



## Penalty Clause - 2 /Nov/ 2019

**question|** If a transaction is an on-credit purchase (*nasī'ah*), is the seller allowed to stipulate a penalty clause as a provision within the same contract or as part of a distinct binding contract (*al-'uqd al-khārij al-lāzim*), making the buyer liable for a specified fee if he fails to pay the price at the designated time? Is such a provision valid and binding? Is the contract containing such a provision valid?

**answer|** If such a provision is not meant as offering an extension in the payment period in return for a given price, it is valid and permissible. If, however, it is intended as the price set on an extension in the payment period, it is *ribā* and *ḥarām*.