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-'aqd 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.