Ending Exploitative Taxation: A Zakat-Based Alternative for Justice, Growth, and Welfare

Introduction

Exploitative taxation characterizes tax systems that transfer fiscal risks away from wealthy and powerful people to poorer and politically marginalized people through systemically including regressive tax structures, selective exemptions, and cross-border shifting. Conventional taxation systems have become elements of exploitation rather than tools for equitable distribution and development in many developing and Muslim-majority countries(Cimen, 2025).This article explores how well-implemented Zakat systems can be an alternative mechanism to exploitative taxation systems, promoting economic justice, social welfare, and equitable wealth distribution. The concept of taxation, nowadays, has been challenged by the emergence of exploitative practices that actually concentrate on wealth rather than equitable redistribution, favoring elite rent capture, increasing inequality, and undermining social justice(Istiqomah et al., 2025).It often lacks transparency and moral legitimacy, which creates a crisis of trust between government and its citizens. Against this backdrop, Zakat works as a perfect, compelling alternative, which is a divinely mandated periodic wealth levy system based on Shariah principles. Zakat is designed under the divine rulings and specifically focuses on channeling resources from wealthy to poor segments of society(Saini & Hasan, 2024).Replacing conventional taxation systems with zakat-based systems can be both a welfare-enhancing fiscal framework and a growth-oriented sustainable economic development system.

Understanding Exploitative Taxation

Definition and Characteristics

Exploitative taxation refers to the practices related to fiscal policy that concentrate wealth hoarding, encourage rent extraction, and create social injustice instead of redistributing collected resources equitably. Key characteristics of exploitative taxation include:

Wealth Concentration Mechanisms: Conventional taxation systems are often in favor of wealth accumulation and elite rent capture through regressive tax structures, greater tax avoidance for the wealthy, and policies that place the burden of disproportionate tax on middle- and lower-income groups(Mohamed & E-Sor, 2025).For example, the General Sales Tax (GST) is applied in Pakistan uniformly, where a person earning Rs 25000 and someone earning Rs 2.5 million per month pay the same GST on goods and other services(Ibrahim & Zaidi, n.d.).

Institutional and Moral Failures: Conventional taxation systems often seem to lack transparency and accountability. As a result, the lack of these elements creates a path for corruption, wealth hoarding, and the use of tax resources for unethical purposes. Officials often manipulate tax applications through unofficial means like SROs (Statutory Regulatory Orders), which leads to powerful people avoiding taxes and getting benefited from undue privileges(Saini & Hasan, 2024).

Social and Trust Erosion: When taxation systems are perceived as unethical and exploitative practices, they often create a gap in terms of trust and social contract between citizens and the state, leading to weak government legitimacy. The Federal Board of Revenue in Pakistan highlights in a survey conducted in 2023 that many taxpayers believe that their contributions are used in either unethical and corrupt activities or wasted on unrealistic and unproductive investments(Jian & Shah, 2024).

Development Challenges: In many countries, exploitative taxation practices result in impediments to structural transformation, reduction of investment in human capital, and higher dependency on external financing. Tanzania, one of Africa's largest gold producers, has failed to collect significant revenue from its mining sector due to exploitative tax contracts with companies like Acacia Mining granting extensive tax incentives, tax holidays, royalty reductions, etc., that locked in favorable tax practices for foreign companies, limiting Tanzania's capability to tax mining profits effectively(Mager, 2025). As a result, Tanzania failed to collect sophisticated revenue from its valuable natural resources, limiting investment in human capital and structural transformation.

The Muslim-Majority Country Context:

The tension and differences between conventional taxation practices and Islamic principles create additional challenges among people in many Muslim-majority countries. People's view of interest-based financial systems and exploitative taxation leads to contradictions with Muslim religious values, creating unique opportunities for the implementation of Zakat as the best suitable alternative that aligns with both economic and religious objectives.

Zakat is a mandatory Islamic tax collected at 2.5% on assessable assets by the General Authority of Zakat and Tax in Saudi Arabia, functioning as an alternative to conventional income tax, which ensures a lower burden for local enterprises in comparison with income tax for foreign companies(Halim,Jalil, & Anasrul, 2025). Malaysia's different approach of integrating Zakat into a direct tax credit mechanism enhances legitimacy and compliance with shariah principles, resulting in religious and economic activities being fulfilled in view of its Zakat payers. Digital implication of Zakat also improves outreach and ease of payment. For example, Oman's Zakat Board collected more than OMR110,000 online in 2018 alone, and funds are distributed directly to education, health, and welfare sectors.

Zakat: The Islamic Alternative

Theological and Legal Foundations

Zakat is one of the five pillars of Islam, making it a fundamental obligation for qualified Muslims. Zakat is different from Sadaqah (voluntary charity), which consists of specific rules regarding its calculation and collection as well as distribution. It is regarded as a spiritual purification of wealth, not merely as a tax but as a system promoting spiritual welfare and social prosperity. Zakat is only applicable on wealth that exceeds a minimum threshold (nisab) withheld for a full lunar year and rates 2.5% on monetary wealth payable to eight certain groups of people(Cimen, 2025).

Socioeconomic Objectives

Zakat serves many socioeconomic objectives aligned with sustainable development goals:

Poverty Alleviation: Zakat breaks the cycle of poverty by directly transferring wealth from the wealthier to the poor and needy(Nasution et al., 2025).A study conducted in Indonesia revealed that Zakat distribution eliminates poverty rates by about 84.4%, where each unit increase in the collection of Zakat results in a reasonable decline in poverty reduction.

Economic Circulation: Zakat works as a mechanism of circulation of wealth in the economy while preventing excessive hoarding and accumulation of wealth and promoting productive economic activities(Sugianto et al., 2024).In many Muslim countries, like Indonesia and Malaysia, the Zakat fund is allocated as venture capital or business capital to invest in productive assets and small startup businesses, improving livelihoods and economic growth.

Social Cohesion and Human Development: As zakat is a divinely mandated practice, it reduces gaps between different economic classes and fosters social solidarity.Supporting vulnerable groups like Gharimin (debtors), muallaf (converts), and Ibn sabil (travelers in need) is the best example of strengthening social solidarity and harmony and reducing disparities among Muslims(Chalid & Zubaidah, 2025).Zakat funds can be used in education, healthcare, and skill development initiatives when practiced properly and ethically.Under the fi sabilillah category, Zakat in Kedah, Malaysia, allocated about 34% to education-related causes in 2020 with more than 30000 beneficiaries.

Growth and Development Impacts

Zakat's positive economic effects can be observed from some recent empirical studies providing compelling evidence for its growth:

GDP Growth Stimulation: Ben Jedidia and Guerbouj conducted a dynamic analysis in eight Muslim countries (2004-2017) and found that Zakat enhances GDP growth through different mechanisms, including increased consumption, investment, and public spending(Jedidia & Guerbouj, 2020). Their research revealed that a 1% increment in zakat collection can have a measurable improvement in economic growth rates(Hasibuan, Gbla, Salawe,2024).

Inequality Reduction: An analysis conducted by Widodo in Indonesia demonstrated that Zakat significantly reduces income inequality, as social Islamic finance systems perform the best in promoting equitable wealth distribution(Chalid & Zubaidah, 2025b).

Poverty Gap Coverage: Potential Zakat collection could make up to 7% of GDP if done with full mobilization, which is a sufficient portion covering the national poverty gap in Pakistan, according to Shaikh's economy-wide estimation(Nasution et al., 2025b).

Case Study Evidence

Country-specific studies are explained for additional validation.

Indonesia: Zakat programs have successfully reduced income inequality and promoted productive wealth redistribution, though challenges related to regulatory framework and awareness remain(Sugianto et al., 2024b).An estimated IDR 327 trillion per year of Zakat potential in Indonesia. Zakat allocation reduces poverty for about 50% of beneficiaries, according to the Central Bureau of Statistics.

Malaysia: Well-implemented Zakat and Waqf systems have proven concrete poverty reduction and financial inclusion outcomes, especially when funds are used in target productive activities rather than mere consumption, for example, Lembaga Zakat Negeri Kedah Darul Aman, Kedah, Malaysia(Razak, 2019).

Morocco: Zakat implementation has significantly proven positive impacts on equitable wealth redistribution and social welfare, particularly greater success in rural development programs(Lahjouji & Rouggani, 2016).

Pakistan: The government-run Zakat system in Pakistan has made a significant contribution to poverty reduction despite facing challenges related to trust and administration. The headcount ratio of poverty reduction declined slightly from 55.2% to 38.8% because of social safety net mechanisms, which include Zakat redistribution. Pakistan's Zakat system has a giant potential with over 4% of GDP if Zakat systems run efficiently with full transparency and accountability.

Comparative analysis with conventional systems

Comparing the Zakat-based fiscal system with the conventional system will help identify several advantages that strengthen my viewpoint.

Higher compliance: The religious and moral obligation to pay Zakat seems to have more compliance rates compared to the taxation system. A study in East Malaysia found that spiritual duty has a greater influence on factors such as behavioral control, taqwa, and attitude, emphasizing more attention to paying Zakat compared to paying tax, where risk assessment and penalty avoidance have led to ignorance among taxpayers(Khalil, Amin, & Azman, 2020).

Lower Administrative Costs: Zakat systems cost less than conventional taxation systems because of simplified calculation methods and collection mechanisms driven by classical sources(Çimen, 2025b).According to Shariah scholars, the administrative cost of Zakat generally should not cross 12.5%, ensuring maximization for the benefits of Zakat recipients. However, the operational cost for conventional tax collection often exceeds 15-20% due to its complex and exploitative systems(Ataina & Tohirin, 2010).

Better Targeting: As the recipients of Zakat are defined by Islamic law, it excels at better poverty targeting than conventional taxation systems. Zakat's strict targeting makes for more accurate resource redistribution to those in need. Quantitative and longitudinal studies revealed Zakat's ability to focus on immediate support and socio-economic development by its targeted approach, whereas government fiscal policy on spending often fails to build a direct impact due to operational inefficiency and administrative leakages(Hilmi et al., 2023).

Call for Integration

The integration of Islamic fiscal principles in current economic systems demonstrates not just a religious obligation but a clear way of developing equitable and sustainable progress. As conventional taxation systems widely fail to address social injustice and growing inequality, Zakat remains as the best alternative rooted in principles of transparency, fairness, and social responsibility. For policymakers, the choice is clear and definite: either continue with exploitative taxation systems that undermine growth and equality or embrace Zakat-based alternatives that promote justice, welfare, and sustainable economic development and are capable of addressing economic challenges as a practical fiscal instrument.

Conclusion

As we are facing global challenges of poverty, injustice, inequality, and social unrest, the wisdom of implementing a divinely based Zakat system gives hope to sustain a more equitable and sustainable future, which will be sheltered by justice and social equality. By embracing Zakat-based alternatives, we can create an economic system that serves the well-being of the people and enhances a welfare society while addressing the shortcomings of conventional taxation.

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