Article : Ending Exploitative Taxation – A Zakat-based alternative for justice, growth, and welfare.

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1. Quest: Exploitation and Economic Injustice:

Economic justice stands at the heart of every stable and prosperous society. For citizens around the world in general and in developing countries like Pakistan in particular, tax systems often feel complex, burdensome and fundamentally unfair rather than a tool for equitable redistribution of wealth and state welfare.This leaves the cause and purpose behind and ends up overwhelming the lower and middle income groups often called as White Collar, while the wealthy benefit from the loophole system to avoid their fair share.The affluent get copiousness of resources and become elite and the impoverished get necessitous and beggarly. Few topics provoke a more universal whimper and squeak than taxes. Many modern taxation structures can become exploitative, extracting wealth without fostering non discriminatory growth due to their complexity and regressive implementation.The administrative costs and leakages consume a large portion of tax revenue before it reaches the purpose due to evasion, corruption and inefficiency that breeds through bureaucracy. This is the common characteristic of an unjust society where the impecunious individuals and families in the community get the feeling of being forlorn and deprived.

2. Structural Flaws in Conventional Taxation

2.1 Disproportionate Evaluation of Income of Salaried and Middle class

A critical examination of the tax framework will reveal systemic loopholes and policies that create a disproportionate and discriminatory burden on the middle and salaried classes whose income is singular, transparent and straightforwardly taxed. The time, cost and effort of completing filings, gathering documents and responding to audits can feel like an additional penalty. Double taxation further fuels public anger, especially when the same income or asset ends up taxed more than once with little explanation. A common example of double taxation is dividend distribution. When the company distributes its after-tax profits to its individual shareholders as dividends, those shareholders are then required to pay a separate income tax on the dividends received.

The result is a discriminatory environment where influential sectors and individuals, with diversified and undocumented income resources, evade taxes and conceal their taxable earnings and become fugitives of the society.This inflicts a substantial loss to the national exchequer but remains unaccounted for. Small and medium businesses often avoid filing or declare minimal revenue because of a weak monitoring system whose earnings are equivalent or higher but contribute significantly less to the national treasury. These structural flaws undermine the principle of progressive taxation and place the weight of fiscal responsibility on a narrow segment of the populace.

2.2 Over-reliance on Withholding Taxes from the Formal Sector:

The documented nature of salaries in the formal sector makes this income stream exceptionally easy for authorities to tax via withholding.This structural choice focuses revenue collection on the easiest-to-tax segment, creating a narrow and inequitable tax base where income from informal sectors, certain trades, or undocumented capital gains remains difficult to track, allowing other groups to evade or minimize their tax obligations.This promotes the heavy reliance of the governments on deducting advanced taxes resulting the system crossing into exploitative territory when it consistently places the heaviest strain on those who are already struggling.These taxes may seem neutral on the surface, but they take a far larger share of income from low-earning households than from the wealthy, creating a built-in imbalance. The complexity of tax rules adds another layer of pressure. Ordinary citizens often face confusing procedures and unclear requirements, while those with influence or financial resources can hire experts, navigate loopholes and secure more favorable outcomes.

2.3 Tax Exemptions and Sectoral Concessions:

Deliberate policy choices provide preferential tax treatment and concessions to specific sectors, such as real estate and agriculture. Agriculture sectors in Pakistan enjoy significant tax perks compared to the salaried and middle classes, primarily through lower effective tax rates, various exemptions, and a less robust enforcement/collection mechanism. Selective exemptions granted to powerful and politically connected groups and certain industries belonging to influential people have a role in running affairs of the state deepen this sense of injustice, shifting the tax burden onto everyone else.The agriculture sector, contributing nearly 20% to GDP, contributes less than 1% in tax revenue in contrast, salaried individuals constitute only about **2%** of the labor force but contribute roughly **15%** of total tax revenue. This stark imbalance fuels the perception that the sector is undertaxed relative to its economic weight.
Compliance itself becomes a source of frustration as agricultural income is constitutionally a provincial subject and is exempt from federal income tax .

2.4 Regressive Nature of Indirect Taxes:

A heavy reliance on indirect taxes such as sales tax,levies on fuel and utilities disproportionately affects the middle class. While these taxes are applied universally, they consume a much larger percentage of the disposable income of middle and lower-income households compared to the wealthy, effectively creating a regressive pressure that squeezes household budgets.Unpredictable policy changes compound the issue. When governments adjust tax rules without warning, families and businesses are left unable to plan for the future. Heavy consumption taxes on sustenance, utilities and fuel hit vulnerable groups the hardest, pushing many close to financial breaking points. Finally, when citizens do not see real improvements in public services, infrastructure or welfare despite rising tax collections, the system begins to look barely like a fair mechanism for development and more like a structure that extracts far more than it returns. This combination of uneven burden, weak transparency and poor responsiveness leads many people to be forced towards the conclusion that the taxation contradicts the ideals of fairness and social justice and view it as exploitative rather than equitable.

3. Pakistan's Dual Fiscal Framework

Now let's discuss the practice of Pakistan's dual fiscal framework.The fiscal landscape of Pakistan is defined by two parallel systems. These two frameworks operate very differently. The state's national tax framework, is a primary engine for revenue, administered by the Federal Board of Revenue (FBR) under the ministry of finance and the faith-based Zakat and Usher system, an institution for social welfare and wealth redistribution based on Zakat and Ushr Ordinance 1980, supervised by the ministry of religious affairs. Conventional taxation is primarily a tool for revenue generation driven by fiscal need to run the financial affairs of the state and supply money for public services. In contrast the Zakat based system provides alternative systems designed from the root level for justice and welfare by Islamic way of collecting the share from the privileged sector of the society for the alleviation of the economic conditions and create the environment and feeling of contentment among bourgeois and penurious segments of society.

4. Zakat: Beyond Voluntary Charity

For many, the term Zakat is synonymous with personal and voluntary benevolence. However its meaning is far more comprehensive, inclusive and multidisciplinary. Zakat is envisioned not as merciful philanthropy but as a mandatory structured economic principle of the justified distribution of the wealth functioning as pillar of Islamic Socio economic platform, projecting it as a divine right of the poor over the affluence and plethora of resources and wealth. The Quran and Hadith provide the framework and mechanism commanding faithful to ensure that wealth does not become a tool of oppression or source of societal division and economic injustice.

As stated in the Quran this principle is both spiritual purification and a socio economic obligation:

- "Take from their wealth, a charity by which you purify them and cause them to increase" (At-Tawbah 9:103).

Another Quranic verse that emphasizes and commands the payment of zakat:

- “And establish prayer and give zakat and whatever good you put forward for yourselves-You will find it with Allah”(Al Baqrah 110).

Prophet Muhammad (peace be upon him) reinforced this principle saying

- “Take from their wealth a charity by which you purify them and cause them to increase.” (Sahih al-Bukhari, Hadith 1395).

To understand the role of Zakat in the financial structure of Pakistan, let us examine the collection system of Zakat.

4.1 The Formal Collection Process

Under the official Zakat and Usher ordinance, the state has established a formal mechanism for the collection and disbursement of Zakat. This system primarily operates through deductions at the source on specific types of financial assets including qualifying savings accounts, investment certificates, and other specified assets held in banks and other financial institutions. On a predetermined date each year that is first of Ramadan, a set percentage of 2.5% is applied annually to an individual’s total net worth that has remained above minimum threshold known as Nisab which is equivalent to the value of 87.48 grams of Gold or 612.36 gram of Silver held for one full lunar year (known as “Hawl”) in local currency.

Limited Scope of Formal Collection: The official system's focus on deductions from bank accounts and specific financial instruments means it fails to gather Zakat applicable on a vast array of other qualifying assets, such as gold, silver, business inventory, livestock, and undeclared cash. This narrow scope significantly reduces the total potential Zakat pool collected through formal channels.

5 Utilization of Revenue and Funds

Now let us delve deep into dual monetary structure to dig into the allocation and utilization of revenues generated through the prevalent taxation system and funds by way of Zakat.

5.1 Expenditure from Tax Earnings.

The revenue from tax is the primary source through which the state spends to run the government administration and the recurrent expenditures.Being security as the high priority due to the security concerns from the neighboring countries of Pakistan, Defence and National security constitute the major claim on tax revenue. Human capital development is among the most productive uses of tax revenue, It covers the spending on education to enhance literacy, skills and vocational training. Healthcare is another sector which constitutes the segment providing health service to the citizens to improve quality of life and productivity under the umbrella of Tax revenue. In developing nations,taxes are heavily utilized in infrastructure and development projects which includes roads, highways, bridges, dams, water supply projects in the electricity generation sector etc. to boost trade, employment and economic activity. The low and middle income nations including Pakistan often lie on funds borrowed to cover the deficit and run the operations, ultimately relying on Tax revenue to repay the principal amount along with the interest charged. This could be the domestic loan as well as foreign debt to finance the domestic mega project expenditures. Tax is also the stream for maintaining the government offices, payment of salaries, meeting utilities expenditures, running and managing expenses of ministries and departments, parliament, judiciary, and local governments. Additionally, a strong, equitable legal system is the foundation of a stable and moral society that consumes a portion of tax.

5.2 Expenditure from Zakat funds:

As discussed above, Zakat expenditure is strictly governed by Islamic principles and its effective utilization plays a vital role in poverty alleviation, social welfare and economic balance within society.

5.2.1 Quranic Framework for Zakat Expenditure:

The Quran clearly defines the eligible categories for Zakat distribution. Allah states:

“Zakat expenditures are only for the poor and for 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 traveler.”

(Surah At-Tawbah 9:60)

5.2.2 Permissible areas of Zakat Expenditure:

a) **The Poor (Al-Fuqara):**

   Requisites for individuals:Those with insufficient means to access food, clothing, and shelter could get assistance.

b) **The Needy (Al-Masakin):**

   Sustainable living: Those who earn income but remain unable to sustain a reasonable standard of living.

c) **Zakat Administration (Amilina Alayha):**

   Regulatory expenditures: Sustaining Zakat earnings to cover administrative costs including collection and distribution expenses,verification of beneficiaries and operational costs of Zakat institutions

d) **Reconciliation and Social Inclusion (Muallafatul Qulub):**

Subsidizing individuals or groups: whose social or economic well-being helps promote community cohesion,encourage integration,and ease social tension.

e) **Freeing Captives and Vulnerable Persons (Riqab):**
Rehabilitation and Support: In ancient days, this refers to releasing slaves. In the modern era, it means rehabilitation of bonded laborers and assistance for people caught in exploitative or coercive situations.

f) **Debt Relief (Al-Gharimin):**

Relief from burden: Zakat funds benefits indebted people to pay off their liability,and helps families regain financial stability and prevents long-term economic exclusion.

g) **In the Cause of Allah (Fi Sabilillah):**
Divine Mercy: The main aim of Zakat is to gain divine mercy. This could be collective welfare and moral upliftment, such as Education and Skill development, Health services and social welfare projects.

h) **Assistance to Travelers (Ibn-us-Sabil):**

Travel support: Zakat can be provided to travelers, in case they lost access to their funds and need assistance for their way back regardless of their financial status.

6. Summarizing of analysis:

After discussing in detail Pakistan's financial framework, which operates under a dual fiscal system using two key tools, conventional taxation and the Islamic institution of Zakat, it becomes important to examine where improvements can be made in both. Each system succeeds with a distinct purpose, differs in design, follows a different course of implementation, the coordination deficit between these limits their effectiveness. Addressing these weaknesses could significantly improve socio-economic outcomes, particularly for the struggling segments of society who are unable to keep pace with rising inflation and increasing tax burdens that often feel like a double-edged sword. Strengthening these tools with a focus on equity, efficiency, and targeted relief can help ensure that fiscal policy genuinely supports social welfare rather than adding to financial pressure.

6.1 Solving Key Issues in Taxation —A Path Forward:

a) **Moving to Digital economy:**

In order to get transactions documented,digitalization measures can play a vital role in achieving the goal. Encouraging digitalized business,CNIC based transactions like mobile cash transfer by Mobile Banking wallets,digital invoicing, and integration of bank and utility data can facilitate documentation.

Higher denomination of currency notes also promotes an undocumented economy where money laundering, large cash transactions occur without being noticed by the authorities, hoarding and concealment and carrying of wealth become easier. Reissuing currency notes with small denominations. Introduction of registered premium prize bonds by the government is a positive step towards engaging undocumented wealth.

b) Widen Tax Network:

A significant portion of the retail, wholesale, real estate, services and informal economy operates outside the documented tax net and needs to be brought under the hood. Direct taxes must be structured so higher earners contribute a larger share.Strengthening progressive income and wealth taxation is the key to widen the frame.

This includes realistic taxation of high-income professionals, agricultural income above a reasonable threshold, capital gains, and property holdings. Closing loopholes like exemptions and preferential treatments for influential groups would increase revenue while improving equity, making indirect taxes less necessary.

c) Improve tax administration and enforcement:

Weak enforcement encourages evasion and shifts the burden onto consumption taxes. Investing in technology-driven audits, risk-based assessments, and independent oversight of tax authorities can raise compliance. When leakages are reduced and collections improve, the state can rely more on efficient direct taxation rather than regressive indirect taxes.

i) Accelerating digitization efforts to simplify the tax filing process, reduce compliance costs, and minimize interactions between taxpayers and tax collectors and eliminate the instinctive corruption.The FBR IRIS portal is one such digital initiative

ii) Developing data-sharing bridges between the Federal Board of Revenue (FBR) and other federal/provincial authorities (NADRA, utility companies, motor vehicle registration authorities) to create a comprehensive economic profile of taxpayers

iii) Implementation of effective punitive measures and increasing the cost of doing business for non-registered taxpayers and non-filers, which may include enhanced tax rates on asset purchases (e.g., property, vehicles) for non-filers can motivate the members of the small retailer and trader business community to register .

iv) Accountability within the administration and taking administrative actions by fixing responsibility enhance transparency and accountability in government spending to build public trust and improve tax morale.A fairer and more progressive and amicable approach towards tax structure would reduce the sense of injustice felt by overburdened salaried class taxpayers would develop trustful and contended tax culture in Pakistan.

6.2 Strengthening the Zakat System — A Framework for Social Justice:

a) Overcoming the Limited Scope of Formal Zakat Collection

To broaden the collection pool of Zakat, The initiative not only focuses on deduction from bank account and specific financial instruments which is currently enforced but also taking a vast array of other qualifying assets into account,such as gold, silver, investments, stocks, Business inventory, livestock and undeclared cash. This could be facilitated by building trust through transparency and accountability. When contributors see real impact, participation increases.

b) Use technology to widen the collection net:

i) **Mobile Banking & E-Wallets:**Adopting digital banking, mobile wallets, and online payment platforms and partnering with major fintech platforms (such as Raast, EasyPaisa and JazzCash) and commercial banks to offer dedicated "Zakat" payment features within their apps. Collaborating with e-commerce sites (e.g., Daraz) to include Zakat donation prompts to motivate the buyers during high-traffic shopping periods like in Ramadan. These strategies will expand the Zakat share in the society and enable the contributors of fragmented amounts to be a part of the pool with convenience.

ii) **National Zakat-e-Platform:** Developing a centralized government portal linked with the CNIC needs to be made a more effective system potentially led by the National Information Technology Board (NITB), to allow citizens to calculate and pay Zakat directly to the Central Zakat Fund. Furthermore, refining existing systems where banks automatically deduct Zakat on a specific date (e.g., the first of Ramadan) by providing online exemption filing to reduce administrative manual work.

iii) **Blockchain Ledgers:** Implementing blockchain-based ledgers to provide immutable records of every transaction allows donors to track their contributions in real-time; furthermore creating digital dashboards to publish live data on total collections and distribution summaries, ensuring public accountability.

iv) **Digitalized Verification:** Digital verification of the recipients through an online application system, using AI to analyze socio-economic databases like NADRA will authenticate and verify the identity of eligible recipients (*mustahik*), ensuring funds reach those in genuine need, without duplication, it will reduce physical interactions and speed up the assistance process.

c) **Incentivize formal Zakat Payment:** To motivate the participation of the affluent members of the society to pay contribution into the Zakat, a non monetary incentives such as official recognition, compliance certificates, or limited tax credits be offered to encourage individuals and businesses to be the part of Zakat payers through official channels.

Integration of Zakat into Tax Framework: A Final Thought

Every nation requires a strong and prudent financial system to stabilize and manage its economy. This is a core responsibility of any government, which must consider the welfare and living standards of its people rather than relying solely on heavy taxation. A balanced approach is therefore essential, where taxation is complemented by alternative financial mechanisms.

Although taxation cannot be entirely eliminated, this is primarily because certain state expenditures cannot be financed through Zakat. These include defense and national security, public infrastructure, administration and governance, general public education, healthcare services, economic development programs, and the repayment of state debts and international obligations. Consequently, the Zakat system alone is insufficient to sustain the entire economy.

However, modern estimates indicate that a fully implemented Zakat system can mobilize substantial financial resources, particularly when integrated with other Islamic economic instruments such as Ushr, Khums, Waqf, and voluntary Sadaqah. When applied together, these mechanisms significantly reduce the state's reliance on excessive taxation.

Implementing a fair and comprehensive Islamic financial system allows tax revenues to be reserved primarily for expenditures that cannot be met through Zakat. Moreover, a Zakat-centered economic model promotes active wealth circulation. Since only around 40% to 45% of GDP is estimated to be a formal economy whereas the larger portion lies informal and idle. According to arguments of proponents of Zakat, a modernized Zakat system could address one of Pakistan's key economic weaknesses because zakat is assessed on wealth and visible assets rather than declared income; it has a potential to draw revenue from sectors that currently remain outside the tax net. Individuals should be incentivized to invest productively rather than hoard assets, thereby supporting economic growth and social equity.

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