Ending Exploitative Taxation: A Zakat-Based System for Justice, Growth, and Welfare in Pakistan

A frank look at where we are, and one possible way forward

In Pakistan today, almost everyone feels squeezed. I see it when I talk to salaried employees who watch huge chunks disappear from their pay slips before the money even hits their accounts. I hear it from shopkeepers who tell me their electricity bills have become small budget documents, packed with taxes and surcharges they don't fully understand. Even the poorest rickshaw driver is paying indirect taxes every single time he fills up on fuel or buys a packet of tea for his family.

At the same time, we're all reading news stories about unpaid loans running into billions, about missing money that never gets recovered, about powerful people who somehow stay outside the tax net generation after generation. People aren't stupid. They look at this gap between what they pay and what the elite get away with, and they naturally conclude that the system isn't just inefficient—it's fundamentally unfair. Exploitative, even.

But here's what's interesting (and maddening): we keep having the same conversation every few years. A new government comes in, promises tax reform, maybe even collects a bit more revenue for a while, and then everything slides back. Why? Because we're not actually fixing the structure. We're just adjusting rates and shuffling exemptions around the edges.

What does 'exploitative' really mean when we're talking about taxes?

Let me be specific about what I mean. The Federal Board of Revenue collected Rs. 9.3 trillion in fiscal year 2023-24. Sounds like a lot, right? But here's the breakdown that should make anyone uncomfortable: Rs. 5.95 trillion of that—nearly 64%—came from indirect taxes. Sales tax. Customs duties. Petroleum levies. Those surcharges on your electricity bill that you probably don't even notice anymore because they've been there so long.

These taxes don't ask whether you're rich or poor. A student buying mobile credit and a billionaire paying the same rate on their phone service are treated as equals by the tax code. That's not equality—that's blindness to reality. When you're earning Rs. 50,000 a month and spending most of it on necessities, you're paying tax on almost everything. When you're sitting on Rs. 500 million in assets, your consumption is a tiny fraction of your wealth, so indirect taxes barely touch you.

I've worked out a rough calculation that tells you everything you need to know. Take a low-income household spending about 80% of their income on basic consumption. With indirect taxes averaging around 17-18% on most goods, they're effectively paying somewhere around 35% of their total income in taxes. Now compare that to a wealthy household spending maybe 30% of their income on consumption—they're paying an effective rate closer to 5%. Look at this chart:

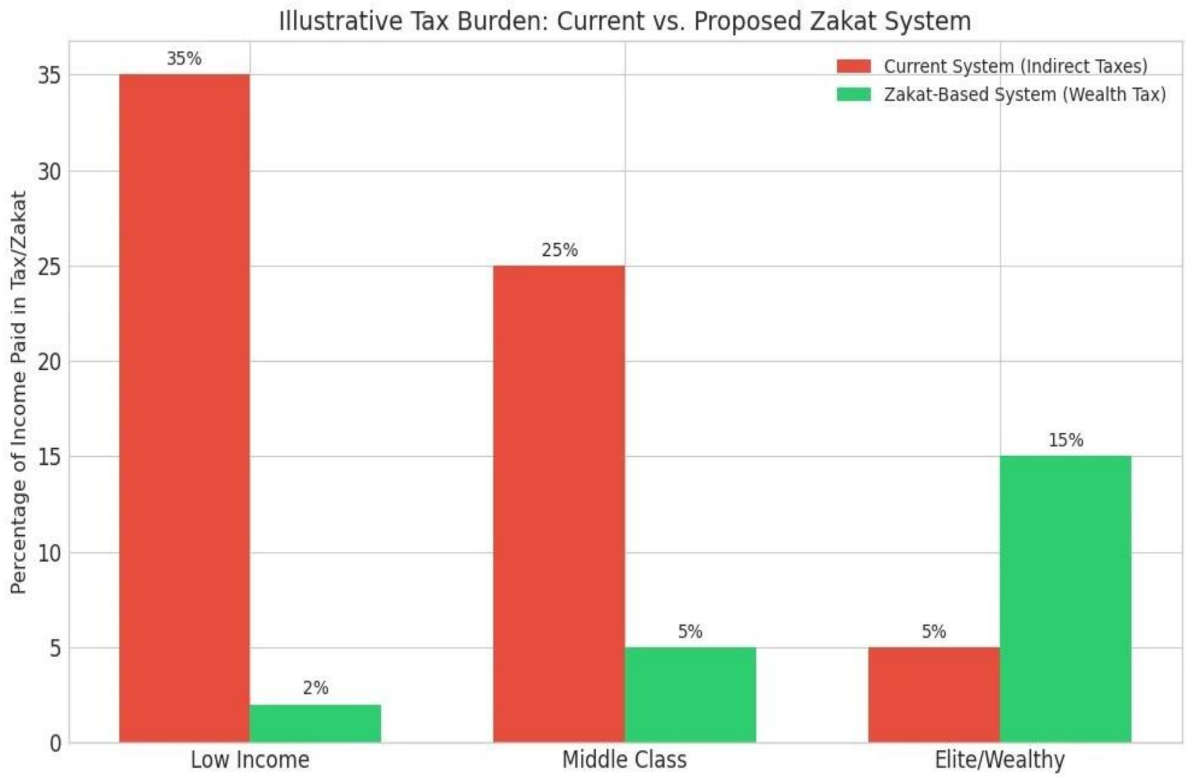

Figure 1: The gap is shocking when you actually visualize it

But the problem doesn't stop at unfair distribution. The real damage is what this narrow, regressive base does to our entire economic structure. Because only 3.2 million individuals filed income tax returns last year out of a population of 240 million (that's 1.3% if you're counting), the government is perpetually short of money. And rather than expanding the base to include all the wealth that's sitting idle in real estate and offshore accounts, successive administrations have taken the easier path: borrowing from abroad.

Here's how we compare to our neighbors in terms of tax collection:

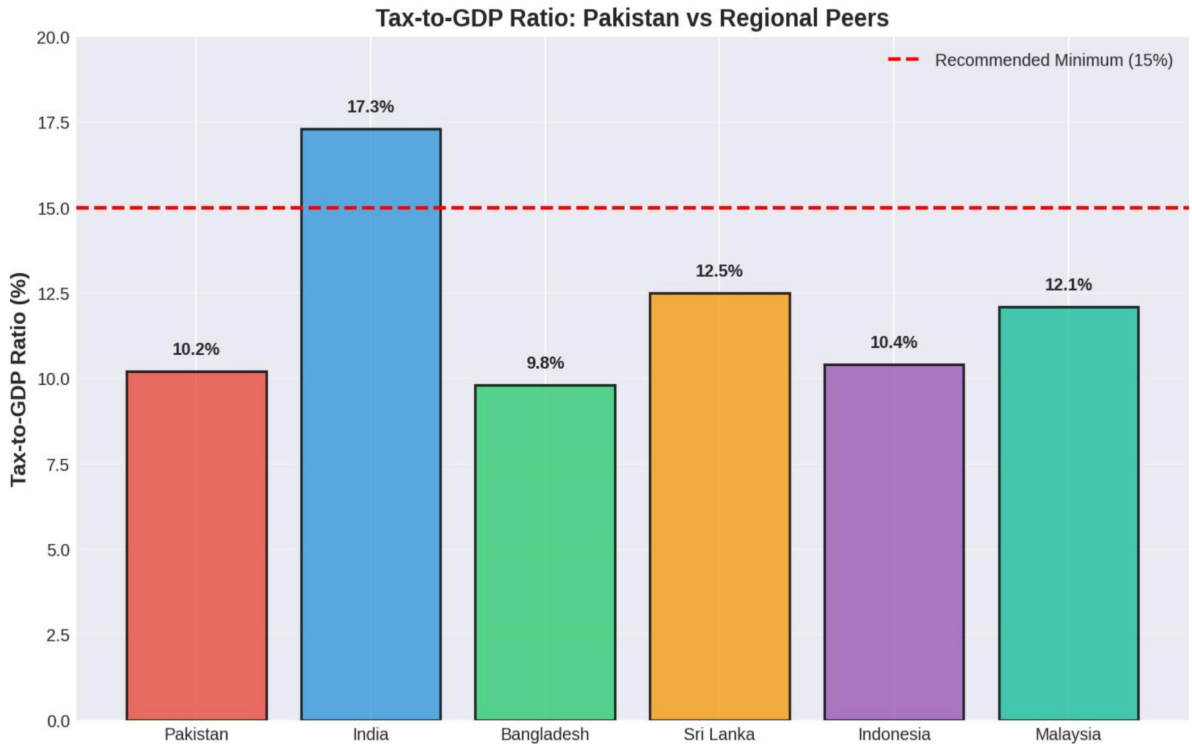

Figure 2: Pakistan's tax-to-GDP ratio among the lowest in the region

At 10.2%, we're barely scraping by. Most economic experts say you need at least 15% tax-to-GDP to run a modern state with decent public services. We're nowhere close, and the gap between what we collect and what we need keeps getting filled by debt.

The Debt Trap (or: How We Got Here)

Pakistan's public debt hit Rs. 60.4 trillion by June 2024. That's about 85% of our entire GDP. Let that sink in for a moment. The debt is nearly as large as everything we produce in a year.

What does this mean in practice? It means that in FY 2023-24, we spent Rs. 7.3 trillion just paying interest and principal on old loans. That's half the federal budget. Half. To service debt.

So what's left? Defense gets Rs. 2.92 trillion—about 20%—which is understandable given our security situation. But then look at what's left for everything else. Public welfare (health and education combined) got Rs. 1.46 trillion, which is just 10% of the budget. Development spending? Rs. 730 billion, or 5%. Five percent for development in a country that desperately needs infrastructure, energy, water management, you name it.

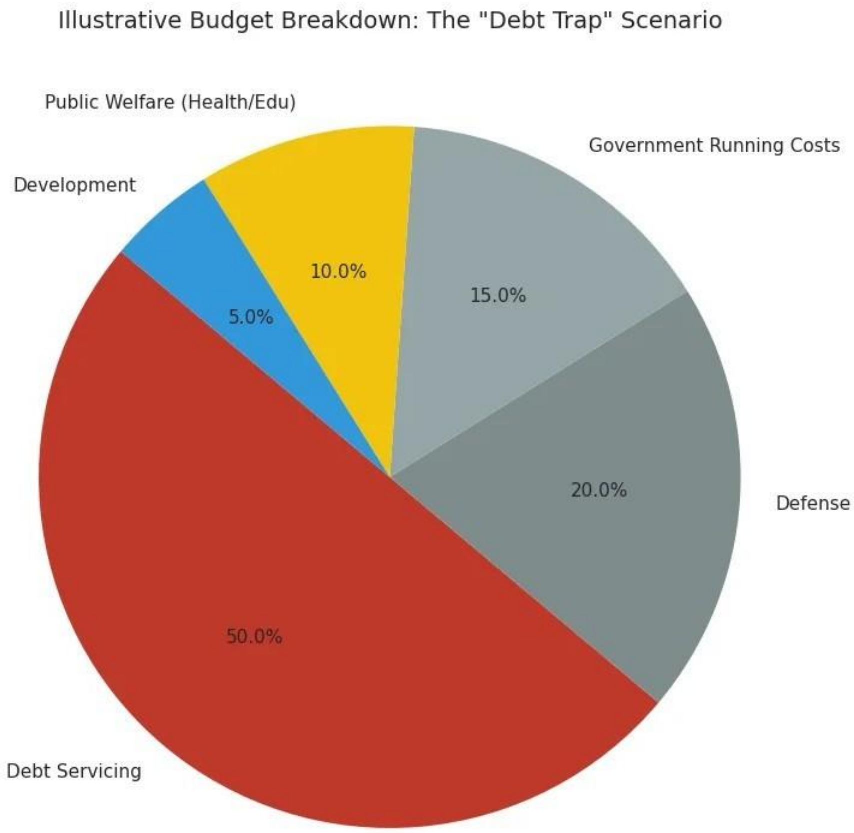

Figure 3: This is what a debt trap looks like—half the budget gone before we even start

You can see the vicious circle clearly. Unfair taxes mean weak revenue. Weak revenue means more borrowing. More borrowing means higher debt service. Higher debt service means less money for services. And to pay the interest, we raise prices on fuel and electricity, which feeds inflation, which hits the poor hardest, which brings us right back to where we started. It's exhausting just writing about it.

And if we continue on this path? Look at where we're headed:

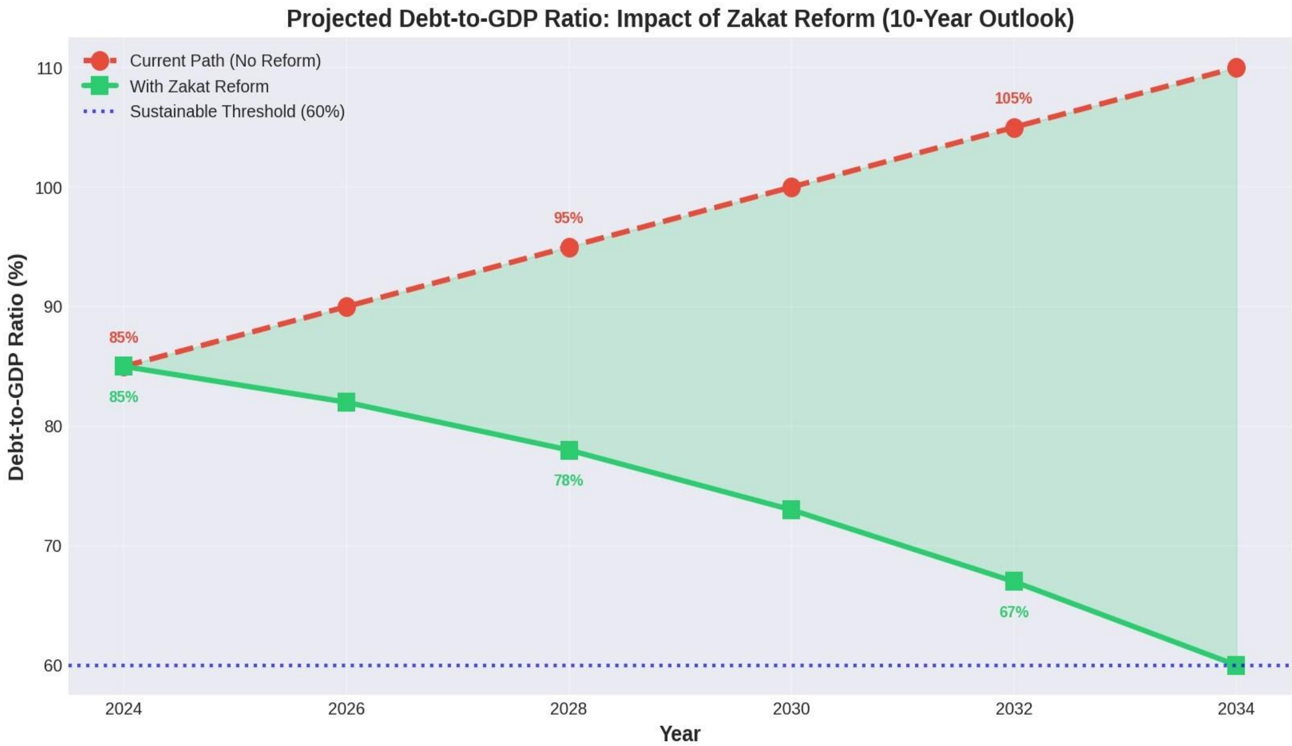

Figure 4: Without reform, we're headed toward 110% debt-to-GDP by 2034

That's the future if we don't change course. But there is an alternative, and it's been sitting in our own religious tradition this whole time.

Enter Zakat: A Different Logic Entirely

Here's where it gets interesting. Islamic economic thought starts from a completely different premise. It treats wealth not as purely private property that you can do whatever you want with, but as a trust from Allah. You have rights to it, absolutely. But so do the poor and vulnerable in society—they have a defined share in that wealth as a matter of divine command, not government policy or political ideology.

Zakat is the mechanism that makes this real. It's not charity in the loose sense where you give if you feel like it. It's an obligatory duty on anyone whose assets cross a certain threshold (called nisab). And if you're genuinely struggling, below that threshold, you don't pay a rupee. Zero. The system automatically protects you.

Think about how different this is from what we do now. Our current system taxes consumption—it bites hardest when you're spending money on necessities. Zakat taxes accumulated wealth—it bites hardest when you're sitting on idle cash, gold, stocks, real estate that you're not using. One punishes survival; the other discourages hoarding.

Now, I know what some of you are thinking: "Pakistan already has a zakat system. It was introduced in 1980. Why are we talking about this?" Good question. The 1980 system failed, and understanding why it failed is crucial to understanding how to do it right.

Why the 1980 System Didn't Work

The Zakat and Ushr Ordinance of 1980 had several fatal flaws. First, it only covered bank deposits and certain securities. Real estate? Not included. Business assets? Not included. All that wealth parked in plots and plazas? Outside the net. Second, it was way too easy to opt out. Just fill out an exemption certificate and you're done. Third, the local zakat committees were often poorly run. Lack of training, lack of transparency, sometimes outright mismanagement. And fourth—politically sensitive but we need to say it—the Shia community was exempted in 1980, creating perception problems.

The result? Collections collapsed from Rs. 5.4 billion in 2007 to just Rs. 2.1 billion in 2023, in real terms. The system became a joke—neither comprehensive enough to raise serious revenue, nor trusted enough to build social legitimacy.

But here's the thing: there's massive wealth out there that's completely untapped. When we talk about undeclared wealth, we're not talking about conspiracy theories or wild estimates. These are conservative calculations based on real data—property transaction records, currency in circulation patterns, capital flight statistics from the State Bank, and cross-referencing with official GDP figures.

The real estate sector alone is estimated to hold Rs. 15 trillion in undeclared assets. That's land and properties bought with cash, never properly registered, sitting idle for speculation. Then you have cash holdings—probably around Rs. 5 trillion that never enters the banking system. Offshore accounts that we know about from various leaks and investigations: Rs. 3 trillion at minimum. Gold and jewelry that families hoard: another Rs. 2 trillion. Business assets that are systematically under-reported: Rs. 4 trillion. And agricultural land that's never properly valued: Rs. 3 trillion.

Add it all up and you're looking at roughly Rs. 32 trillion in wealth that exists but pays almost no tax. To put that in perspective, that's more than twice our current GDP. It's four years' worth of the entire federal budget. And it's just sitting there, contributing nothing to the public good. Look at where it's hiding:

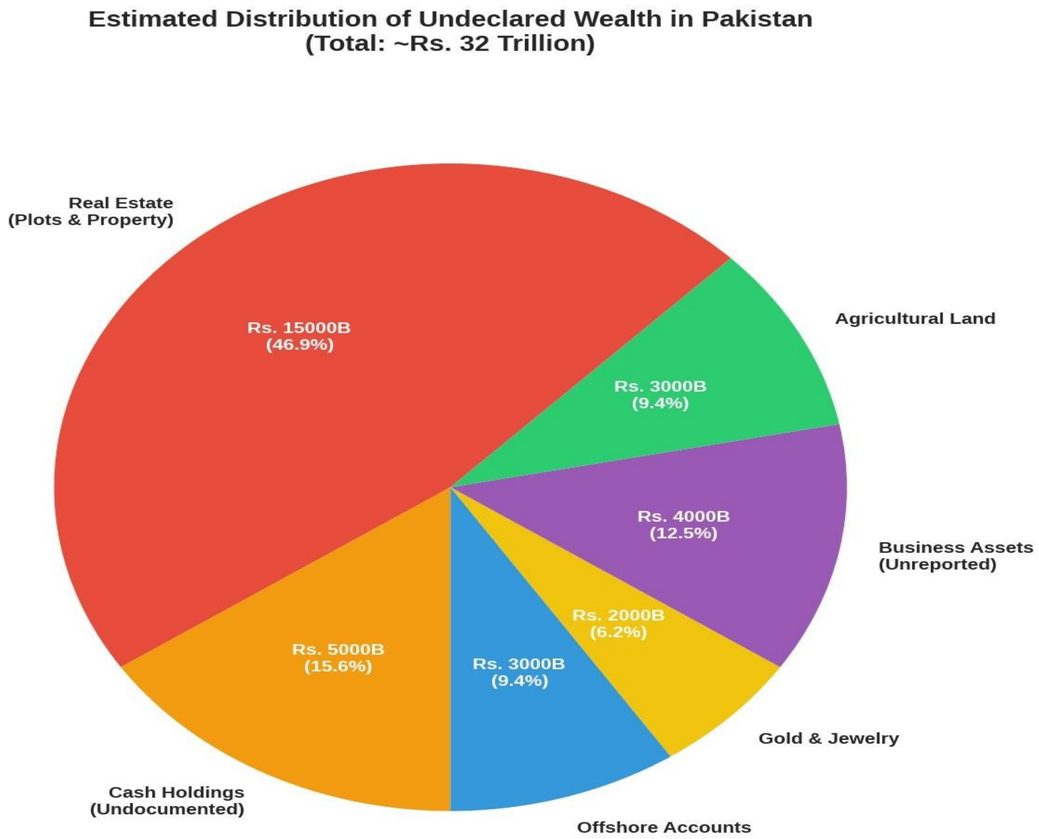

Figure 5: Rs. 32 trillion in undeclared wealth—this is what we're leaving on the table

That's not speculation—these are conservative estimates. The actual number could be higher. The wealth is there. We just need a system that can actually reach it. And that's exactly what a properly designed zakat framework could do.

Before we get into the details of how to build that system for Pakistan, let's look at what's actually working in other Muslim-majority countries. Because this isn't just theory—there are real examples we can learn from.

Learning from Others: What Actually Works

Malaysia collected RM 1.1 billion (USD 264 million) in 2022 through state-level religious councils, achieving 76% compliance among eligible Muslims. They made it easy and transparent with digital platforms, mobile apps, and clear statements showing where your money went. Businesses get a 100% tax deduction for zakat payments.

Saudi Arabia runs a national system that collected SAR 2.8 billion (USD 747 million) in 2023 and helped 420,000 families. The key is integration with government databases. The system automatically verifies eligibility by checking social security records. Direct bank transfers mean no middlemen, less corruption risk.

Sudan's Diwan al-Zakat is the most comprehensive. Despite their economy being in terrible shape, they collected SDG 28 billion in 2022 and supported 2.3 million families. They cover everything—agricultural produce, livestock, trade goods, professional income. It's not just money collection; they run microfinance, education, and healthcare programs.

A Framework for Pakistan: Getting Specific

Okay, enough criticism and case studies. What would a serious zakat-based system actually look like in Pakistan? I'm going to get quite detailed here, because vague proposals are worthless.

The Core Principle: Comprehensive Asset Coverage

Every form of wealth above the nisab threshold should be included. Cash, bank deposits, stocks, bonds, mutual funds, business inventory, gold, investment properties (not your primary residence—that's protected), vacant plots, agricultural land, even cryptocurrency.

The nisab threshold would be set at 87.48 grams of gold, the classical Shariah standard. At current prices of around Rs. 25,000 per gram, that works out to roughly Rs. 2.19 million. This gets recalculated monthly based on average gold prices.

If your total assets (excluding your home, personal effects, work tools, and one family vehicle) are below Rs. 2.19 million, you pay nothing. Zero. Above that threshold, you pay 2.5% annually on liquid assets.

The Real Estate Problem (This is Where the Money Is)

Let me be blunt: Pakistan's real estate sector is a massive pool of idle, untaxed wealth. Conservative estimates put it at Rs. 15-20 trillion in undeclared assets. People buy plots not to build homes or start businesses, but purely to park money and wait for prices to rise. This inflates prices, locks younger families out of home ownership, and starves productive sectors of investment.

So here's the proposal: investment properties pay 2.5% annually on market value. Undeveloped plots held for more than two years? Five percent. Yes, double. Make hoarding expensive and development attractive.

This would completely change the incentive structure. The chart below shows what this reallocation might look like:

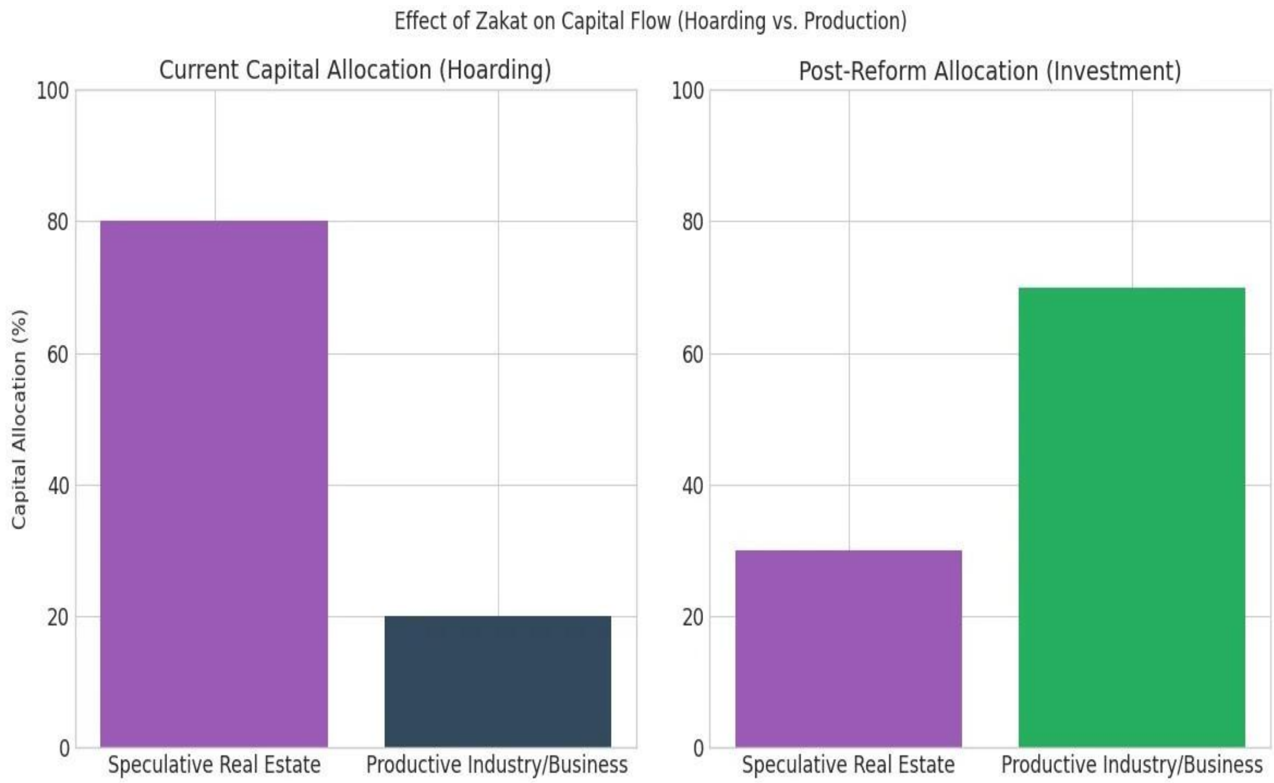

Figure 6: From speculation to actual productive investment—this is the behavioral change we need

The Numbers: How Much Could This Actually Raise?

This is the part everyone wants to know. I've tried to be conservative because overpromising kills credibility. Here's my math:

Bank deposits (Rs. 30 trillion × 2.5%): Rs. 750 billion. Stock market holdings (Rs. 8 trillion × 2.5%): Rs. 200 billion. Investment real estate (Rs. 15 trillion × 2.5%): Rs. 375 billion. Business assets (Rs. 12 trillion × 2.5%): Rs. 300 billion. Agricultural wealth (Rs. 4 trillion × 2.5% average): Rs. 300 billion.

Total: Rs. 1.925 trillion annually.

That's 21% of current FBR collections, achieved without touching consumption or employment. Actually, we'd be reducing the burden on both. Here's the projected revenue growth over five years:

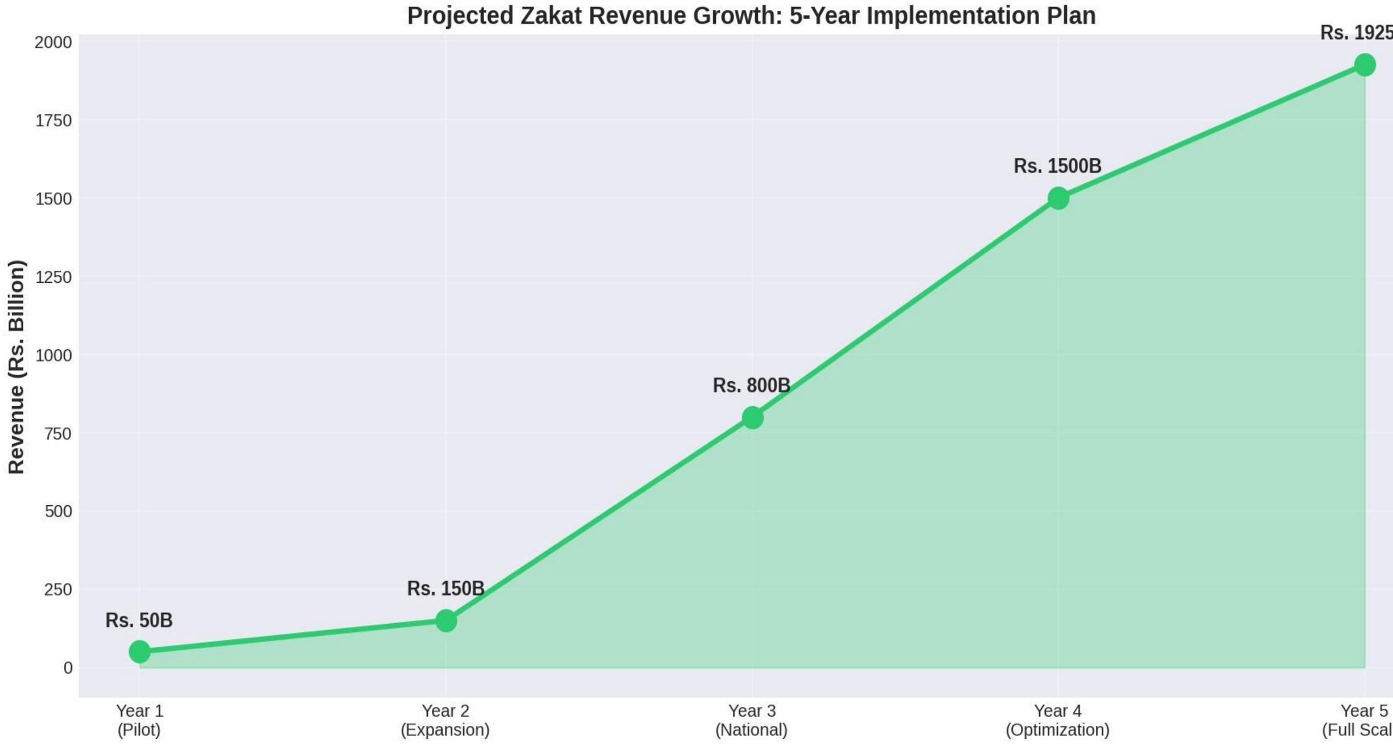

Figure 7: Realistic five-year revenue trajectory with phased implementation

As zakat revenue stabilizes, we phase out the most regressive taxes. Years 1-2: remove sales tax on basic food items. Years 3-4: cut petroleum levy in half. Year 5: eliminate electricity surcharges for lifeline consumers.

What About the Middle Class?

This is the question I get asked most often. Middle-class families are already stretched thin. They can't hide wealth offshore, and they've been squeezed harder over the past decade. So let's be very specific about how this system affects them.

Lower-middle class (Rs. 80,000-150,000/month): Typical profile is a government employee or small business owner. They own one modest apartment (Rs. 10-12 million), Rs. 500,000 savings, one car. Their assets are almost entirely in their primary residence, which is exempt, so they pay zero zakat. But we cut their indirect tax burden from 25% to 5%. That's Rs. 16,000 to 30,000 per month back in their pocket.

Upper-middle class (Rs. 150,000-300,000/month): Professionals, executives, entrepreneurs. They might own their house (Rs. 25 million), plus investment property (Rs. 10 million), Rs. 3 million savings, Rs. 2 million stocks. Liquid assets above nisab: Rs. 5 million, so they pay Rs. 125,000 annually (Rs. 10,400/month). But consumption tax burden drops from 25% to 5%, saving Rs. 22,500 to 45,000 monthly. Net benefit: Rs. 12,000 to 35,000 per month.

Here's the visual comparison:

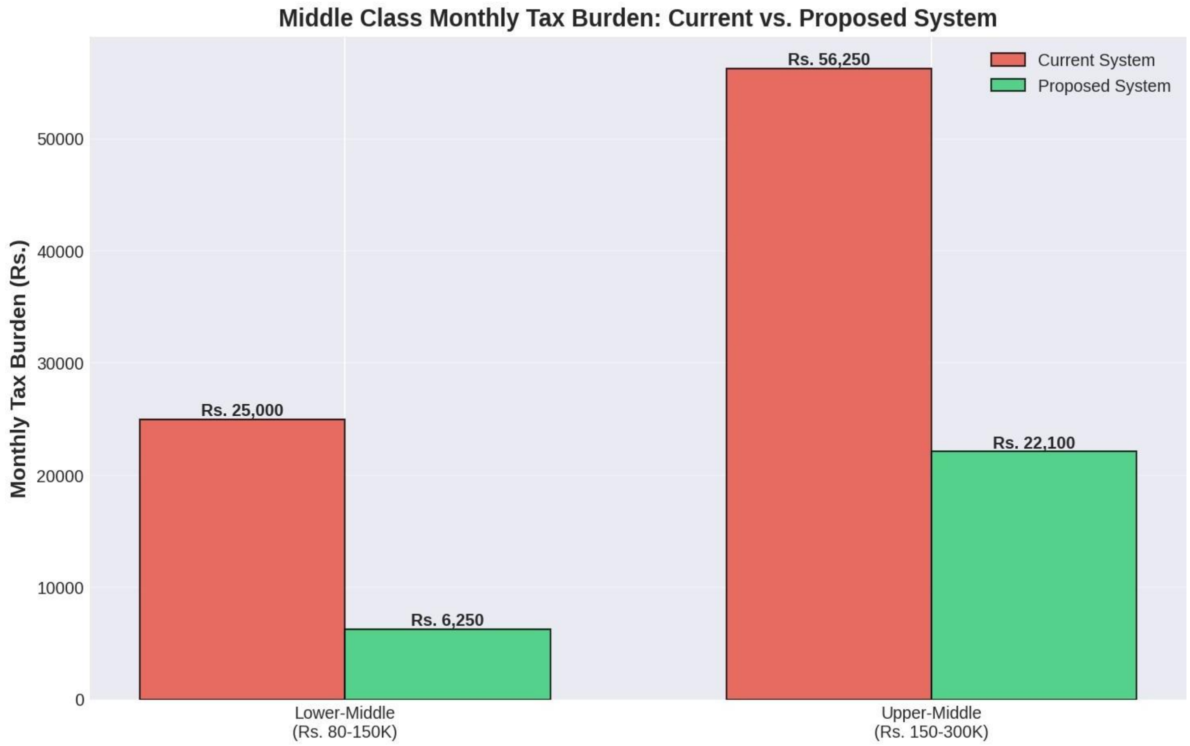

Figure 8: The middle class clearly benefits—dramatic reduction in monthly tax burden

The math is pretty clear. The middle class wins because their wealth is tied up in their home (protected) and modest savings, while their consumption is heavily taxed under the current system. This proposal flips that entirely.

Where the Money Goes: Not Just Handouts

The Quran specifies eight categories for zakat distribution in Surah At-Tawbah (9:60). But within that framework, there's room to be smart about deployment. The goal isn't just short-term relief—it's changing people's economic trajectories.

Here's how the Rs. 1.9 trillion would be allocated:

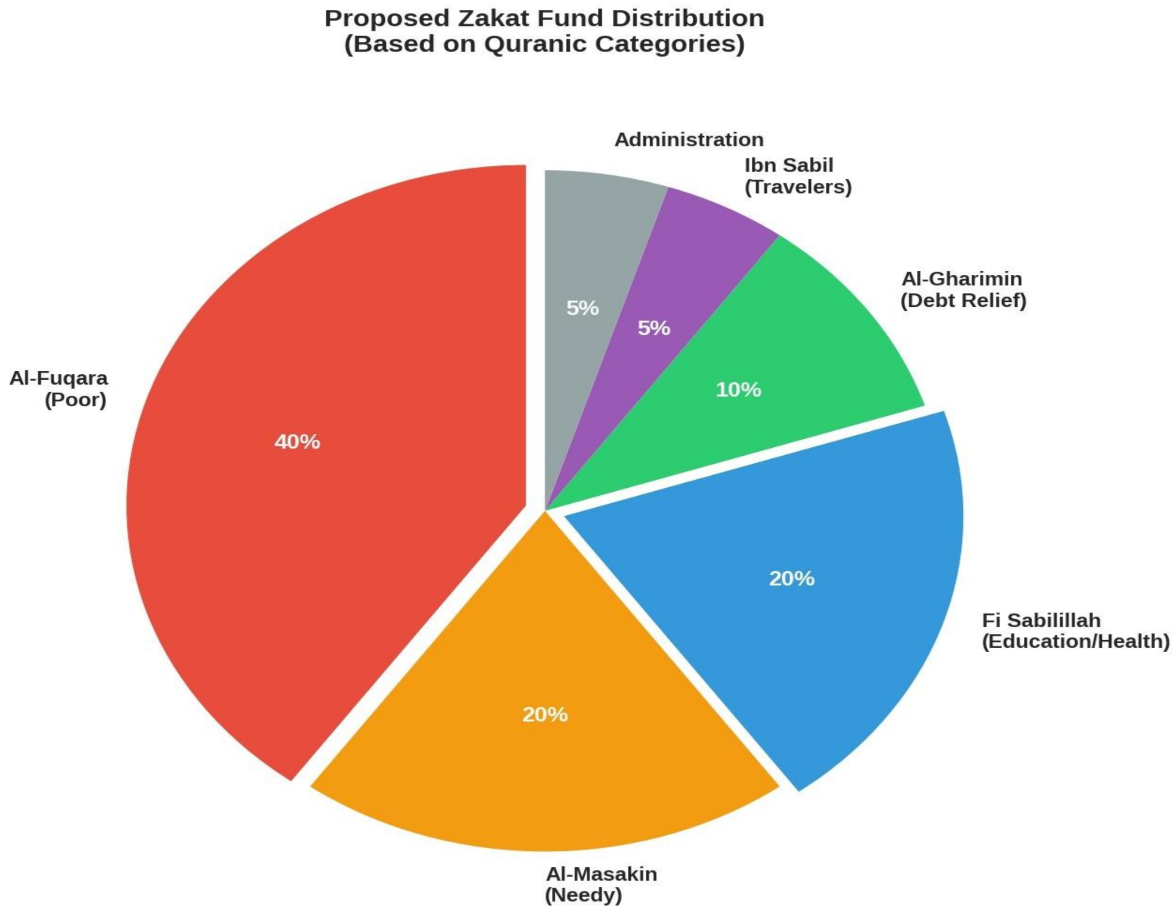

Figure 9: Distribution follows Quranic guidelines while maximizing social impact

40% (Rs. 770 billion) goes to the poorest families as direct cash assistance. But it's linked to BISP databases and NADRA verification—reaching actual poor families, not being diverted.

20% (Rs. 385 billion) for fi sabilillah—education, healthcare, infrastructure. I'd use this for technical training programs. Six-month courses in high-demand fields with Rs. 30,000 monthly stipends during training, then job placement. Target 200,000 young people annually. That's how you break generational poverty.

10% (Rs. 193 billion) for debt relief. Interest-free microfinance up to Rs. 500,000 for small businesses. Business mentorship programs. Give 100,000 entrepreneurs a year the capital and training to succeed.

The remaining portions cover those struggling but not destitute (20%), travelers and refugees (5%), and administration (5%). Keep admin costs lean enough to run professionally, not so much it becomes bloated.

Making It Work: Governance and Technology

Here's the uncomfortable truth: Pakistan has a terrible track record with public funds. People will not voluntarily declare assets or pay zakat if they think the money will end up funding luxury SUVs and foreign trips.

Public dashboards: Real-time data at zakat.gov.pk. Not quarterly reports—real-time. You should be able to see, right now, how much was collected in your district this month.

Blockchain tracking: Every transaction recorded on a distributed ledger. Once written, it can't be changed. This prevents manipulation and creates an auditable trail.

Citizen oversight: Local monitoring committees in every tehsil with legal authority to request information and file complaints.

Real penalties: If someone misuses funds, don't just transfer them. Prosecute. Asset freezing, jail time. Make examples of the first few cases.

And here's what we expect from compliance over time:

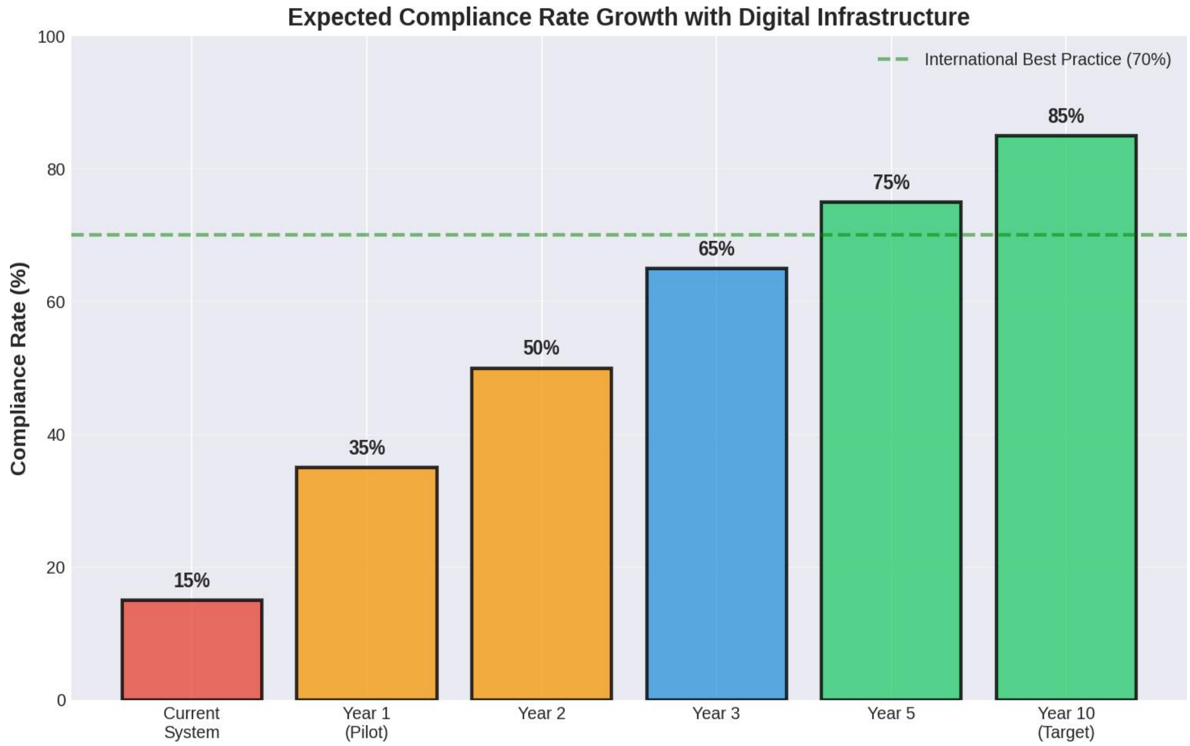

Figure 10: With proper infrastructure, we can reach international best practices in compliance

Malaysia and Saudi Arabia achieve 70%+ compliance through exactly these measures—digital infrastructure, transparency, and professional management. Pakistan can do the same.

The Political Fight (Because This Won't Be Easy)

Let me be realistic. Any shift away from exploitative taxation automatically threatens people who benefit from the current chaos. Real estate developers, speculators, housing society owners—they've built entire fortunes on the current system. Large wholesalers running on cash. Agricultural elites exempt from taxation for decades. Politicians with undeclared offshore assets.

They will fight this. They'll call it impractical. They'll say it violates property rights. They'll warn about capital flight and economic collapse. They'll find religious scholars to argue technical details. They'll fund media campaigns. They'll organize protests.

So how do you counter that? Make the moral case loudly and repeatedly. Every billion rupees sitting undeclared means Rs. 35 in extra burden on the average citizen. Make that connection explicit. Get religious authority on your side early. Build international support—the IMF and World Bank have been pushing for wealth taxes for years. And build constitutional protections from day one.

This isn't going to be a smooth ride. But the alternative—continuing on our current path—is far worse.

The Bottom Line

Look, I'm not claiming this is some magic solution that fixes everything overnight. Pakistan's problems run deep—institutional weakness, political instability, security challenges, infrastructure deficits. A tax reform, even a comprehensive one, doesn't solve all that.

But here's what it does do: it offers a coherent direction that aligns our stated values with our economic structure. We claim to be an Islamic Republic. We say we care about social justice. We talk about protecting the vulnerable. The current system contradicts all of that.

The data I've presented shows this is feasible. We can raise Rs. 1.9+ trillion annually from wealth while reducing the burden on 95% of the population. Malaysia, Saudi Arabia, and Sudan prove the model works. The technology exists to implement it transparently and efficiently.

What's missing isn't technical capability. It's political will. The courage to take on powerful interests. The integrity to build systems that can't be easily corrupted. The vision to think beyond the next election cycle.

Pakistan can keep doing what it's been doing—borrowing more to pay old debts, raising consumption taxes to meet IMF targets, watching inequality widen and social fabric fray. That path leads somewhere predictable, and it's not good.

Or we can try something fundamentally different. Build a tax system that actually reflects our values. Give the middle class room to breathe. Make idle wealth contribute to society. Fund education and healthcare properly. Start the long work of reducing debt and building resilience.

That's the choice. Everything else is just commentary.

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