439416 - What is the ruling on selling goodwill or business reputation?

the question

What is the ruling on goodwill amount while selling a business?

Goodwill is defined as the amount paid above and beyond the fair market value of the business' assets and liabilities.

For example, a company has an inventory & physical assets worth SAR 50,000. While selling the business, we sell it at SAR 70,000, with SAR 20,000 being the good will amount for the intangible valuables like the business' market value, its reputation, or long-term customer relationships.

Summary of answer

It is permissible to sell goodwill or business reputation, because that comes under the heading of selling benefits, whether it is sold as part of the sale of a business or separately.

Detailed answer

Praise be to Allah.

Goodwill or business reputation Is an asset that is connected to the business itself and what it enjoys of unique characteristics and features that attract customers, such as product quality, the way in which goods are presented and the services that are offered to the customers. Goodwill is one of the assets that give financial value to the store and enable the owners of the store to protect the business through claims of illegal competition. Goodwill or business reputation is what makes customers do business with the store even though they do not know the owner. See: *Al-Qanun at-Tijari al-Masri*, by Tharwat `Abd ar-Rahim, p. 226.

In reality, goodwill is what the trade name and trademark have acquired of intangible value, and it is one of the most important intangible assets of a business. There is no goodwill that is separate

from the trade name or trademark of the business.

It says in *Majallat Majma` al-Fiqh al-Islami*, 5/1850: When the store earns goodwill, that goodwill will be associated in people's minds with the trade name of the store, so in customers' minds the trade name will be associated with the store itself, just as a person's name is associated with the person himself in people's minds. Because of this strong association between the store and the trade name, the value of the trade name will increase the more the goodwill or business reputation of the store increases. Moreover, the reasons and causes on which the goodwill is based, such as store location, quality of products or services, and good customer service, are the same reasons and causes for the increase in the value of the trade name. End quote.

It also says (5/1910): In addition to that, the trade name also serves other aims, the most important of which is protecting the product from being imitated and copied. There is a strong connection between the trade name and the public, and this connection results from what we call goodwill and fame of the business. There is no doubt at all that this goodwill, in reality, serves a real interest for the trader on the one hand, and the public who deal with him, on the other hand. End quote.

From the above, we realise that goodwill or business reputation is an asset that is included in the trade name or trademark, so the more the goodwill of the business increases, the greater the value of the trade name and trademark becomes.

Based on that, it is permissible to sell the goodwill, whether it is sold with the assets and inventory of the company or separately from them, because it has considerable financial value in the market.

It says in a statement of the Islamic Fiqh Council issued during its fifth conference in Kuwait:

1. The trade name and business address are rights that belong exclusively to the owners, and in modern times they are customarily regarded as having financial value, because people buy them for financial gain. These rights are recognised in sharia law, so it is not permissible to transgress against them.

2. It is permissible to dispose of (sell) trade names, business addresses and trademarks, and to transfer ownership of them in return for financial recompense, provided there is no ambiguity, deceit or cheating, on the grounds that these things are considered to be wealth belonging to their owner.

Majallat Majma` al-Fiqh al-Islami, Issue 5, Vol. 3, p. 2267.

Conclusion:

It is permissible to sell goodwill or business reputation, because that comes under the heading of selling benefits, whether it is sold as part of the sale of a business or separately.

And Allah knows best.