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

By: Rashid Suhail (4164-SE/BSECO/F22)
International Institute of Islamic Economics,
International Islamic University Islamabad, Pakistan

Abstract

This study theoretically explore the ways of ending exploitative taxation and the rationale, mechanisms, empirical grounding, and design principles for a zakat-based system that complements (not naively replaces) modern taxation to advance welfare for all. Across many low and middle-income countries, tax systems are often experienced as extractive, opaque, and unfair. Regressive levies, weak compliance, and policy capture produce outcomes where ordinary people shoulder disproportionate burdens while public services remain underfunded. At the same time, many majority-Muslim societies host an under-leveraged moral and institutional tradition: zakat, the obligatory alms-giving prescribed by Islamic jurisprudence. Recasting zakat from a parallel charitable practice into a consciously designed fiscal instrument offers a promising pathway to reduce exploitation in taxation, improve re-distributional justice, and support inclusive growth but only if the transition is deliberate, evidence-based, and politically realistic.

Keywords: Zakat, taxation reform, Islamic jurisprudence, charitable practice, politically realistic

Introduction

Two core weaknesses animate calls to reform taxation in many countries. First, legitimacy: when taxpayers perceive the state as inefficient, corrupt, or biased toward elites, voluntary compliance collapses and governments resort to blunt, often regressive instruments (sales taxes, fees, or inflationary finance) that exacerbate inequality. Second, effectiveness: conventional taxes often create distortions disincentives to work, invest, or formalize economic activity while failing to channel enough revenue into human capital and social protection. These failures produce a vicious cycle: underfunded services lower trust, which lowers compliance, which further starves public goods. A zakat-grounded alternative seeks to break the cycle by combining religious legitimacy, targeted redistribution, and institutional innovations in collection and deployment.

Zakat is one of Islam’s five pillars: a mandated transfer of a small fraction of certain forms of wealth (traditionally including cash savings, livestock, agricultural produce, and trade goods) to designated categories of beneficiaries (the poor, indebted, stranded travelers, etc.). Unlike discretionary charity (Sadaqah), zakat is normative, recurring, and explicitly redistributive. Two features make zakat especially interesting from a policy perspective: (1) normative legitimacy in practice, many people already treat zakat as morally obligatory, which can support compliance more reliably than purely secular taxes; and (2) targeting potential zakat’s scriptural categories are welfare-oriented by design, not revenue maximization, so funds can be channeled to povertyrelieving uses. These attributes allow zakat to be framed not as a substitute for state capacity but as a culturally resonant instrument to strengthen social protection. Scholarly reviews and case studies indicate that zakat has been associated with poverty-alleviation outcomes where it is systematically collected and spent. Contrary to popular perception, historical zakat generated sufficient revenue for large empires while maintaining remarkable income equality and sustained growth (Kuran, 2018; Çizakça, 2011).

Zakat is levied on accumulated wealth rather than income, it directly targets inequality at its stock rather than flow. Piketty (2014) shows that $r > g$ inevitably increases wealth concentration; a 2.5% annual wealth tax counteracts this mathematically. Mirrlees (2011) and IMF (2014) studies conclude that shifting the tax burden from income to wealth raises long-run GDP. A zakat system eliminates double taxation on savings and investment, encouraging capital accumulation while preventing idle hoarding. And Saez & Zucman (2019) estimate the elasticity of taxable wealth at ~0.2–0.4 versus 0.5–1.0 for income, implying far lower distortion from a wealth-based levy.

Empirical literature

The empirical literature on zakat and macroeconomic outcomes is growing but still limited. Country studies (e.g., Malaysia, Indonesia, and institutional reports) have found positive associations between organized zakat spending and poverty reduction, household consumption smoothing, and localized welfare improvements. Several econometric studies suggest that when zakat funds are mobilized and invested in productive activities (microcredit, skills training, and asset transfers), they can stimulate local demand and livelihoods without the same behavioral distortions associated with some taxes. At the macro level, comparative research indicates that zakat-type transfers can be less distortionary than income taxes in certain contexts and might support higher welfare for a given compliance burden particularly when integrated with Islamic social finance institutions. Still, findings vary by country and design: outcomes hinge on collection coverage, governance of zakat agencies, and coordination with broader fiscal policy.

Empirical evidence

During the Rashidun Caliphate (632–661 CE), zakat and related levies financed an expanding empire while maintaining near-zero public debt and rapid poverty reduction (Al-Hassan, 2015). Under Caliph Umar-bin-Abdul-Aziz (717–720 CE), zakat revenue became so abundant that officials struggled to find eligible poor (Ibn Kathir, Al-Bidaya wa al-Nihaya).

The Ottoman Empire until the 17th century relied primarily on agricultural ushr (10%) and urban zakat; tax rebellions were rare compared to contemporaneous European peasant revolts (Darling, 1996).

Malaysia (state-level zakat): Collection efficiency >90%, leakage <2% (Hairunnizam & Radiah, 2010).

Saudi Arabia: Zakat on business wealth generated ~SAR 18 billion in 2023 with virtually zero enforcement cost (GAZT, 2024).

Pakistan’s voluntary/private zakat disbursement estimated at 3–5% of GDP—higher than total federal tax-to-GDP ratio in many developing countries (Khalid & Ahmad, 2022).

A hybrid model: design principles for a zakat-based fiscal framework

1. A practical system should treat zakat as complementary to modern taxation, not its wholesale replacement. The goal is to harness zakat's moral legitimacy and targeting strengths while preserving progressive taxation's ability to finance public goods that benefit everyone (health, infrastructure, rule of law). Key design principles:
2. Legal clarity and harmonization. Define what assets are zakatable and how thresholds (nisab) and rates apply in contemporary financial terms. Harmonize zakat rules with income and corporate taxes to avoid double-counting or loopholes. Legal clarity reduces evasion and administrative confusion.
3. Transparent institutional channels. Create accountable zakat authorities (independent boards, public audits) that coordinate with finance ministries. Evidence shows that organized zakat agencies with strong governance deliver better poverty outcomes than ad hoc collections.
4. Targeted deployment and evidence-based programming. Prioritize transfers and investments that yield durable gains: conditional cash transfers for the ultra-poor, microenterprise capital paired with training, debt relief, and human capital spending. Rigorous monitoring and randomized evaluations should guide program selection.
5. Progressivity through layering. Use zakat to create a base universal floor for the poorest (a guaranteed minimum transfer), while progressive ordinary taxation (income and property taxes) finances public services. Zakat's religious framing can make redistributive transfers socially acceptable, while progressive taxes remain the instrument for large-scale redistribution and stabilization.
6. Digital collection and financial inclusion. Encourage zakat payments through formal banking channels, mobile wallets, and employer withholding to reduce leakage and expand the tax base. Integrating zakat into formal finance can also deliver savings products, credit histories, and insurance to low-income households.
7. Safeguards against politicization. Embed multi-stakeholder oversight jurists, civil society, beneficiaries and legal protections to prevent capture of zakat funds for patronage.

How a zakat-first approach can reduce exploitative taxation

When a well-governed zakat system supplies reliable support to the poorest, the political pressure for extractive, regressive levies diminishes. Governments gain a politically palatable channel to address acute poverty without resorting to heavy consumption taxes that hit the poor hardest. Moreover, by pairing zakat with progressive taxes on high incomes, societies can achieve a two-track redistributive architecture: culturally legitimate, targeted transfers for immediate poverty relief, and conventional taxation for broad public goods and stabilization. This reduces the need for emergency fees, surprise levies, or inflationary financing that often act as covert taxes on the poor.

Potential macroeconomic benefits

Properly designed zakat programs can produce aggregate benefits:

- Stabilizing consumption: Transfers to liquidity-constrained households smooth consumption, sustaining demand during downturns and reducing the social costs of recessions. Empirical work indicates zakat-type flows increase household consumption and can spur local demand.
- Encouraging formalization: By offering financial inclusion incentives and matching services, zakat systems can incentivize formal bank usage and documentation that broaden the tax base for future progressive taxes.
- Reducing deadweight loss: Some theoretical and empirical analyses suggest zakat framed as a religious obligation may exert smaller behavioral distortions on productive decisions than equivalently sized secular taxes, depending on implementation. This could improve efficiency while still achieving redistribution.

Governance challenges and how to address them

A zakat-centric policy is not a panacea. Weak governance, lack of transparency, and narrow political capture can neutralize benefits. Lessons from country experience show three persistent problems: (1) incomplete coverage voluntary or decentralized collections leave many payers outside formal systems; (2) misallocation funds used for one-off relief rather than income-generating investments; and (3) confusion with state roles unclear division between state welfare and religious charity. To mitigate these risks:

- Make collection predictable: combine legal mandates with digital pay channels and employer facilitation where appropriate.
- Professionalize zakat management: hire financial managers, require public audits, and publish impact reports.
- Coordinate policy: integrate zakat planning within national development strategies so funds complement public spending rather than substitute for it.

Difficult trade-offs will remain: how to set nisab (the wealth threshold) equitably, whether to centralize or decentralize collection, and how to reconcile differing jurisprudential opinions. These must be resolved through inclusive deliberation with scholars, technocrats, and communities.

Politics and public acceptance: Any major fiscal innovation requires political backing. The moral authority of zakat can facilitate acceptance among religious communities, but secular stakeholders may worry about unequal treatment or confessionalization of public welfare. A transparent, pluralistic approach helps: emphasize zakat’s role as a public-interest instrument (with eligibility based on poverty, not creed), subject to independent oversight, and nested within a broader, nonsectarian social protection architecture.

In contexts where zakat is already state-administered (e.g., some provinces in Pakistan or state systems in Malaysia and Indonesia), reforms should focus on improving governance and aligning zakat with poverty-reduction targets rather than expanding coercive enforcement. Evidence from Pakistan’s provincial zakat laws underlines the importance of legal harmonization and devolution when adapting zakat to contemporary fiscal realities.

Multidimensional Poverty Reduction: Research using the Multidimensional Poverty Index (MPI) shows that zakat addresses not just income poverty but also deprivation in health, education, and living standards. The comprehensive nature of zakat's impact stems from its focus on human capital development through education funding, healthcare provision, and employment creation.

Historical Success: The Umar bin Abdul-Aziz Model

The most compelling evidence for zakat's potential lies in historical precedent. During the caliphate of Umar bin Abdul-Aziz (99-101 AH), zakat implementation was so successful that poverty was virtually eliminated. Historical accounts show there was actually a surplus of zakat funds because zakat-eligible recipients became scarce a testament to the system's effectiveness in eradicating poverty.

Three key factors contributed to this success:

1. Trustworthy leadership that encouraged voluntary compliance.
2. Local distribution that ensured funds reached intended recipients.
3. Productive capacity development that moved recipients from dependency to self-sufficiency.

Modern Implementation Framework

Contemporary implementation of a zakat-based system requires adapting traditional principles to modern economic realities while maintaining core Islamic values.

Administrative Efficiency

Modern zakat institutions have demonstrated remarkable efficiency when properly managed. Data Envelopment Analysis (DEA) studies of Malaysian zakat institutions show that well-managed organizations achieve near-perfect efficiency rates. Key factors for success include:

- Decentralized management that responds to local needs
- Technology integration for transparent collection and distribution
- Professional administration with qualified personnel
- Regular auditing to ensure accountability

Revenue Adequacy

Research indicates that zakat rates are substantial enough to generate needed public finance given the large tax base. The system's progressive and direct nature effectively redistributes income while its compulsory nature ensures minimal evasion. Additional Islamic revenue sources including ushr (agricultural tax), kharaj (land tax), and jizya (protection tax for non-Muslims) can complement zakat to meet comprehensive governmental fiscal needs.

Limitations and cautions

Two final cautions are essential. First, zakat cannot finance large capital projects or universal public goods at scale on its own; progressive taxation and public borrowing remain indispensable for macro investments. Second, religious framing can enhance compliance but risks exclusion if eligibility is determined by narrow criteria; maintaining universality in core services and open access to zakat benefits for the deserving irrespective of sectarian identity is morally and politically critical.

The Path Forward

The transition to a zakat-based system for ending exploitative taxation represents both an opportunity and a challenge for Muslim-majority countries and communities worldwide. The evidence clearly demonstrates zakat's potential to create more just, efficient, and growth-oriented economic systems. Immediate steps include strengthening existing zakat institutions, improving collection efficiency, and expanding distribution programs to demonstrate the system's effectiveness. Medium-term goals should focus on integrating zakat with government fiscal policy and developing comprehensive Islamic public finance systems. Long-term vision encompasses the complete replacement of exploitative taxation with just, religiously-grounded wealth redistribution mechanisms that ensure welfare for all.

The success of historical implementations, combined with modern empirical evidence and technological capabilities, provides a strong foundation for believing that zakat-based systems can indeed end exploitative taxation while delivering superior economic and social outcomes. The question is not whether such systems can work, but whether societies have the will to implement them comprehensively and professionally. Through careful implementation of zakat-based alternatives, we can create economic systems that honor both divine guidance and human dignity, ensuring that wealth serves society rather than exploiting it. The choice between continuing exploitative taxation and embracing just alternatives lies before us the evidence strongly favors the path of zakat-based economic justice.

A thoughtful zakat-based complement to modern taxation can weaken exploitative fiscal practices by harnessing moral legitimacy for redistribution, improving targeting for poverty relief, and encouraging financial inclusion. When embedded within rigorous legal frameworks, transparent institutions, and evidence-driven programming, zakat can transform from a fragmented charitable tradition into a powerful public instrument for justice and welfare. Yet success demands realism: zakat is a tool not a cure-all and must sit alongside progressive taxation and robust public spending to produce durable economic growth and equitable welfare for all. If policymakers, civil society, and religious authorities commit to honest design and accountable implementation, the centuries-old precept of zakat could help usher modern tax systems away from exploitation and toward shared prosperity.

Some Important Verses on Zakat from the Holy Qur'an

(i) Those who believe, and do deeds of righteousness, and establish regular Prayers and give Zakat, will have their reward with their Lord: on them shall be no fear, nor shall they grieve". (2:277).

(ii) Subsequently if they (non-believers) make tawqa (purify and become believers), start performing Salat and paying Zakat - leave their path. Verily Allah is of Great Mercy and Much Benevolent." (9:5).

(iii) Zakat are for the poor and the needy and those employed to administer the (fund); for those whose hearts have been reconciled to truth; for those in bondage and in debt; in the cause of Allah; and for the wayfarer (9:60).

(iv) The believing men and women are allies of one another. They advocate righteousness and forbid evil, they observe Salat, pay Zakat and obey Allah and His messenger. These will be showered by Allah's mercy. Allah is Almighty, Most Wise". (9:71). Take Sadaqah from their wealth in order to purify them and sanctify them with it, and invoke Allah for them." (9:103).

(v) …….so establish regular Prayer, give Zakat, and hold fast to Allah. He is your Protector- the Best to protect and the Best to help". (22:77).

(vi) So, establish regular Prayer and give Zakat, and obey the Messenger, that you may receive mercy." (24:56).

(vii) Those who give Sadakah, both men and women, and lend goodly loan, it will be doubled for them and theirs will be a rich reward," (57:18).

(viii) …….establish regular Prayer, give Zakat, and obey Allah and His Messenger. And Allah is well-acquainted with all that you do".

(ix) (58:13). And they have been commanded no more than this; to worship Allah, offering Him with sincere devotion, being True (in faith), to establish regular Prayer, and to give Zakat, and that is the religion right and straight". (98:5).

Some Important Hadith on Zakat

(i) Guard your wealth by paying Zakat, seek cure for your sick by giving charity, and protect yourselves from affliction by supplication.

(ii) One who pays Zakat and receives his guest with generosity, and the one who returns what is due to others, they are protected from niggardliness.

(iii) The best charity is to feed an empty stomach.

(iv) The upper (giving) hand is better than the lower (receiving) hand.

(v) The nation that does not pay Zakat, Allah afflicts famine on them.

(vi) When people stop giving Zakat the rain stops coming down. The only reason it still rains however is because of the animals.

(vii) Money is only yours when you spend it for the cause of Allah (SWT).

(viii) Every good deed, done for the rich or the poor, is charity. Charity does not diminish wealth.

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