Zakat as the Path to Fiscal Justice in Pakistan

States do not simply disintegrate overnight; they tend to deteriorate over a period of time due to injustice rather than a disastrous event. Pakistan is in a phase of downward spiral, as economic disparity is widening social divisions and eroding the people's trust in the government. Although the foundation of national discourse is rooted in resilience, faith, and community, the realities of millions of people do not confirm this national narrative: the poor have to suffer the consequences of the state's weak policies, while the rich ones avoid their responsibility. There is an invisible tax on every electricity bill, every litre of gas, and every simple purchase made by the lowest-income earners. A family with low income will contribute more in indirect taxes to the state than a businessman with a lot of money who enjoys tax incentives or a landlord who enjoys political goodwill[1]. It seems not to be more than a typical tax issue, but it is, in fact, a severe ethical dilemma. It questions the legitimacy of fiscal policy and the moral basis of the state itself.

In Islamic theology, economic institutions cannot be considered only as revenue accumulation and fiscal balance mechanisms; they are part of the moral fabric of the society. The Quran emphasizes over and over again to believers that wealth is not just a kind of power but a form of trust (amahna) and that it has a rightful share of the needy and the deprived.[2] Islamic ethics regards taxation as a duty rooted in the principles of justice (adl), benevolence (ihsana), and social balance (mizan). When fiscal policy ignores these principles by unfairly putting the vulnerable in a deprived state and by benefitting the privileged ones, the imbalance is not just an economic injustice but also a dereliction of state's moral duty. The current taxation structure of Pakistan with retrogressive indirect taxes and the influence of elite domination, is not aligning with the moral principles of an Islamic republic and also not with the goals of a welfare republic state of the 21st century.[3] The core argument of this research piece is that the tax policies of Pakistan are unjust on its structural, historical, and ethical grounds. Yet, this system can be reformed significantly by developing the institutionally-established zakat-based system, deeply rooted in the Islamic ethical values as well as aligned significantly with the developmental needs of the contemporary times.

This unjust fiscal policies in Pakistan started with the colonial rule. The British administration in India set this system not for the benefit of the citizens but to keep their hold and maintain their control over Indians.

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[1] Wasif Shakil, "Pakistan Economic Survey 2022 23," Scribd, 2022, https://www.scribd.com/document/651551675/Pakistan-Economic-Survey-2022-23..

[2] "Surah Al-Baqarah - 267," Quran.com, n.d., https://quran.com/en/al-baqarah/267.

[3] ZAIDI S AKBAR, "Rethinking Pakistan's Political Economy: Class, State, Power, and Transition," *Economic and Political Weekly* 49, no. 5 (2014): 47–54, https://doi.org/10.2307/24479147.

The officials put their reliance on the collection of land taxes, custom duties and consumption taxes. All these were the ways to generate wealth that prioritized military expenditures and ensure the comfort of those in power at the expense of citizens discomfort and sufferings. After getting independence, Pakistan not only inherited these financial systems, but also the political economy that supports its growth.4 Because of government's inability to directly put taxes on the influential elites meant that subsequent governments still relied on indirect taxes, as they were much easier to administer, but highly devastating to the common good of the citizens. At present, the indirect taxes form about 70 percent of the total tax revenues in Pakistan, which is one of the highest proportions globally. [4] This unjust system creates a significant disparity and undermines the social contract. This situation has been described by economists like Hafiz Pasha as a reverse Robin Hood economy, whereby the poor are forced to bear the financial cost that is imposed by the rich and powerful to sustain their own convinence.[5]

This fundamental disparity is reflected in the social opinion as well. Many surveys demonstrate this fact that a majority of citizens do not trust the taxation system of Pakistan. A great proportion of people believe that taxes are unjust, coercive, and full of corruption.[6] People do not generally consider that not paying taxes is a civic irresponsibility rather it's a reaction to an irrational system. These circumstances create a vicious circle: the less fair the taxes, the less people trust the government; the less, the people trust the government, the more the government has to exercise aggressive and harsh methods to maintain the inflow of money. This is not just an administrative deficiency but also a moral and institutional deficiency which can be fixed through moral introspection and comprehensive structural reforms.

Islamic economics offers a systematic pathway towards these structural reinterpretations and shifts the point from profit maximization as the primary focus of discussion towards the broader terms of equity, responsibility, and ethical standards. Through this lens, wealth is not an individual possession but his responsibility and duty to contribute his part in uplifting the community. Economic justice can only prevail by balancing the rights and responsibilities. This means that the wealth should not be overly concentrated in the hands of the few, leaving the majority of community to struggle to sustain their life. Zakat, one of the basic pillar of Islam puts this moral economy into action by bounding the rich to donate a significant part of their wealth to the deserving individuals. It deters any form of hoarding (kanz), encourages hard

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[4] "Pakistan - Tax Policy Report : Tapping Tax Bases for Development (Vol. 1 of 2) : Summary Report," World Bank, 2025, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/426941468064726423.

[5] Suhrab Khan*, "The Impact of Fiscal Policy on Income Inequality: A Case Study of Pakistan," *The Lahore Journal of Economics* 26, no. 1 (2021): 57–84, https://nja.pastic.gov.pk/LJE/index.php/LJE/article/view/1293.

[6] Imtiaz Uddin Ahmad, "Islam and the Economic Challenge," *American Journal of Islam and Society* 9, no. 4 (January 1, 1992): 546–55, https://doi.org/10.35632/ajis.v9i4.2540.

work and boosts social unity, thus leading towards compliance and streamlining governmental tax collection. [7]

Contemporary Islamic economists, including Chapra, Mirakhor and Kahf, have, through theoretical foundations and empirical research studies, proved that zakat can help stabilize modern economies. [8]Through the distribution of wealth from wealthy people to those struggling to meet the basic needs of life, zakat boosts aggregate demand, small businesses, and the purchasing power of the low-income families. Such benefits of zakat are specifically important in countries like Pakistan, where economic downturn unevenly affect the underprivileged members of the society. The case studies of countries like Malaysia, Indonesia, and Sudan with a well-organized zakat system highlights that well-structured zakat system can be used to reduce poverty, empower lower- and middle-class families, and encourage economic growth in developing and unstable economies.

The experiences of Muslim countries that integrated Zakat system proves that zakat has the potential to serve as a highly developed and well-organized part of the state financing.[9] In Malysia, Lembaga Zakat Selangor (the state zakat authority in Selangor) has incorporated digital technologies to enhance the level of operational transparency in both the collection and distribution of zakat.[10] Its activities, such as vocational training, support to small businesses, have revealed that zakat is not just a typical way to support the vulnerable community and create their dependency but it has the potential to empower beneficiaries in a sustainable way. Similarly, Indonesia's BAZNAS (**state-integrated zakat governance**) is the perfect demonstration of how a state's finance policy can be aligned with the state's poverty reduction strategies, state's Disaster risk management and with the state's human development goals. We also have a case study of Sudan, despite facing lots of governance challenges and chaos exemplifies the potential of zakat-based system. All these above examples challenge the misconceptions related to zakat like it's not compatible and it's outdated in the contemporary nation-state governance model and reveal the facts that how zakat-based

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[7] Yuli Andriansyah, "Factors Motivating Muslims to Pay Zakat: A Narrative Review Based on the Scopus Database," *Journal of Contemporary Applied Islamic Philanthropy* 2, no. 2 (December 31, 2024): 51–70, https://doi.org/10.62265/jcaip.v2i2.82.

[8] "Chapra, M. U. (2000). The Future of Economics an Islamic Perspective. - References - Scientific Research Publishing," www.scirp.org, n.d., https://www.scirp.org/reference/referencespapers?referenceid=2814290.

[9]BAZNAS Center, "Indonesia Zakat Outlook 2022," Puskasbaznas.com, January 3, 2022, https://puskasbaznas.com/news/1613-outlook-zakat-indonesia-2022..

[10] Medani Abbas, "A Critical Study of the Role of Zakat in Social Protection in Sudan from 1980 to 2021," Arab Reform Initiative, September 6, 2024, https://www.arab-reform.net/publication/a-critical-study-of-the-role-of-zakat-in-social-protection-in-sudan-from-1980-to-2021/.

system if managed professionally and technologically not only meet the ethical compass of Islamic teachings but also increase the economic growth and development.[11]

In the case of Pakistan, the opportunity to integrate zakat as a part of fiscal reforms mean, financial governance of the state can be brought into harmony with the Islamic moral principles and global development goals. One set of law and a digital system in the form of a National Finance authority would be capable of bringing zakat, Ushr, Waqf, and Sadaqah into a single framework. The combined implementation of this methodology with the biometric database of NADRA and the Federal Board of Revenue would help to achieve the accurate value of capital and then appropriately identify beneficiaries. The blockchain technology could further increase the trust of the people since it will create unalterable records of both collection and distribution of donations. Digital wallets connected to the Benazir Income Support Program or similar sites can send zakat to the beneficiaries without much loss. These reforms would not only improve the efficiency of operation but also lift public trust in the government authority to manage the social welfare project effectively.

However, the potentially revolutionizing impact of zakat can only be achieved by implementing both the Islamic principles and approaches of collection as well as distribution simultaneously. In order to effectively respond to the long-term structural issues, the methods of the distribution of zakat should be shift from the short-term relief programs, including food or money towards the policy to invest in human capital. This involves investment in education, scholarships, access to health care, initiatives that help individuals acquire new skills, initiatives that help women to become financially strong, initiatives that help small organizations to flourish, and those that enable people to acquire affordable housing. These policies have been proposed to be implemented by the Islamic Development Bank long ago. And also aligns with the Sustainable Development Goals, related to health, education, gender equality, and reduce disparity and division among different classes of the society.[12]

As the ethical principles of Zakat meet the criteria under discussion globally on the sustainability and development and offers the practical solutions to the emerging issues of growing inequalities, climate change and social disintegration by the Quranic notion of mīzan (balance). Islamic teachings warn about the excess accumulation of wealth, exploitation of environment by the unsustainable extraction, use, or degradation of natural resources and elite capture, which are somehow similar to the flaws of present-day capitalistic system. Zakat offers a foundation of economic justice in the society by ensuring the equitable

[11] "Islamic Social Finance Report 2020 - Islamic Development Bank Institute," isdbinstitute.org, n.d., https://isdbinstitute.org/product/islamic-social-finance-report-2020/.

[12] United Nations Statistics Division, "— SDG Indicators," unstats.un.org, n.d., https://unstats.un.org/sdgs/report/2023.

circulation of resources. It portrays a form of spiritual sustainability where economic behaviors are directed by ethical principles and social welfare, and not just confined towards the financial gains. This moral premise gives us a fresh understanding of the development, whereby the economy supports human dignity instead of exploiting the common citizens of the country.

However, the matter of including zakat in Pakistan's fiscal framework will be complicated because of significant political, cultural and institutional barriers. The existing zakat framework needs reforms to fix the fragmented, incoherent, and corrupt system with weak enforcement and accountability. Suspicion on governmental institutions by the general public is often based on allegations of administrative flaws, political or governmental biased interference, and the lack of efficiency in their functioning. Majority of people prefer to donate their part of zakat privately rather than through the official channels, and as a result of this approach significant loss is evident in the revenue generation. Statistics indicate that there is a limited utilization of the zakat potential in the current system of Pakistan.[13]

Consequently, the initial area of reform should be the governance. The loss of trust can be restored through independent audits, annual public reports, and effective oversight of civil society. Hiring Islamic finance experts, economists, technicians, and social workers to professionally manage zakat system will ensure the transparency, efficiency and compliance to sharia-based laws. It's crucial to educate masses and religious scholars, community leaders, and media organizations to admit and promote the reality that zakat is not a matter of charity but a right of the underprivileged community and that institutionalization of zakat is the only way to ensure the countrywide development and harmony

Lastly, the economic dilemmas of Pakistan is a profound moral problem, this mechanism highlights the lack of interrelation between justice and governance. Islamic teachings remind us that the moral and ethical introspection is the 1st step towards the remodeling of the society. As Allah says in Quran, "Allah does not change the condition of a society unless they change what is within them."[14] This means that moral revitalization and economic change cannot be separated and runs side by side and once the people in power understand governance as a service, prosperity as a trust, and when the principles of compassion and accountability form the basis of public policy framework, the basic building blocks of a just society begin to emerge.

Any state and taxation regime that heavily taxes the weak but protects the privileged is not sustainable near to crumble. And these will not only cause economic implications, such as reduced productivity, poor human

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[13] "ISSRA - Insight," Issra.pk, 2024, https://issra.pk/pub/insight/2024/Zakat-Collection-and-Distribution-System-in-Pakistan/Zakat-Collection-and-Distribution-System-in-Pakistan.html.

[14] "Surah Ar-Ra'd - 11," Quran.com, n.d., https://quran.com/en/ar-rad/11.

capital and financial turmoil, but also social and psychological ones, dismantling trust that people place in each other. By adopting a zakat-based fiscal framework based on the concept of equity, transparency and permanent sustainability, Pakistan can reform its government structure. This strategy allows the state to maintain its identity as a democratic republic and an Islamic nation, directed by the values of fairness and human dignity.

Pakistan can reassess its taxation system, not as a source of income only, but as a way of bringing some social change through applying modern technologies and traditional ethical values in society. This paradigm shift has the potential to transcend the countries colonial history of injustice, exploitation and assist in the establishment of fiscal regime rooted in value of dignity, equity and common welfare and growth. This kind of reform promises not only economic prosperity, but also the possibility of moral renewal; of a chance to integrate governance and religion, policy and justice, national development with the human ideals of the Islamic tradition.