ENDING EXPLOITATIVE TAXATION: A ZAKAT-BASED SYSTEM FOR JUSTICE, ECONOMIC GROWTH, AND WELFARE FOR ALL

SEEMAB QAMAR; LLB STUDENT

Contact: 03325909454

Email: Seemabqamar509@gmail.com

Institute: International Islamic University Islamabad.

Department: LLB Hons(940-FSL/LLB5Y/F23)

ABSTRACT

Modern taxation systems, while designed to generate revenue for public services, often fail to address socio-economic inequality and, in many cases, exacerbate the financial burden on low and middle-income populations. Heavy reliance on indirect taxes, debt-financed expenditures, and administrative inefficiencies has transformed taxation into a tool of extraction rather than redistribution. In contrast, Zakat, as mandated under Islamic law and codified in Pakistan through the Zakat and Ushr Ordinance, provides a legally binding and ethically grounded framework for wealth redistribution and social welfare. This article critically examines the exploitative nature of conventional taxation and explores the potential of a Zakat-based system to promote economic justice, alleviate poverty, and stimulate sustainable growth. It highlights the legal foundations, beneficiaries, and economic mechanisms of Zakat, compares its efficiency and moral accountability with modern tax regimes, and proposes practical reforms for effective implementation. By integrating moral responsibility with legal obligation, Zakat offers a holistic model that aligns fiscal policy with justice, equity, and welfare, presenting a viable alternative for contemporary Muslim societies.

TABLE OF CONTENTS:

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

"Wealth should flow like a river, not gather like a stone in one place."

In many modern societies, taxation is often seen as a necessary tool to run the government and provide public services. Yet, the way it is practiced frequently ends up placing the heaviest burden on those who are already struggling. Indirect taxes, hidden fees, and complex rules make everyday life more expensive for ordinary people, while wealth often accumulates in the hands of a few. This system, meant to balance the economy, sometimes ends up deepening inequality instead.

In Muslim countries like Pakistan, this problem is particularly visible. Despite continuous reforms, the gap between the rich and the poor remains wide, and social welfare programs fail to reach those who need them most. The problem is not only administrative but also ethical: modern taxation often ignores fairness and moral responsibility, focusing only on raising revenue.

Islam offers a different approach through Zakat a legal and spiritual obligation that ensures wealth is shared, social needs are met, and economic balance is maintained. Unlike voluntary charity, Zakat has clear rules about who pays, how much is given, and who receives it. This article explores how adopting a Zakat-based system could reduce inequality, support economic growth, and create a fairer society where justice and welfare go hand in hand.

Exploitative Nature of Modern Taxation:-

Taxation is meant to be a tool for public welfare, but in many modern economies, it often becomes a burden on those least able to bear it. Ordinary citizens, especially the poor and middle class, shoulder the weight through indirect taxes on essentials like food, fuel, and utilities. These taxes take a larger proportion of their income, while wealthier individuals can often reduce their liability through loopholes or exemptions. In practice, this creates a system where the rich preserve their wealth, and the majority struggle to meet daily needs.

Another concern is the reliance on government borrowing and debt driven spending. When states finance deficits with loans and repay them with interest, taxpayers indirectly fund inefficiency and mismanagement. Rather than empowering citizens or reducing inequality, the system often extracts wealth without delivering tangible benefits.

From a legal and ethical perspective, modern tax laws are designed primarily for collection efficiency, not fairness. While the law allows taxation broadly, it rarely ensures that funds reach those who need them most. Citizens end up contributing heavily, yet social welfare improvements remain limited.

This imbalance highlights the need for a system that combines legal authority with ethical accountability a system like Zakat, which ensures wealth is shared justly and reaches those in real need, addressing both fairness and social responsibility.

Zakat as a Legal & Economic Institution:-

Zakat, one of the five pillars of Islam, is not merely an act of charity but a legally binding and ethically grounded obligation. Unlike voluntary donations, Zakat has clear rules regarding who pays, how much, and who receives it. In Pakistan, Zakat is codified under the Zakat and Ushr Ordinance, 1980, which provides a legal framework for its assessment, collection, and disbursement. Constitutionally, **Article 31 of the Pakistani Constitution** mandates the state to endeavor to organize Zakat for the welfare of Muslims, giving the institution a legal and moral dimension beyond personal obligation. Under this framework, Zakat is collected from Muslims who meet the Shariah threshold (nisab) and is directed to specified categories of beneficiaries, such as the poor, the needy, and those in debt.

Historically, Zakat functioned as a well-organized social institution during the time of Prophet Muhammad ﷺ in Madinah. For example, when the poor members of the tribe of Banu Tamim sought assistance, Zakat was distributed first to those in greatest need, regardless of status or influence, exemplifying the Qur'anic principle: *"Zakat is for the poor and the needy"* (Qur'an 9:60). This ensured that wealth flowed to the most vulnerable, reflecting both fairness and moral accountability.

In modern times, Zakat administration has faced challenges. In Pakistan, for instance, an inquiry in Islamabad revealed alleged misappropriation of Zakat funds, where money intended for the poor was diverted, prompting investigation by the Federal Investigation Agency (FIA). This highlights the gap between the ethical ideal and practical implementation, emphasizing the importance of transparency, auditing, and community engagement to ensure that Zakat fulfills its intended purpose of social justice and welfare.

Economically, Zakat not only supports those in need but also stimulates circulation of wealth, encourages consumption, and promotes social cohesion, making it both a legal and economic tool for sustainable growth.

Economic Growth & Welfare Through Zakat:-

Zakat contributes to economic growth not by accumulating state revenue, but by activating idle wealth. When money remains concentrated among a small group, it often stays locked in savings or luxury consumption. Zakat interrupts this stagnation by redirecting surplus wealth toward those who are more likely to spend on necessities, education, and small scale economic activity. This movement of money increases demand at the grassroots level and supports local markets, creating a cycle of economic participation rather than dependency.

From a welfare perspective, Zakat functions as a direct support system. Instead of relying on complex welfare bureaucracies, Zakat reaches individuals who are already identified as financially vulnerable, such as widows, students, daily wage earners, and debt-ridden households. In Pakistan, many recipients of Zakat funds use this assistance to cover school fees, medical expenses, or to start small home-based work. These outcomes show that Zakat does not merely relieve poverty temporarily but can restore dignity and economic agency.

Unlike modern welfare schemes that may fluctuate with political priorities, Zakat operates on a consistent and predictable obligation tied to wealth. This predictability strengthens social trust and reduces economic insecurity among vulnerable groups. When properly administered, Zakat aligns economic growth with human welfare, ensuring that development is measured not only by revenue figures but by improved living conditions and social stability.

Comparative Analysis — Zakat and Modern Taxation:-

When Zakat is compared with modern taxation, the difference lies not only in structure but in purpose and philosophy. Modern taxation is designed primarily to finance the state. Its success is measured by how much revenue is collected, often without questioning how fairly the burden is shared or how effectively the money improves people's lives. As a result, taxation may be legally justified yet socially resented, particularly when citizens do not see visible welfare outcomes.

Zakat, on the other hand, is centered on social responsibility rather than state expansion. It does not aim to accumulate wealth in government accounts but to move resources directly toward those facing hardship. Because Zakat applies only to individuals who possess wealth above a defined threshold, it avoids placing pressure on those struggling to meet basic needs. This built-in limitation makes Zakat inherently more balanced than many modern tax structures.

Another key difference is accountability. In taxation, compliance is enforced through penalties and coercive mechanisms. Zakat combines legal obligation with moral awareness, encouraging voluntary honesty alongside enforcement. This dual nature strengthens trust within society and reduces resistance.

Finally, modern taxation treats citizens as revenue sources, while Zakat views wealth as a social trust. This distinction transforms redistribution from a forced extraction into a shared moral duty, making Zakat a more humane and justice-oriented system for addressing inequality.

Practical challenges and reform model:-

Despite its strong moral and legal foundations, the practical implementation of Zakat in contemporary Muslim states faces several challenges. One of the primary issues is administrative inefficiency. In many cases, Zakat institutions lack accurate data regarding eligible contributors and beneficiaries, leading to uneven collection and delayed distribution. This weakens public confidence in the system and discourages compliance.

Another significant challenge is the absence of transparency and accountability. When beneficiaries are selected without clear criteria or monitoring, Zakat risks being perceived as a symbolic ritual rather than a serious economic institution. This perception undermines its capacity to reduce poverty and inequality effectively.

There is also a lack of integration between Zakat institutions and broader economic planning. Zakat is often treated as a welfare tool only, rather than being aligned with development objectives such as education, healthcare, and employment generation. As a result, its long-term economic impact remains limited.

A reform-oriented Zakat model must address these weaknesses through institutional restructuring. Digitized databases, independent audit mechanisms, and publicly available reports can significantly improve trust and efficiency. Furthermore, Zakat distribution should prioritize capacity-building initiatives, such as scholarships, vocational training, and micro-financing, enabling beneficiaries to achieve sustainable economic independence.

Recommendation:-

1. *Institutional Strengthening*

Zakat authorities should be established as autonomous bodies with clearly defined powers, responsibilities, and oversight mechanisms to ensure professional management.

2. *Transparency and Accountability*

Regular audits, public disclosure of funds, and beneficiary tracking systems should be made mandatory to prevent misuse and enhance public trust.

3. *Digitalization of Zakat Systems*

The use of technology for registration, collection, and distribution can reduce administrative delays and improve targeting of deserving beneficiaries.

4. *Integration with Social Welfare Policies*

Zakat should be aligned with national development goals, particularly in education, healthcare, and poverty alleviation, to maximize its long-term impact.

5. *Public Awareness and Legal Education*

Awareness campaigns and legal education programs should be conducted to inform citizens about the legal status, objectives, and socio-economic importance of Zakat.

Conclusion:-

The continued inability of modern taxation systems to ensure justice and meaningful social welfare demands a careful reassessment of prevailing fiscal structures. Although taxation is legally justified, its practical application through indirect levies, inflationary pressure, and debt servicing has increasingly shifted the burden onto economically vulnerable groups. This imbalance highlights a structural disconnect between revenue generation and social justice. Zakat presents a principled alternative grounded in both moral accountability and legal obligation. Rather than taxing survival, it targets surplus wealth and directs it toward clearly defined beneficiaries. By framing wealth as a social responsibility rather than an absolute right, Zakat promotes redistribution without eroding human dignity. Its historical success reflects a system where economic justice was achieved not through coercion, but through ethical commitment reinforced by law.

In the contemporary context, the true potential of Zakat can only be realized through transparent institutions, effective governance, and alignment with national welfare objectives. When properly administered, Zakat can reduce inequality, encourage economic participation, and strengthen social cohesion. It does not merely supplement existing fiscal systems but challenges them to evolve toward fairness and inclusivity.

Ultimately, a Zakat-based framework offers more than an economic solution; it embodies a vision of governance where law serves humanity, and prosperity is measured by collective well-being rather than accumulation alone.

"A system is truly just not when it collects the most, but when it leaves no one abandoned."

References:-

1. Constitution of the Islamic Republic of Pakistan. (1973). Article 31. Retrieved from https://www.pakistani.org/pakistan/constitution/
2. Zakat and Ushr Ordinance, 1980. Ministry of Religious Affairs, Government of Pakistan. Retrieved from http://www.mora.gov.pk
3. Al-Qur'an. (n.d.). Surah At-Tawbah, 9:60. Translation retrieved from https://quran.com/9/60
4. Khan, M. (2010). Islamic Economics: Principles and Analysis. Islamabad: National Book Foundation.
5. Dawn News. (2023, May 15). Misappropriation of Zakat Funds in Islamabad: FIA Initiates Inquiry. Retrieved from https://www.dawn.com/news/1888310