26817 - He stipulates an additional cost for purchase by installments, separate from the price

the question

I wanted to buy a car by installments, but the vendor said to me: Choose the period after which you will pay the price, on condition that it is no more than a year. But this car costs thirty thousand in cash, and if bought by installments he will charge three percent each month. If I pay after one month he will charge three percent in addition to the price, after two months he will charge six percent, after ten months thirty percent, and so on. Is this halaal or haram?.

Detailed answer

Praise be to Allah.

Selling by installments for an increased price is permissible.

But the scholars stated that the additional amount should not be stipulated in the form of interest that is separate from the price. If the vendor does that then the transaction is haram or makrooh.

Ibn Qudaamah (may Allah have mercy on him) said in al-Mughni (2/266):

If he says, I will sell it to you at cost for one hundred, and I make a profit for one dirham for every ten, this was regarded as makrooh by Ahmad, and it was narrated from Ibn ‘Umar and Ibn ‘Abbaas that this is makrooh. We do not know of any of the Sahaabah who held a different opinion. It is regarded as makrooh but not in the sense of being haram.

Shaykh Ibn ‘Uthaymeen (may Allah have mercy on him) said in Risaalah fi Aqsaam al-Mudaayanah:

If in the contract the vendor says, “I will sell you this ten for eleven,” then it is either makrooh or

haram. It was narrated that Imam Ahmad said of such cases, It is as if he is selling dirhams for dirhams, which is not right. This is what Imam Ahmad said. Based on this, the correct way of going about it is for the lender to work out the value of the product and the amount of his profit, then he should say to the borrower, “I will sell it to you for such and such to be paid in one year.”

One of the resolutions issued by the Fiqh Council says the following:

According to sharee’ah, it is not permissible when selling something to be paid for later, to stipulate in the contract interest on the installments that is separate from the price so that it is connected to the time involved, whether the two parties agree to a rate of interest or they decide to follow the current rate of interest used by the banks.

The way of putting this matter right, as may be understood from the words of Shaykh Ibn ‘Uthaymeen quoted above – is for the vendor to say to the purchaser, “When will you pay the price?” If he says, “After one year” – for example – the vendor should look at the value of the item and work out the amount of the profit he wants, then say to the purchaser, “I will sell it to you for such and such on the basis that you will pay after one year” – without stating an additional cost that is separate from the price.

And Allah knows best.