Ending Exploitative Taxation

A zakat-based system for justice, economical growth & welfare for all.

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Abstract

This essay discusses the social and economic effects of exploitative taxation, with specific emphasis on its effects on inequality and well-being. It posits that traditional taxation systems tend to cater to the poor while letting the rich off the hook, perpetuating cycles of poverty and injustice. Relying on Islamic values, especially the zakat institution, the essay underscores how a God-driven system of wealth redistribution does not only have religious importance but also effective solutions in terms of justice, sustainable economic development, and well-being of all citizens. Through Qur'anic revelation, historical examples such as Abu Bakr's implementation of zakat, and modern Pakistani economic conditions, the essay proves that zakat is a realistic substitute for exploitative taxes. Lastly, it suggests reforms at the individual and national level to re-establish equity, deepen economic circulation, and create a society where wealth elevates instead of enslaves. This paper argues that a zakat-based economic model can replace exploitative taxation by aligning moral intent with fiscal justice.

"So that wealth does not circulate only among the rich among you" *(59:7)*

This verse captures the essence of economic justice: wealth should circulate across society, not remain locked in the hands of a few. Islam foresaw the danger of inequality centuries before modern economists described it.

This verse establishes the essence of Islamic economics: wealth is a trust, not an absolute possession, and its circulation is a means of both purification and prosperity. But contemporary taxation systems, theoretically established to redistribute wealth, have in reality tended to be exploitative. Rather than reducing poverty, they often weigh heavily upon the poor under the guise of regressive and indirect levies, while allowing the wealthy to protect their riches. This kind of skewing not only sustains inequality but eats away at social harmony and undermines governance credibility.

Pakistan is a case in point. One of the lowest tax-to-GDP ratios in South Asia, rampant evasion by the elite, and close to 40% of its population subsisting below the poverty line (and sometimes estimates running up to 70%) mean that the burden of fiscal imbalance falls most disproportionately on the poor. When taxation fails to empower and instead chokes, it becomes an agent of injustice rather than an instrument of justice.

Conversely, the Islamic system of zakat provides a divinely appointed scheme of justice, development, and well-being. Zakat is more than a spontaneous act of benevolence; it is an organized system of economics based on fairness and compassion. In the past, it was the pillar of thriving Muslim communities, and even Caliph Abu Bakr رضي الله عنه went to war against those who refused to give it, testifying to its place of central importance to the community's very survival.

This essay contends that reviving zakat as an operative economic system, in combination with contemporary reforms, can disassemble exploitative taxation and create a system where justice, welfare, and expansion are not privileges of the few but rights for all. The inequality crisis that we are experiencing now is not just economic; it is ethical. Institutions that are supposed to serve have started to choke. To fully appreciate how this imbalance came about, let us first examine how exploitative taxation distorts justice and undermines human dignity.

Exploitative Taxation and Economic Injustice

Exploitative taxation is a system where the tax burden disproportionately falls on the people least capable of undertaking it. Rather than encouraging fairness, the system exacerbates inequality by taxing consumption and not wealth. The poor, who allocate the greater proportion of their earnings to necessities, pay a greater proportion of their meager earnings in taxes, while the affluent—whose wealth is in assets and investments—frequently pay less compared to their ability.

In Pakistan, this disparity is glaring. Much of the government's income in the form of revenue is derived from indirect taxes—like the General Sales Tax (GST), excise, and fuel and electricity levies. They are hidden in the prices of our daily necessities: bread, sugar, cooking oil, and even medicines. The affluent might not even feel a few rupees more on their shopping bill, but for the working man, such increments nibble at the edges of survival itself.

In contrast, the luxury industries—property, capital gains, and high-margin businesses—tend to have relaxed policies, tax breaks, or mere avoidance through loopholes. To illustrate, while a worker pays tax on each litre of petrol he purchases, a millionaire may under-declare income from property undervaluation or foreign holdings. Thus, the poor indirectly subsidize the comfort of the elite.

This structure accelerates the concentration of wealth. According to various reports, Pakistan's richest 1% owns nearly 16% of the total wealth, while the bottom half of the population struggles to meet basic needs. The principle of
the rich get richer, and the poor get poorer
stops being a cliché—it becomes a lived experience. When taxation stops being progressive and becomes regressive, it no longer serves as an instrument of justice; it becomes an instrument of exploitation.

In an economic system where bread is taxed but foreign cars are not, justice becomes a privilege, not a principle.

Zakat: The Divine Blueprint for Economic Balance

In Islamic economics, zakat is much more than a gesture of kindness—it is a mandatory social and economic responsibility, ordained by Allah to cleanse wealth and establish justice. The term zakat itself is derived from tazkiyah, which means "purification" and "growth." Zakat cleanses the soul of the donor from avarice and the wealth itself from pollution, and yet enables both to increase in barakah and meaning.

The main function of zakat is threefold: purification, redistribution, and circulation. It cleanses wealth by stripping off a part that does not belong to the owner, redistributes it among the less fortunate, and maintains economic circulation active by averting hoarding. Islam acknowledges that when wealth gets mired in the hands of a few, society starts decaying. Zakat, therefore, acts as a divine system that maintains balance between individual ownership and public responsibility. The Qur'an reminds us:

"And establish prayer and give zakat, and whatever good you put forward for yourselves—you will find it with Allah." *(Surah Al-Baqarah, 2:110)*

The above verse reiterates that zakat, as prayer, is not a matter of choice. It is one of the pillars of faith, tying the moral and the material together into one act of worship.

Classical thinkers like Imam Al-Ghazali defined zakat as "the bridge between wealth and worship", highlighting that there is no ethical economic system that can exist unless it benefits the poor. Contemporary Islamic economists subscribe to this, indicating that zakat converts wealth into an instrument of mercy instead of a tool of power.

Unlike taxation, which tends to be imposed by state policy and driven by revenue, zakat is based on conscience and empathy. Taxation requires payment; zakat encourages involvement. Taxes can fund governance, but zakat supports human life. Exploitative taxation adds wealth; zakat distributes it—making sure that prosperity trickles down throughout society instead of pooling at its pinnacle. As the Prophet ﷺ stated:

“In wealth, there is a due right beyond zakat.” *(Tirmidhi)*

Thus, zakat is not the ceiling of generosity—it is the foundation of justice.

Zakat in Practice

The early Islamic period is a living witness to the manner in which divine values, when implemented with sincerity and fairness, reshape societies. The two most vibrant examples are the caliphates of Caliph Abu Bakr al-Siddiq رضي الله عنه and Caliph Umar ibn Abdul Aziz رحمه الله—two rulers who understood that zakat was not a ritual tax, but the pulse of an Islamic state. When the Prophet ﷺ passed away, several tribes refused to pay zakat, claiming that it was owed only to the Prophet and not to the state. Many leaders at the time advised Caliph Abu Bakr رضي الله عنه to avoid conflict, fearing disunity. Yet his response became immortal in Islamic history:

"By Allah, I shall fight those who make a distinction between the prayer and zakat, for zakat is the right due upon wealth." *(Sahih Bukhari)*

This was not a political statement; this was a moral one.

Abu Bakr realized that denying zakat was not an economic matter—it was an insurgency against the justice of Islam itself. For him, a community that gives up on zakat gives up on equality, mercy, and togetherness. A hundred years later, when Caliph Umar ibn Abdul Aziz was ruling, the real potential of zakat was unleashed again. His leadership was characterized by honesty and simplicity. As compared to most rulers, he considered leadership an amanah—a trust in front of Allah. He reorganized the collection and disbursal of zakat so transparently that, in a span of only two years, there was a miraculous change: poverty practically ceased to exist.

Historians document that zakat collectors, during his time in power, would look for recipients but fail to find any. The treasuries were full, and individuals started using the excess to manumit slaves and care for travelers. Imam Abu Ubaid in his Kitab al-Amwal states that when officials inquired where to direct the residual funds, Umar ibn Abdul Aziz said: "Purchase grain, and spread it on the mountaintops, so that even the birds will not suffer hunger in the land of Muslims." Such was the spirit of zakat—benevolence bestowed beyond human beings upon every living being beneath Allah's heavens.

Pakistan as a Case Study

Pakistan is at a crossroads today where economic policies and moral obligation are increasingly disconnected. Despite the country's unlimited natural resources, youthful population, and agricultural capability, the state remains mired in phases of inequality and dependence. The issue is not the lack of wealth—rather, it is the diversion of wealth. Pakistan's current tax regime is generally considered to be regressive. Almost *60% of national income is derived from indirect taxes*—sales tax, customs duty, and levies on necessities like fuel, food, and electricity. They quietly drain the poor but spare the rich.

Whenever a wage earner purchases flour or electricity, he pays more, proportionally, than a businessman who imports luxury items. Thus, the working class funds the luxury of the elite. Concurrently, the rich elite, such as industry leaders, feudal landlords, and parts of the corporate class, get liberal exemptions, tax amnesties, and the luxury of evasion. In *2023*, Pakistan's tax-to-GDP ratio was at *9–10%*, one of the **lowest in South Asia**, well short of what a successful welfare state needs. The irony is compounded when one considers that only around **2% of Pakistanis make income tax returns**, while millions pay indirect taxes every day without credit or relief. This imbalance is profoundly dangerous. Inequality keeps increasing, with close to *40% of the population below the poverty line* and reports at times putting it *as high as 70%* when inflation takes a leap. The middle class—hitherto an indication of national strength—is dwindling in the face of fuel prices, static wages, and indirect taxation.

To bridge the increasing gap, Pakistan keeps on approaching the International Monetary Fund (IMF) for loans. Every agreement provides temporary success but increasing dependence. The IMF conditions of increasing taxes, slashing subsidies, and currency devaluation further tighten the noose around the poor. The nation gets trapped in an economic cycle wherein the poor pay more, the rich hide, and the country borrows to live. The tragedy is not that we don't have wealth, but that our wealth isn't moving. Islamic economics instructs that prosperity is not in accumulating, but in circulating. But in Pakistan, wealth tends to be amassed in real estate, gold, and offshore assets, beyond the reach of zakat or taxation. The economic bloodstream has become stagnant. Unless wealth is cleansed and circulated through instruments like zakat, poverty will not only remain—it will increase. This situation starkly stands in contrast with the halcyon days of Islamic rule, when zakat eliminated pauperism and fostered social harmony. Presently, Pakistan's system reflects the opposite: taxation without justice, collection without mercy, and administration without moral foundations.

Zakat-Based Justice and Welfare

Real economic renewal starts not with fresh policies or taxes, but with renewal of an ancient command — Zakat. Islam does not divorce economics from spirituality; it combines the two to make material wealth work for moral good. Zakat, when collected communally, can be a welfare system of the times — treating poverty, unemployment, and inequality at their origins. If handled openly and structurally, it can pay for education, health, microloans, and rehabilitation for the poor — turning dependence into empowerment. The intention is not charity, but economic dignity. For, as the Prophet ﷺ taught:

"The upper hand is better than the lower hand." *(Bukhari, Muslim)*

— reminding us that generosity is not a burden, but a privilege that makes society stronger.

Individual and Collective Responsibility

At the individual level, Muslims should approach zakat and *sadaqah* not as annual rituals but as acts of justice — a cleansing of both wealth and soul. Extravagance, hoarding, and thoughtlessness in expenditures should be substituted by modesty, generosity, and reflective giving. Together, our institutions — mosques, NGOs, and state

— need to regain faith in zakat collection and disbursal. Transparency, structure, and accountability can make zakat a national safety net that brings down reliance on foreign aid and foreign debt. As the Prophet ﷺ so elegantly connected belief with compassion

"He is not a believer whose stomach is filled while his neighbor goes hungry." *(Sunan al-Kubra, Bayhaqi)*

When hearts become aware and systems are brought into line with divine justice, money will flow and poverty disappears — not in slogans, but in action motivated by faith.

Conclusion: A Vision for Justice

Our economy's tale is not a numerical tale — it is a hunger, struggle, and resilience tale. Ending exploitative taxation is not about swapping one system for another; it is about rediscovering a moral compass for how we earn, share, and live. A zakat-based economy is not something from the past that we imagine; it is a living precept ready to be awakened — one in which spiritual accountability is coupled with social responsibility. When wealth is circulated with justice, blessings take the place of greed. When people become natural in giving, poverty is not seen anymore. Islam's economic vision does not seek to equate everyone in terms of wealth, but everyone in terms of dignity. And that dignity starts when every Muslim realizes that what is in his hand is not ownership, but amanah — a trust from Allah. Pakistan, like so many countries in the world today, is at a moral junction: between policies that benefit the influential and principles that benefit the people. But history demonstrates that one act of genuine redistribution can transform a society. The transformation starts not with institutions, but with intentions — in each household that opts for fairness over extravagance, and for compassion over convenience.

Let our economy breathe justice, not exploitation. Let zakat be the bridge of faith and freedom, the giver and the deprived. For when wealth moves through hands and hearts in equal measure — justice is no longer an ideal, it is our reality.

“And those in whose wealth there is a recognized right, for the needy and the deprived.”

(Al-Ma’arij, 70:24–25)

May our wealth flow not through banks, but through hearts.