Ending Exploitative Taxation – A zakat-based system for justice, economic growth, and welfare for all.

Introduction

Pakistan's economic reality today is defined by rising prices, declining purchasing power and heavy taxation that burdens ordinary citizens. Each year, people contribute billions in taxes, yet schools remain underfunded, hospitals lack resources, and welfare systems fail to meet basic needs. A major reason behind this disconnect is that Pakistan relies heavily on indirect and regressive taxes such as general sales tax and sales tax on basic goods. As a result, low-income earners ends up carrying the heaviest burdens. Economic experts call this as exploitative taxation; a system that takes more from those who have less, and less from those who have more.

In contrast, Islamic economic teachings present a fundamentally different vision which is built on justice, equity, compassion, and shared prosperity. Which is **Zakat**, a divine financial mechanism designed to circulate wealth, uplift the poor, eliminate hunger, and ensure that society functions without exploitation or injustice. As Pakistan continues to struggle with inequality, debt, and social frustration, a transition toward a zakat-based system offers a powerful and ethical alternative capable of reshaping the country's economic future.

Understanding Exploitative Taxation

Exploitative taxation refers to a system that places a heavier burden on the poor than the rich, extract revenue through indirect taxes on everyday items, lack transparency and fails to return value to citizens. In Pakistan, more than 45% of national revenue is generated through indirect taxes. These are paid equally by the rich and the poor, but the poor feel the impact far more severely because these taxes consume a larger portion of their income.

Why Pakistan's Current Tax System Is Unfair?
Pakistan's current tax system is unfair due to following reasons:

1. **Heavy reliance on indirect taxes**
   Indirect taxes make essential goods more expensive. When food, fuel, medicines, and utilities become unaffordable, the burden falls on families who are living on income that is just enough to cover regular expenses, with little or no savings left.

2. **A narrow tax base**
   Only a small portion of the population pays direct taxes such as income tax, property tax and wealth tax. Those who do are often salaried individuals whose income is taxed before they even receive it, and the wealthy individuals especially those with undocumented assets remained relatively untaxed.

3. **High compliance costs and corruption**
   Filing taxes is often difficult and takes a lot of time because the rules are complicated and there are many steps to follow. Sometimes, people have to deal with unfair treatment or

harassment from officials. Because of this, people lose trust in the tax system and some try to avoid paying taxes.

4. **Little visible return**
   People do not see improvements in public services, infrastructure, or welfare despite paying taxes. This weakens the relationship between citizens and the state.

The Islamic Economic Vision: Justice, Equity, and Welfare

Islamic economic principles present a complete and practical alternative to conventional systems. This framework is built on four core ideas that aim to create fairness, balance, and social welfare.

1. **Wealth must circulate**
   Islam discourages the concentration and hoarding of wealth in a few hands because it limits economic activity and prevents the wider population from benefiting. When money circulates, it supports trade, employment, and social development.

2. **No exploitation or injustice**
   An economic system should not place an unfair burden on the poor while protecting the wealthy. Justice requires that people contribute according to their financial ability, not their daily consumption.

3. **Zakat ensures wealth redistribution**
   Zakat is not voluntary charity; it is a compulsory obligation on those who possess wealth above a certain level. The poor have a legitimate right to this portion of wealth, which ensures their basic needs are met.

4. **Interest-free finance**
   Islam prohibits interest (riba) because it creates long-term debt, deepens inequality, and benefits lenders at the expense of borrowers. An interest-free system promotes fairness, and real economic productivity.

Through these principles, the goal is not just charity it is social transformation. A zakat-based model ensures that every member of society has access to basic necessities, dignity, and economic opportunity.

How a Zakat-Based System Works

A national zakat system is not merely about collecting money; it is a structured economic mechanism designed to support social welfare and economic balance. Its effectiveness lies in the following key features:

1. **Requires compulsory collection**
   Zakat is mandatory for Muslims who meet certain criteria. This ensures a stable and predictable source of public revenue that can be planned and utilized systematically.

2. **Ensures strict transparency**
   Zakat must be collected and distributed with honesty, clarity and to restoring public trust.

3. **Targets eight specific categories**
   The Quran identifies eight specific categories of people who are eligible to receive zakat, including:
   - poor
   - needy
   - individuals burdened by debt
   - travelers in difficulty
   - those responsible for administering zakat
   - individuals whose hearts are to be reconciled
   - those striving in the cause of Allah
   - people in captivity or severe hardship

   This clear framework ensures that zakat reaches vulnerable groups directly rather than being lost in administrative inefficiencies.

4. **Circulates wealth**
   By taking a small portion (2.5%) of idle wealth annually, zakat prevents wealth from accumulating in the hands of a few and promotes healthy economic circulation.

5. **Reduces dependency on interest-based loans**
   A strong zakat network can fund welfare projects, reducing the need for borrowing from institutions like the IMF and helps move the economy toward financial stability.

Economic Benefits of a Zakat-Based Model

1. **Poverty Alleviation**
   Zakat provides direct financial support to the poor, enabling them to meet basic needs such as food, healthcare, and education. By increasing their purchasing power, zakat helps restore dignity and creates opportunities for individuals and families to move out of poverty.

2. **Economic Growth**
   When low-income households receive financial support their spending increases. This rise in demand encourages business activity, expands production, and leads to job creation. In this way, the regular circulation of wealth becomes a key driver of sustainable economic growth.

3. **Reduced Government Debt**
   A strong zakat system can support welfare, healthcare, education, and poverty-relief programs. The government becomes less dependent on loans.

4. **Social Stability and Justice**
   When wealth is distributed fairly, social tensions decrease. A just system creates trust, unity, and long-term stability.

5. **Lower Tax Burden**
   A zakat-based model can gradually reduce or eliminate exploitative taxes on essentials.
   People pay according to their wealth, not their consumption.

Real-Life Evidence from History and Modern Times

Islamic Golden Age

During the reign of **Caliph Umar bin Abdul Aziz**, the zakat system functioned so effectively that state officials reportedly struggled to find eligible recipients. Basic needs were met, extreme poverty declined sharply, and social welfare became a defining feature of governance. This period demonstrates how a well administered zakat system can significantly reduce poverty and promote economic balance.

Modern Example

- **Malaysia:** Malaysia's centralized zakat institutions collect billions annually and fund Scholarships**,** Healthcare**,** Housing programs and Business grants for low income individuals**.** Zakat is integrated with digital systems, ensuring transparency and efficiency.

- **Saudi Arabia:** Zakat forms a significant pillar of social welfare, supporting widows, orphans, the elderly, and low-income families and helping them to meet essential living needs and maintain social stability.

These examples prove that zakat is not merely a religious obligation it's a practical and effective economic policy capable of addressing poverty and promoting social welfare in modern societies.

Policy Recommendations for Pakistan

For Pakistan, embracing a zakat-based economic model offers a realistic pathway toward justice, social stability, and shared prosperity, laying the foundation for a dignified and sustainable future for all and to transition from exploitative taxation to a zakat-based system, Pakistan can consider the following steps:

1. **Centralized Zakat Authority**
   A single, national zakat authority should be created to oversee collection and distribution. This authority must be digital, transparent, and independent, ensuring efficiency, accountability, and public trust.

2. **Gradual reduction of indirect taxes**
   The government should begin by reducing or eliminating indirect taxes on essential goods and services such as food, medicines, electricity, and utilities. This step would provide immediate relief to low-income households.

3. **Enforce Mandatory Zakat on Wealth**
   Zakat should be collected compulsorily from all eligible individuals and entities in accordance with Islamic principles. This would create a stable and sustainable source of revenue for social welfare.

4. **Digital Financial Tracking**
   Modern digital tools should be used to monitor zakat collection and distribution. Transparent tracking would minimize mismanagement, reduce corruption, and ensure funds reach intended peoples.

5. **Use Zakat Funds for Public Welfare**
   Zakat revenues should be directed toward key social and economic areas, including:
   - healthcare services
   - education and scholarships
   - poverty alleviation programs
   - small business financing
   - skill development initiatives

   These investments would strengthen human capital and promote long-term economic stability.

6. **Combine Zakat with Interest-Free Finance**
   Zakat should be complemented by Islamic, interest-free financial mechanisms. This integration would reduce dependence on debt-based financing, limit fiscal vulnerability, and support natural, sustainable economic growth.