Ending Exploitative Taxation:A zakat based System for Justice, economic growth and welfare for all.

When poverty and unemployment prevail in a society, the economy fails to grow in a sustainable manner. One of the major reasons for this failure is the presence of an exploitative taxation system, in which the poor are burdened with taxes while the wealthy often escape their fair share. Such a system deepens economic inequality and weakens social justice.

Zakat based system

In contrast, a zakat-based system offers a more just and balanced economic framework.Not everyone is required to pay Zakat.Under this system, wealth is collected from those who possess surplus resources and redistributed to the poor and needy. Zakat is a form of almsgiving that has been intricately woven into the fabric of Islamic tradition since the time of the Prophet Muhammad. Rooted in the Arabic word for "purification" and "growth," zakat is seen as a way to purify one's wealth by distributing a portion of it to those in need, thus fostering a sense of community and mutual support.When zakat reaches the underprivileged sections of society, they are able to fulfill their basic needs such as food, education, healthcare, and shelter. As a result, poverty is gradually reduced.

Moreover, zakat does not only provide temporary relief; it also helps in eliminating unemployment. When the poor receive financial support, they can invest in small businesses, start productive activities, and create self-employment opportunities. This circulation of wealth stimulates economic activity, leads to the establishment of new enterprises, and enhances production. Consequently, trade, including import and export, improves, overall economic growth accelerates, and the economy becomes more stable and resilient.

When money reaches the poor, they are able to fulfill their basic needs by purchasing essential goods and services. As their purchasing power increases, the demand for basic commodities rises. To meet this demand, goods are produced in factories, which leads to increased industrial activity and job creation.

Furthermore, when the poor invest this money in small businesses or productive ventures, it stimulates economic growth. New goods are produced, markets expand, and economic activity increases at the grassroots level. This process not only improves individual livelihoods but also contributes to overall economic development. As production increases, trade improves, imports and exports grow stronger, and the economy moves toward sustainable progress.

Historical Roots

1) Qur'anic Injunctions: The obligation of zakat is mentioned more than thirty times in the Quran, often in conjunction with prayer (Salah), highlighting its importance. For instance, Surah Al-Baqarah (2:110) states, "And establish prayer and give zakat, and whatever good you put forward for yourselves - you will find it with Allah."
2) Prophetic Traditions: The Hadith literature, which documents the sayings and actions of the Prophet Muhammad, provides detailed guidelines on the collection and distribution of zakat. It was during his life that the principles of zakat were actively implemented, setting a precedent for subsequent generations.
3) Caliphate System: The Rashidun Caliphs, who succeeded the Prophet, established a more formal system of zakat collection and distribution. Notably, during the reign of

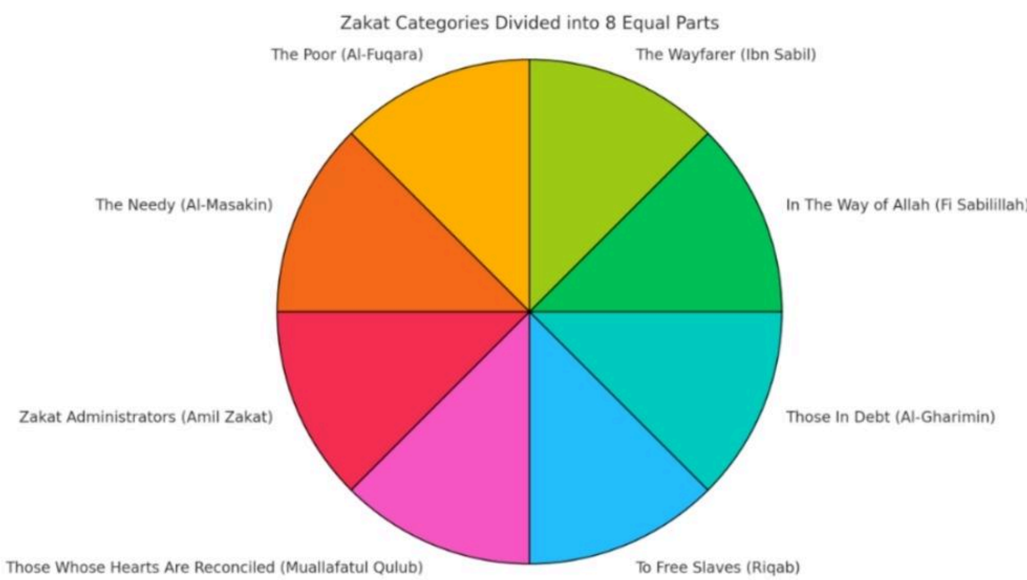
Caliph Umar ibn al-Khattab, the Bayt al-Mal (public treasury) was created to manage these funds effectively.

Key Principles for All Zakat Types:

1) Nisab: Wealth must exceed a minimum threshold (e.g., 87.48g gold or 612.36g silver).
2) Hawl (Lunar Year): Wealth must be held for a full lunar year.
3) Rate: Generally 2.5% for most assets, but 5% or 10% for certain agricultural produce.

Recipient Category (The 8 Categories):

1) The poor (Al-Fuqara')
2) needy (Al-Masakin).
3) Zakat collectors (Al-'Amilin).
4) Those whose hearts need strengthening (Al-Mu'allafat Qulubuhum).
5) To free slaves or captives (Fi 'l-Riqab).
6) Those in debt (Al-Gharimin).
7) In God's cause (Fi Sabilillah).
8) Stranded travelers (Ibn 'l-Sabil).



Classifications of Zakat

1)Zakat al-Mal
2)Zakat Al Ana'm.
3)Ushr
4)Rikaz
5)Zakat on Stocks, Shares & Bonds
6) Zakat on Rental Properties
7)Zakat ul Fitr

Zakat on Agricultural Produce (Ushr)

The percentage for Ushr (Zakat on agricultural produce) depends on the source of water used for irrigation:

10% (or 1/10th) if the land is naturally irrigated (e.g., by rain, rivers, or springs).
5% (or 1/20th) if the land is artificially irrigated (e.g., using wells, machinery, or irrigation channels).
This Zakat is typically calculated and paid at the time of harvest.

Zakatul Maal (Zakat on wealth)

It is obligatory on gold, silver, and various other assets once they meet a minimum threshold (nisab) and have been owned for a full lunar year (hawl). The standard rate of Zakat is 2.5% of the total value of these qualifying assets.
Zakat is due on gold and silver regardless of their form (jewelry, coins, bars, etc.), though there is a difference of opinion among scholars regarding personal-use jewelry.
Nisab Threshold: Zakat becomes obligatory if the amount of gold or silver owned meets or exceeds the nisab. The nisab values are:
Gold: 87.48 grams (or approximately 7.5 tolas).
Silver: 612.36 grams (or approximately 52.5 tolas).
Calculation: The Zakat is calculated at 2.5% of the current market value of the metal on the day Zakat is due.

Zakat al-An'am

It refers to the mandatory Islamic charity (Zakat) that is due on specific types of grazing livestock: camels, cattle (including buffalo), sheep, and goats.

Rikaz

It is treasure, gold, silver, or valuable artifacts buried in the earth, often from ancient times before Islam.When found, one-fifth (20%) of its value must be paid as Zakat Unlike other Zakat, it's due instantly upon discover There's no minimum value requirement; any amount found triggers the Zakat obligation.The remaining four-fifths (80%) goes to the person who found it, especially if found on private land.

Zakat in stocks and shares

The method for calculating Zakat on stocks and shares depends on the intention behind the investment:

1) For Traders (Short-Term Investors): If the intention is to actively buy and sell shares for a quick profit, the shares are treated as trade goods. Zakat is due on the entire current market value of the portfolio.

Calculation: 2.5% of the total market value on the Zakat due date.

2) For Long-Term Investors: If the intention is to hold shares for income (dividends) and potential long-term growth, Zakat is due only on the proportionate share of the company's zakatable assets (liquid assets). Non-liquid assets like property, machinery, and equipment are generally exempt.

Calculation (Precise): Determine the percentage of the company's liquid assets (cash, inventory, receivables) from its annual balance sheet and pay 2.5% of that percentage of your holding's market value.
Calculation (Estimated Proxy): If the precise calculation is difficult, a common "rule of thumb" endorsed by some scholars is to take 25% of the total market value of your shares as the zakatable amount, then pay 2.5% Zakat on that figure.

Zakat on Bonds

Bonds are generally considered interest-based loans (riba), which are prohibited (haram) in Shariah. However, this prohibition does not exempt the holder from paying Zakat on the principal value of the asset.
Zakat is due on the principal (nominal) value of the bond, as it is considered a receivable debt.

The interest (coupon) earned from the bond is considered unlawful gain and, according to most scholars, must be disposed of (given to charity, not as Zakat) and is not subject to Zakat itself**.**

Zakat on a rental property

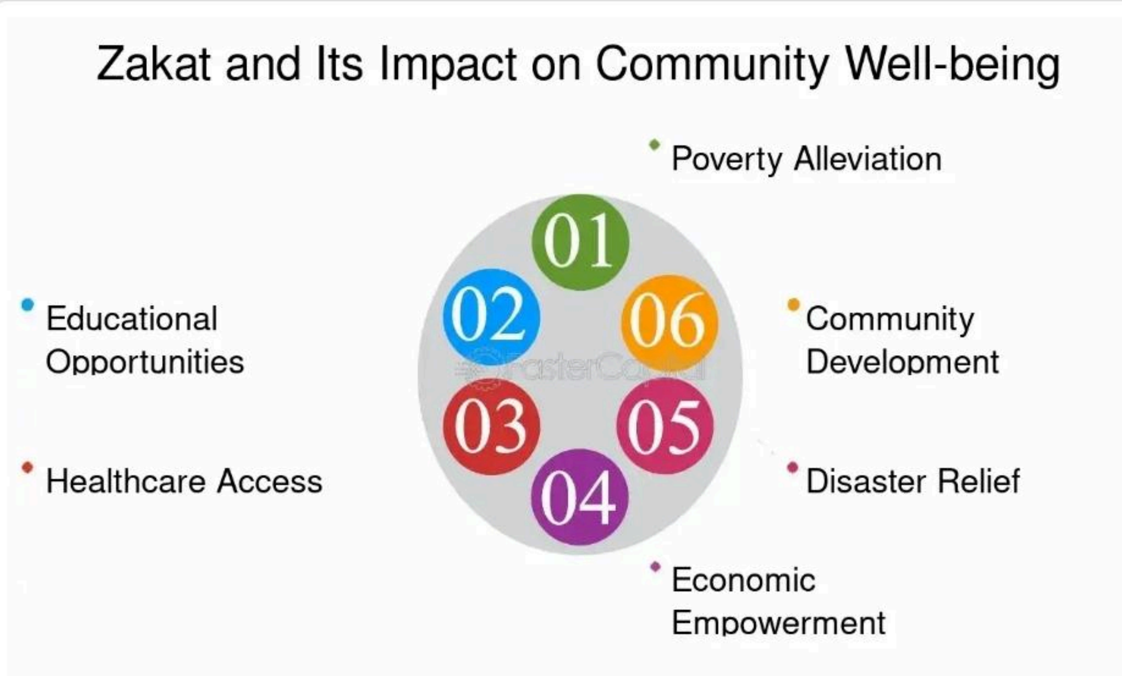
is generally not on the property's value, but on the net rental income after expenses, paid at 2.5% once it reaches the Nisab (minimum threshold) and a full Hijri year has passed, adding it to other cash/savings. If the property is for sale (trade), the value is zakatable; if for personal use (home), no Zakat.

Zakat al-Fitr (or Fitrana)

It is a mandatory charity given by Muslims at the end of Ramadan, typically as about 3kg of staple food or its cash equivalent, to purify fasting, feed the needy, and help everyone celebrate Eid al-Fitr. It's obligatory for every Muslim who has food beyond their basic needs, must be paid before Eid prayers, and can be given by the head of the household for dependents.

Here are some in-depth insights into how Zakat impacts community well-being:

1) Poverty Alleviation: Zakat funds are used to support the poor and needy, providing them with basic necessities such as food, clothing, and shelter. For example, in Pakistan, the Zakat and Ushr Department operates at the provincial level to distribute Zakat funds to those who are eligible, significantly aiding those in dire financial situations.
2) Educational Opportunities: By funding educational initiatives, Zakat helps to break the cycle of poverty. In Indonesia, the National Zakat Agency (BAZNAS) has programs that sponsor the education of orphans and children from poor families, thus investing in the country's future.
3) Healthcare Access: Zakat contributions have been instrumental in establishing clinics and hospitals, particularly in rural areas where medical facilities are scarce. In Bangladesh, the Zakat Foundation runs healthcare programs that provide free or subsidized medical treatment to the underprivileged.
4) Economic Empowerment and end of unemployment: By providing interest-free loans or grants, Zakat enables individuals to start or expand businesses. An example is the Zakat Foundation of America's microfinance program, which has helped many to become self-reliant.
5) Disaster Relief: Zakat funds are often mobilized quickly in response to natural disasters, providing immediate relief to victims. The swift distribution of aid following the 2004 Indian Ocean tsunami by various Islamic charities is a testament to this.
6) Community Development: Long-term projects funded by Zakat, such as the construction of wells and irrigation systems, have a lasting impact on community development. In many African countries, such projects have transformed entire communities by providing clean water and improving agriculture.



The transformative power of Zakat is evident in the way it touches every aspect of community life. By mandating the wealthy to share a portion of their surplus with those less fortunate, it not only fulfills a religious duty but also serves as a powerful tool for social change.After discussing the categories and dimensions of zakat, it becomes clear that zakat can be applied across all aspects of society. It is not limited to monetary contributions alone; rather, it includes various forms of support and resources that can uplift individuals and communities. When a Muslim fulfills this obligation sincerely, the Islamic social and economic system begins to progress in a balanced and sustainable manner.

The comprehensive nature of zakat highlights its potential to generate economic growth, ensure social justice, and promote welfare for all. Justice is achieved because the burden does not fall solely on the poor; instead, wealth is fairly redistributed by collecting resources from the affluent segments of society.Economic growth occurs as the poor actively participate in the economy, contribute productively, and play a meaningful role in economic activities.

Ultimately, a zakat-based system leads to the elimination of poverty and unemployment, ensuring collective welfare and long-term socio-economic stability. This argument does not suggest that Pakistan's existing taxation system should be completely abolished, as it is neither practical nor feasible to replace an entire system overnight. Structural changes require time, institutional capacity, and public consensus. However, what can be done is the strengthening of the zakat system alongside the existing taxation framework.The zakat mechanism can be made more effective by ensuring transparency, accountability, and proper implementation. Strong administrative structures can be developed, its scope can be expanded, and public awareness can be raised to encourage voluntary compliance. By educating people about the social and economic benefits of zakat, this system can be gradually integrated more effectively into the broader economic framework, making the transition smoother and more achievable.