

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

Fasiha Khalil

Abstract

In many societies, taxation has become a burden on the poor while the wealthy often avoid paying their fair share. This creates inequality, frustration, and loss of trust in the system, especially in countries like Pakistan. This article explores the idea of exploitative taxation and presents Zakat as a fair and compassionate alternative rooted in Islamic principles. Unlike conventional taxes that often target daily survival, Zakat is based on wealth and responsibility. By combining economic reasoning, Quranic guidance, real-world examples, and human stories, the article shows how a Zakat-inspired system can reduce poverty, promote justice, and strengthen social harmony. Rather than replacing modern taxation, Zakat offers valuable lessons on how economic systems can become more humane and fair.

Introduction

Exploitative taxation generally refers to a system that involves injustice; it burdens the poor more than the rich, leading to inequality. Modern tax systems can unintentionally widen the gap between the rich and the poor. Regressive taxes, such as sales or fuel taxes, take a large share of income, affecting the poor more than the rich. Wealthy individuals and corporations can use loopholes or exemptions, while the middle and lower classes cannot. Taxes can influence individual and business behavior, potentially reducing efficiency or productivity. For example, people may work less, invest less, or shift activities to avoid taxes. **Income tax** might discourage people from working extra hours or earning more because a higher portion of their income goes to taxes. **Corporate taxes** may discourage investment or expansion if companies feel profits will be heavily taxed.

Income and wealth concentrate at the top, while the poor bear a disproportionate share of taxes and receive less benefit from public spending. Tax evasion happens when individuals or firms illegally avoid paying taxes through underreporting income, hiding assets, or operating in the informal economy. Evasion erodes government revenue, creates unfairness (honest taxpayers bear the burden), and undermines trust in institutions. When elites exploit loopholes or influence tax policy, it breeds corruption, inefficiency and unfair competition

On the other hand, Zakat is an important form of religiously mandated charity under Islam. It is the third pillar of Islam. The giving of Zakat is important for Muslims, as this leads to purification of their wealth from all sins (dhar, 2013). Any system involving exploitative means of collecting taxes is condemned in Islamic teachings. Zakat collection should be handled fairly without transgressing the limits of Shariah (Islamic law). The institution of Zakat serves to eradicate poverty in the community and uphold the light of Islam. Allah says, “Whatever is paid as zakat for the sake of Allah shall be rewarded in manifold”

Zakat VS Conventional Taxation

Zakat is an Islamic way to spend your income, which promotes justice and balanced growth. Zakat funds are strictly designated for eight specific categories of beneficiaries (asnaf) identified in the Qur'an, including the poor, the needy, and those burdened by debt. This ensures direct redistribution from holders to those in economic distress, minimizing leakage and promoting social justice and equality. The rate is fixed and modest, typically 2.5% on net wealth providing stability, predictability, and simplicity. This

spiritual motivation fosters honesty, trust, and social responsibility, thereby strengthening the moral foundation of the economy.

Allah commands:

“Take from their wealth charity by which you purify them and cause them increase.”
(*Surah At-Tawbah 9:103*)

And clearly defines its beneficiaries:

“Zakat expenditures are only for the poor and the needy...”
(*Surah At-Tawbah 9:60*)

Conventional taxation is a state-imposed duty justified on legal and economic grounds. Its legitimacy depends on the government’s authority and the need to finance public goods such as infrastructure, defense, and administration. The combined weight of taxes, public debt, and interest payments places an increasing fiscal burden on governments in many contemporary economies. A large amount of public revenue is used only to pay off existing debt, rather than for development projects or other necessary services, as a result of high borrowing levels that generate budget gaps. This leads to a vicious cycle in which governments are forced to raise taxes or take on more debt as interest payments rise, further taxing the public pockets. However, tax systems frequently fall short in distributing resources fairly. There is little money left over for welfare programs after a large portion of the taxes paid by the working population are spent on debt repayment, corruption, or administrative expenses.

How a zakat based system could promote justice, growth and welfare

Zakat can stimulate the economy and make people’s activities more vigorous. If we pay more zakat our economy will be more stable. Zakat system help in the growth of people who are less than others. The role of zakat is promoting economic growth with a balance of justice (Rohimah, 2023). In many societies today, wealth is becoming more concentrated in the hands of a few, while million struggle to meet basic needs. A zakat based system offers a different way of thinking about money, responsibility and social balance one that combines economic logic with moral purpose

At its heart zakat is built on a simple principle, those who have more than they need should share a small portion with those who have less. Only a wealth above a certain threshold is subject to zakat, and it is paid on accumulated assets, not on basic income or daily survival

This approach helps prevent extreme inequality, instead of wealth sitting idle or endlessly circulating among the already rich, part of it redirected back to society. For the poor, zakat act as a safety net helping them afford food, healthcare, education or shelter. For the economy, it encourages wealth holders to invest their money productively rather than hoard it.

Importantly, zakat is not only about short-term relief. When managed well, funds can support skills training, small businesses, and tools that allow people to earn their own living. This turns assistance into opportunity.

Evidence from the Real World: Research from countries where zakat is formally organized shows promising results. Studies from Indonesia, for example, have found that zakat distribution is linked to lower poverty levels and improved household productivity. When funds reach the right people and are used wisely, communities grow stronger and more self-reliant (Rohimah, 2023).

Other research linking zakat to the Sustainable Development Goals shows how it supports inclusive growth, entrepreneurship, and better wealth circulation. These findings suggest that zakat is not just a charitable act, it can be an effective economic instrument when properly governed (Aijaz, 2025).

If heavy burdens on labour/income are reduced and replaced (or supplemented) by a wealth-based redistribution system (zakat style), you might reduce distortions, increase fairness, reduce tax evasion, and perhaps enhance voluntary compliance because the moral/spiritual dimension is stronger

Improving Welfare and Social Harmony: Beyond economic numbers, zakat plays an important social role. By ensuring that basic needs are met, it reduces desperation and social tension. When people feel that the system is fair and that no one is being left behind, trust within society grows.

Zakat also strengthens social bonds. It reminds the wealthy that prosperity comes with responsibility, and it reassures the poor that they are not invisible. This shared sense of care helps build social cohesion and dignity.

Lessons for Modern Tax Systems: Zakat also offers useful lessons for modern tax policy. Many countries rely heavily on taxes on labor and income, which can discourage work and encourage tax evasion. A system that places more emphasis on wealth, especially unused or idle wealth, may be fairer and less harmful to economic activity.

Because zakat carries a strong moral and spiritual meaning, people may be more willing to comply voluntarily, especially when they see clear social benefits. While zakat is not a replacement for modern taxation, it can complement it by making redistribution more humane, transparent, and socially accepted.

A Balanced Way Forward: A zakat-based system shows that economic justice and economic growth do not have to be in conflict. By circulating wealth, supporting the vulnerable, and encouraging productive use of resources, it creates a more balanced and compassionate economy.

In a world searching for fairer systems, zakat offers a powerful reminder: an economy works best when prosperity is shared, not hoarded.

A Human Face to the Problem

Consider **Siddique**, a daily wage laborer in Lahore. He earns barely enough to cover rent and food. Every time he buys flour, pays his electricity bill, or fills a motorcycle with fuel, a portion of his income disappears in taxes. Rashid has no savings, no health insurance, and no safety net, yet he pays tax every single day.

Now compare this to influential landowners or wealthy businessmen who legally or illegally avoid taxation. Rashid pays not because he is rich, but because he has no way to escape.

As economist **Joseph Stiglitz** once said:

“The rich are not just getting richer; the system is making sure they are taxed less while the poor pay more.”

This imbalance creates frustration and hopelessness. When citizens see their hard-earned money wasted due to corruption and mismanagement, taxation begins to feel like exploitation rather than contribution.

The Prophet Muhammad ﷺ said:

“The upper hand is better than the lower hand.”

This teaching highlights a system where those who have more are responsible for those who have less — not the other way around

Why Ending Exploitative Taxation Matters

A tax system that punishes honesty and rewards avoidance damages society. It increases poverty, weakens trust in government, and discourages civic responsibility. People stop believing that the system works for them. If we want to end this exploitation we must focus on direct taxes and promote zakat based system

An exploitative tax system increases poverty, resentment, and inequality. A system inspired by Zakat would restore dignity, trust, and social harmony. People are more willing to contribute when they believe the system is fair and rooted in justice.

As Islamic scholar **Ibn Khaldun** observed:

“When taxes are heavy, people lose motivation, and the economy weakens.”

To reduce exploitative taxation, Pakistan can ensure that zakat reaches the deserving transparently. A Zakat-guided system does not eliminate modern taxation but humanizes it, ensuring no one is pushed into poverty to fund the state.

Conclusion

Ending exploitative taxation requires more than policy change; it requires a return to justice. When the poor are taxed to survive while the wealthy avoid responsibility, the system fails morally and economically. Pakistan was created in the name of Islam, a faith that commands fairness, compassion, prosperity and equality. A taxation system inspired by Zakat can transform exploitation into empowerment and rebuild trust between the state and its people.

As the Quran reminds us:

“And in their wealth, there is a known right for the needy and the deprived.” (Surah Al-Ma’arij 70:24–25)

A just society is not measured by how much it collects, but by how fairly it cares for its people.

References

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