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

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Abstract

A culture of long-term fiscal inequality, retrogressive tax design, and lack of governing goodwill in the populace, persist in destabilizing the economies and social unity of most developing economies, most of which is Pakistan. Through reforms and repeats, the fiscal burden of revenue collection is still disproportionately advanced to gross a subsistence of the low- and middle-income households through indirect taxation, whereas wealth and elite exemptions are still positioned. The paper does a critical analysis of the current taxation system in Pakistan, and also analyses the practical viability of a Zakat-based fiscal paradigm as a morally based, economically effective and socially equal alternative.
Based on Islamic primary documents and classical teaching of jurisprudence, and the modern economic theory, the paper conceptualizes Zakat as both a charitable duty but as a systemic means of redistribution of wealth, poverty alleviation. This is followed by the use of contemporary economic analysis to the extent it influences the human capital formation. Pakistan and Malaysia and Indonesia are used comparatively as illustrations, reinforced by empirical data, to demonstrate how reformed Zakat institutions may be used to underpin comprehensive economical progress and improve the well-being of the society. The results imply that the transparently adopted, digitally mediated Zakat framework in a dual fiscal framework can significantly decrease inequality, promote grassroots entrepreneurship, and enhance the financial legitimacy of the population. The paper concludes that Zakat is an idealized, but practical way of practicing fiscal justice to reconcile values rooted in faith and the contemporary development goals.

Keywords: Zakat; Islamic economics; taxation reform; fiscal justice; poverty alleviation; Pakistan

1. Introduction

Fiscal regimes are not on the one hand devices of neutrality, but they contain moral priorities that structure the division of economic weight and the concentration of benefit. The heart of the Islamic social philosophy, is economic justice. Zakat takes a central and non-negotiable place among the institutional mechanisms, which are to be observed in order to maintain dignity, balance wealth, and vulnerable populations. In linguistics, Zakat means cleansing and increase; in practicality, it is a mandatory engagements of surplus money by qualified donors to transparently designated recipient groups to guarantee flow of resources, rather than hoarding or burying them (Qur'an 9:60, Sahih International).

Unlike voluntary charity (sadaqah), Zakat is a fiscal institution required in the Koran. Theoretically, the Quran repeatedly links the setting up of prayer (salah) with the ordering of Zakat as two-fold spiritual and socio-economic meanings (Qur'an 2:43, Sahih International). This connection is what turns the issue of private wealth into a problem of responsibility in the society, creating a sense of moral responsibility in the economics.

The problem of many developing economies especially the taxation system in Pakistan is the constant struggle to be able to fulfill the three at once equilibrium, compliance and growth. The weighted fiscal pressure by consumption, low tax collections, rampant evasion and poor civic trust have created fiscal arrangements with the effect that the poor households will be bound by a larger proportional contribution compared to the rich paying. Through this context, a critical analysis of alternative fiscal models that can be used to recover distributive justice without compromising productive activity becomes necessary.

The research paper is an evaluation of the possibilities of a Zakat-based fiscal system as an alternative to the exploitative taxation schemes. Looking into the case of Pakistan, it observes how Zakat, when institutionally reinforced, transparently delivered, and technologically ascertained can facilitate social justice, economic activity, and welfare improvement, cutting across economic classes in the society. The paper then continues to analyze weaknesses of the current taxation system and the economic philosophy of Zakat, challenges in implementation and cite lessons through results of similar cases such as in other locations.

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2. Current Taxation System: Issues and Challenges

2.1 Structural Weaknesses in Modern Taxation

Taxation is traditionally supposed to finance the goods of the populace, alleviate inequality, and even out the peaks and troughs of prosperity and depression. The reality lies however that in many developing economies the converse is realized. The Taxation system in Pakistan has been largely described as inefficient, unfair and low in institutional legitimacy.

Traditionally, over 60 percent of the total tax revenue of Pakistan is made up of indirect taxes such as sales tax, excise duties, and petroleum levies (Pakistan Bureau of Statistics, 2020; World Bank, 2020). More recent fiscal data implies a partial rebalancing. They are regressive in nature because such taxes will take a higher percentage of income earned by the low income earners than their higher income counterparts. Tentative FY 202425 data suggests a relative rebalancing, though, with indirect taxes consuming about 50.7 percent of total revenue, showing a small policy shift to direct taxation (Federal Board of Revenue, 2024).

Low-income families spend a big proportion of their earnings on consumer products in the form of food, fuel and utilities. Taxing these necessities heavily lowers the real purchasing power and exposes people to vulnerability. Conversely, forces with greater incomes spend less of their income on taxed needs, shield themselves against the similar financial load.

2.1.1 Tax Revenue Composition

Figure 1 the structure of the federal revenue of tax in Pakistan in 202425, and it can be noted that the ratio of direct and indirect taxes is almost balanced. Nevertheless, even with recent rebalancing the sustained supremacy of indirect taxation is the reason why inflationary pressures are instead accumulating on low-income households, and their consumption basket is concentrated in high-taxed necessities.

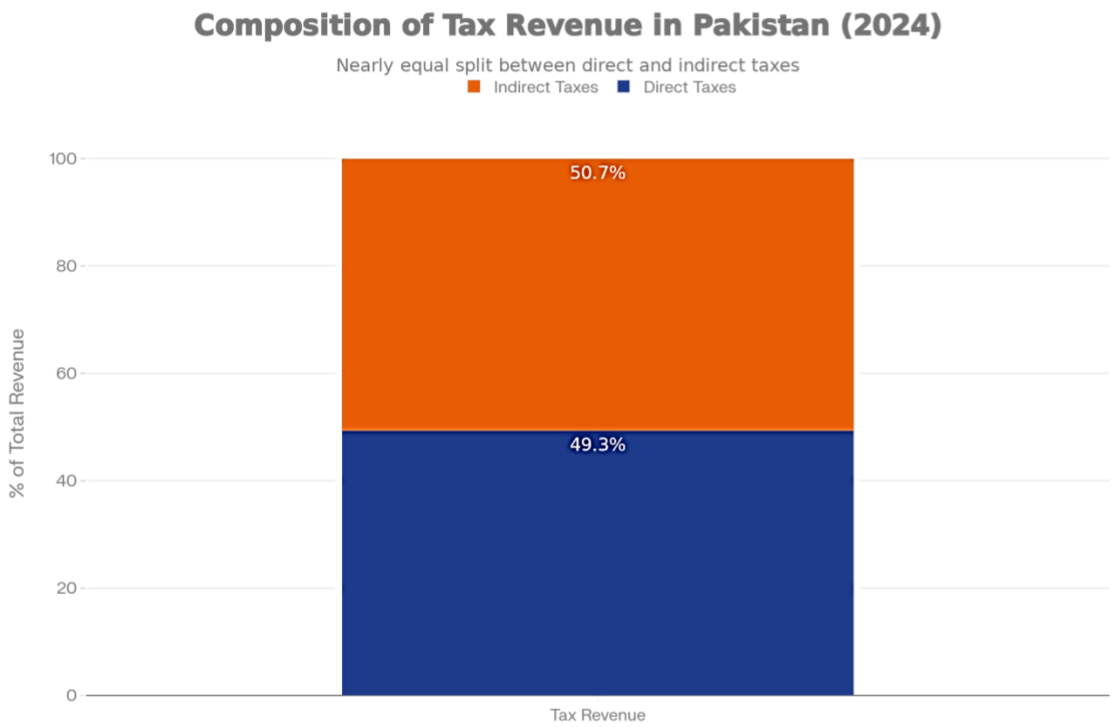

Fig. 1. Composition of Tax Revenue in Pakistan (FY 2024–25). **Source**: Federal Board of Revenue (2024).

2.2 Narrow Tax Base and Elite Capture

Pakistan has a tremendously small direct tax base. Although the country has evident prosperity in real estate, wholesale trade, and agriculture, a very minimal of eligible citizens submit income tax returns. This is indicative of lax enforcement, political favors and institutional exemptions of key actors in the economy.

Agriculture, which is a major contributor to the GDP, is undertaxed significantly, and real estate transactions are mathematically undervalued, which allows the amassing of wealth without corresponding fiscal investment (World Bank, 2020). In turn, the state covers the revenue gaps by imposing indirect taxes on mass consumption, which contributes to regresses.

The overall effect of indirect taxation is that impoverished households take up a disproportionately heavy-tax burden when compared to wealthier deciles that have a higher capacity to save and invest. The indicated structure violates the Quranic principle that a person should not be burdened beyond his/her means (Qur'an 2:286, Sahih international). Such regressive distribution of tax incidence among income groups is depicted in Figure 2.

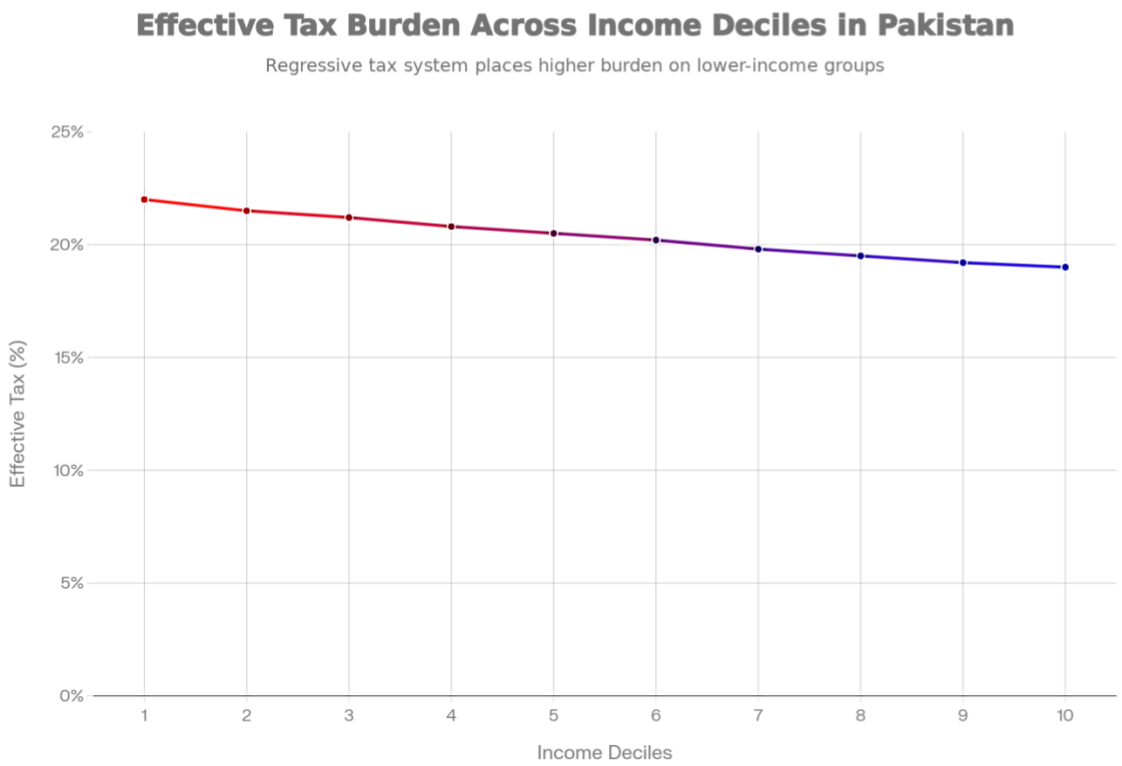

Fig. 2. Effective Tax Burden Across Income Deciles in Pakistan.

2.3 Administrative Inefficiency and Trust Deficit

In most cases, tax management in the third world economy is characterized by poor efficiency, corruption, and expensive compliance. International Monetary Fund calculates that these inefficiencies cost the developing states 25 to 40 percent of the revenue potential in third world countries (IMF, 2021). These losses make fiscal strains more severe and decrease public confidence.

Fair perceptions have a strong connection with the compliance of the population. Tax evasion becomes normalized when taxation is perceived as unfair or abused and undermines the social contract, instead of being tackling to restore financial stability.

2.4 Macroeconomic Consequences and Inequality.

The taxation systems promote the growth of income inequality. The growing prices, low wages, low social expenditure worsen the state of poverty, and economic growth is discriminatory, giving preference to capital-intensive industries at the expense of labourintensive livelihoods. Such an imbalance prompts a crucial question: can a morphological and faith-based fiscal institution like Zakat counter the distributive shortcomings of orthodox taxation?

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3. Zakat-based System: An Alternative

3.1 Principles and Economic Philosophy of Zakat

Zakat is an obligatory fiscal institution that is regulated by the law of Islam and enforced on wealth that has reached the nisab limit that is the minimum wealth that causes liability of Zakat. It aims at excess and unproductive wealth and not at income streams and thus it directly incorporates redistribution into the economic system. The Quran specifically outlines those who can receive Zakat so that it is a rule based and ethically surrounded fiscal policy:

﴿إِنَّمَا الصَّدَقَاتُ لِلْفُقَرَاءِ وَالْمَسَاكِينِ وَالْعَامِلِينَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْغَارِمِينَ وَفِي سَبِيلِ اللهِ وَابْنِ السَّبِيلِ ۖ فَرِيضَةً مِّنَ اللهِ ۗ وَاللَّهُ عَلِيمٌ حَكِيمٌ﴾

"Zakat expenditures are only for the poor and the needy, and for those employed to collect it, and for bringing hearts together, and for freeing captives, and for those in debt, and for the cause of Allah, and for the stranded traveller an obligation imposed by Allah. And Allah is Knowing and Wise."

(Qur'an 9:60, Sahih International)

This verse makes redistribution an institutional process of provision, not discretion, transforming ethical necessity into a rule-dependent fiscal framework. Such categoricality avoids the need to divert funds at discretion and differentiates Zakat and arbitrary spending of fiscal resources, by which redistribution takes place without sacrificing the goal of justice and social welfare.

3.2 Zakat, Wealth Circulation, and Economic Growth

Zakat also encourages effective use of wealth by deterring hoarding. This will facilitate the circulation instead of the concentration as highlighted by Kahf, (1999), and this complies with Islamic economic principles. Idle assets above the nisab level are liable to periodic transfer, reinvestment in trade, industry and employment. Quran specifically compares Zakat to accumulation based on interest:

﴿وَمَا آتَيْتُم مِّن رِّبًا لِّيَرْبُوَا فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُوَا عِندَ اللهِ ۖ وَمَا آتَيْتُم مِّن زَكَاةٍ تُرِيدُونَ وَجْهَ اللهِ فَأُولَٰئِكَ هُمُ الْمُضْعِفُونَ﴾

"Whatever you give in usury to increase within the wealth of people will not increase with Allah; but what you give in Zakat, desiring the countenance of Allah—those are the multipliers."

(Qur'an 30:39, Sahih International)

Macroeconomically, Zakat stimulates aggregate demand by redistributing the sources to more consumption-intensive households. This is a bottom-up method of growth which is in stark contrast to top-heavy fiscal systems that concentrate wealth and stifle productive circulation. As shown in Figure 3 compares the directional movement of wealth with traditional taxation and a redistributive system based on Zakat.

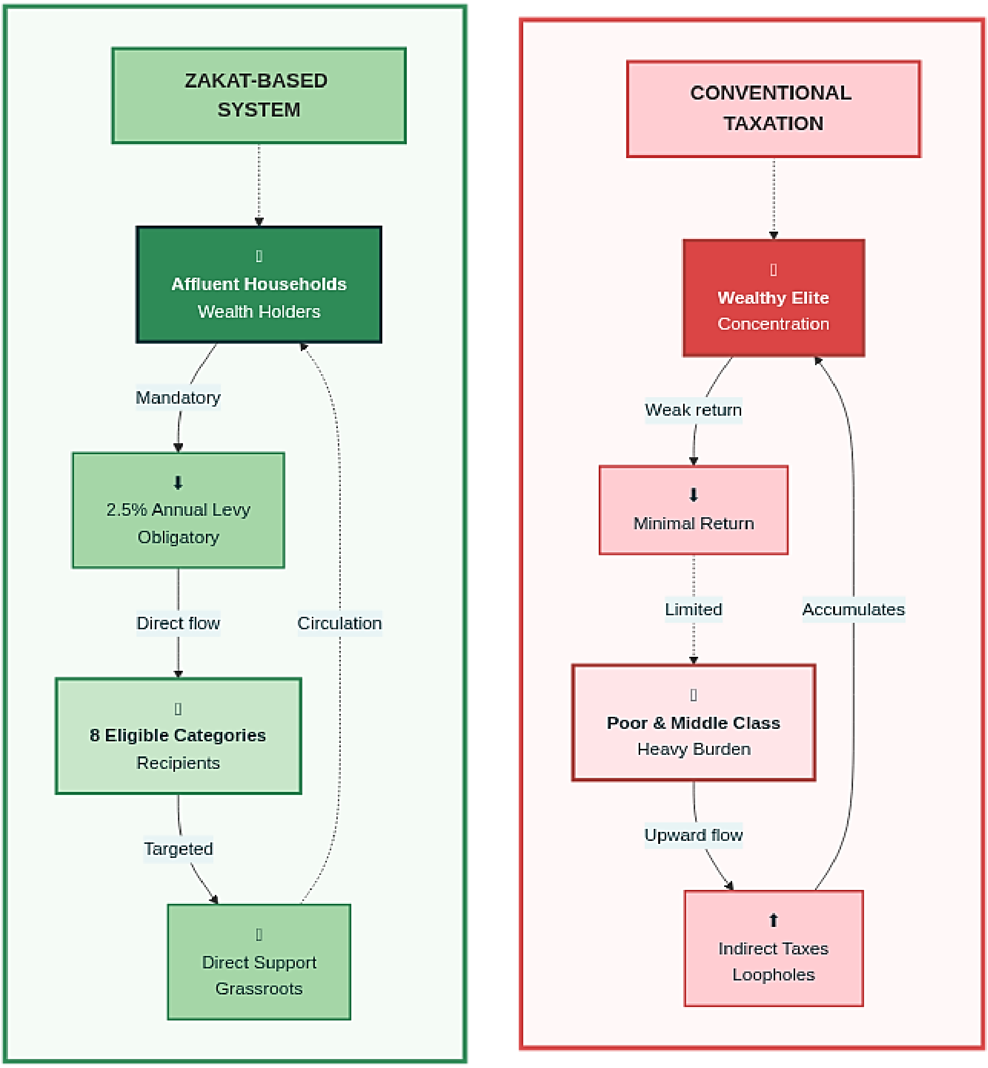

Fig. 3. Wealth Flow under Conventional Taxation and Zakat-Based Redistribution

3.3 Social Welfare, Poverty Alleviation, and Human Capital

Zakat as a concept directly covers multidimensional poverty by sustaining basic consumption, debt relief, healthcare, education, and livelihood cultivation (Ahmed, 2004; Obaidullahand Shirazi, 2015).

Debt balances (gharimeen) help households not to sink in chronic poverty traps, whilst selected aid to the poor (fuqara) and the needy (masakeen) guarantees minimum standards of living.

This redistributive obligation is anchored morally on the principle of fiscal justice provided in the Quran:

﴿لَا يُكَلِّفُ اللَّهُ نَفْسًا إِلَّا وُسْعَهَا﴾

"Allah does not burden a soul beyond its capacity."

(Qur'an 2:286, Sahih International)

In addition to short-term relief, Zakat can help support human capital formation in the long-term, through education, vocational training and microenterprise development, ultimately turning the recipients to productive economic members.

The Prophet Muhammad ﷺ codified Zakat as communal financial obligation and foregrounded the obligatory and redistributive quality of Zakat:

عَنْ ابْنِ عَبَّاسٍ رَضِيَ اللَّهُ عَنْهُمَا أَنَّ النَّبِيَّ ﷺ قَالَ:
«تُؤْخَذُ مِنْ أَغْنِيَائِهِمْ فَتُرَدُّ عَلَى فُقَرَائِهِمْ»

"Zakat is taken from their wealthy and returned to their poor."

(Sahih al-Bukhari, Kitab al-Zakat, Hadith 1395)

This compulsory nature of redistribution is further reinforced by the Prophetic assurance that charitable transfers do not diminish economic capacity:

قَالَ رَسُولُ اللَّهِ ﷺ:
«مَا نَقَصَتْ صَدَقَةٌ مِنْ مَالٍ»

"Charity does not decrease wealth."

(Sahih Muslim, Kitab al-Zakat, Hadith 2588)

The multidimensional impact of Zakat-funded interventions is summarized in **Figure 4**.

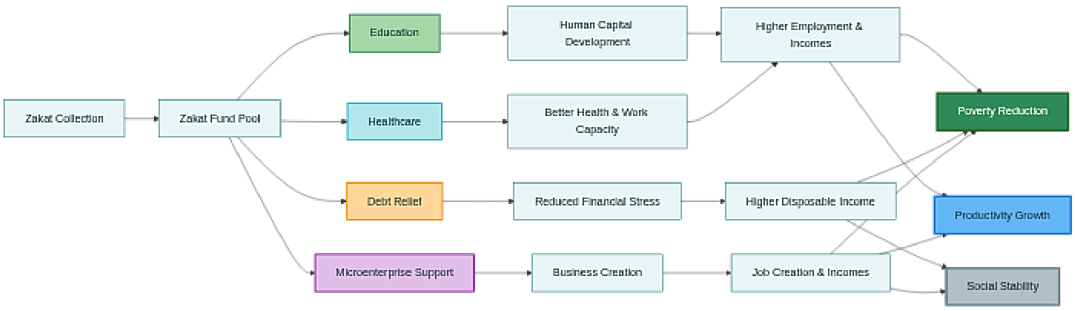

Fig. 4. Poverty Reduction Pathway through Zakat-Funded Education, Healthcare, and Microenterprise Support

3.4 Zakat and Maqasid al-Shariah

Zakat aligns with the objectives of Islamic law (Maqasid al-Shariah), particularly the preservation of wealth, life, dignity, and social harmony. By preventing extreme inequality and ensuring minimum living standards, it operationalizes distributive justice within economic systems.

3.4.1 The Prophetic Model of Fiscal Governance

The Prophet صلى الله عليه وسلم institutionalized zakat collection:
- He appointed official collectors (*'āmilīn*).
- He recorded amounts.
- He enforced compliance.
- He distributed transparently.

3.4.2 Preventing Wealth Concentration

Allah warns:

«وَالَّذِينَ يَكْنِزُونَ الذَّهَبَ وَالْفِضَّةَ وَلَا يُنْفِقُونَهَا فِي سَبِيلِ اللَّهِ فَبَشِّرْهُمْ بِعَذَابٍ أَلِيمٍ *
يَوْمَ يُحْمَىٰ عَلَيْهَا فِي نَارِ جَهَنَّمَ فَتُكْوَىٰ بِهَا جِبَاهُهُمْ وَجُنُوبُهُمْ وَظُهُورُهُمْ ۖ هَٰذَا مَا
كَنَزْتُمْ لِأَنْفُسِكُمْ فَذُوقُوا مَا كُنْتُمْ تَكْنِزُونَ»

(Qur'an 9:34-35, Sahih International)

"And those who hoard gold and silver and do not spend it in the way of Allah - give them tidings of a painful punishment. The Day it will be heated in the fire of Hell and with it branded will be their foreheads, their flanks, and their backs, [it will be said], "This is what you hoarded for yourselves, so taste what you had been hoarding.""

Islam opposes systems where wealth stagnates or concentrates in closed circles. Zakat pushes dormant wealth into the marketplace, accelerating economic activity.

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4. Addressing Common Concerns

4.1 Can Zakat Alone Finance a Modern State?

Zakat is more of a social welfare program than an infrastructure financing program. Traditionally, such supplementary sources of revenue as land taxes (kharaj), public endowments (waqf), and trade revenues were used in the Islamic states. Based on this, Zakat does not substitute every type of state revenue, but rather exploitative taxes. Therefore, criticism to the effect that Zakat falls short of its fiscal adequacy is confounded with the redistribution of welfare, a fallacy of category, rather than the economic dismissal.

4.2 Compliance and Enforcement

The Zakat compliance was usually practiced in classical Islamic governance. Abu Bakr (RA) accepted the authority of the state to collect Zakat which is documented in Sahih al-Bukhari, Kitab al-Zakat, Hadith 1400. State surveillance by use of digital asset registries and publicly available evaluations are replicable even by modern states.

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5. Implementation Challenges and Policy Recommendations

5.1 Existing Institutional Framework in Pakistan

Pakistan has an official Zakat system that is managed by federal and provincial councils. Even when institutional presence exists, collection is a piece of what it could be because there is a lack of unified governance, partial disclosure and coverage of assets.

5.2 Policy Recommendations

Phase I (Years 1–2): Combine Zakat evaluation with NADRA-linked digital identity solutions to enhance the verification of assets and lower evasion.

Phase II (Years 3-4): Cash transfers are substituted by livelihood based programs, such as microenterprise financing, and vocational training.

Phase III (Years 5+): harmonize the Zakat distribution with national poverty reduction policies to achieve the most developmental effect.

5.3 Governance and Accountability Challenges in Zakat Administration

Even though Zakat is a divinely authorized and normatively all-inclusive tool, its success as a fiscal mechanism is essentially governance based. Islamic resources underline the role that the public financial institution should be working within the framework of accountability,

transparency, and trust (amanah). Therefore, shortcomings in the management of Zakat indicate the failure of implementation and not shortcomings in the concept of the institution itself.
Quran clearly puts the public authority and resource management in terms of a trust that needs to be discharged to be just:

﴿إِنَّ اللَّهَ يَأْمُرُكُمْ أَن تُؤَدُّوا الْأَمَانَاتِ إِلَىٰ أَهْلِهَا وَإِذَا حَكَمْتُم بَيْنَ النَّاسِ أَن تَحْكُمُوا بِالْعَدْلِ﴾

"Indeed, Allah commands you to render trusts to whom they are due and, when you judge between people, to judge with justice."

(Qur'an 4:58, Sahih International)

In Pakistan the administration of Zakat has been troubled by institutional lack of cohesion in its institutional power, lack of audit mechanisms, political influence, and lack of quality systems to check beneficiaries. These weaknesses in governance limit the efficiency of collection, allow misuse, and undermine the confidence of the population, thus imposing limitations on the redistributive capacity of Zakat.
The principle of Islamic governance system further creates guard against administrative misuse. Muslim preacher Muhammad ﷺ warned against conflicts of interest among the public officials:

عَنْ أَبِي حُمَيْدٍ السَّاعِدِيِّ رَضِيَ اللَّهُ عَنْهُ أَنَّ النَّبِيَّ ﷺ قَالَ:
«هَدَايَا الْعُمَّالِ غُلُولٌ»

"Gifts received by public officials constitute misappropriation."

(Sahih al-Bukhari, Kitab al-Ahkam, Hadith 7174)

This Prophetic order support institutional control, standard procedure, and professional management of fiscal systems of the people. In relation to the governance of Zakat, it aids modern policy mandates, including independent auditing, open reporting, and merit-based administrations.
Enhancing accountability and governance structures is thus a key to Zakat successful integration in a contemporary fiscal regime. Open data gathering mechanisms, concentration of all data within a centralized database system and publicly visible audit trails are not foreign requirements but modern application of essential Islamic values of justice (adl) and accountability (*muhasabah*).

5.4 Digital Governance and Institutional Modernization of Zakat Systems

Whereas governance sets an ethical control, digital modernization offers the instruments of operation with which such principles are applied in large scale. The efficiency of Zakat as a contemporary fiscal tool is increasingly pegged on its incorporation in the modern technologies of governance. Although the normative backgrounds of Zakat focus on transparency, accountability, and proper targeting, digital systems also present viable systems by which the principles can be scaled. Institutional modernization, in its turn, is a precondition to the translation of the ethical aims of Zakat in quantifiable socio-economic terms.

According to Islamic sources, keeping accurate records of financial transactions and transparency are very crucial. Quran clearly urges the writing down of the information to avoid controversy and unfairness:

﴿يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنتُم بِدَيْنٍ إِلَىٰ أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ﴾

"O you who believe, when you contract a debt for a specified term, write it down."

(Qur'an 2:282, Sahih International)

Though disclosed as a part of private transactions, this directive brings forth a general vision of financial recording and disclosure conventions, which are equally applied to state fiscal organizations like Zakat. Centralized databases, digital record systems and automated compliance tools are the contemporary extensions of this Quran injunction.

A digitally integrated Zakat system may include the central registries of the nisab liable properties, safe payments systems, and real-time reporting boards open to administrators and the community. An ID system should be integrated with the national databases on identity, banking, and tax records that are legally protected to minimize evasion, enhance targeting accuracy, and minimize administrative leakage. These systems increase the trust because they enable the people who make their contributions to follow through the social implications of their donations, a process that intensifies voluntary compliance as well as mandatory enforcement.

The practical experience shows that the digital modernization is possible. Malaysia e-Zakat systems have increased the efficiency in collections and targeting of beneficiaries and Indonesia National Zakat Agency (BAZNAS) uses digital dashboards to improve transparency and monitor performance. These instances depict how the use of technology has not diluted the Islamic nature of Zakat, on the contrary, it has enhanced its institutional credibility and developmental effects.

Considering the Islamic principle of governance, the digital transparency corresponds to the principle of hisbah that entails supervision to safeguard the common good and the exercise of power against abuse of power. Technology then emerges as a means of ethical regulation as opposed to a moral responsibility. In the case of Pakistan, an emphasis on digital infrastructure, professional training, and agency coordination would be a bold step towards re-public confidence and redistributive power of Zakat to the fullest.

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6. Case Studies and Success Stories

6.1 Malaysia: Institutional Excellence

Malaysia has one of the best systems of Zakat in the Muslim world. Zakat, with help of state-level Islamic councils, is professionally managed using data-driven targeting, and transparent reporting. Existing studies show that there is a significant decrease in poverty levels among registered beneficiaries and better economic involvement.

6.2 Indonesia: Digital Innovation.

Indonesia has also used fin-tech to increase Zakat collection in the country. National agencies are in co-operation with NGOs and financial institutions, which incorporates Zakat in development planning. There is evidence of positive impacts on microenterprise development, strength, and social bonds.

Comparative analysis reads of the experience of Pakistan and Malaysia, as well as those of Indonesia indicates that even whether institutions have Zakat legislation in place is not a decisive variable; rather, quality of institutional design is. In places where the Zakat systems are run professionally, digitally linked, and not subjected to politicking, the system serves as an effective tool of social safeguard and economic inclusion. Their influence is also less pronounced in their state where the governance is still divisive and obscured. Such opposition shows that it is not ideological acceptance of Zakat that Pakistan is struggling with, but rather administrative implementation.

These examples show that Zakat when updated could serve as a scalable development tool. Figure 5 demonstrates the comparative performance of Malaysia and Indonesia.

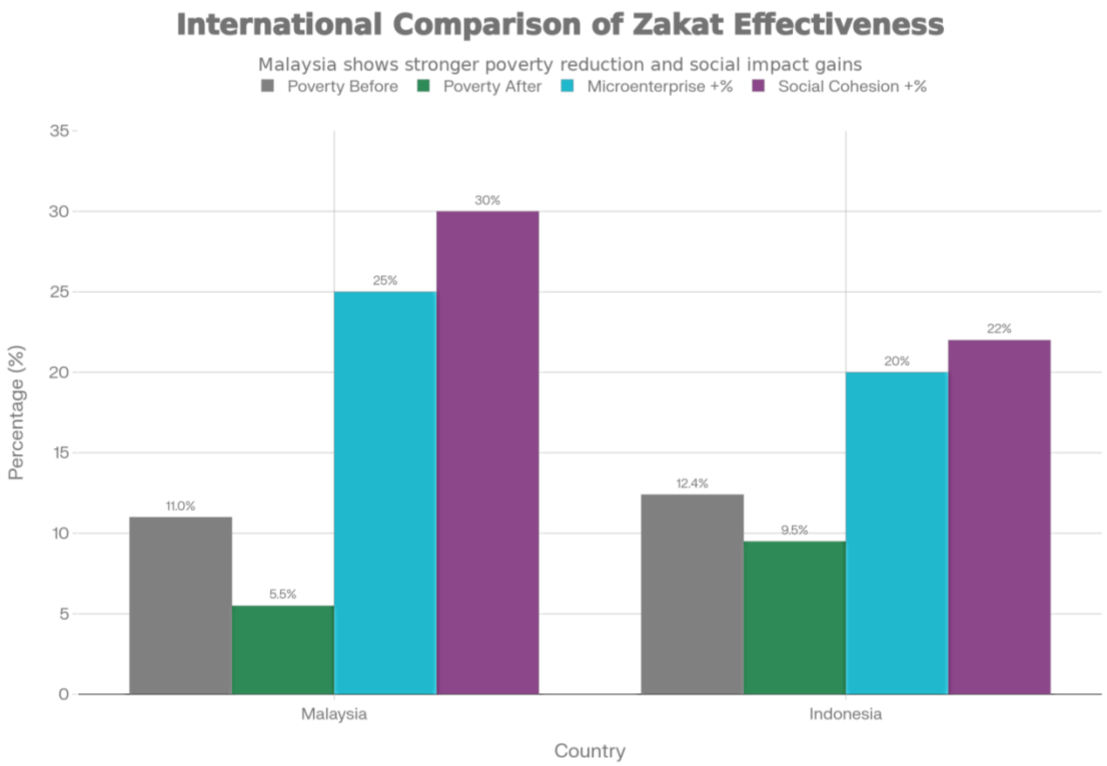

Fig. 5. Comparative Effectiveness of Institutionalized Zakat Systems: Malaysia and Indonesia.

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7. Conclusion

The fiscal crisis in Pakistan is not only about the lack of income but also in a broader structural and moral imbalance in the current system of taxation. The combination of overuse of indirect taxes, limited direct tax bases, and endemic elite-based exemptions has created an extractive form of structure that has led to high burdens on low-income households, deterrence of productive enterprise, and lack of trust by the populace. Small scale changes in this paradigm have had minimal and patchy outcomes.

In this work, the way Zakat can be interpreted and applied as an institutional fiscal device has proven to be a possible, justice-based alternative, which is based on transparency, accountability, and social responsibility. Unlike the traditional taxation tools that tend to focus on extraction, Zakat focuses on wealth circulation, preservation of human dignity, and empowerment of the financially disadvantaged groups. It is further corroborated by the fact that its purpose is aligned with the objectives of Maqasid al-Shariah which makes it highly relevant to the modern development discourse.

Experience in Malaysia and Indonesia has shown that Zakat can operate in a contemporary government system, with the aid of digital infrastructure, professional management and strong accountability systems. In the case of Pakistan, the most viable route is following a hybrid fiscal model, where Zakat plays the core responsibility in social welfare and reduction of inequality, alongside limited and progressive taxation on the core state functions. With institutional integrity and transparency, a Zakat-based fiscal system has the potential to

restore legitimacy in the financing of the population, stimulate inclusive economic growth and translate the concept of fiscal justice into the quantifiable social outcomes.
The present paper is also an addition to the discussion of fiscal reform since it entails a path of combining the legitimacy of Islamic normativity and the modern economic approach into a systematic analysis of evaluating Zakat as a source of the modern tool of public finance.

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8. Declaration of Originality

I am pleased to inform that this research paper is an original work carried out exclusively by the researcher. All information sources such as Quran verses, Hadith, academic sources, and organizational reports are all duly credited. This is an original work never published or entered in any academic contest or competition, unless mentioned.

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9. Plagiarism Declaration

It is a first-time work of the author. All the references such as the verses of the Quran, Hadith, and scholarly sources have all been properly referenced. Standard translations and referred material are recognised as similar.

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