

Zakat-Based Taxation for Justice and Economic Growth

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Zakat, one of the five pillars of Islam, is not only a spiritual duty but also an economic mechanism designed to promote social justice and equitable distribution of wealth. In modern economic systems, where inequality and poverty remain persistent the idea of a zakat based taxation system offers an ethical and sustainable framework for economic development. Integrating zakat principles into state taxation policies can strengthen social welfare, reduce income disparities and stimulate inclusive economic growth. For a zakat-based taxation system to work effectively for justice and economic growth in Pakistan experts propose overhauling the current state-run zakat administration which is plagued by low collection inefficiency and a lack of public trust. The potential of a properly structured zakat system is significant with estimates suggesting it could raise funds equivalent to 4% to 7% of GDP enough to cover the nation's poverty gap. Linking Islamic instruments like zakah with social responsibility and economic growth is an area which is often unspoken. As such, this research intends to find out the potential challenges zakah can face while it is used as a fiscal policy tool which has links with Islamic socially responsible financing to economic growth to poverty alleviation. Though many Muslim based countries use Tax as an alternative tool for government earning, zakah as a tool has a broader spectrum from having an impact on economic development to the role as an instrument for Islamic socially responsible finance. This research uses a qualitative paradigm to analyze the literature. The research is based on desk-based research. The findings of this research prove that there are challenges to establish zakah as prescribed in the revealed text which can be minimized through different actions. It is a projected executed plan to manage zakah could be used as an instrument of fiscal policy as well as an Islamic socially responsible financing instrument. The term zakat comes from the Arabic root zakā, meaning purification and growth, symbolizing the idea that wealth becomes purified when shared, and that both individuals and society grow morally and economically when the needs of the poor are met.

The Qur'an states:

Take from their wealth a charity by which you purify them and cause them to increase
(Surah At-Tawbah, 9:103).

This verse highlights that zakat purifies the wealth of the giver, sustains the needy, and strengthens the bonds of social unity.

In Islamic economic philosophy, wealth belongs ultimately to Allah, and humans are merely trustees (amin) over it. This concept implies a moral obligation to use wealth responsibly and for the benefit of society. Islam discourages the accumulation of wealth for selfish purposes, emphasizing instead its productive and social use.

The Qur'an warns:

So that wealth may not merely circulate among the rich of you

(Surah Al-Hashr, 59:7).

Thus, zakat ensures that economic resources flow continuously and inclusively throughout the community, reducing inequality and preventing social tensions.

Unlike conventional taxation systems that primarily aim to generate state revenue, zakat focuses on achieving socioeconomic justice and moral reform. It applies to specific forms of wealth such as savings, gold, silver, livestock, agricultural produce and trade goods once they exceed the nisab (minimum threshold) and have been held for one lunar year (hawl). The usual rate of 2.5% is small enough not to discourage wealth creation, yet large enough to make a meaningful impact when redistributed collectively. This mechanism creates a natural balance between individual enterprise and communal responsibility.

The Prophet Muhammad (peace be upon him) emphasized the societal importance of zakat, saying:

Protect your wealth by paying zakat, heal your sickness by giving charity, and face trials with supplication.

Economically, zakat functions as a stabilizing force. By channeling wealth from those who have a surplus to those in need, it increases purchasing power among low-income groups, boosting consumption and stimulating production. This circulation of resources generates employment and economic growth. Moreover, since zakat discourages hoarding, it encourages investment in productive ventures. As a result, zakat contributes to both social welfare and macroeconomic stability. Islamic economists like M. Umer Chapra argue that zakat can serve as an automatic fiscal stabilizer, reducing income disparities while sustaining aggregate demand.

Several Muslim-majority countries have adopted institutionalized zakat systems that demonstrate its practicality in modern economies. Malaysia's zakat collection and distribution model is among the most successful. Zakat institutions there operate under state Islamic councils and fund educational programs, housing projects, health services, and micro-enterprises. The result has been measurable poverty reduction and increased community development. In Saudi Arabia, zakat is administered by the General Authority of Zakat and Tax, integrated with modern fiscal policies. Pakistan's Zakat and Ushr Ordinance of 1980 also sought to institutionalize zakat collection through state channels, distributing funds to local committees for welfare projects. However, the system has faced administrative and political challenges, including mismanagement, lack of transparency and public mistrust.

To fully realize zakat's potential as a fiscal instrument, strong governance and accountability are essential. Governments and zakat institutions must ensure transparent collection, accurate record-keeping, and fair distribution. Digital zakat platforms can play a major role by allowing real-time tracking of funds and beneficiaries. Public awareness campaigns are equally important to educate citizens about the economic and spiritual significance of zakat. Collaboration between state institutions, private organizations, and religious scholars can create a robust and

credible zakat-based taxation framework. This can also align with the United Nations' Sustainable Development Goals, particularly poverty eradication, social justice and economic inclusion.

Zakat's distinct moral and ethical foundation makes it more than just a financial policy; it is a comprehensive system of welfare and justice. It upholds the dignity of recipients by recognizing their right to assistance rather than treating them as passive beneficiaries. It encourages the wealthy to contribute voluntarily out of faith and compassion rather than coercion. The formal zakat system in Pakistan was institutionalized under General Muhammad Zia-ul-Haq through the Zakat and Ushr Ordinance of 1980. This legislation made zakat deduction mandatory at source from savings accounts, pension funds, and other financial instruments held by Muslims. The collected funds are distributed through a multi-tiered structure comprising the Central Zakat Council, Provincial Zakat Councils, District Zakat Committees, and Local Zakat Committees. The primary areas of disbursement include healthcare, education, social welfare, rehabilitation of the poor and direct financial support to the needy. According to official data, the government collects billions of rupees annually under zakat, which are intended to reach the poorest segments of society.

However, despite the good intentions and strong religious foundation, the zakat system in Pakistan has struggled to achieve its full potential. One of the main challenges is the lack of transparency and accountability in collection and distribution. Many people choose to pay zakat privately rather than through the official system, as they distrust government-managed funds. This reduces the size of the formal zakat pool and undermines its ability to make large-scale developmental impacts. Additionally, the selection of beneficiaries at the local level is often influenced by political and social biases, leading to unequal or unfair distribution. Another significant issue is administrative inefficiency. The bureaucratic structure of zakat management often delays disbursements, while overlapping jurisdictions between provincial and federal authorities create confusion. Furthermore, inadequate record-keeping and limited use of modern technology weaken the tracking of funds and beneficiaries. As a result, a considerable portion of the population that deserves zakat assistance remains excluded. The system's dependency on manual data and paperwork further limits its effectiveness in a population exceeding 240 million.

Economically, zakat can play a crucial role in promoting inclusive growth if integrated into Pakistan's fiscal and development policies. When properly collected and redistributed, zakat increases the purchasing power of the poor, stimulates local markets, and creates employment opportunities. It can also be used to fund skill development programs, education scholarships, healthcare initiatives, and small business support for marginalized groups. By doing so, zakat can transform from a charitable mechanism into a productive investment for human capital and entrepreneurship. This approach aligns with the Islamic economic vision of balancing spiritual values with material progress.

The government of Pakistan has the opportunity to modernize the zakat system using digital platforms and data analytics. Online zakat collection systems, mobile apps, and national databases linked with NADRA (National Database and Registration Authority) can ensure

transparency, reduce corruption, and accurately identify eligible recipients. Collaboration with private sector institutions, such as Islamic banks and NGOs, can also enhance efficiency. For example, the Ehsaas Program and Benazir Income Support Programme (BISP) already use digital systems for cash transfers; integrating zakat distribution with these models could strengthen social safety nets.

The moral foundation of zakat makes it a unique and sustainable tool for social justice. It fosters compassion and responsibility among citizens while reducing dependence on foreign aid or loans. Zakat payments, when institutionalized effectively, promote economic self-reliance and dignity among the poor.

As Islamic scholar Maulana Maududi observed,

Zakat is not a mere charity; it is an essential pillar of an Islamic economy that ensures the poor have a rightful share in the nation's wealth.

This reflects the core spirit of zakat as both a moral duty and an economic right. A reformed zakat-based taxation model could also complement Pakistan's formal fiscal system. Currently, the country relies heavily on indirect taxes, which disproportionately affect low-income groups. Zakat, by contrast, targets wealth rather than consumption, making it inherently progressive. Integrating zakat with the broader tax policy could promote fairness, encourage voluntary compliance, and align economic governance with Islamic values. For instance, taxpayers who pay zakat could receive partial tax credits or exemptions, ensuring both spiritual and fiscal incentives for participation.

Beyond economics, zakat carries a profound social and ethical dimension. It creates a sense of brotherhood and shared responsibility strengthening community cohesion.

The Prophet Muhammad (peace be upon him) said:

He is not a believer whose stomach is filled while his neighbor goes hungry

This moral teaching underscores that zakat is not simply a financial transaction but a spiritual act that binds the community together. It bridges the gap between the rich and poor, promoting empathy and reducing social tensions. In a society like Pakistan, where economic inequality often leads to frustration and crime, the revival of zakat's social spirit can help build peace and stability.

It is important to remember that zakat in Islam is not charity (sadaqah); it is a right of the poor over the wealth of the rich.

The Qur'an clearly declares:

And in their wealth there is a known right for the beggar and the deprived

(Surah Adh-Dhariyat, 51:19).

This verse establishes zakat as a legal and ethical duty, not merely voluntary generosity. Therefore, in the Pakistani context, paying zakat through institutional channels is both a personal obligation and a civic responsibility. It reflects faith in divine justice and commitment to national welfare.

The long-term economic potential of a zakat-based taxation system in Pakistan is immense. If managed efficiently, it can fund universal education, rural development, women's empowerment and small business financing. The impact would extend beyond poverty reduction to include social inclusion, human development, and economic self-reliance. It would also strengthen Pakistan's image as a country capable of combining Islamic values with modern governance principles.

Furthermore, a well-regulated zakat-based taxation system could complement Pakistan's existing fiscal policies. Currently, the country relies heavily on indirect taxes such as sales tax and customs duties, which burden the poor more than the rich. By contrast, zakat targets wealth, not consumption, making it a fairer and more equitable form of taxation. Integrating zakat principles into the broader taxation framework can create a morally guided, socially responsible and economically efficient fiscal system. It would also encourage voluntary compliance, since zakat is rooted in religious faith and moral obligation rather than coercion. For Zakat to fulfill its purpose in Pakistan, several reforms are crucial. First, transparency must be prioritized through the adoption of digital tools and independent audits. Second, the process of identifying beneficiaries should be merit-based and free from political influence. Third, a national awareness campaign should be launched to restore public trust in the zakat system and emphasize its role in achieving social justice. Finally, policymakers must view zakat not just as a welfare instrument but as a core component of national economic planning.

The Prophet (peace be upon him) said:

The upper hand is better than the lower hand, signifying that giving is a source of honor and spiritual elevation. When zakat is implemented effectively, it reduces class divisions, strengthens community trust, and promotes collective prosperity.

Furthermore, the integration of zakat into modern taxation systems offers a pathway toward a balanced moral economy. By combining zakat's ethical principles with the administrative structure of state taxation, Muslim countries can create hybrid fiscal models that ensure both efficiency and justice. This approach aligns with the objectives of Islamic law (Maqasid al-Shariah), which aim to preserve religion, life, intellect, lineage and wealth. Through zakat, wealth is preserved, redistributed and used to uphold these fundamental human values.

In the long term, zakat-based taxation can foster inclusive growth, reduce poverty, and bridge the gap between rich and poor. It instills a sense of social solidarity and spiritual accountability, encouraging both economic productivity and compassion.

The Qur'an praises those who give zakat, saying:

And those who are constant in prayer and those who give zakat are among the rightly guided

(Surah Luqman, 31:4).

This verse captures the dual purpose of zakat to nurture both moral development and social justice.

Zakat-based taxation represents one of the most profound contributions of Islamic thought to the modern understanding of economic justice. It transforms taxation from a mere financial obligation into a moral duty grounded in compassion, equity, and accountability. In a world struggling with widening income disparities and social injustice, the principles of zakat offer a sustainable and humane alternative. By institutionalizing zakat within modern fiscal systems, societies can address poverty at its roots, promote ethical governance and ensure that wealth serves humanity rather than dominating it.

As Imam Al-Ghazali beautifully stated,

A nation can survive without gold or silver but not without justice.

Zakat embodies that justice: it purifies wealth, uplifts the poor and creates an economy where prosperity and morality grow together. In essence, zakat-based taxation is not only a path to economic growth but also a divine formula for peace, balance and human dignity. By reviving and reforming the zakat system, Pakistan can build an economy founded on justice, compassion, and collective prosperity. Implementing zakat as a structured and transparent economic policy can bring that justice to life transforming Pakistan's economy into one that truly serves all its people.

The Qur'an reminds believers:

And those who give zakat and those who believe in the Hereafter are among the successful

(Surah Luqman, 31:4)