Title :

" Ending Exploitative Taxation (a Zakat -based system for Justice, Economic, Growth, and Welfare for all) ."

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Submission date : November, 2025.

ABSTRACT:

Pakistan's Taxation System has become a machine that takes the most from those who have the least. Wealthy often escape through political influences, loopholes and corruption. This results in rising poverty and growing debt, which in turn leads to higher crime rates. Public services remains under funded, country's tax to GDP ratio also stays low and governments are forced back to IMF for loans that results in short term relief but long term constraints. This article looks at whether a different approach, one based on Zakat can offer a fairer and more stable alternative. Drawing on Quran and Sunnah, historical examples from the early Caliphates and modern examples from different countries, the article shows that Zakat is not only a religious obligation but also a practical and workable economic system. This article highlights the gap between the current based exploitative taxation system and zakat approach could achieve. It suggest that shifting toward a fairer, wealth focused system may help reduce inequality, ease Pakistan's reliance on loans and give people a more hopeful and stable economic future.

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INTRODUCTION:

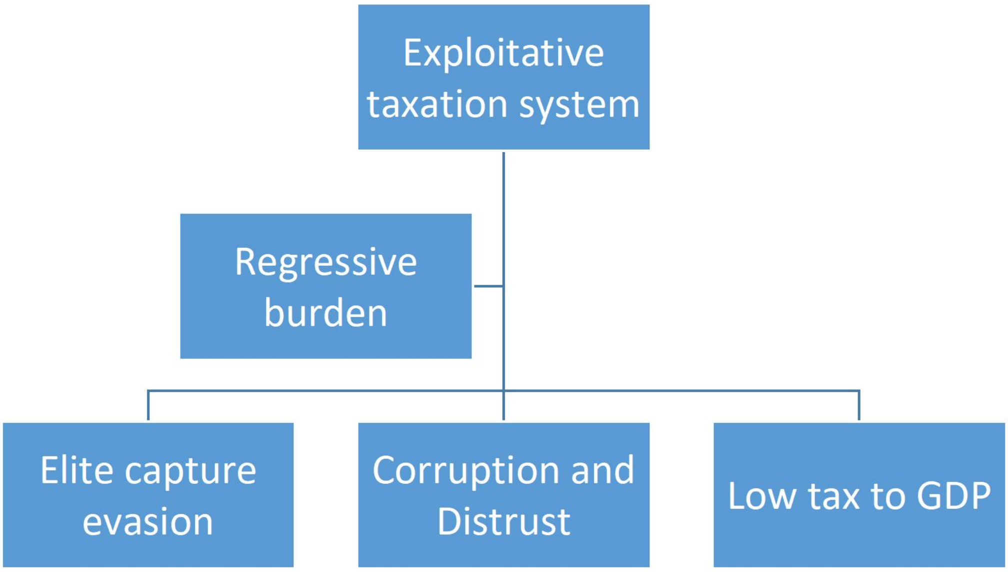
As stated in the Quran (4:29) :
"do not consume one another's wealth unjustly."

We are introduced to Pakistan's exploitative taxation system long before we even knew what the word " TAX "meant. As children, we would simply hand over our school bills, transport fare slips, uniform costs, book lists, and payment for different items to our Parents never once thinking what these everyday expenses carried. We never saw the weight behind them, "the silent hidden tax in necessity." Our parents absorbed all of it. They struggled quietly, stretching every rupee just to meet the demands of an exploitative system.
Sometimes it feels as if even breathing might be taxed someday. Weddings once a joyful family occasion have now become a financial burden for most households, to the point that many young people delay marriages because the cost are out of reach. Education once a basic right and a simple hope for a better future has turned into a distant dream for many. Even basic healthcare and essential medicines feel out of reach, as if survival itself is becoming unaffordable.
The system crushes the most vulnerable the hardest. Old age becomes a punishment, widows are left to fight their battles alone and orphans grow up paying the price of a system that should have protected them.
These everyday struggles reveal a deeper structural problem. Pakistan's taxation system is not just flawed, it's deeply exploitative. With indirect taxes dominating our economy and the poorest citizens end up carrying the heaviest burden. So today's reality makes one thing clear, and that is the current taxation system is failing, and a fairer alternative system is urgently needed. A system built on Zakat principles can bring justice, and economic stability.

THESIS STATEMENT :

“This article argues that a structured , state enforced Zakat system grounded in Quranic and Prophetic principles offers a more just, balanced and effective alternative to the current exploitative taxation system.”

PAKISTAN’S TAXATION CRISIS :



TAX PRESSURE ON THE POOR :

Pakistan’s tax system burdens those who already pay regularly and nothing shows this better than a petrol prices. When a petrol costs Rs. 265.45 about Rs. 80 per litre was just tax. A motor biker and a luxury car owner still pay the same tax on fuel. This shows how indirect tax hurt the poor far more than the rich.

A SHALLOW TAX NET:

Pakistan’s tax to GDP ratio is 10.3% far below than India which is 18% and countries like France 45.3%, Malaysia, or Singapore. The problem is not low collection, it is that a few filers carry the entire state burden. No. Filers in India 91.9 million (2024) and in Pakistan only 5.8 to 5.9 million filers.

CORPORATE SECTOR EXAMPLES :

Pakistan's corporate tax rate goes up to 44%, making it among the highest in the region. Some examples of documented include Bank Alfalah (paid Rs. 45.38 billion in taxes) , Maple leaf cement (paid Rs. 789.25 million). These companies contribute billions while undocumented sectors contribute almost nothing.

AGRICULTURE THE BIGGEST SECTOR, ALMOST NO TAX:

Agriculture makes up nearly 20% of Pakistan's GDP , yet it contributes almost nothing in taxes. Federal government fully exempts agricultural income. Provinces charge only symbolic taxes. So the direct contribution is just 0.5 %. this lets large landowners with thousand of acres pay almost nothing while salaried class are taxed every month

REAL ESTATE AND RETAIL:

Real estate earns massive untaxed profits due to weak documentation. Retail and wholesale sectors both among the largest cash economies contribute very small share in the country. And who ends up paying for this imbalance ? The fully documented, already burdened, salaried class, carry the weight of a system that lets billion Rs. Sectors slip through untouched.

FRAGMENTED ADMINISTRATION:

There are a lot of institutions involved in tax collection. The FBR is the National body, but there are also separate provincial entities like Sindh revenue Board and Punjab Revenue along with Customs and Excise departments. This fragmentation leads to inefficiency and unified reform difficult.

THE GLOBAL DEBT TRAP:

IMF data shows global debt has soared to 238% of world GDP, a direct result of the fractional reserve baking system. This debt trap pushes counties like Pakistan to rely more and more on indirect taxes. These taxes hit ordinary people the hardest, revealing how exploitative the current system is.

BUDGET 2025-26

This table makes it clear how much Pakistan depends on indirect taxes and how debt payments are consuming almost half the budget.

Inflows **Outflows**

Description	**RS.in Billion**	**%**	**Description**	**Rs.in Billion**	**%**
Direct taxes	6,902	39%	Debt servicing	8,207	47%
Indirect tax	5,641	32%	Defence	2,550	15%
Custom Duty	1,588	9%	Federal govt exp.	971	6%
Petroleum Levy	1468	8%	Pension	1,055	6%
Non-Tax Revenue	3,679	21%	Grants and Transfer	1,194	7%
Total Revenue	19,278	110%	Subsidies	1,186	7%
Less Provincial share	-8,206	-47%	Development expenditure	1,287	7%
Net Federal Revenue	11,072	63%	Social protection	734	4%
Total receipts incl.loans	17,573	100%	Total Payments	17,573	100%

What Irving Fisher and Milton Friedman warned us about :

Economist like Milton Friedman warned that " inflation is taxation without legislation" , a reality Pakistan faces as indirect taxes and whole burden falls on the ordinary people.
Irving Fisher showed how nations trapped in debt often find that "the more debtors pay, the more they owe", which mirrors Pakistan's growing debt servicing burden. Their insights capture exactly what our system has become, one that takes more from the public while giving little in return.

"ZAKAT BASED SYSTEM FOR (JUSTICE, ECONOMIC, GROWTH WELFARE FOR FOR ALL"

Before we move into the Zakat based system, it's important to understand what Zakat actually is.

WHAT IS ZAKAT :

DEFINITION OF ZAKAT: ZAKAT literally means "to increase" as in growth. it also means blessing, purification and commendation.

ZAKAT is mentioned more than 30 times in the Quran, often paired with Salah highlighting its important role in building a just and compassionate society.

Zakat becamne anorganized, state collected system in 2 Hijri, during the time of Prophet Muhammad (S.A.W).

Its an obligatory act ordained by Allah to be performed by every adult and and able bodied Muslims.

IS ZAKAT APPLICABLE ON YOUR WEALTH ?

Only if your wealth is such that :

- it is equal to or more than Nisaab.
- it is beyond the basic necessities of life
- it is free from debts.
- one lunar year has passed over it.
- it has growth potential.

AS SAID IN THE QURAN :

SURAH AT-TAUBAH (9:103),

"Take from their wealth a charity by which you purify them and uplift them."

SURAH AL-BAQARAH 2:110

"Establish prayer and give zakat"

THE HOLY PROPHET MUHAMMAD (S.A.W) said:

Sahih Al-Bukhari: 1429

"The upper hand is better than the lower hand."

HISTORICAL PERCEDENTS :
GOVERNANCE WITHOUT EXPLOITATIVE TAXATION:

If we want to fix exploitative taxation today, we should remember that early Islam already showed how a just, welfare driven system works. The era of the Khulafa al-Rashidun provides a historically verified demonstration of how a Zakat based system can sustain justice, social welfare, and economic expansion without burdening the ordinary people.

HAZRAT ABU BAKAR (R.A):

Hazrat Abu Bakar (R.A) firmly established Zakat as a public obligation. His famous declaration,"I will fight anyone who separates prayer from Zakat". this showed that a society cannot function when people enjoy state protection but refuse to the common good.

UMAR IBN AL-KHATTAB (R.A):

Hazrat Ibn Al Khattab (R.A) turned these priciples into real welfare system. He organized the Bayt Al-Maal, kept strict audits, and ensured that revenue went to the poor. His words capture his philosphy.
"If a mule stumbles on the the road to Iraq, I fear I will be questioned about it."
This governance is built on responsibilty.

HAZRAT USMAN (R.A):

Hazrat Usman (R.A) expanded trade and infrastructure, while Hazrat Ali (R.A) rooted out corruption and insisted on equal distribution of the funds. Hazrat Ali wrote to his governors :
"The people are your brothers in faith and your equals in humanity."
Together these examples shows that a Zakat based system has already proven its ability to deliver justice, growth and welfare for all.

WHY PAKISTAN NEEDS A ZAKAT BASED SYSTEM :

Pakistan urgently needs a Zakat based system because the current economic system does not support fairness or balanced growth. Millions of people struggle with poverty while wealth remains concentrated in a small group of society. Despite being an Islamic republic state, Pakistan has not yet used the full potential of Zakat, a system designed to reduce inequality, end exploitation and free society from the pressure of debt and Riba.

CURRENT TAX SYSTEM VS ZAKAT BASED SYSTEM

Topic	**Current tax system**	**ZAKAT based system**
General nature	Complicated and unfair	Simple and fair
Tax pressure	High taxes, low collection	Low rate, high potential
Income tax	Up to 40% of income, ~Rs. 800 B target.	2.5% on wealth, ~Rs.2,5000 potential.
Wealth coverage	Wealth mostly untaxed	Target actual wealth fairly
Sales/indirect taxes	High sales tax (=18%)	Ushr at 5% or 10%
Use of funds	Mostly used for govt expenses	Goes directly to public welfare
Impact on People	More poverty and inflation	More support and stability
Outcome	Debt and inequality	Growth and shared prosperity

PAKISTAN'S ZAKAT - TAX BUDGET (2025- 2026)

INFLOW (REVENUES) :

USHR ON PRODUCTION:

10 % / 5%
Rs. 6,500 b
The biggest source and is collected from the agriculture and industrial output.

ZAKAT ON WEALTH (2.5%) :

Rs. 2,500 b
Taken from people whose savings and assets meet the Nisaab.

KHUMS/ PETROLEUM LEVY :

Khums / petroleum levy 20%
Rs. 1,500 b
A share taken from specific income sources and petroleum related revenue.

TAX ON COMPANIES AND FIRMS :

Tax on firms and companies 20%
RS. 3,000b
A single simple tax paid by businesses.

OTHER REVENUES:

Rs.2,500b
Additional small stream that support the total collection.

TOTAL INFLOW :

Rs.16,000b
Combined revenue expected from all sources.

OUTFLOW (EXPENDITURES) :

SOCIAL PROTECTION :

Budget allocation : 734b
Zakat allocation RS.4,000b
Percentage : 25.0 %
Zakat category : AL-FUQARAH WA AL MASAKEEN.
Direct supports the vulnerable families.

FEDERAL GOVERNMENT EXPENDITURE :

Budget allocation : 734b
Zakat allocation : 4,000b
Percentage : 12%
Zakat Category : AL-AMILINA ALAYHA

PENSIONS :

Budget allocation : 1,055b
Zakat allocation : 1,000b
Percentage : 12.5%
Zakat category : AL- MU'ALLAFATI QULUBUHUM
support for retired employees.

GRANTS :

Budget allocation : 1,198b
Zakat allocation : 1,000b
Percentage : 12.5%
Zakat category : FI AL - RIQAB

SUBSIDIES :

Budget allocation : 1,186b
Zakat allocation : 1,000b
Percentage : 12.5%
Zakat category : AL- GHARIMIN

DEVELOPMENT EXPENDITURE :
Budget allocation : 1,287
Zakat allocation : 2,000b.
Spending on infrastructure and growth.

FOREIGN DEBT PAYMENT :
Budget allocation : 0
Zakat allocation : 2,000b
Percentage : 12.5%
Zakat category : IBN AL - SABIL

FOR EMERGENCY NEEDS :
Budget : 0
Zakat allocation : 2,000b
Percentage : 12.5%
Zakat category : IBN AL - SABIL

DEFENCE:
Budget : 2,550b
Zakat allocation : 2,000b
Zakat category : FI SABILILLAH

INTEREST PAYMENT :
BUDGET : 8,207

TOTAL OUTFLOW :
Budget tota : 17,184b
Zakat allocation : 16,000b
Percentage : 100%
Balanced spending aligned with total revenue.

FULL RESERVE, DEBT FREE BANKING :

A related idea is the full reserve, debt free baking system. in this set-up commercial bank lose the power to create money through loans. Instead only the State Bank creates new debt free money and spends it directly into the real economy. Supporters says this removes today's conflict where banks try to protect deposits while also making risky investments.

INTERNATIONAL EXAMPLES OF MODERN ZAKAT IMPLEMENTATION :

These include : Malaysia, Kuwait, Indonesia, and Sudan.

MALAYSIA :

Malaysia's state level zakat boards are considered a benchmark in the muslim world.
This funds families, students, widows, and small business.
Also shows zakat can work smoothly inside a modern economy.

INDONESIA (BAZNAZ) :

A central government body that manages zakat collection nationwide.
Working with banks and mobile apps for collection.
Funds education, healthcare, disaster relief, and small businesses.

KUWAIT (ZAKAT HOUSE) :

It has an official Zakat house, operating with full government backing.
It supports social welfare, orphan,community development and emergency relief.

SUDAN A FULL ZAKAT MINISTRY :

Sudan is the only modern country with an entire Federal Ministry of Zakat, implementing all eight Quranic categories nationally.

Provide direct assistance to rural and low income families.

MODERN ANALYSIS :

WESTERN SYSTEMS REFLECTING ZAKAT's PRINCIPLES :

Today many successful countries already use ideas that look similar to Zakat . Their welfare systems, social safety nets and poverty reduction programs all aim to support the poor people and keep wealth moving in the economy. Countries like UK, Canada and parts of Europe have used these policies to lift millions of people out of poverty and raise living standards.

PRACTICAL CONCERNS :

TRANSPERANCY AND TRUST :

Many people hesitate to give Zakat through government channels because they fear mismanagement. A clear, digital system, like the one used in Malaysia with public dashboards and audits would help rebuild trust.

WEAK DOCUMENTATION AND CASH HEAVY ECONOMY :

It's actually hard to know who owes Zakat these days when so much of the economy run on cash. Better coordination between NADRA, banks, and property records can make wealth assessment easier.

ADMINISTRATIVE LIMITATIONS :

Our current zakat set-up is scattered and under equipped. Pakistan needs a well trained Zakat authority to collect and distribute funds fairly.

LOW PUBLIC AWARENESS :

Many people still confuse zakat with general charity or don't know the proper categories. Awareness campaigns through mosques, media and schools can help people understand the system .

STRATEGIC PATHWAY FOR PAKISTAN :

STEP 1 :

Establish a unified Zakat and tax authority. Practical first step is creating a central digital Zakat authority that records contributions, verifies receipts and publishes annual report.

STEP 2 :

Gradual removal of indirect taxes (remove sales tax). As the Zakat system becomes stronger, these burdensome indirect taxes can be phased out.

The goal is the poor should not be funding the state more than the wealthy.

STEP 3 :

Constitutionally protection of Zakat funds.

Zakat must be non political, protected from diversion, audited publicly and restricted to the Quranic categories.

STEP 4 :

Transparent dashboard showing how much Zakat is collected, where it is distributed, performance of each province and poverty reduction.

STEP 5 :

Harmonize federal and provincial systems. Each province can manage its own Zakat board, but all should follow unified digital rules, reporting formats and eligibility criteria. This reduces duplication and improves consistency nationwide.

STEP 6

Implement the transition gradually (5-7years). Because shifting from exploitative tax system to Zakat based system can not happen suddenly. In the first two years implement digital systems, registry and pilot projects. From years (3-4) reduction of indirect taxes and expansion of Zakat distribution, years (5-7) full integration of welfare programs under Zakat funding.

CONCLUSION :

Today's Global tax system are often unfair and burdensome, specially for ordinary people. My argument throughout this article has been simple, the most viable, equitable, and sustainable way forward right there in front of us " A well managed Zakat based system".
We have seen the foundations in our faith and hints of success in countries like Malaysia. The road ahead will not be easy, it requires political will and smart implementation. By committing to this system, we are not just fixing a budget problem , we are adopting a moral and economic system for Pakistan where

justice, growth and welfare for everyone is not just a dream but achievable.

AS Quai-e-Azam Muhammad Ali Jinnah reminded us :

“ With faith, discipline and selfless devotion to duty, there is nothing worthwhile that you can not achieve.”

PAKISTAN ZINDABAD !

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