TOPIC

Ending Exploitative Taxation: A Qur'an and Hadith Perspective on a Zakat-Based System for Justice, Dignity and Economic Balance

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Introduction

Taxation, is an important tool for designing the public policy promoting fairness, proper utilization of public funds and decrease the discrimination.Although, if the taxation structure is regressive, not addressing the social welfare, turns the society into exploitative society.

The revenue collected in Pakistan, 60 per cent of its portion comes from the utility and petroleum surcharges and duties which ultimately unequal distribution of burden on low and middle earning family according to the reports of Government of Pakistan, 2023.

The buildings and the dimension of the economy are not the measures to judge the society, treating the low income earning people. The nature of economic systems, especially the taxation framework, form the daily lives deciding the strugglers, the one protected and the one who thrive.

Taxation structure and format is key parameter for justice and progress of the society. If unfair, is a Kindy of quiet form of discrimination. In various societies which are developing, like Pakistan the taxation framework is exploitative, further make the lives of the poor hard enabling the wealth to circulate among the selected people.

Islam does not regard the economies as a material provision system. The Holy Quran and the teachings of Prophet ﷺ regards two terms like accountability and kind heartedness as the key pillars of human societies and business dealings. Any economic school of though, that brings hurdles for the common poor folk, encouraging the storing of the capital, increase the uneven distribution is completely in clash with Islamic economic system.

The overall all discussion, looks int the taxation and its exploitative role in two aspects i.e., current economic practices, teachings of Holy Quran and Hadith Nabawi ﷺ and considering the zakat as an alternative parameter or solution to balance the overall society and restore the justice.

Definitions of Key Terms

1. *Zakat*

There are five key pillar of Islam and Zakat among that pillar is the fourth major pillar, which is a prerequisite for equal redistribution of the wealth as per teachings of Quran and sayings of Holy Prophetﷺ. According to the roles of Zakat 2.5 per cent a fixed proportion on savings, trading resources and other form of wealth is imposed to facilitate the low-income earners in society (Quran 9:60), (Qradawi, 1999). Zakat makes wealth pure, limits unnecessary collection of wealth, and implements justice (Chapra, 2008).

2. *Exploitative Taxation*

The unfair manipulative structure of taxation that burdens the middle and poor classes of the society which facilitate the higher class more. In the context of economic systems, such kind of taxes like sales tax, petroleum duties and utility bills charges called in directed taxes overload the low- and middle-income earners according to the reports of government of Pakistan in the years 2022-23. In the prospect os Islamic teachings, such kind of tax system discourages the key principle called 'Adl (justice) as it burdens the poor people and mistreat the social and moral needs (Chapra 2000).

3. *Islamic Economics*

Islamic economic system and its structure ecompasses and address different aspects at the same time such as social, ethical and moral principles in economic activities carried out and are guided by the Shariah law. It focuses on equal delivery of resources, controlling of unfair exercises of interest (Riba) and discharging of welfare responsibilities via zakat and charity (sadaqah) (Chapra, 2008). In contrast to orthodox money matters, the Islamic economics system always focuses on speed and equal growth, to achieve well being spiritual terms and material terms seeing the capital to service the overall interest of the society instead of personal interests (Kahf, 1999).

4. *Welfare State*

The concept of a social system or state is the form through which provision of social services and improvement in human lives is focused via providing or improving the social status of its people via public services, financial benefits for jobless people, reduction of poverty (Musgrave, 1989) and healthcare programs. In a Islamic economic system, the social welfare state highlight the importance of moral obligations to support the poor families (Chapa 2008). Unfortunately, in Pakistan such welfare programs are subject to various administrative issues and limitation of funds (UNDP, 2023).

5. *Social Justice*

Social justice refers to the fair and equitable distribution of wealth, opportunities, and privileges within a society, ensuring that all individuals, especially the marginalized, have access to basic rights and services. In Islamic terms, social justice (*ʿAdl*) is central to governance and economic policy, emphasizing fairness, protection of the vulnerable, and accountability in wealth distribution (Chapra, 2000). In the context of Pakistan, social justice involves addressing disparities created by regressive taxation and ensuring equitable access to education, healthcare, and economic opportunities.

Justice as the Core Principle of Islamic Economic Thought

Justice is not an imaginary thing in Islam; it is a command of God. Allah says: yes Allah orders justice and the excellence and giving to the relatives, and proscribes immorality, wrongdoing, and oppression (Surah An-Nahl, Ayat 90). This is an ethical verse that forms the basis of all systems, be it economic or fiscal policies. Any system that causes oppression, suffering or imbalance contravenes this command. Islam is not against life, economy and riches. Instead, it controls them in such a way that the economic activity is beneficial to society at large and it is not an instrument of exploitation.

Quran, on numerous occasions, tells believers that wealth does not belong to him as a privately owned asset, but it is a trust: Believe in Allah and His Messenger and spend out of that which He has given you as trustees **(Surah Al-Hadid: Ayat 7)**. This notion of trusteeship (Amanah) changes the perception of the concept of wealth. Wealth is entrusted and not owned by human beings. This notion is a sharp contrast to the contemporary economic models where accumulation without responsibility is in the focus.

Masarifeen-e-Zakat

The name Masarifeen-e-Zakat (مصارفِ زکٰوۃ) has the meaning of classes of individuals who are entitled to receive Zakat, which are indicated in the Quran. Surah At-Tawbah specifies 8 categories in the Quran:

Zakah spending is against the poor and against the needy and against the employed to collect [zakah] and against bringing together [because of Islam] and against captives [or slaves] and against those in debt and against the cause of Allah and against the stranded traveller an obligation [imposed] by Allah. And Allah is Knowing and Wise."

Masarifeen-e-Zakat (8 categories) explained:

1. Al-Fuqara (الفقراء)**:** The poor and the poor having little or none.
2. Al-Masakin (المسaكين): The needy, who are slightly a notch higher than the poor, yet unable to afford the basic necessities.
3. Amil Zakat (عاملين عليها): That is the collector and distributor of Zakat.
4. Mu'allafatul Quloob (الMuousi قلوبهم): (Hearts to be reconciled): (People whose faith must be encouraged).
5. Riqab (في الرقاب): Prisoners or slaves who require to be liberated.
6. Al-Gharimin (الغارمين): The indebted that are unable to afford.
7. Fi Sabilillah (في سبيل الله): People who do so in the path of Allah, e.g., trying to defend the Islamic cause or Islamic country.
8. Ibn As-Sabil(ابن السبيل): Ibn As-Sabil: Stranded travellers or those in need.

Types of Zakat and Their Socio-Economic Rationale

Zakat is not a single form of money but, depending on the kind of wealth, it takes up various forms.

i. The zakat-ul-maal is levied on the savings, gold, silver and trade assets that are more than the nisab threshold and those that have been in custody over a year of lunar year. The type provides that idle wealth is shared among the needy to decrease extreme concentration of wealth.

ii. Ushr is a type of zakat on farm produce, which represents the social responsibility of agricultural producers to the welfare of society. The zakat on livestock is imposed on the herds that surpass specified quotas in the pastoral economies, placing redistribution once again in the agrarian setting.

iii. Zakat-ul-Fitr is a lesser but mandatory payment prior to Eid al-Fitr that will make sure that everyone in the society is able to afford the festival irrespective of their income.

All these manifestations indicate a holistic vision of Islam in terms of the economy: money is not an individual value but a social property with a moral responsibility attached (Sabiq, Fiqh-us-Sunnah).

Understanding Exploitative Taxation in Real Life

Exploitative taxation occurs whereby the financial cost of running the state is heaped on those who are least able to sustain such a cost. This occurs in most countries by high dependence on indirect taxations like sales tax, petroleum taxes and utility surcharge that are levies on consumption but not on income and wealth.

Pakistan has over 50 percent as indirect taxes as a part of the total tax revenue (Government of Pakistan, 2023). These taxes do not differentiate the rich and the poor. An impoverished worker who earns a daily wage and a rich factory owner earn equal tax on bread, fuel and electricity. But the poor use most of their earnings in buying basic things as compared to the wealthy who use a smaller percentage. This makes the poor to have a larger part of their income paid in taxes.

The consequences of this system are evident. Families cut the amount of food they consume to cover the electricity bills. Cases are delayed or avoided through medical treatment because of increasing cost. Education becomes not affordable and children are withdrawn out of schools. The United Nations Development Programme has estimated that almost 39 percent of the Pakistani population is subject to multidimensional poverty, with most of them being deprived of health, educational, and living standards (UNDP, 2023).

According to Islam, these are not acceptable. The economic systems should not destroy life and dignity, as well as basic needs.

Unfair Taxation: Global and Local Perspectives

The consumptionbased or indirect taxes are also used widely in the world, as in the sales taxes and valueadded tax (VAT). Although these taxes are the same across the board, studies indicate that they skew greater percentage of income among lowincome earners compared to the richer ones thus they are retrogressive in their impact and lead to inequality in the societies (Thomas, 2020). Indirect taxes in the case of Pakistan cause greater income inequality, as researchers have discovered that most of the tax revenues in Pakistan are collected through taxation such as sales tax or excise duties, as opposed to income-based taxation; this, in turn, restricts the capacity of the system to redistribute income and attain economic fairness (Khan and Padda, 2021). Other researchers support this finding and state that, in the long-term, taxes on goods and services only increase the disparity between the rich and the poor since the low-income population must contribute more to taxes than the rich population (Arif, 2022).

The effect on the daily life is great: as the family with less income has to pay a big percentage of their scarce income in taxes, they will be left with less money to cover such basic needs as food, medical care, and education. This dynamic enhances poverty, tension within the society and distrust in the government fairness and economic prospects. These pieces of evidence remind us of the necessity of tax reforms that would safeguard vulnerable groups of people and make the allocation of wealth more equal.

Exploitation as a Moral and Religious Violation

Islam does not draw the line between morality and governance. The Prophet Muhammad ﷺ had on several occasions cautioned rulers not to oppress people particularly using economic pressure. He said: O Allah whoever assumes the management of the Affairs of my Ummah and is cruel to them, be cruel to them; and whoever is soft to them, be soft to them. This Hadith defines that rule should be kind and just. Taxation that does not consider the hardship of people and their power goes against this idea.

Unjust collection of revenue was also condemned by the Prophet ﷺ: “The collector of illegal taxes will not enter Paradise (Sunan Abu Dawood). According to the Islamic scholars, taxes are illegal when they are charged in an unfair manner, they are collected in a brutal way or they are used oppressively (Qaradawi, 1999). Therefore, the exploitative taxation is not only economically bad but spiritually bad.

Wealth Concentration: A Qur'anic Warning

The Quran seems to have one of the most powerful critiques of economic injustice in Surah Al-Hashr: So that not the wealthy among you may circulate, in a rave of riches.

(Surah Al-Hashr, Ayat 7). This verse is a direct attack on systems in which the rich continue to get rich at the expense of the poor. Contemporary forms of taxation that are based on consumption taxes usually further this same trend of cushioning the rich and sucking the poor dry.

Extreme inequality is socially destructive in the eyes of Islam. It gives birth to hatred, instability and corruption. Children can only have a just system bringing about circulation of wealth and not concentration.

Zakat: A Divinely Mandated System of Justice

Against exploitative taxation is zakat which is one of the five pillars of Islam. Zakat is not charity which is optional but it is a social obligation which has a clearly stated purpose. Allah is ordering: "Practice prayer and zakat (Surah Al-Baqarah, Ayat 43). The amount of Zakat is imposed on excess wealth which is beyond a set minimum (nisab). It does not levy basic income or basic consumption. This is the only difference between it and indirect taxation. The underprivileged are not oppressed, but defended.

Allah Himself is very specific as to who deserves zakat: Zakat is only to the orphaned, the needy, those who work to earn it, those whose hearts are to be reconciled, to emancipate slaves, to those in debt, to the cause of Allah, to the stranded traveller. (Surah At-Tawbah, Ayat 60). This verse does not contain any ambiguity. Zakat does not have to be a favour of the rich to the poor.

Preserving Human Dignity Through Zakat

Islam does not consider poverty as individual failure. Rather, it puts society in the blame of overlooking the weak. The Prophet ﷺ added: he is not a believer whose belly is full and his neighbour is starving (Al-Adab Al-Mufrad). Zakat maintains dignity by acknowledging the poor as those who have their right instead of beggars. A widow who is the recipient of zakat is not humiliated; she is getting her own. The student who will be assisted by the zakat is not being taken care of; he is empowered. This aspect of human makes zakat more than a fiscal instrument it becomes a social healing tool.

Zakat and Economic Circulation

Zakat also possesses the strong economic impacts. Hoarding is highly detested in Islam: “And the lovers of gold and silver, who fail to give to orphan and beggar, present them with tidings of a great torment to themselves (Surah At-Tawbah, Ayat 34).

Zakat also does not encourage idle hoarding by enforcing the periodic requirement of excess wealth. This drives the money in circulation triggering investment, trade and consumption. The poor households, who receive zakat are likely to spend it on essential commodities which triggers local markets and nourishes small businesses (Chapra, 2008).

In the past, proper zakat mechanisms resulted in poverty elimination. Although the economies of our time are not so simple, the principle still holds true: justice and growth are not contradictory; on the contrary, they support one another.

Can Zakat Replace Modern Taxation?

Zakat might not completely overtake present day taxation in a modern state that has a large infrastructure demand. Nevertheless, Islamic thinkers consent that zakat has to be the ethical basis of any Islamic taxation system. Only in case those additional taxes are essential, temporary, equitable, and do not overburden the poor, they are allowed (Chapra, 2000). Switching to zakat and progressive direct taxes as opposed to indirect taxation reduces the dependence on economic policy, and distorts the policy to the ethics of Islam.

In Islamic perspective Zakat is a mandatory wealth redistribution system aimed at helping the poor as well as promoting economic justice. However, how much it can completely replace contemporary tax system depends on the circumstances, because the contemporary governments have other functions (infrastructure, defense, healthcare, etc.) that are not limited by the exact provisions of Zakat.

Quranic teachings on Zakat (Surah At-Tawbah Ayat 103).

Give them of their wealth charity through which you cleanse them and make them multiply, and say [the blessings of Allah] to them. They are reassurance to them indeed your invocations. And Allah Knowing and Listening.

Towards a Zakat-Based System: Practical Considerations and Potential Benefits

The adoption of zakat-based system in Pakistan is associated with the incorporation of ethical, administrative, and policy aspects. Although zakat itself might not be used to substitute all types of modern taxation, it can greatly supplement social welfare systems and minimize the use of indirect taxes that are detrimental to the poor. The institutionalization of Zakat collection and distribution can be based on digital platforms that are connected to a system of national identification like NADRA that will enable targeted beneficiaries to receive appropriate help in a transparent manner. The combination of zakat with the existing poverty reduction schemes such as the Benazir Income Support Programme (BISP) may help to increase the efficiency of the coverage and minimize the duplication. By redistributing resources to the needy, zakat may jump start local economic growth, raise consumption rates in the low income populations, and provide opportunities to build human capital.

A significant advantage of making zakat an emphasis is that it can keep off hoarding of wealth and promote productive investments. The idle capital is not subjected to the consumption and investment cycles of growth. Zakat, as it introduces a moral and financial liability on the excess wealth, fosters circulation and liquidity and helps in the dynamism of the economy. In addition, the fact that zakat has welfare as one of its main purposes is similar to the constitutional recognition of the Islamic principles in Pakistan, as well as the policy objectives on poverty reduction.

Relevance for Pakistan

Pakistan was established with the concept of Islam although most of its present financial regime seems not to align with Islamic doctrines. The poor are the most affected by heavy indirect taxation and complex levies and as the rich remain concentrated in their hands, the poor stay in poverty. This puts a strain on the economy, social dissatisfaction and injustice amongst the common citizens.

Zakat may be a solution as a serious and structured institution that must be revived. Zakat when gathered and given out in an open, responsible, and within the context of how it was meant to be can directly empower the needy, reduce inequality, and ease social integration and respect. The modern technology offers means which were unthinkable before: digital records may be used to trace the contributions, the national identification system may be used to ensure the correct targeting, online platforms may be utilized to distribute it openly.

However, the technology is not sufficient. The effectiveness of a Zakat-based system is determined by the purity of heart, moral responsibility and transparency in all levels of the administration such as the government and those that are tasked to administer distribution. When taken seriously, Zakat can be more than a religious requirement, Zakat can also be a potent instrument of social justice, economic evenhandedness and rebuilding trust in the institutions of the state. To Pakistan, adoption of such system would assist in achieving the vision that the country was established on, which is an Islamic society built on the principles of justice, benevolence, and equal prosperity.

The Role of Zakat in Sustainable Development Goals of Pakistan

The mandatory Islamic form of wealth redistribution, which is known as Zakat, could be relevant in the development of the Pakistan Sustainable Development Goals (SDGs). Through direct assistance to the poor and the marginalized by funding them, zakat helps to address poverty (SDG 1) and inequalities (SDG 10) reduction. When properly aimed it may help in providing education to the poor communities (SDG 4) and better medical services to those who cannot afford medical care (SDG 3) and hence increasing human capital and societal livelihood. Faced with these issues in a country such as Pakistan, where adopted multidimensional poverty applies to almost 39% of the population (UNDP, 2023), zakat can be a culturally based and ethically required instrument in conjunction with government initiatives such as the Benazir Income Support Programme (BISP).

In addition to welfare, zakat can contribute to economic growth (SDG 8) and when it is spent productively, i.e. on microfinance, entrepreneurship and in support of small and medium enterprises (SMEs). By combining the aspects of zakat collection and distribution, clear governance, digital systems, and government-non-government collaborations, Pakistan can enhance accountability and efficiency (SDG 17) and make sure that wealth is distributed in an ethical manner and to the society at large. Correctly mobilized, zakat can be both a religious duty and a tool of inclusive and sustainable development, and a connection between social justice and long-term economic empowerment (Chapra, 2008; Ahmed, 2015).

Limitations and Challenges

A zakat-based system is limited practically even though it promises a lot. Administrative capacity is still poor in most areas and there is concern of just collection and distribution. The public is required to have transparency and accountability, which in turn is what the zakat institutions will lack, as they will likely end up causing the same exploitation that they are set out to combat. The various views of the jurisprudence of the schools of Islamic thought also make it difficult to standardise calculation of zakat, particularly of modern assets like stocks, corporate holdings and digital currencies. Other barriers include political interference and institutional fragmentation, socio-economic differences, and differences in policy design make it challenging to uniformly design policies.

Recommendations for Reform

To overcome such challenges, Pakistan needs to invest in digitization and integration of data, where there is an alignment between zakat collections with the correct records in terms of income and assets. Participation by civil society and the private sector can lead to a higher level of accountability and expansion of the reach. The educational campaigns are required to create the popular trust and awareness on the mission and the benefits that zakat provides. Clearer guidelines of the assessment of zakat on modern assets can be reached by the size of the scholarly consensus on harmonizing jurisprudential views. Lastly, combined with more general economic policies like progressive direct taxes and subsidies, zakat could be incorporated in order to create a hybrid form of the fiscal system that would allow to balance efficiency, equity, and justice.

Findings: A Good Deed or a Way of Exploitation?

Exploitative taxation is against economic justice and the Islamic teachings. It imposes on the weak, defends privilege and undermines social trust. Zakat is an alternative that is divinely instructed based on justice, compassion and accountability.

To Pakistan and other societies that follow the zakat-based fiscal vision, adopting this type of fiscal vision is not just an economic reform but a moral decision. It is a sign of obedience to Allah, care of human beings and accountability to the society.

Allah reminds us:

And all that you project on yourself you will find with Allah. Prosperity is not measured by the amount of money that a nation amasses but by how well one is able to maintain justice and honor to everyone.

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