Zakat: The Best Tool of Social Safety and Poverty Alleviation

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Whenever one speaks of social protection and poverty alleviation, spontaneously it comes to mind why Islam has enjoined upon the rich believers to pay Zakat so that their wealth may be purified and the impoverished among them may be helped to sustain poverty. But again it haunts one's mind why Zakat has been neglected by the successive governments in Pakistan to be used as tool of poverty alleviation, though the preamble of the Constitution states that no law repugnant to the teachings of Islam will be enacted. The successive governments have overburdened the public with excessive taxation and exorbitant tax rates but have never thought of the religious obligation that can help the government reduced poverty in the country.

Abject poverty in Pakistan has struck at the cooking pot of every Pakistani citizen. Millions of Pakistanis live below poverty line. Millions of children are out of schools as their parents cannot afford to educate them due to poverty. Millions of people are shelter-less. The government of Pakistan has adopted multiple measures to provide income support to the poor and reduce poverty such as BISP, the Pakistan Poverty Alleviation Fund (PPAF) and the Rural Support Programs Network (RSPN) in addition to the well established organizations of Baitul Maal and Zakat etc. The income support programs under BISP have effectively provided refuge against hunger to millions of Pakistani but they have failed to mitigate poverty in the country. The current Zakat and Ushr fund facility has little economic utility to assuage the agonies of the poor. Notwithstanding poverty alleviation projects and social safety nets, the miseries of the have-nots didn't wither away. The provision and extension of the medium and small enterprises loan facility and initiation of rural support and livelihood programs have been victims of excessive corruption and corrupt practices. The funds of Baitul Maal are being used as the maal (wealth) of the fiefdom rather than maal of the poor orphans. The Zakat collected has no adequate mechanism of disbursement among the deserving people. The utility of Zakat fund is dismal in the sense that it's being used for social safety only. A meager amount of Zakat is paid to the payee that doesn't cater for his/her needs. In fact, the Zakat collected doesn't contribute to poverty alleviation and socio-economic development of the country.

In the early days of Islam, Zakat was payable on gold, silver, live stock, minerals, merchandise and agriculture produce. Now the Islamic Jurists are agreed that Zakat is also payable on accumulation of currency beyond prescribed limit and other financial assets such as shares, bank deposits, deposit certificates and securities etc. However, there is difference of opinion among jurists about Zakat on fixed assets. The Zakat ratio as prescribed by the Holy Prophet is 2.5% on almost all financial instruments mentioned above. The imposition of Zakat on the prescribed invariant nisab and rate has the potential to mobilize substantial resources in Pakistan for social safety and poverty reduction because the nisab might be low but its base of the levy is so wide that it encompasses every believer except those who deserve for Zakat themselves.

It's so unfortunate that only Rs.17.748 billions have been collected by the Zakat deducting agencies under Zakat & Ushr Ordinance 1980 during 2015-2018. The reasons are obvious. The said Ordinance has permitted individuals in the Second Schedule to pay Zakat themselves on their nisab on the prescribed rate. In the First Schedule, companies deduct Zakat on the paid up value or market value, based on the closing rate whichever is low on the valuation date, at the time of payment of dividends. If dividends are paid after five years, Zakat is deducted a single time on the total paid up or market value, whichever is low, calculated on the valuation date. The condition of 'whichever low' and payment of dividends at irregular intervals make the Zakat deduction more vulnerable as paid up value, by and large, remains low. Similarly, in insurance companies, Zakat is deducted on maturity of the insurance policy, i.e. if a policy runs for a period of ten years, the Zakat is deducted after ten years when the insurance policy gets matured and the policy holder draws the principal amount along with profit earned. The same process goes in all other instruments such as provident funds, mutual funds and securities etc.

The incumbent government in Pakistan believes in the governance principles and practices of the State of Medina; therefore, it is imperative to look into the loopholes and anomalies of the Zakat & Ushr Ordinance 1980 and the malpractices in collection and disbursement of Zakat. If a true Zakat collection system is devised, I am sure, an amount equal to the Public Sector Development Program (PSDP) of the federal government can be collected that can be utilized for the welfare of the impoverished segment of the society in the so-called State of Medina. Only in Saving Certificates institutions, there exist seven million investors with investment portfolios of Rs. 3.4 trillion. If Zakat is levied on these investment portfolios annually, the government can earn Rs.85 billion annually. Zakat has a true legitimacy among the believers being religious obligation. It also comes under the ambit of direct tax that doesn't affect the end users; rather it can assuage, in return, the burden of indirect tax on the end users.

In this regard it is proposed that a vibrant and sate of the art system of Zakat may be established to overcome the issues of less collection of Zakat and plug the loopholes in the existing system. The Schedule II of the Zakat & Ushr Ordinance should be omitted and the state should shoulder the responsibility of Zakat collection as was undertaken by the first caliph, Hazrat Abu Bakr. All public and private companies should be liable to pay Zakat on its assets reflected in their balance sheets annually. The insurance companies must be bound to deduct Zakat on the annual subscriptions and profit earned of the policy holders instead of amount paid to on maturity of the policy. Same policy should be adopted in provident and mutual funds, debentures and saving certificates etc.