Fatima Nasir Awan

Article Writing Competition

Ending Exploitative Taxation:

A Zakat-Based System for Justice, Economic Growth, and Welfare for All

Every society longs to find an economic system that is just, noble, and humane. All societies face the problem of an unjustly imbalanced distribution of wealth, crippling taxes, and an unhappy citizenry. Citizens always wonder if they are paying through the nose and getting little in return. The taxes continue to escalate, the cost of living continues to soar, and the welfare of the citizens suffers.

For Muslim societies, this question becomes even deeper. We are blessed with a complete economic philosophy from the Qur'an and Sunnah, which is always balanced and provides a framework that provides equity, encourages growth, and safeguards the vulnerable. However, we are expected to benefit from an external economic system that does not align with our values and does not address issues.

Out of all the Islamic financial tools, Zakat is considered to be one of the most effective means of eliminating poverty, inequalities, and establishing a stable financial system. The problem, however, is not the absence of Zakat it is the way our modern systems push it aside in favor of exploitative taxation structures that burden the middle class and crush small businesses.

Problem Statement: Why the Current System Needs Rethinking

Although its intended goal remains rooted in justice, taxation systems in contemporary society have diverged from this principle in many nations across the world. Not only has taxation strayed from safeguarding the underprivileged section of society but it has also progressively begun targeting middle-class citizens who are already under immense strain from rising costs. Relying more on indirect taxation has resulted in basic requirements being charged equally for both the underprivileged and the elite in society, thus aggravating an already deteriorating condition of equality due to rising inflation and stagnant wages.

This article explores why shifting toward a **Zakat-based economic framework** not necessarily replacing every tax immediately, but gradually restructuring the system around Islamic principles can help build a more just, prosperous, and welfare-oriented society.

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1. The Problem With Today's Taxation Systems

Taxation is not inherently wrong. Every state needs revenue to function. But the issue arises when taxation becomes regressive, exploitative, and detached from moral responsibility. Many governments impose heavy indirect taxes such as sales tax, GST, excise duties that affect the poor more than the rich.

A 2023 World Bank study notes that **indirect taxes disproportionately affect low-income households**, leading to reduced consumption and slower economic growth (World Bank, "Fiscal Policy and Inequality," 2023)

Over **40% of Pakistan's population lives close to the poverty line**

Over **60% of state revenues derive from indirect taxes**

1.1 Indirect Taxes Adversely Affect the Lower and Middle Classes More

The middle class Indirect taxes are embedded in the price of essential commodities like bread, petrol, electricity, clothes. This means that when a poor person goes to buy these commodities, he ends up paying similar taxes to what a millionaire pays. This is quite unfair.

1.2 Multiple, Complicated Taxes Create Frustration and Corruption

When people must pay:

- income tax

- sales tax
- withholding tax
- property tax
- professional tax
- service charges

…they naturally feel overburdened. This complexity opens up avenues for corruption, bribery, as well as evading taxes.

The Prophet (ﷺ) warned against unjust collection, saying:

“The collector of unjust taxes will not enter Paradise.”
(Sahih Muslim, Hadith 19)

This hadith alone tells us how seriously Islam condemns exploitative revenue systems.

1.3 Taxation Often Discourages Investment and Entrepreneurship

High taxes reduce incentives for businesses to grow. Investors hesitate when they know that a large portion of their profit will be taken away, even before they break even. This slows down economic growth.

1.4 People Lose Trust When They Don’t See the Benefits

In most developing nations, taxpayers are not accorded proper health care, education, and security. This results in a loss of trust and cooperation.

1.5 The True Pakistani Economy & Taxation Crisis

Pakistan is currently facing one of the most challenging economic periods in its history. The nation has been facing the issue of inflation and an escalation in fuel and electricity prices, as well as sales taxes to an extent that has been causing difficulties to the common man. The government faces no issue in generating revenue from indirect taxes, which affects middle classes, not to forget the poor, more than the richest.

Despite contributions to taxes, Pakistani citizens are still forced to take up private measures for their healthcare, education, and security due to a lack of sufficient public services. This is one aspect that has created discontent and steadily reduced trust levels for the country's taxation system. Despite having a system for Zakat and Ushr in Pakistan, it doesn't become effective due to issues of bad governance, lack of transparency, and improper integration with economic planning. This system, when appropriately governed with Islamic standards rather than it being just a matter of form, can be a potent remedy for poverty as well as social inequalities.

2. The Islamic Vision of Wealth Distribution

Islam approaches wealth differently. It does not treat money as a tool of exploitation but as a trust (amanah). The Qur'an emphasizes again and again that wealth should **not flow only into the hands of a few**.

"So that wealth may not merely circulate between the rich among you."
(Surah Al-Hashr 59:7)

This verse alone reveals the philosophy behind Zakat: a system where wealth moves, circulates, and benefits all segments of society.

2.1 Zakat: More Than Charity A Divine Economic System

Zakat is often misunderstood as simple charity. In reality, it is a **mandatory financial obligation** on surplus wealth. It is systematic, structured, and powerful.

The Prophet Muhammad (ﷺ) said:

"Zakat is a bridge of Islam."
(Reported in Ibn Khuzaymah)

The word "bridge" here is profound. It implies that Zakat connects the rich with the poor, the privileged with the vulnerable, the powerful with the powerless creating harmony and stability.

2.2 Hadith Emphasizing Economic Justice

The Prophet (ﷺ) also said:

“Wealth does not decrease by giving charity.”
(Sahih Muslim)

This hadith is not just spiritual advice; it reflects an economic truth. When wealth circulates, it generates activity — businesses grow, demand increases, and society prospers.

Another powerful hadith states:

“Whoever relieves a believer’s distress, Allah will relieve his distress on the Day of Judgment.”
(Sahih Muslim)

Islamic economics is built on empathy, fairness, and responsibility values missing in many modern taxation systems.

The Prophet (ﷺ) said:

“Zakat is a right that Allah has made obligatory on the wealthy to be given to the needy.”
(Sahih Bukhari)

This makes Zakat a *social obligation*, not a voluntary act.

2.3 Zakat Purifies Wealth and Society

Allah says:

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

The word “grow” (تزكيهم) shows that Zakat is not a loss it is a cause of spiritual and material increase.

The Prophet (ﷺ) also said:

“Wealth does not decrease by charity.”
(Sahih Muslim)

Modern economists similarly argue that economies grow when wealth circulates in the market rather than being hoarded.

Theory alone does not prove the effectiveness of an economic system. History provides clearer evidence. Islamic civilization has already demonstrated how Zakat can eliminate poverty when implemented sincerely.

Historical Evidence: Zakat Eliminated Poverty

Its effectiveness is not mere theory: there are actual, documented cases in Islamic history when the collection and distribution of Zakat really lessened the incidence of poverty in a given society.

3.1 Umar ibn Abdul Aziz's Era (R.A.)

During his brief rule, an incredible thing occurred:
Officials struggled to find anyone eligible to receive Zakat.

Why?

Because he implemented:

- justice in governance
- accountability
- fair wealth distribution
- strict anti-corruption measures
- Zakat collection and distribution according to Qur'anic categories

Under his leadership, the economy flourished to the point that social welfare exceeded demand.

3.2 The Early Caliphate Era

The Prophet (ﷺ) and the first four caliphs established a welfare structure where:

- widows
- orphans
- the elderly
- disabled individuals

- travelers
- the poor

…were all protected. None were left neglected.

This is the model Muslims can revive today.

3.3 Ottoman, Andalusian, and Mughal Examples

Throughout Islamic civilization:

- Zakat funded hospitals (Bimaristans)
- Waqf institutions supported universities
- Caravanserais provided free lodging for travelers
- Soup kitchens operated across cities
- Schools and libraries were free to access

This produced some of the most educated and economically stable societies in history.

A Human Perspective: The Daily Effects of Exploitative Taxation

Economic policies are typically expressed in figures and statistics, but their underlying effects are experienced in practical life. A daily wage earner has to shell out sales tax on food, petrol, and electricity but does not get any significant assistance in return. In case of sickness or increased expenditure on education, borrowing is left as no other choice. Such persons would be assisted in an organized manner without hurting their dignity in order to fulfill their basic requirements and become fruitful members of society as a well-functioning Zakat system would enable them.

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4. Why a Zakat-Based System Can Replace Exploitative Taxes

4.1 Zakat Is Fair and Proportionate

Zakat is:

- **only 2.5%**, far lower than modern taxes
- charged on *surplus wealth* (not basic living needs)
- dependent on financial capability
- distributed strictly among the needy

This is the opposite of indirect taxation, which punishes the poor.

4.2 Zakat Naturally Circulates Wealth

Unlike taxes that fund bureaucratic overhead, Zakat goes directly to the poor, increasing their purchasing power. When the poor spend, economic activity rises.

4.3 Zakat Strengthens Social Unity

People give Zakat not out of fear but out of faith and responsibility. This builds trust and harmony between different classes of society.

4.4 Zakat Eliminates Hoarding

Allah warns against hoarding:

"Those who hoard gold and silver and do not spend it in the cause of Allah give them tidings of painful punishment."
(Surah At-Tawbah 9:34)

A Zakat system encourages investment and economic activity instead of hoarding capital.

5. Building a Zakat-Centered Economic Model in Modern Times

A modern Zakat-based system does not need to be identical to medieval structures. Instead, it requires adaptation, integration, and smart governance.

5.1 Begin By Reducing Reliance on Exploitative Indirect Taxes

Indirect taxes on essential goods should be minimized so that:

- food
- fuel
- medicines
- education
- electricity

Such cities/companies can now afford to provide better salaries to employees. As already stated above, this increases consumer spending, which leads to economic growth.

5.2 Mandatory and Transparent Zakat Collection

Muslim-majority countries can integrate Zakat into the national system through:

- a central Zakat authority
- professional accountants
- digital collection systems
- regular audits
- public reports

Transparency is essential. Where citizens trust the system, they readily cooperate.

5.3 Use Zakat Exactly as the Qur'an Specifies

Allah has already identified eight categories of who will receive Zakat (Surah At-Tawbah 9:60). Zakat, contrary to tax revenue, which governments can use for whatever purpose they want, has limitations imposed by Allah.

5.4 Combine Zakat With Other Islamic Tools

Islamic economics is a holistic system. Besides Zakat, a stable system consists of:

• Sadaqah (Sada

• Waqf (for schools and/or hospitals

• Al-Qardh Al-Hasan (

• Infaq (spending for good causes)

They, all together, make a complete welfare system.

5.5 Business Incentives in an Islamic Framework

A Zakat-based system encourages:

- low taxation on production
- interest-free financing
- the encouragement of trade
- equal opportunities for small and large enterprises

The Prophet (ﷺ) said:

“The truthful and honest merchant will be with the prophets, the truthful, and the martyrs.”
(Tirmidhi)

Islam honors commerce. An economy built around Zakat is a supportive economy for entrepreneurs, not one that penalizes them through high taxes.

A Practical Framework for the Implementation of Zakat in the Modern State

In making the Zakat-based system work effectively in contemporary society, the operation of this practice has to be done in an expert manner. First, Zakatable wealth should be identified through digital records, banking systems, and voluntary asset declarations. Second, collection should be centralized under a national Zakat authority with provincial and local branches to ensure efficiency.

Third, distribution must follow Qur’anic categories strictly, with public reports showing how funds are allocated. Community-level committees can help identify deserving families while protecting their dignity. Finally, annual independent audits should be conducted to prevent misuse and build public trust. Such a framework would transform Zakat from a symbolic practice into a powerful tool for economic justice.

6. Pakistan’s Tax Crisis and the Need for an Alternative

At present, Pakistan is going through one of the most challenging economic phases in its history. With increasing inflation, declining purchasing power, and increased levies on indirect taxes, life has become tough for common people. Basic commodities like food, fuel, electricity, and medication have become unaffordable for common people.

Despite high taxation, many services are lacking in the public domain. A high number of citizens pay taxes and still pay for services such as health care, education, and security through personal means.

There are already institutions in Pakistan handling the payment of Zakat, but these are not utilized to their fullest capacity or managed properly. A transparent and centrally monitored mechanism of Zakat can greatly help in poverty reduction if operated in the spirit of Islam instead of remaining a mere formality.

7. Economic Growth Through Islamic Principles

Many economists argue that Islamic systems are outdated — but evidence suggests the opposite.

7.1 Money Circulates Faster

When Zakat redistributes wealth regularly, purchasing power increases among the lower class, which in turn boosts business activity.

7.2 Poverty Declines

Unlike taxation, which often funds administrative overhead, Zakat goes straight to the needy. When basic needs are met, people become:

- healthier
- more productive
- more educated
- more employable

7.3 Reduction in Debt-Based Burdens

Islam prohibits interest (riba), which is a major cause of modern economic collapse. A Zakat-based system reduces reliance on interest-based loans and replaces them with fair, ethical financing.

7.4 Community Wellbeing Strengthens

Instead of feeling exploited by taxes, people see Zakat as a form of worship and responsibility. This increases:

- social unity
- trust
- cooperation
- emotional well-being

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8. Addressing Concerns and Misconceptions

Some argue that Zakat alone cannot replace taxation. In response:

8.1 No One Suggests Immediate Replacement

The goal is *gradual restructuring* — shifting the economic center from exploitative taxes to ethical, faith-based redistribution.

A practical shift must be gradual:

1. reduce unnecessary taxes
2. grow Zakat efficiency
3. strengthen Waqf institutions
4. promote interest-free loans
5. restructure welfare programs

This balanced approach ensures stability.

8.2 Many Countries Already Use Faith-Based Models

For example:

- Scandinavian countries rely heavily on welfare taxation
- Japan invests deeply in social stability
- Western Europe runs strong welfare systems

If secular welfare models work, why shouldn’t Islamic welfare models work for Muslim societies?

8.3 Zakat Is Not a Burden; It’s a Social Investment

Zakat is only 2.5% on surplus wealth.
Taxes often exceed 20–35% of incomes.

Which system is more humane?

Responding to Concerns About Modern Economic Needs

Some critics state that Zakat cannot be used as the lone measure for financing a modern state. There is truth to this. It is not about nullifying taxes immediately but about halting unjust taxation and perfecting equitable wealth transfer. Zakat will work hand in hand with good governance and other economic instruments to ease the burden on taxation and bring balance in state operations.

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9. The Moral and Spiritual Dimension

An Islamic economic model is not only practical — it is spiritually uplifting.

The Prophet (ﷺ) said:

“Allah has made Zakat obligatory to purify your wealth.”
(Tirmidhi)

Zakat purifies:

- the giver
- the wealth

- the society

It turns economic redistribution into worship. It transforms social welfare into a divine bond between people.

Most importantly, it restores *human dignity*. Islam does not want people to beg. It wants them to rise, contribute, and live honorable lives.

Islam sees economic activity as a pathway to spiritual growth.

The Prophet (ﷺ) said:

“Allah is gentle and loves gentleness in all matters.”
(Sahih Bukhari)

A Zakat-centered system reflects divine gentleness:

- no harsh taxation
- no exploitation
- no humiliation of the poor
- no hunger
- no injustice

It transforms economics into an act of worship and compassion.

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10. A Practical Zakat Implementation Framework

1. **Identification of Zakatable Wealth**
   Use digital records, banks, and asset declarations.
2. **Centralized Collection System**
   A national Zakat authority with provincial branches.
3. **Transparent Distribution**
   Public reports showing where funds are spent.

4. **Local Committees**

   Community-level identification of deserving families.

5. **Annual Review and Audit**

   Independent audits to avoid abuse.

11. A Vision for the Future

Imagine a country where:

- no one sleeps hungry
- indirect taxes are minimal
- Zakat is collected transparently
- the poor receive dignified support
- businesses grow without fear of exploitation
- healthcare and education are accessible
- wealth circulates instead of concentrating in a few hands
- social trust strengthens day by day

This is not a dream or a vision but can be realized if societies are able to design their economic systems along the lines of the values that are professed to be held dearly.

Conclusion

In a world that is fed up with inequalities and lack of justice, Zakat is more than an equalizing and just process it is an ethical rebirth. Getting rid of unfair taxes is more than relieving fiscal burdens; it is integrating society on the foundations of compassion, justice, and responsibility. Zakat is surely a zakat-obligatory process; it is an exemplary economic system that has been proved and justified through time and logic of economy.

However, by embracing an Islamic economic system, we will not be going back; rather, we will be moving ahead to “a brighter future” where “**equality becomes a guiding principle**” in which “**the poor are protected**” because “the economy will work for everyone, not just the few.” It is in fact an era in which “the world is looking for just and sustainable economic models,” but because “the answer is already in Islam,” the “real challenge is not availability but readiness to implement.”

An effectively managed Zakat system is more than a wealth distribution mechanism. An effective system is a catalyst for upholding the dignity of all people, a foundation for building public trust, a key for ensuring public stability, and a mechanism for fixing a broken government-to-citizen relationship in terms of managing financial responsibility.

Zakat may not be enough to take care of a modern state on its own, according to some critics. This point is quite valid, and one needs to take it into consideration. However, it is not a goal to eliminate all taxes altogether suddenly. This approach aims to decrease unfair, unnecessarily excessive taxes gradually while improving ethical, needs-based redistribution to make a system based on Zakat a reality.

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THANKYOU.