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

AUTHOR:

IQRA RAFI

PHONE NO: 03033042036

E-MAIL ID: iqrarafi46@gmail.com

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Abstract

The fiscal framework of Pakistan is considerably based on indirect taxation, which has a heavy incidence on the low- and middle-income groups while keeping the substantial accumulations of wealth undertaxed. This is a regressive system that has turned taxation from an instrument of public welfare into one of economic exploitation. Despite repeated reform measures, conventional taxation has failed to achieve equity, sustainable growth, and social justice in the socioeconomic context of Pakistan. This article critically analyses the exploitative nature of the tax regime in Pakistan and presents a zakat-based economic system as an effective alternative. The study, based on Islamic theory of economics as well as relevant contemporary economic analysis, argues that zakat is not a form of charity; rather, it is an institutionalized instrument for redistributing wealth. The article then goes on to provide the practical framework for implementing a zakat-centered fiscal model in Pakistan, giving special emphasis to transparency, productive use, and phasing out indirect taxes gradually. It comes to the conclusion that institutionalization of zakat leads to justice, economic growth, and welfare for all.

Keywords:

Indirect taxation; Regressive taxation; Zakat system; Wealth redistribution; Islamic economics; Fiscal justice

1. Introduction

The fiscal structure of the economy in Pakistan is showing increasing signs of economic disparity, inflationary tendencies, and overdependence on indirect taxation. Even after decades of reform processes, the taxation system in the country burdens more onto the poor and salaried classes and continues to keep large segments of accumulated wealth outside the formal tax net. Indirect taxes include significant shares of government revenues that come from sales tax, fuel levies, and customs duties, shifting the fiscal burden to consumption rather than on surplus wealth.

Distributive justice thus is undermined, and public confidence in state structures is eroded because the approach has transformed taxation into a coercive mechanism that aggravates inequality and economic exclusion. Conventional taxation has failed time and again to fulfill the criteria of fair returns, with the apparent consequence that an alternative economic framework faces the task of attaining justice, growth, and welfare together.

Islamic economics offers such an alternative in the form of zakat, a compulsory system of wealth redistribution that draws its foundations from moral accountability and social balance. The following article thus asserts that a zakat-based economic system offers a just and practicable solution to exploitative taxation and is particularly suited to the socio-economic realities of Pakistan.

2. Exploitative Taxation and Economic Inequality in Pakistan

The exploitative character of Pakistan's taxation system is because of its primarily regressive design. Official figures show that indirect taxes make up a large portion of the total tax revenue **(Federal Board of Revenue [FBR], 2023).** These are levied uniformly on consumption, irrespective of the level of income, and hence impose a much heavier burden relatively on low-income households.

Economic theory highlights that the ability-to-pay principle, wherein individuals have to make their respective contributions to public revenue according to their economic capacity, is a fundamental principle in taxation. However, Pakistan's fiscal system violates this principle by under-taxing wealth and over-taxing consumption. The result is a structural imbalance in which the poor subsidize the state, while affluent groups benefit from exemption, weak enforcement, and informality.

Excessive and poorly structured taxation, on the other hand, dampens entrepreneurship and discourages formal economic participation. Small businesses often remain undocumented to avoid compliance costs, while public confidence in taxation as a legitimate civic duty continues to decline. These outcomes represent specific failures of conventional taxation to achieve equity, welfare, and sustainable economic growth.

3. Zakat as an Institutional Economic Mechanism

In Islamic economic thought, zakat is not a voluntary charity but an obligatory economic institution. The beneficiaries of zakat are clearly identified in the Qur’an; redistribution is clearly established as one of the important objectives of economic justice **(القرآن، التوبہ :60).** The Qur’anic principle of not allowing circulation among the rich to be limited to them singularly underlines the redistribution role of zakat **(القرآن، الحشر :7).**

Economically, the nature of zakat is to represent a duty levied upon surplus and idle wealth, as opposed to income or consumption. Savings, trade assets, and hoarded capital are levied, thus encouraging productive investment and discouraging hoarding **(Kahf, 1999).** Such a structure inherently links fiscal responsibility with moral accountability, setting zakat apart from other traditional forms of taxation.

Islamic economists base their argument on the fact that zakat ensures vertical equity, as only those possessing wealth beyond a threshold level, known as nisab, are obligated to make a contribution. The basic needs, however, are safeguarded. Through history, zakat worked as a state-administered institution, which could satisfactorily meet the challenges of poverty and welfare if it was run with integrity.

4. A Zakat-Based Framework for Fiscal Reform in Pakistan

The transition towards a zakat-based economic system calls for institutional restructuring rather than ideological rhetoric. A pragmatic implementation strategy would include the following components:

4.1 Institutional Strengthening and Transparency

Pakistan's current zakat system is plagued by poor governance and a lack of public confidence. Setting up an independent National Zakat Authority, underpinning collection with digitization, transparent audit, and public disclosure mechanisms, will vastly improve efficiency and credibility.

4.2 Gradual Reduction of Indirect Taxes

With better collection of zakat, the state can gradually decrease its dependence on indirect taxes that fall heavily on the poor. Greater disposable income in the hands of people at the lower-income levels would boost consumption and growth in the economy. Empirical evidence suggests that redistribution to poorer households results in higher economic multipliers.

4.3 Productive Use of Zakat Funds

The use of zakat needs to be expanded from simply short-term relief to long-term economic empowerment: education, healthcare, vocational training, and interest-free microfinance-investments that would transform beneficiaries into active contributors of economic growth.

4.4 Inclusion of the Informal Economy

Thus, the moral underpinning of Zakat allows for voluntary compliance, and this makes the inclusion of the informal economic actors easy without any coercive enforcement, which is particularly true in Pakistan, given the existing majority of undocumented economic activity.

5. Challenges and Counterarguments

Critics argue that zakat cannot pay for a modern state, which is true. However, the system of zakat is not meant to work in a vacuum but should be supported by limited taxation, endowments, and mechanisms of ethical public finance. The problems of administration, including corruption, are systemic issues that afflict conventional taxation as well and need institutional reform rather than rejection of zakat.

Specifically, technological innovations in digital payment platforms and transparent tracking systems could resolve inefficiencies of the past and greatly improve how zakat is administered.

6. Conclusion

Ending exploitative taxation is an economic necessity and a moral duty for Pakistan. A fiscal system that burdens consumption while protecting accumulated wealth entrenches inequality and undermines social stability. A zakat-based economic framework provides an alternative that is just, growth-oriented, and welfare-centered, based on the principles of equity and social responsibility.

In institutionalizing zakat as a core ingredient of fiscal policy, Pakistan embarks on a journey toward inclusive growth, sustainable welfare, and economic dignity. Policy-makers must move beyond symbolic reforms by recognizing zakat as a core instrument of fiscal justice rather than a peripheral welfare tool. This vision cannot be realized without sustained political commitment, institutional integrity, and active engagement on the part of policymakers, scholars, and the youth. Zakat is more than a religious duty-it offers an economic solution toward a just and prosperous society.

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