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INSTITUTIONALIZING ZAKAT IN MODERN ECONOMY

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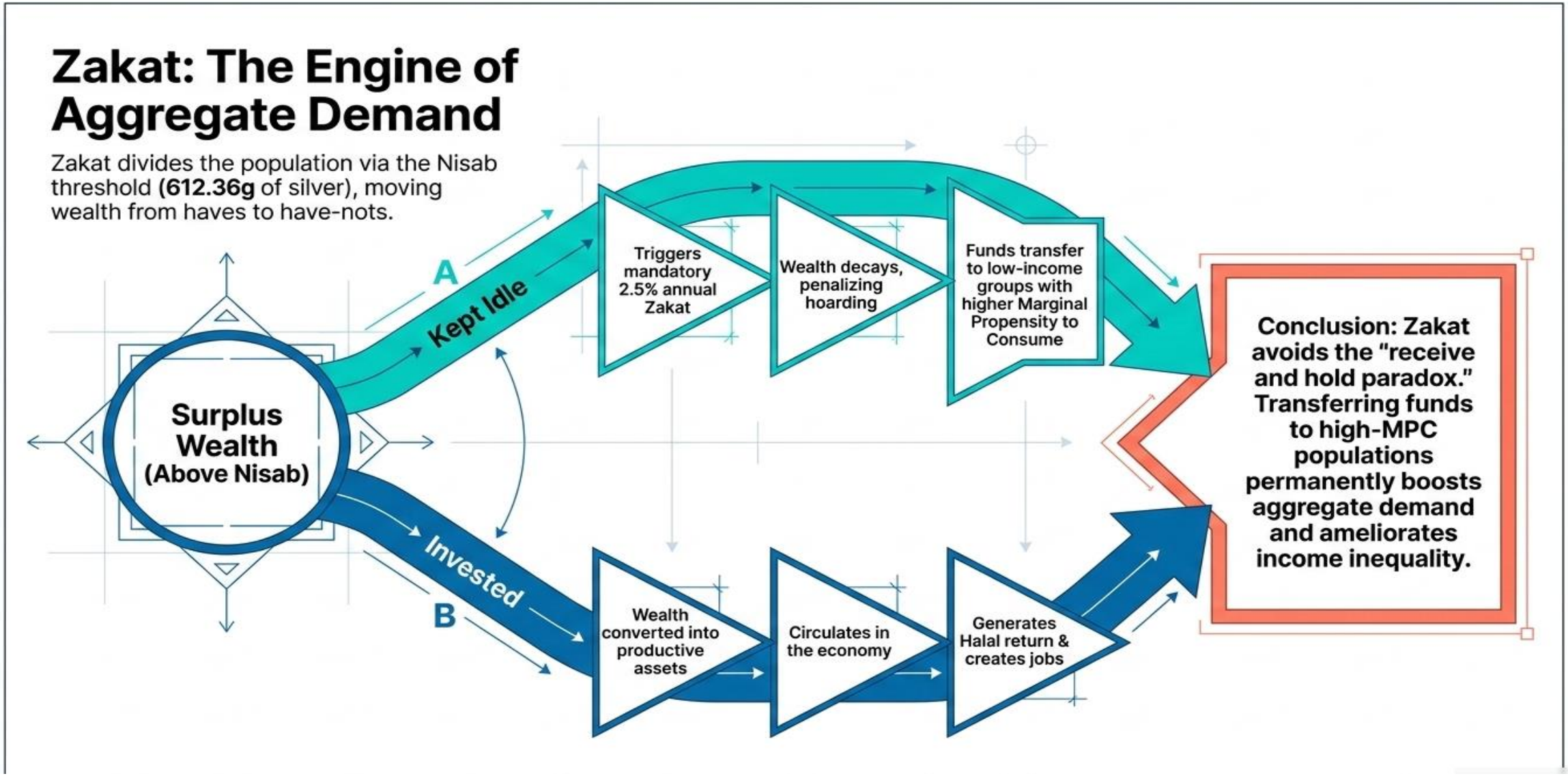
OUTLINE

- Changes in the Modern Economy
- Dynamism in Islamic Jurisprudence
- Current Challenges
- Resolving Current Challenges
- Estimation of Zakat in Pakistan (2017-2026)

ZAKAT AND REDISTRIBUTION OF WEALTH



ZAKAT AND REDISTRIBUTION OF WEALTH

Mathematical Proof: Zakat's Decay of Idle Wealth

The Baseline Model

Wealth changes via net return on investment (**r**) minus consumption (**c**).

$$W_t = W_0 e^{(r-c)t}$$

The Zakat Model

Functions as a proportional capital charge (**z = 0.025**) on net wealth above the threshold.

$$dW(t)/dt = (r - c - z)W(t)$$

$$W_t = W_0 e^{(r-c-0.025)t}$$

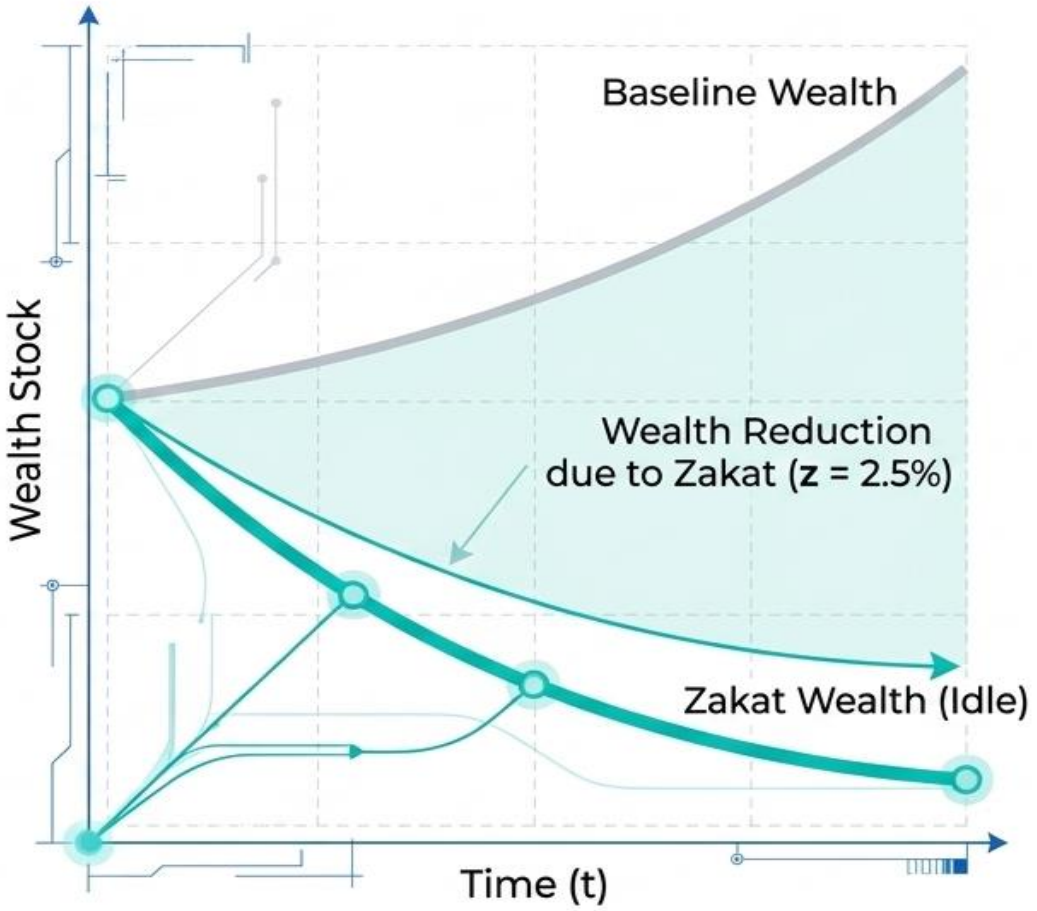
The Proof

$$W_{Zakat}(t) / W_{Baseline}(t) = e^{-0.025t}$$

Since $t > 0$, $e^{-0.025t} < 1$

$$W_{Zakat}(t) < W_{Baseline}(t)$$

Mathematically guaranteeing a lower private wealth stock compared to an environment without Zakat.



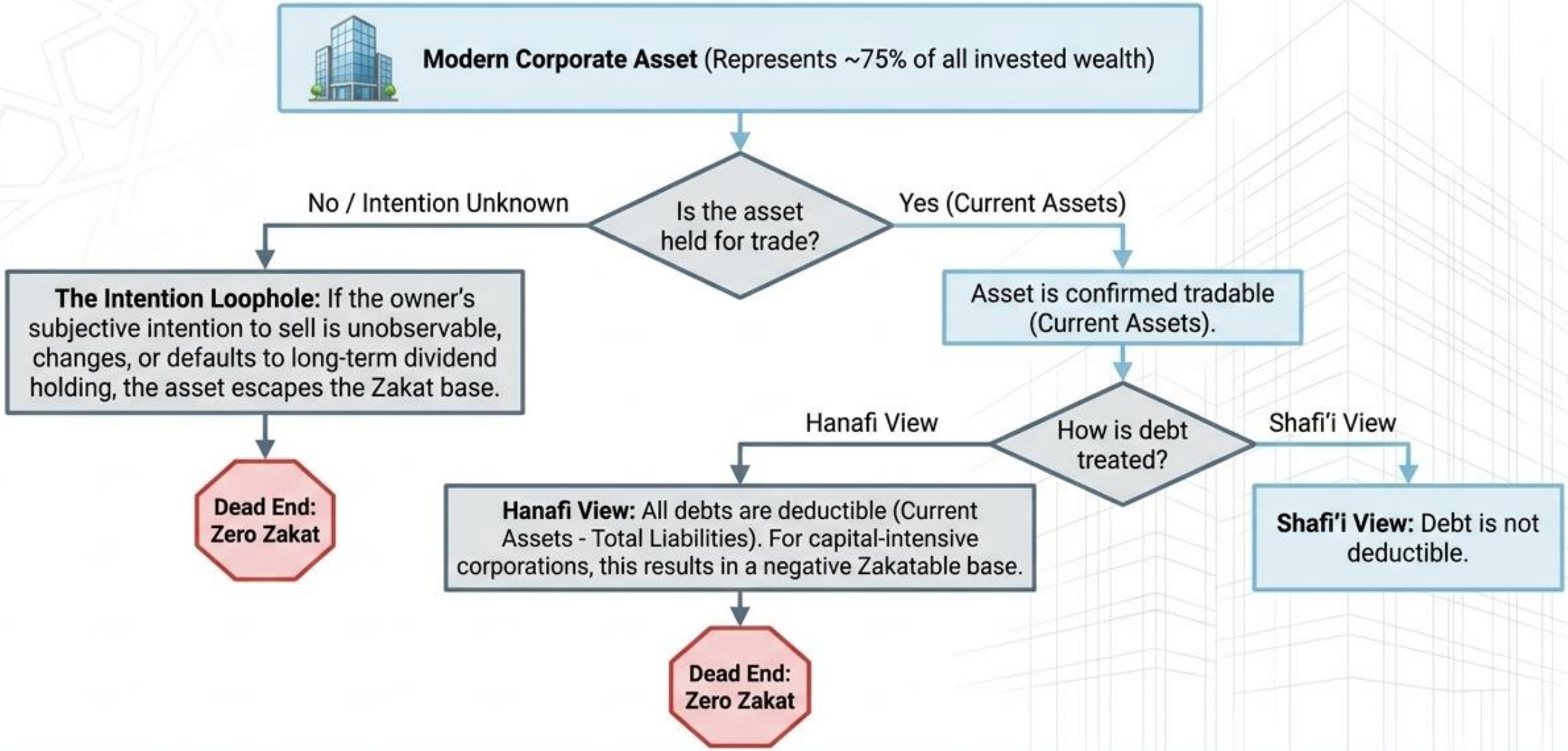
The Economic Paradigm Shift

"Then vs. Now" Diagnostic Matrix

7th Century Economy	Modern Economy (2020s)
Primary Wealth Forms	Livestock, gold/silver, agricultural land.	Fiat & digital currencies, tech mega-caps, intangibles (IP, licenses).
Dominant Production	Primitive agriculture & manual labor.	Industrial manufacturing & services (>80% of GDP).
The Nisab Paradox	Gold and silver had closely aligned values, creating a uniform wealth baseline.	Historic divergence means silver Nisab is now only 10% the value of gold Nisab. Jurisdiction mismatch (e.g., Pakistan uses silver; Malaysia uses gold).

Islamic jurisprudence must extend to new forms of wealth and production to avoid glaring macroeconomic anomalies.

The Corporate Zakat Dead-End



Key Insight: Relying on invisible intentions or total debt deduction effectively removes 75% of modern invested wealth from the Zakat net, rendering centralized administration impossible.

The Inequity of Current Incidence

Agriculture
(The Farmer)

Margin: Low (purely competitive market).

Burden: High. Pays *Ushr* (5-10% flat levy) on gross value of production without adjustment for debt or production costs.

Manufacturing
(The Global Corporation)

Margin: High.

Burden: Low/Inconsistent. Heavily reliant on inventory models. Just-in-time inventory inventory avoids Zakat, while capital-intensive firms pay only 2.5% on tradable inventory once a year.

Services & Tech
(The Billionaire)

Margin: Exponential (e.g., NVIDIA, Apple, Microsoft).

Burden: Near Zero. Generates massive value with no physical, tradable storable inventory.

"It is perplexing that billions invested in global factories are treated identically to the hand-tools of a 7th-century mason, exempt from Zakat as 'means of production'." – Al-Qaradawi (1984)

The Tradition of Juristic Flexibility (Ijtihad)

Horses & Forests: Initially exempted, horse breeding in Syria and commercial logging were brought into the Zakat net as they evolved into lucrative, large-scale industries.

Early Caliphates

Umer Bin Abdul Aziz

Salaries & Grants: Pioneered 'Deduction at Source,' deducting Zakat at the moment salaries and monetary gifts were distributed.

Commercial Inventory: Generated binding consensus (Ijma) applying Zakat to commercial goods based on their 'potential for growth'.

Ijma of Sunni Schools

OIC Fiqh Academy 1986/1988

Fiat & Finance: Ruled paper currency acts as independent legal tender (naqd qā'im) and subjected financial investments to standard Zakat.

Core Thesis: The definition of wealth (*Mal*) is dynamic. Zakat administration has historically adapted to capture contemporary stores of value.

Redefining Value Creation under Ushr Rules

	Capital Driven	Labor Driven
Intensive Use	E.g., Irrigated Agriculture, Industrial Manufacturing. **Rate: 5% (Half-Ushr)**	
Sole/Primary Use	E.g., Pure Stock Investment. **Rate: 10% (Ushr)**	E.g., Rain-fed Agriculture, Consultancy / Self-Employed. **Rate: 10% (Ushr)**

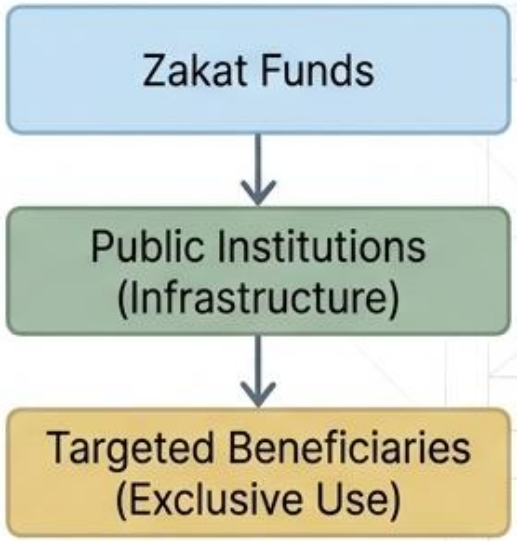
Supporting Text: The basis of Ushr is not “production from land,” but “production for commercial purposes.” Extending this principle captures the 80%+ of GDP generated by the manufacturing and services sectors, eliminating arbitrary Zakat arbitrage.

Rethinking Tamleek for Public Welfare

Classical Direct Transfer

The Bottleneck: Strict Tamleek (ownership transfer) restricts Zakat from funding public goods like schools, hospitals, and water filtration.

Modern Institutional (Beneficial Ownership)



The Southeast Asian Precedent

OIC Fiqh Academy resolutions permit establishing productive assets and essential welfare services, provided the net usufruct directly and exclusively serves designated beneficiaries.

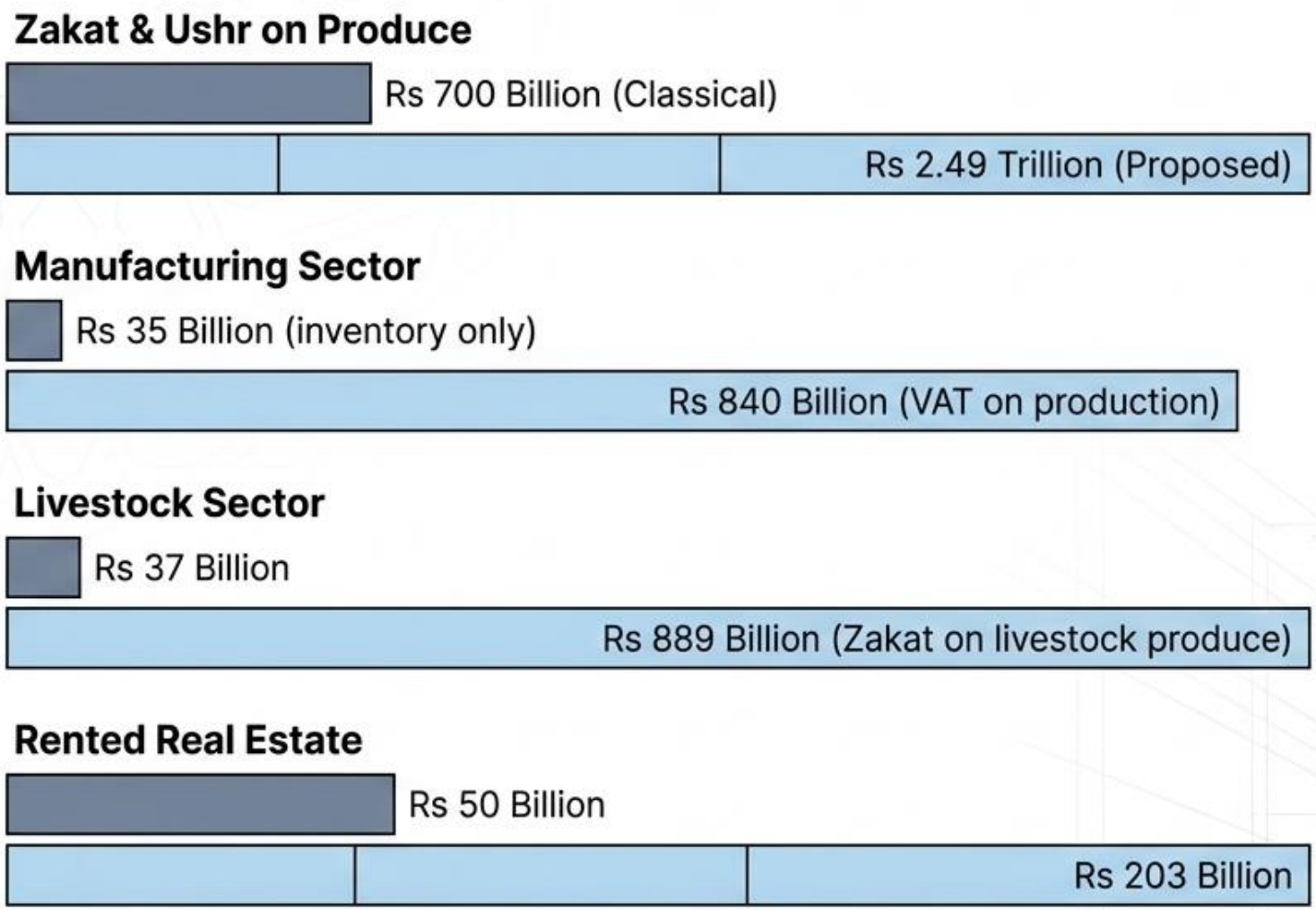
Linguistic Justification

Al-Qur'an 9:60 uses the letter 'ل' (denoting ownership) and 'فی' (denoting the objective of spending). Both are satisfied if funds are irrevocably dedicated to the welfare of the Mustaheqeen (beneficiaries).

The Proposed Administrative Blueprint

Economic Activity	Rate
Category 1: Charged as VAT (Production)	
Agricultural produce (Labor + Capital)	5%
Agricultural produce (Labor only)	10%
Industrial produce (Labor + Capital)	5%
Category 2: Deducted at Source (Income & Extraction)	
Investment Income (Capital only)	10%
Rental Income (Capital in real estate)	10%
Consultancy / Salaried Income	2.5% - 10%
Minerals & Extraction	2.5% - 20%
Royalty Income	20%
Category 3: Charged Annually on Wealth Filing (Storage)	
Real, trading, and financial assets (excluding personal use)	2.5%

Breaking Down the Revenue Delta



Context Box: 60-70% of Pakistan's wealth is in real estate, and the top 10% own 58.5% of total financial wealth. The proposed framework efficiently targets these concentrations of wealth without burdening primary agricultural producers.

The Unified Institutional Ecosystem

Closing Insight: Complementarity between tax administration and Zakat simplifies the fiscal regime, reduces the dual burden, and ensures transparency. Zakat is no longer an informal charity, but a formalized, theology-compliant macroeconomic pillar.

ESTIMATION OF ZAKAT COLLECTION - GOLD

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	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Number of Housing Units with 3 Rooms (2017)	10,596,504	10,914,399	11,241,831	11,579,086	11,926,459	12,284,252	12,652,780	13,032,363	13,423,334	13,826,034
Gold Holdings (No. of Houses x 100g Gold) in KG	1,059,650	1,091,440	1,124,183	1,157,909	1,192,646	1,228,425	1,265,278	1,303,236	1,342,333	1,382,603
Average Gold Price Per 1 Gram	4,540	5,100	6,800	8,900	9,600	11,800	18,200	20,500	26,800	37,500
Total Value of Gold (in mln PKR)	4,810,813	5,566,344	7,644,445	10,305,387	11,449,400	14,495,418	23,028,059	26,716,345	35,974,536	51,847,628
Second Method										
Number of Married Females (2017)	41,358,490	42,599,245	43,877,222	45,193,539	46,549,345	47,945,825	49,384,200	50,865,726	52,391,698	53,963,449
Gold Holdings (Non-Poor Married Females x 100g Gold) in KG	1,017,419	1,047,941	1,079,380	1,111,761	1,145,114	1,179,467	1,214,851	1,251,297	1,288,836	1,327,501
Gold Price Per 1 Gram	4,540	5,100	6,800	8,900	9,600	11,800	18,200	20,500	26,800	37,500
Total Value of Gold	4,619,082	5,344,501	7,339,782	9,894,673	10,993,093	13,917,714	22,110,294	25,651,586	34,540,798	49,781,281
Average (in mln PKR)	4,714,947	5,455,422	7,492,113	10,100,030	11,221,247	14,206,566	22,569,177	26,183,965	35,257,667	50,814,455

ESTIMATION OF ZAKAT – REAL ESTATE

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	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total Documented Nominal GDP (mln PKR)	33,174,970	36,514,166	41,110,164	44,746,876	52,254,009	63,305,480	79,564,264	99,737,215	107,224,037	117,990,553
Informal Nominal GDP (mln PKR)	11,058,323	12,171,389	13,703,388	14,915,625	17,418,003	21,101,827	26,521,421	33,245,738	35,741,346	39,330,184
Total Nominal GDP (mln PKR)	44,233,293	48,685,555	54,813,552	59,662,501	69,672,012	84,407,307	106,085,685	132,982,953	142,965,383	157,320,737
Population (in mln)	205.20	209.80	214.00	218.20	222.60	227.00	231.50	236.00	240.00	245.00
Population Growth Rate	0.02	0.0224	0.0200	0.0196	0.0202	0.0198	0.0198	0.0194	0.0169	0.0208
Per Capita National Wealth (in mln PKR)	1.47	1.52	1.39	1.53	1.58	1.7	1.6	1.6	1.73	1.8
Total Estimated Wealth (mln PKR)	301,644,000	318,896,000	297,460,000	333,846,000	351,708,000	385,900,000	370,400,000	377,600,000	415,200,000	441,000,000
Real Estate Wealth (Percent of Total)	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
Total Real Estate Wealth (in mln PKR)	196,068,600	207,282,400	193,349,000	216,999,900	228,610,200	250,835,000	240,760,000	245,440,000	269,880,000	286,650,000
10% of Real Estate Wealth Held for Trade (in mln PKR)	19,606,860	20,728,240	19,334,900	21,699,990	22,861,020	25,083,500	24,076,000	24,544,000	26,988,000	28,665,000

ESTIMATION OF ZAKAT – RENTAL INCOME

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	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total Real Estate Wealth (in mln PKR)	301,644,000	318,896,000	297,460,000	333,846,000	351,708,000	385,900,000	370,400,000	377,600,000	415,200,000	441,000,000
Percent Rented	0.1153	0.1153	0.1153	0.1153	0.1153	0.1153	0.1153	0.1153	0.1153	0.1153
Total Rental Yield	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total Rental Income (mln PKR)	1,391,182	1,470,748	1,371,886	1,539,698	1,622,077	1,779,771	1,708,285	1,741,491	1,914,902	2,033,892

ESTIMATION OF ZAKAT – OVERALL 2026

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Category	Notes and Sources	Amount (Mln Rs.)	Zakat Collectible (Mln Rs.)	Zakat Collectible (Mln Rs.)
Zakat on Wealth			**Classical Method**	**Proposed Method**
Currency in Circulation (Stock)	Wealth held by top 10%	11,941,459	174,644	174,644
Deposits in Personal Category		18,420,000	269,393	269,393
KSE Market Capitalization	Source: PSX	19,755,713	288,927	288,927
Asset Under Management of Mutual Funds	Source: MUFAP	4,850,000	70,931	70,931
Outstanding Value in National Savings Scheme	Source: SBP Statistical Appendix 2025-26	3,607,617	52,761	52,761
Life Insurance & Family Takaful (PKR Mn)	Source: Insurance Association of Pakistan	565,000	8,263	8,263
Non-Life / General Insurance (PKR Mn)		275,000	4,022	4,022
Trade Assets (1-Month Value of Wholesale/Retail Trade + Exports)	Turnover Ratio 12 Yields 1-Month Inventory	33,804,320	41,199	41,199
Livestock Value (Cattle at Rs 200,000/Unit)	61.96	12,392,000	181,233	181,233
Livestock Value (Buffalo at Rs 200,000/Unit)	49.10	9,820,000	143,618	143,618
Livestock Value (Sheep at Rs 50,000/Unit)	33.50	1,675,000	24,497	24,497
Livestock Value (Goat at Rs 50,000/Unit)	91.80	4,590,000	67,129	67,129
Livestock Value (Camel at Rs 200,000/Unit)	1.20	240,000	3,510	3,510
Gold (Avg Holding in OHU of 3x BR or Married Females in UMC)	Interpolation from Census 2017	50,814,455	1,270,361	1,270,361
Real Estate Wealth; 65% Wealth as Real Estate Wealth	10% of Real Estate Wealth Held for Trade	28,665,000	716,625	716,625
Rental Income (Assumed Yield=4%, 11.53% Houses Rented)	11.53% Rented Units with 4% Yield	2,033,892	50,847	203,389
Total Wealth Zakat			3,367,960	3,520,502
Zakat & Ushr on Produce				
Production in Livestock Sector (Dairy, Meat, Poultry etc)	Turnover Ratio 12 Yields 1-Month Inventory	17,791,259	37,065	889,563
Fish Catch		296,548	618	14,827
Mining and Quarrying		2,501,541	5,212	125,077
Manufacturing		16,807,936	35,017	840,397
Produce on Rain-fed Land	Ushr on Value of Production	2,054,144	205,414	205,414
Produce on Irrigated Land	Nisf Ushr on Value of Production	7,805,745	390,287	390,287
Production in Forestry		527,851	26,393	26,393
Total Zakat & Ushr on Produce			700,005	2,491,958
Total Potential of Zakat Collection in 2025-26			4,067,965	6,012,460
Total GDP at Market Prices (2025-26)			117,990,553	117,990,553
Total GDP at Constant Prices (2025-26)			42,561,787	42,561,787
Zakat to Nominal GDP Ratio			3.45%	5.10%
Zakat to Real GDP Ratio			9.56%	14.13%

ESTIMATION OF ZAKAT – RENTAL INCOME

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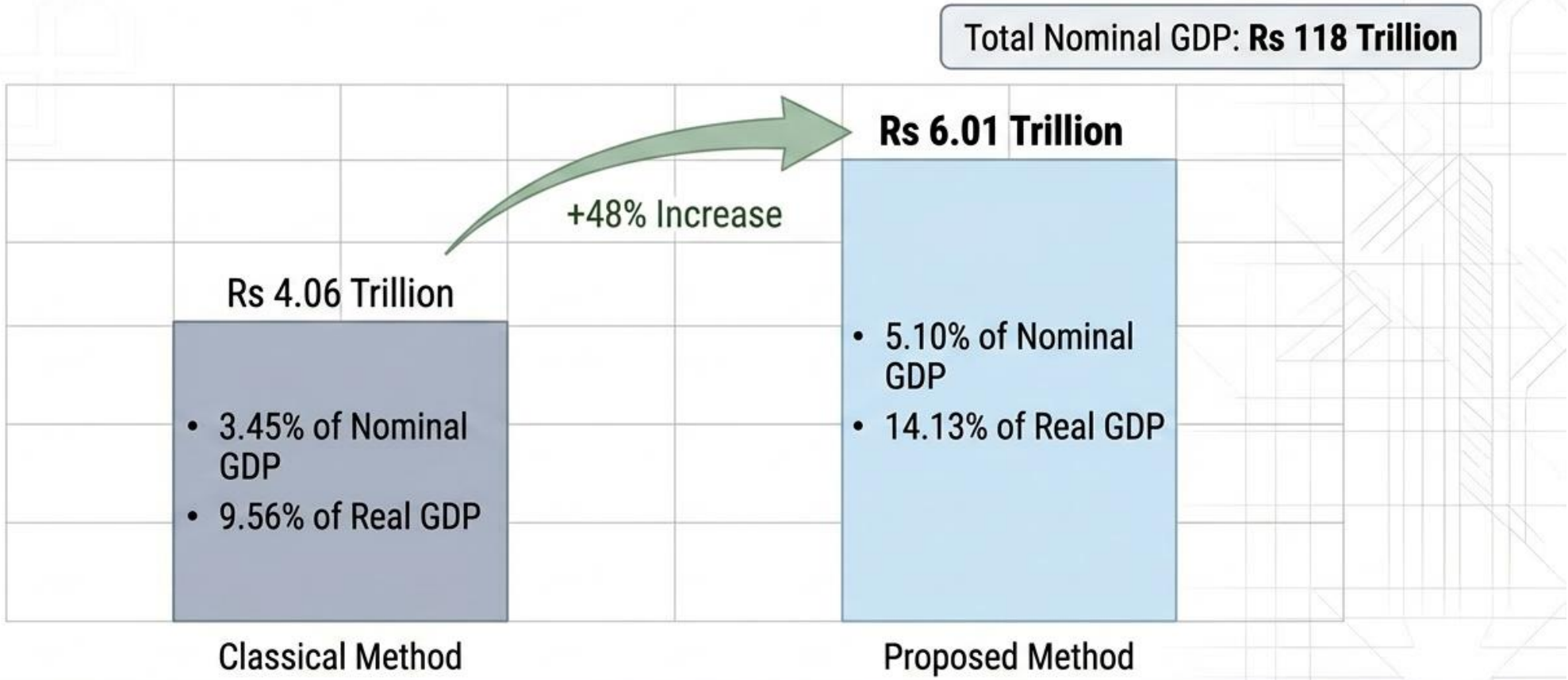
Empirical Proof of Concept: Pakistan (2026 Projections)



By modernizing the definition of Zakatable wealth and shifting to a centralized tax administration, Pakistan could increase its Zakat yield by nearly 50%, generating revenues equal to half of its current national tax-to-GDP ratio (10%).

ESTIMATION OF ZAKAT – 2017-2026

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Year	Zakat to NGDP (%) - Classical	Zakat to NGDP (%) - New	Zakat to RGDP (%) - Classical	Zakat to RGDP (%) - New
2017	4.50%	6.19%	4.67%	6.43%
2018	4.30%	6.01%	4.64%	6.48%
2019	3.97%	5.68%	4.68%	6.69%
2020	4.14%	5.80%	5.35%	7.51%
2021	3.86%	5.53%	5.52%	7.90%
2022	3.56%	5.25%	5.80%	8.55%
2023	3.36%	5.01%	6.90%	10.28%
2024	3.13%	4.71%	7.85%	11.82%
2025	3.28%	4.92%	8.57%	12.85%
2026	3.45%	5.10%	9.56%	14.13%

ESTIMATION OF ZAKAT – 2017-2026

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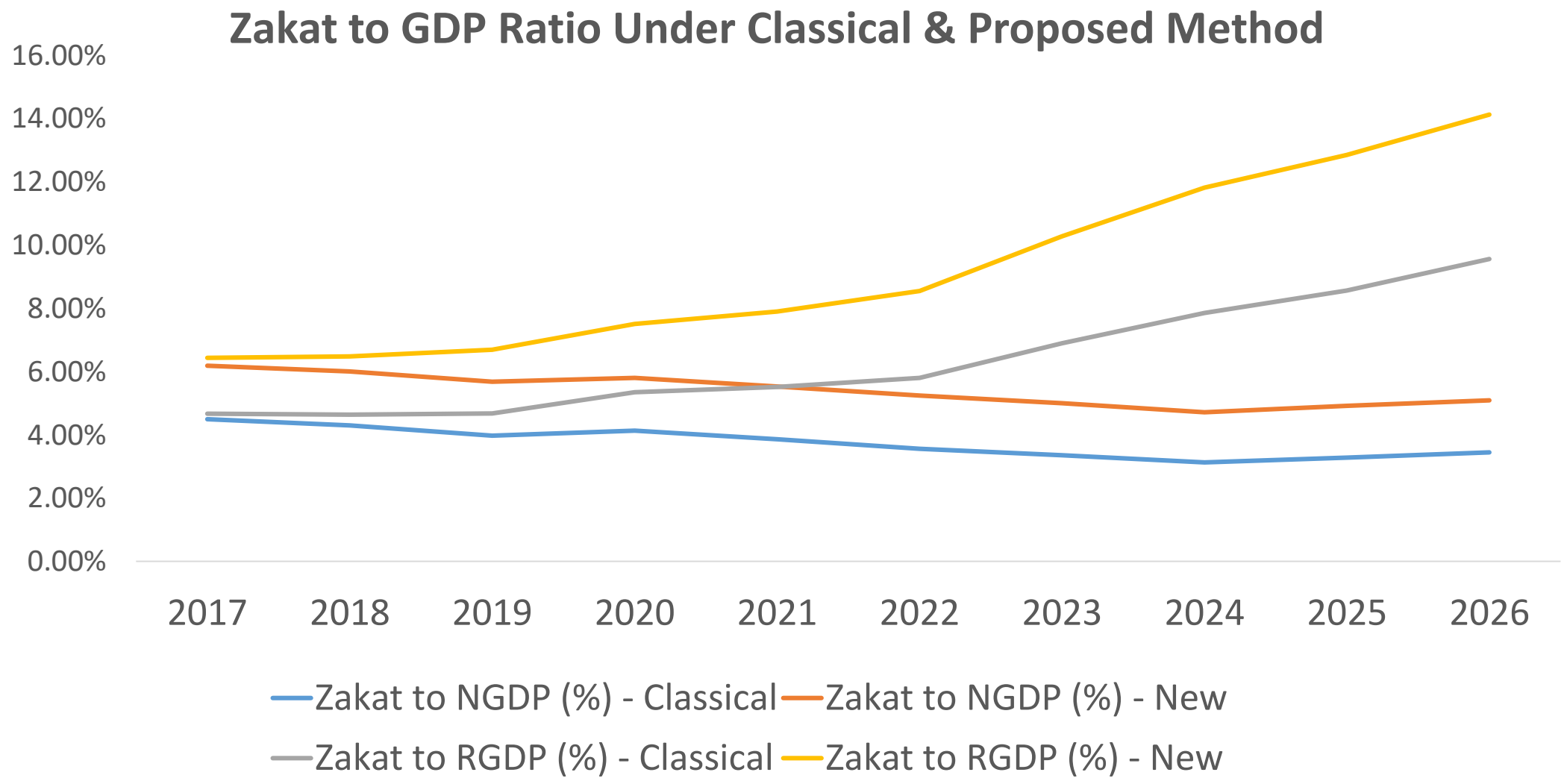

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