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

The contemporary economies are very much intertwined in a system of taxation that mostly tends to discriminate the poor as well as favor the wealthy. Consumerism through heavy consumption taxes, indirect taxes and fiscal policies that are based on interest are all contributing factors to inequality, corruption and social restlessness. In spite of the increasing GDPs, poverty and disenfranchisement remain and this indicates a huge defect: the current taxation systems are not founded on justice, but exploitation.

Islam provides the Godly alternative - a Zakat-based system that is not confined to man-made taxation. Zakat is a full economic philosophy based on justice (adl), kindness (rahmah), and social wellbeing (falalah). Replacing the exploitative taxation system with one that is based on Zakat and voluntary charity, societies will be able to have a self-sustaining economy that is conducive to growth, eradicates poverty, and provides dignity to everyone.

The current tax regimes were mostly formulated in colonial or industrial times to accommodate the interests of the government and elites. Indirect taxes, including sales tax, value added tax (VAT), fuel levies among others, are today devouring disproportionate income of the lower and middle classes.

An example of this is that a poor worker and a financially strong entrepreneur are subjected to equal sales tax on bread but the effect is enormous on the former: to the poor, it is life and to the rich, it is nothing. This system is against the Quranic vision of economic justice as it orders:

So that money not merely go round and round amongst the wealthy of thee. (Quran 59:7)

Inequality is further aggravated by the weight of debt that is in form of interest. When the governments are deficient in the budget, they borrow to make up the deficit. The outcome is a vicious circle: the intensified borrowing, the increased interest payments and the increased taxation. This building reminds the exploitation that Islam is trying to abolish.

One of the Five Pillars of Islam, Zakat, is the spirit of a conscionable economy. It is not charity, but right of the poor against the rich. The Quran commands:

And there is a right to the beggar and the deprived in making their riches. (Qur'an 70:2425)

Zakat is imposed only on the people who have an amount of wealth exceeding the value of Nisab hence is inherently just and progressive in nature. Contrary to the current day taxes that tend to penalize productivity and consumption, Zakat cleanses wealth, stimulates circulation, and inspires investment in actual economic activities but not speculative ones.

The Prophet Muhammad ﷺ has said:

Take of their wealth charity through which you cleanse them and make them multiply. (Sahih al-Bukhari)

This religious equation connects religious cleansing to financial success. The gathering and dispensation of Zakat is not only to amend the poor but also to establish a well off, integrated community.

The history of Islam is full of examples on how the power of just Zakat system is transformative.

The Zakat collection was such an effective way of alleviating poverty, that it was during the caliphate of Umar ibn al-Khattab (RA) and Umar ibn Abdul Aziz (RA), that Zakat collection was managed by the state. Historians document that in certain areas, everyone was deemed unfit to get Zakat since all the citizens had been provided with the necessities.

The revenues received were shared amongst the eight categories as provide in Quran 9: 60 - the poor, the indebted, and those at work in the way of Allah - to have a balanced and targeted welfare system.

Furthermore, during the classical Islamic ruling no direct taxation was levied on Muslims except on the exceptional cases like during warfare and even then, it was temporary. Even non-Muslims made their fair share by paying a modest tax to remain under the protection of the ruler and escape the obligation to join military service; which was much less oppressive compared to the exploitative system of contemporary states.

Quite on the contrary to the myth that Zakat is a simple redistribution of the wealth, it is in fact an active driver of economic growth:

The fact that idle wealth is liable to Zakat will attract people to invest in business, agriculture or trade which will result in more production and jobs. Zakat is the source of reducing inequality. The wealth circulation between the poor and the rich increases consumption and aggregate demand, which drives markets up. Getting rid of Hoarding can be done by zakat. Hoarding (kanz) is outlawed by the Islamic religion so that money remains in circulation in the society. Zakat can enhance social solidarity. Zakat has a spiritual aspect that builds empathy, which minimizes the tension of classes and enhances social harmony.

Contemporary economists, especially Dr. Umer Chapra and Muhammad Nejatullah Siddique have noted how Zakat might be a better and fairer fiscal tool than traditional taxation in Muslim dominant states. It decreases the administrative complexity, evasion (through moral responsibility) and fiscal policy is tied to ethical demands.

In order to switch to the new types of taxation with Zakat, the states have to make a gradual, well-calculated change which will fit the modern realities of the economy.

1. Zakat Collection:

Zakat should be institutionalized to guarantee effective collection of Zakat. Zakat should be institutionalized to ensure that Zakat funds are collected well. They should be administered in transparent decentralized institutions that are governed by Sharia as witnessed in Malaysia and Sudan. Efficient collection and responsibility can be guaranteed with the help of Digital Zakat platforms.

2. Combination with State Welfare Programs:

Instead of being used to duplicate efforts, Zakat money should be used to fund education, medical care, housing and debt relief instead of the current inefficient subsidies and bureaucratic welfare programs.

3. Reviewing the interest taxes phasing out:

Since Zakat fund stabilizes, the governments can slowly ensure that exploitative tax such as VAT and income tax is replaced with faith based fiscal tools like Ushr (agricultural tithe) and Khums as a type of wealth generated by certain means.

4. Publicity and Religious Energizing:

Zakat cannot be successful without conducting a change in the consciousness of the population. Zakat can be rediscovered again by educational campaigns in mosques, universities, and media to convert compliance in devotion.

Case Studies and Potential Practical.

Some countries have tried to introduce Zakat-inspired economic models in the last few years:

Malaysia has computerized the administration of Zakat that creates billions of ringgits in annual accumulation towards social development works. The main Zakat fund of Pakistan has funded hospitals, scholarships and small businesses but the problem of governance still exists. Sudan proved that a well-organized Zakat authority would be a better substitute of multiple retrogressive taxes enabling financial inclusion and alleviating rural poverty. When completely combined with fiscal policy, Zakat can substitute much of the modern taxation, liberating citizens to avoid repressive tax collection and creating a welfare economy that is self-sufficient.

Zakat does not only foster the giver, but also the recipient unlike secular taxation. It turns the cold system of profit into a living system of compassion in the economy. The Quran speaks of faith, purification, and success in multiple instances of connecting Zakat:

Woe betide, were they successful that cleanse themselves, and keep in mind the Name of their Lord, and pray. (Qur 87: 14-15)

Zakat removes greediness, instills gratitude and the feeling of responsibility toward the society. On the contrary, exploitative taxation tends to develop resentment and evasion. A system based on Zakat is, thus, not just economically feasible, but morally better.

The shift to Zakat based economy is not an easy one. The opposition can be due to self-interest, bureaucracy, and world financial pressures. But, the ethical and financial argument cannot be faulted.

- Reform of the laws to consider Zakat as being a state-monitored fiscal duty.
- Connection to digital banking to provide traceable and transparent transactions.
- Cooperation between the Islamic scholars, economists and policymakers to develop hybrid models that are both Sharia compliant and fiscally sustainable.

Quran promises that the blessing of following the Godly laws is a blessing of bounty:

Had the people of the town's only believed and feared Allah, we would have poured blessings upon them of the heavens and the Earth. (Qur'an 7:96)

Taxation is exploitative thus continuing the inequality, dependency and corruption. Islam provides the holistic solution - Zakat economy-based system that balances justice, growth and welfare. It is not just a redistribution of wealth; it is the reinvention of the point of wealth as the trust (amanah) to be spent on the common good.

By substituting unreasonable taxes with a system based on faith and justice, the countries will be able to stop the poverty processes and create the economy that will elevate all citizens. Still, we can hear the words of Caliph Umar ibn al-Khattab (RA):

Unless a camel had been killed on the banks of the Euphrates through neglect, I do suspect Allah would charge me with it.

Here is the culture of accountability which a Zakat based system cultivates - whereby governing is service, wealth is custodianship and all are prosperous.

The absence of exploitation taxation is not a dream of a utopian nature, but a rebuilding of the God order, which would ensure not only the prosperity of the world but also everlasting life.