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

Introduction

In Pakistan, taxes do not put their hands on the neck of the wealthy; rather, they squeeze the necks of the salaried taxpayer, low-income households, and those below the poverty line. According to the World Bank, as of 2025, the poverty rate of Pakistan climbed to 25.3%[1], which is so alarming, reversing two decades of progress due to systemic stress. More than 50% of Pakistan's tax revenue is generated from indirect taxes[2]. Pakistan's current tax system is based on GST(general sales tax)[3], meaning that both the millionaire and the poor pay the same tax on bread, causing a burden on the poor because the poor spend most of their money on survival and the wealthy pay a small amount of their money on tax.

Zakat, on the other hand, is an Islamic obligation; compliance involves giving 2.5% of one’s wealth to those in need. As per Surah At-Tawba (9:60), there are 8 Masarif of Zakat: the poor, the needy, administrators, reconciling hearts, freeing captives, debtors, for Allah's cause and the wayfarer. Zakat is only applied to Sahib-e-Nisab who have a certain amount of money; the Nisab for the duration of a Haul. It purifies the soul as well as wealth without burdening the poor and middle class. It circulates the money and generates many opportunities for growth and welfare.

The Taxation System Of Pakistan

Tax is a compulsory duty which is imposed by the government on businesses or individuals to enhance public services such as education, health, infrastructure, defence, etc. The taxation system of Pakistan is divided mainly into two categories. The direct taxes include income tax(paid by salaried individuals, professionals and business owners), corporate tax (paid by companies on profits and capital gains tax on properties, assets, and shares. The second category of tax is indirect tax, which includes sales tax(GST), customs duty, etc., and is paid indirectly by consumers. This burdens the consumers regardless of their income.

These taxes are levied and collected by both the federal and provincial authorities. The government of Pakistan relies mainly on indirect taxes, though Pakistan has both direct and indirect taxes. Indirect taxes include taxes on food items, transport fares, mobile phone usage, gas bills, and electricity bills. The direct taxpayers are only a few individuals who are registered; many rich individuals escape through fake losses in business, using cash-based transactions, and many holding assets under Benami names[4]. Many of them have political protections. The burden shifts to indirect taxes and consumption-based taxes.

To illustrate this, there is a numerical example. The example is a person with a monthly income of Rs. 30000, spending on necessities. The indirect taxes paid approximately Rs. 6000. The tax percentage of income is 20%. In contrast, a wealthy person with an income of Rs. 300000, declared income for tax is Rs. 150000, income tax paid is approx Rs. 20000, indirect tax paid is also Rs. 20000, the total is Rs. 40000. The tax as a percentage of income is 13.3%[5]. Rich person pays only 13.3% of their income as tax.

The poor pay a higher proportion because their entire income is spent on consumption, having no savings, fixed salaries, and price hikes.

Zakat Collection System of Pakistan

Zakat is an Islamic obligation, mandatory for every Muslim meeting the Nisab threshold. It supports the poor as well as purifies the soul and wealth. The zakat system of Pakistan operates under the Zakat and Ushr Ordinance, 1980[6], introduced during General Zia-ul-Haq's Islamization period. Like the taxation system, Zakat also has two types in Pakistan. First is Compulsory (deducted) Zakat, which is automatically deducted from bank accounts on the 1st of Ramadan; the rate is 2.5%. If the bank balance exceeds the Nisab before 1st Ramadan, then the deduction takes place and has been held for a Hawl (lunar year). The second type is voluntary Zakat that applies to gold, livestock, and business assets. People usually distribute it by themselves.

Zakat is collected by the federal government, provincial Zakat councils, local Zakat committees and financial institutions(banking). The collection of the process is done by following the steps: firstly, banks identify the accounts on which zakat is applicable. This includes saving accounts, investment accounts, and term deposits. Zakat does not apply to current accounts or accounts of exempted persons. The second step is the determination of nisab. That is collected on the value compared to 52.5 tolas of Silver. It is announced every year by the State Bank of Pakistan before the 1st of Ramadan. The third step is automatic deduction on the 1st of Ramadan. After deduction, banks transfer this amount to the Central Zakat Fund (CZF). CZF works under the Ministry of Religious Affairs.

Banks maintain a record of the amount, date of deduction, and all data reported to the State Bank of Pakistan and other Zakat authorities. Banks do not deduct Zakat from the accounts of non-Muslims or exempted persons (e.g, Shia) if they submit a Zakat declaration form (CZ-50) before Ramadan.

Zakat is not only applicable to bank deposits, but it is also obligatory for other types of wealth, such as gold, silver, properties, etc., but in Pakistan, these are mostly self-assessed. There are several problems related to Zakat collection; most assets are undocumented[7], people often avoid paying Zakat, there is a lack of awareness, a lack of trust in the government, and there are no strict penalties from the government. Additionally, many people prefer to support the local poor or their relatives. These problems can be addressed by public awareness and improved governance policies.

Comparison Between Zakat and Taxation

Both Zakat and taxation play an important role in shaping the growth and economy of any state.

Aspect	**Zakat**	**Taxation**
Definition	It is a religious obligation.	Tax is a compulsory financial charge.
Imposed By	Religion	Governament
Purpose	Purifies the soul and wealth, helps the needy, and reduces inequalities	Fund the government to enhance infrastructure, defence, etc

Benefaciories	Only a specific group mentioned in the Quran	The government decides where money is spent
Rate Of Payment	Fixed 2.5% on salaries	variable
Eligibility	Paid only by muslims must hold nisab for the lunar year	Paid by all regardless of religion or income
Impact on Society	Reduces poverty and wealth inequality	Can burden the poor

Comparison of Pakistan's Zakat and Taxation system with other muslim majority countries

Pakistan works on a dual revenue system, comprising both conventional taxation and Zakat, but unfortunately, Pakistan's tax system is regarded as exploitative and inefficient. A major weakness is that only a small percentage of the population pays tax, and a large segment, such as real estate and agriculture, remains outside the tax net. This places a disproportionate burden on salaried individuals and the poor; the same applies to the Zakat collection framework. Corruption, political interference, and tax evasion further undermine revenue collection.

Compared to other Muslim-majority countries, Pakistan's taxation system is flawed. Saudi Arabia's taxation model is highly effective and well-established. It is among the most efficient systems in the muslim world. Zakat is mandatory for Islamic citizens, while foreigners pay Income tax. The Zakat Tax and Income Authority (ZATCA)[8] manages collection through advanced digital systems to ensure transparency and effectiveness.

Malaysia is considered a model country in Zakat management[9]. Rather than being centralized under the federal government, in Malaysia, Zakat is collected by the state Islamic Religious Council (MAIN) in each of the 14 states. Zakat payments are adjusted in tax rebates. Automated payroll systems and digital fintech platforms make it more transparent and enhance public trust through real-time transparency.

Indonesia's system works on a hybrid model. Zakat is managed by both government and private organizations, and encourages Zakat payment by allowing it as a tax deduction.

In Pakistan, the potential for Zakat is estimated at nearly Rs. 3 trillion, yet actual collection is significantly lower due to a trust deficit and administrative inefficiencies[10].

Establishment of a zakat-based system for growth and development

Zakat alone from bank deposits is not sufficient to meet the country's socio-economic needs, but if the entire system becomes transparent and optimal, then Zakat alone becomes adequate. Achieving this optimal system requires a multidimensional approach. Learning from other muslim majority countries could also be helpful. For example, in Saudi Arabia and Kuwait, Zakat is mandatory for citizens. A government-controlled yet religiously guided Zakat system can enhance trust and efficiency.

The traditional Zakat system is outmoded and has several deficiencies, including opaque wealth monitoring, corruption, manual processes and inadequate record-keeping. It can be improved by transforming the manual collection system into a digitalized system. It will enhance trust, accuracy, identify the eligible individual, and provide real-time monitoring. This can be achieved through the development of a centralized digital Zakat authority, which should be responsible for creating policies regarding Zakat, managing all data and coordinating with other institutions. Also, syncing the Zakat system with NADRA can be helpful, making a digital financial profile of individuals that holds Nisab eligibility as well as hidden or undeclared assets, and also those who are actually in need.

Integrating AI could also be beneficial. An AI-based collection system can process the data without high precision. Secure digital payment channels, such as QR-based payments, mobile wallets(easypaisa, Jazz Cash), and online banking, can be utilized. Distribution is also important after collection, so biometric verification to prevent fraud and categorization of the needy based on need can help.

Some other Islamic systems can contribute to Zakat, improving it for growth and stability. Ushr, a compulsory levy on agriculture, Waqf is a permanent deduction of assets, and it contributes to raising funds for education, healthcare, orphanages, and public infrastructure.

Qard-al-hassan is an interest-free loan system. It can be helpful for business startups, emergency medicals, etc. Kharaj is a land-based tax system that generates stable revenue sources without burdening consumption or wages.

In Surah At-Tawba, Allah warns those who hoard gold and silver without paying Zakat that their wealth will be burdened onto their foreheads and backs in the afterlife. The first Caliph, Abu Bakr, declared that he would fight those who deny zakat. The state should also establish a system of penalties for those who deny Zakat to make the Zakat system efficient and working.

Conclusion

In conclusion, while the modern taxation system is fundamental for generating revenue for growth and infrastructure, it is regressively affecting the poor in fulfilling their necessities for survival. Alternatively, a well-structured zakat collection system offers a superior economic framework. By examining successful models of countries such as Malaysia, Saudi Arabia, and Indonesia, it is clear that a well-structured approach can bridge the widening wealth gap. The digitalized and modern system can enhance transparency and transform this from a traditional act of charity into a sophisticated and high-impact economic engine.

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