Theme: Ending Exploitative Taxation: A Zakat-Based System for Justice, Economic Growth, & Welfare for Al

Title; From Burden to Balance: Building a Fair and Inclusive Tax System in Pakistan

Introduction

Pakistan faces a long-standing challenge: while the country has a population of over 240 million, fewer than 4 million people actually contribute to the formal tax system (World Bank, 2022). This small tax base places an unfair burden on salaried individuals, while many traders, landlords, and business owners remain outside the system (Federal Board of Revenue, 2023). As a result, inequality widens, public trust in government declines, and the country struggles to achieve sustainable national prosperity.

Interestingly, the Zakat system demonstrates how wealth can be distributed fairly and inclusively. In Zakat, the contribution is proportional to wealth, those who have more pay more, and those with less contribute little or nothing. Pakistan's tax system, however, fails to follow this principle. Salaried individuals pay taxes consistently, but the owners of businesses, industries, and large properties often remain outside the formal system. According to the IMF (2022), Pakistan's tax-to-GDP ratio is significantly below the global average, largely because a major portion of the economy is undocumented.

This article argues that Pakistan can learn from the Zakat system and proposes a gradual, structured, and digitalized framework to achieve fair and inclusive taxation for national prosperity.

The Problem: Unfair Distribution and Exclusion from the System

The fundamental issue in Pakistan's taxation system is unfair distribution of the fiscal burden. Salaried individuals, who have no choice but to file taxes regularly, shoulder the majority of the direct tax responsibility. Meanwhile, a significant portion of the economy, small and medium enterprises, industries, landlords, and high-income traders, largely remains unregistered. This creates two main problems:

1. Limited tax base: With only a few million taxpayers, the government cannot generate sufficient revenue to fund essential public services like education, healthcare, and infrastructure (World Bank, 2022).

2. **Inequity and social distrust:** When the wealthy evade taxation while ordinary citizens pay their due share, the system is perceived as unjust. Public trust in the government weakens, leading to resistance, informal transactions, and further avoidance of taxes.

In addition, there is currently no centralized mechanism to track the existence, income, or financial performance of companies, traders, and landlords. Without proper documentation, enforcing fair taxation is nearly impossible. The result is a cyclical problem: the government imposes indirect taxes such as GST and fuel taxes to compensate for lost revenue, which disproportionately affects low- and middle-income households.

Why Zakat Provides a Useful Model

The Zakat system is a unique example of proportional wealth contribution. It works on three simple principles:

- **Proportionality:** Those with greater wealth contribute more, while those with minimal income contribute little or nothing.
- **Transparency:** Contributions are recorded, and distribution targets those in need.
- **Inclusivity:** The system accounts for almost all wealth within the community, ensuring no significant segment is left out.

These principles are directly applicable to taxation in Pakistan. If the government can implement a system where contributions are proportional to wealth and income, documented thoroughly, and transparent in its use, the economy will benefit both fiscally and socially.

Proposed Solution: Gradual and Structured Reform

The key to successful reform lies in gradual implementation, rather than sudden, forced measures. A step-by-step strategy can ensure fairness, minimize resistance, and create a sustainable system. The proposed framework involves the following elements:

1. National Economic Registry

A **National Economic Registry** should be established to document all companies, industries, traders, landlords, and other income-generating entities. This registry would serve as the foundation of the taxation system and provide the government with accurate information about the economy’s formal and informal sectors.

Steps include:

- Conducting a census of businesses and industries to determine the number, size, and sector of each entity.

- Recording key financial indicators, including revenue, profit, losses, and utility consumption (e.g., electricity, water).
- Creating sector-specific databases to classify entities as small, medium, or large, ensuring a proportional taxation approach.

This registry will reduce guesswork, prevent evasion, and establish a baseline for fair taxation.

2. Mandatory Registration

After the initial census and documentation, registration on the digital system must become mandatory for all companies, landlords, traders, and high-income entities.

- Any business operating without registration in the system will be considered illegal and subject to penalties.
- Registration ensures each entity’s income, profit, and wealth are tracked, making the subsequent taxation process fair and enforceable.
- Sector-wise registration allows the government to handle the system in manageable groups: traders, industries, landlords, and corporations.

Mandatory registration guarantees **inclusivity** and prevents selective enforcement, which has been a major challenge in Pakistan’s tax system.

3. Digitalized and Automated Tracking

A **digital taxation platform** is essential to minimize human interference, reduce corruption, and increase efficiency. The platform would:

- Automatically record financial transactions, profits, and losses of registered entities.
- Calculate proportional annual contributions, inspired by the Zakat model, where higher income or wealth corresponds to a higher contribution.
- Allow taxpayers to monitor their own submissions, reinforcing compliance and accountability.
- Provide public dashboards summarizing how tax revenue is allocated to national projects, ensuring transparency and trust.

4. Progressive Contribution Model

The proposed framework would follow a progressive contribution model:

- Entities with higher profits or wealth would pay a higher percentage of taxes.
- Smaller traders and low-income individuals would be exempt or pay minimal amounts.

- Contributions would be collected **annually**, similar to Zakat, allowing businesses to plan financially and maintain stability.

This approach addresses the current inequity, ensuring that the **burden is proportional and fair**, rather than concentrated on salaried individuals.

5. Phased Policy Implementation

To make this plan actionable, the implementation should occur in phases over approximately 5–6 years:

Phase 1 (Year 1–2): Committee Formation and Census

- Form a National Tax Reform Committee including representatives from FBR, chambers of commerce, IT experts with advisory support from research organizations like PRIZE.
- Conduct a census of businesses, industries, and landlords to collect baseline data.

Phase 2 (Year 2–3): Sector-wise Registration

- Mandate registration for all companies, traders, landlords, with clear penalties for non-compliance.
- Register entities sector-wise for easier management and gradual integration into the system.

Phase 3 (Year 3–4): Digital Platform Development

- Develop and deploy a **digitalized taxation platform**.
- Integrate automated data tracking from utility usage, banking transactions, and declared profits.

Phase 4 (Year 4–5): Implementation of Progressive Taxation

- Begin proportional annual contributions, linked to income and wealth.
- Monitor compliance and gradually adjust percentages for fairness.

Phase 5 (Year 5–6): Transparency and Public Reporting

- Implement public expenditure dashboards showing tax allocation to development projects.
- Continuous monitoring and improvement of system efficiency.

After six years, the system would be fully operational, with all businesses and high-income individuals contributing fairly, tracked digitally, and integrated into national development plans.

Potential Benefits of the Proposed System

1. **Widened Tax Base:** Inclusion of previously undocumented sectors would increase revenue.
2. **Equitable Distribution:** Progressive taxation ensures fairness, reducing inequality.
3. **Economic Growth:** Accurate data allows better policy planning, investment decisions, and resource allocation.
4. **Trust and Compliance:** Transparent systems and public reporting increase citizen confidence.
5. **Sustainable Development:** Tax revenue can fund education, healthcare, infrastructure, and welfare programs effectively.

This system combines Zakat-inspired fairness with modern digital governance to create a just, inclusive, and prosperous Pakistan.

Conclusion

Pakistan's taxation challenges are rooted not in a lack of wealth but in inequitable distribution, poor documentation, and low public trust. By learning from the principles of Zakat, fairness, proportionality, and transparency, and applying them to a modern, digitalized taxation framework, the government can gradually bring all sectors into the formal economy.

The proposed solution involves:

- A National Economic Registry
- Mandatory registration for all entities
- Sector-wise registration and documentation
- Automated digital tracking
- Progressive taxation
- Transparent reporting

Implemented in phases over 5–6 years, this framework can transform Pakistan's fiscal system, ensure equitable taxation, and lay the foundation for sustainable national prosperity.

Fair taxation is not merely about collecting revenue; it is about restoring trust between the state and its citizens. By following a Zakat-inspired approach, Pakistan can create a system where everyone contributes according to their ability, and national development becomes a shared responsibility, ultimately leading to a prosperous and just society for all.

References

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