latent Zakat potential, protect vulnerable households, and phase out regressive taxes on essentials while maintaining fiscal stability.

Why this is politically and economically feasible now?

- Pakistan is actively adjusting fiscal policy under difficult macro conditions and has recently pursued large tax-raising measures and IMF-linked reforms to raise revenues. This creates urgency — and political space — for structural alternatives that increase fairness and broaden revenue legitimacy.
- Pakistan already has a statutory Zakat framework (Zakat & Ushr Ordinance, 1980) so reform will be building on existing law and institutions rather than inventing them from scratch.
- Pakistan runs large digital social-protection infrastructure (BISP / Ehsaas / NSER) and NADRA identity coverage that can be repurposed for accurate targeting and payouts.
- Informal/private Zakat flows in Pakistan are already large (research estimates hundreds of billions PKR paid each year) while state collection is tiny meaning effective institutionalization could unlock large resources for poverty reduction if trust, transparency and delivery are solved.

Institutional Architecture (National → Local)

A. National Zakat Commission (Federal)

Created by Parliament: sets policy, minimum national standards, cross-province coordination, audits, research, and international partnerships. (Parliamentary oversight + independent audit office.) Responsible for frameworks on eligible assets, nisaab rules for modern instruments, and national IT standards.

B. Provincial Zakat Councils

Operate collection & administration in each province (reflects Pakistan's federal reality after 18th Amendment). They register payers, manage provincial Zakat funds, and coordinate local boards.

C. District/Union Zakat Boards (Local delivery)

Elected or multi-stakeholder boards (representatives from Ulema, local government, women's groups, civil society) for final beneficiary verification and distribution. This reduces leakage and improves community trust.

D. Zakat Digital Hub (federally hosted)

Provides APIs and shared services: NADRA linkage, bank integrations, FBR interface for asset cross-checks, NSER/BISP read-only access for beneficiary targeting, public dashboard and audit logs.

E. Independent Zakat Audit & Impact Unit

Annual independent external audits, public reporting, and randomized evaluations that drive impact assessments for policy making.

Legal & Regulatory Package

A. Amend the Zakat & Ushr Ordinance (1980)

- Modernize asset definitions (digital assets, listed securities, pension accumulations, commercial inventories)
- Clarify federal-provincial roles and fiscal sharing rules for Zakat receipts.
- Mandate annual audited disclosure and open dashboards.

B. National Zakat Authority Act (enabling law) to create the Commission, specify governance, and allow IT/data sharing agreements with NADRA, SBP, FBR and provinces.

C. Tax Code Alignment to legislate transitional tax credits where appropriate (see Fiscal Transition, below) and ensure Zakat payments are recorded for tax administration (not double taxed; provide tax incentives for compliance).

D. Data protection & privacy law updates to authorize secure, limited data sharing for social protection while protecting citizens' privacy (logs, oversight).

(Annex below has a short draft outline of the Act.)

Digital & Data Architecture

A. Core components:

National Zakat Registry (read-only for banks & authorized agencies) securely stores payer records, nisaab calculations, exemptions, and payment receipts. Connected via APIs to:

- NADRA (CNIC verification) to authenticate payer/beneficiary identity.
- Banking rails (SBP + partner banks, mobile money) for automated deductions or donor transfers.
- FBR & SECP (limited interface) to check declared corporate assets, listed securities, and reconcile large holdings. NSER/BISP / Ehsaas (read access) for eligibility verification and to prevent duplication.
- Automated Nisaab engine algorithmic calculators for different asset classes (cash, stocks, foreign assets, gold, inventory), with audit trail for every assessment.
- Public transparency portal interactive dashboards showing aggregated receipts, spending categories, outcomes (job placements, school scholarships). Transparency builds trust and increases voluntary compliance.
- Offline verification app for field officers (district boards) to register unbanked beneficiaries and perform KYC using QR codes and fingerprints.

B. Security & privacy for Zero-trust architecture, role-based access controls, mandatory logging of any data access, and quarterly security audits.

C. Comparative note on Malaysia's Zakat bodies have successfully adopted digital platforms for collection and distribution and used them during COVID-19 for emergency payouts. Pakistan can borrow these lessons.

Revenue modelling & fiscal transition

The estimates of Pakistan's economy wide Zakat potential vary by methodology; credible studies and policy institutes estimate potential in the order of PKR hundreds of billions up to several trillion depending on coverage (one IPS estimate ~Rs2.7 trillion; academic work suggests economy-wide potential as a % of GDP). Current formal state collection is far below that potential.

A. Three scenarios (illustrative — to be replaced by Ministry modelling):

- Conservative: formalize existing formal collections and modest voluntary inflows + PKR 300–600bn/year in net new resources.
- Medium: automation + targeted public campaigns + partial inclusion of financial assets + PKR 1–1.8tr/year.
- Ambitious: full asset coverage (financial assets, listed securities, real estate proxies) with high compliance + PKR 2–3tr/year (consistent with some IPS/PIDE estimates).

B. Transition mechanics to avoid gaps:

- Revenue neutrality corridor (years 1–3) to keep current indirect tax receipts (sales tax on essentials) until Zakat formalization reaches a verified threshold (e.g., 30–40% of target collection in pilot provinces).
- Dedicated Transition Fund: initial seed by federal budget + donor support (World Bank/ADB) to underwrite shortfalls and financing of IT & capacity building. A small share of early Zakat receipts allocated to this Fund until IT and capacity are fully operational.
- Progressive substitution rule on national trigger points (verified increases in Zakat flows and proven reduction in poverty rates), gradually phase out regressive levies (VAT on staple foods/health/education) and replace with targeted direct taxation or continue modest indirect revenue where progressive.

C. Fiscal safeguards to maintain IMF and debt-market communication; include Zakat revenue projections in budget documents and independent third-party validation.

Implementation Roadmap

Transforming Pakistan's taxation system into a Zakat-based model demands a phased, pragmatic approach anchored in transparency, technology, and trust. It also involves giving all the stakeholders a seat at the table to entrust this as a national process.

Phase 0 — Governance & design (0–6 months)

- Establish an inter-ministerial Zakat Taskforce (Finance, Religious Affairs, Planning, NADRA, SBP, FBR, provincial reps, provincial Religious Affairs to coordinate).
- Pass interim Cabinet orders to create the Zakat Digital Hub and allocate seed funding.
- Launch pilot design: choose 3 pilot districts (one urban, one semi-urban, one rural) covering multiple provinces.

Phase 1 — Pilot & legal tweaks (6–18 months)

- Implement registry pilots, bank integrations, beneficiary targeting via NSER/BISP in pilots and startup.
- Draft and table amendments to Zakat Ordinance and the National Zakat Authority Act legislatively and enacted by law.
- Pilot automated nisaab calculations for bank deposits, listed securities, and gold.

Phase 2 — Scale & legislative embed (18–36 months)

- National rollout of the Registry & API hub; rollout to all provinces after provincial council constitutions are agreed.
- Full legislative passage of the National Zakat Authority Act.
- Start gradual phase-out of VAT on a pre-defined set of essentials in provinces where Zakat flows are verified.

Phase 3 — Consolidate & optimize (36–60 months)

- Full nationwide network of district Zakat boards; integrate with provincial development plans.
- Expand asset coverage (property proxies, pensions) following legal clarifications.
- Institutionalize independent evaluation and publish a 5-year impact report.

Risks & Mitigations

- Trust deficit (citizens prefer private Zakat) to mitigate with transparent dashboards, independent audits, and community boards; showcase early wins (school scholarships, emergency cash).
- Provincial legal challenges to build provincial Zakat Councils and draft revenue-sharing to respect federal balance.
- Data privacy concerns to legislate limited read-only access and retention policies; publish data access logs.
- Implementation capacity to fund capacity building and use international technical assistance (World Bank/ADB/UNICEF)
- Parliamentary oversight committee for Zakat (annual hearings).
- Independent external audit (AG or internationally accredited auditor) with public results.
- Real-time public dashboard of receipts & spending, with downloadable machine-readable data.
- Grievance redressal & whistleblower protection on SMS/IVR + field verification within 48 hours for complaints.
- Randomized audits & evaluations as randomized beneficiary verification (RVs) and independent impact evaluations every 12–24 months.
- Performance-based incentives for district boards: meeting transparent KPIs (inclusion rates, leakages reduced, graduation from poverty).

Annex — Draft Outline: National Zakat Authority Act

1. **Short title & definitions** (nisaab, asnaf, Zakatable asset classes).
2. **Establishment** of National Zakat Commission & Provincial Zakat Councils.
3. **Mandate**: collection, auditing, distribution, research & transparency.
4. **Data sharing powers** (NADRA/SBP/FBR) with privacy safeguards.
5. **Budget & fiscal rules** (transition fund clause).
6. **Accountability**: annual report to Parliament, independent audits.
7. **Penalties & enforcement** for false declarations / misuse.
8. **Sunset & review clause**: compulsory review after 5 years.

This draft focuses on how Pakistan can end unfair and exploitative taxation by building a fair, Zakat-based system. It explains the problems with the current tax setup, the role of Zakat in creating justice and equality, and how Islamic principles can guide economic reform.

Conclusion

Ending exploitative taxation is not just an economic necessity — it is a moral imperative. Pakistan's destiny lies in rediscovering its own values. A Zakat-based system can harmonize faith with fiscal justice, transforming taxation from coercion into compassion. As Allama Iqbal envisioned, by embracing Zakat as the foundation of our economic order, Pakistan can achieve justice, growth, and welfare for all.

Sources & Further Reading

- Federal Board of Revenue — Yearbook / tax composition.
- Reuters — Pakistan budget, tax measures and IMF context.
- Zakat & Ushr Ordinance, 1980 (text and government pages)
- BISP / NSER descriptions (digital registry & 8171 system)
- Institute of Policy Studies (IPS) "Islamic Social Finance for Social Protection" and related IPS zakat potential briefing (March 2023)
- ICTD / IDS factsheets and academic estimates on current zakat flows and state collection shortfall.
- Case studies on Malaysia's digitalization and decentralized Zakat organizations (academic articles, digitalization studies)