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INSTALLMENT SALE IN ISLAMIC FINANCE AND ITS ESSENTIAL CONDITIONS AND REQUIREMENTS

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Abstract: Sometimes, due to the need for consumer goods, a person purchases them from a specific store on credit (nasiah) and pays the store owner when a specific deadline arrives. The main condition required in a credit sale is the deferred payment of the price (saman). This is legally permissible by the consensus (ijma) of scholars. For a credit sale to be valid (sahih), it is mandatory that the deadline is known. If the deadline is unknown and becomes a cause of dispute between the two parties, the sales contract becomes invalid (fasid).

Keywords: installment sale (taqsit), cash (naqd), credit (nasiah), deadline, price (saman), goods, fatwa, fiqh, inah, tawarruq.

Just as it is permissible to set a deadline for paying the price in full within a certain time in a credit sale, it is also permissible to set a deadline for paying it in installments. The only condition is that the installment periods and the amounts to be paid during each period must be clearly specified at the time of the contract. This type of sale is called an "Installment Sale" (Taqsit) and is considered a type of credit sale (Fiqh al-Buyu').

Trading for a long term or via installments is valid (sahih) and religiously permissible (mubah). This provides ease for people, especially those with limited income (dakhli mahdud) and those who wish to purchase expensive items such as a house, car, or equipment.

However, purchasing with an immediate cash payment is preferable to paying large amounts over months. This is because, in installment payments, the seller demands a higher and more expensive price in exchange for the deferred time. Sometimes, a seller may tell a customer that they can pay for the goods in cash, credit, or installments. For example, when selling a refrigerator, the seller tells the customer: "Its price is forty thousand in cash, and forty-four thousand in installments." Such a statement by the seller is not considered religiously unlawful (haram).

However, the following situation is religiously unlawful (haram): namely, when the seller says to the buyer, "Take this item for forty thousand and pay for it in two weeks, or take it on installments for forty-four thousand," and the buyer takes the item away without explicitly specifying or choosing one of the two methods proposed by the seller.

The impermissibility of this sale is not due to the excess in the price (saman). Rather, the impermissibility here is due to the failure to specify one of the two sales. The buyer should have clearly designated either the cash sale or the installment sale. The reason it is unlawful is that it

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creates confusion and leads to mutual hostility. Indeed, the Prophet (peace and blessings be upon him) prohibited making two sales within a single sale.

Sometimes a person might wonder whether trading in this manner is a type of usury (riba), because a difference arises in the price due to credit. However, trading in this manner is neither usury nor any type of it. This is because usury refers to the excess taken by the seller from the same genus of the thing given to the buyer—such as selling one ton of wheat in exchange for the condition that it be returned after a month as one ton and two hundred fifty kilograms, or selling one hundred ratls of dates for one hundred twenty ratls of dates, or lending one hundred thousand with the condition that it be returned after a specific period as one hundred twenty thousand.

However, selling goods in one's possession that are worth ten thousand on installments or credit for eleven thousand is not considered usury. This is because in this transaction, money is taken solely in exchange for goods. Excess wheat is not taken in exchange for wheat, nor is excess money taken in exchange for money.

- **Installment Sale Conditions:** For an installment sale to be valid, it is required that the agreed price (saman), the amount to be paid each month, and the payment deadline are clearly stated.
- **Credit Sale Conditions:** In a credit sale (nasiah), it is necessary that the agreed price is known, and the deadline is precisely designated or the payment date is specified.

While setting a deadline in credit and installment sales is the right of the buyer, observing that deadline and paying the distributed installments of the price on time is also their duty. Therefore, in an installment sale, if the buyer is unable to pay the installment shares of the price on time during the agreed period, it is permissible to stipulate that all the remaining divided installments immediately become due as a cash payment. Hanafite jurists have explicitly stated this ruling.

In Khulasat al-Fatawa, it is stated:

"If [the seller says to the buyer]: 'When the time for paying an installment arrives and you do not pay it, the remaining [credit] installments shall become cash,' it is valid, and if that situation occurs, the property/amount becomes immediate cash."

The International Islamic Fiqh Academy has also issued a resolution based on this fatwa regarding installment sales. According to it, it is permissible for the seller to stipulate to the buyer that if payment of the installments is delayed, the remaining installments will become immediately due in cash. However, the debtor must agree to this condition at the time of the contract.

General Concepts and Rules Regarding Commercial Transactions

Above, credit sale (nasiah) was discussed. From these discussions, it became clear that a cash sale means the immediate payment of the price (saman), which is the exchange value for the goods.

The widespread practice among merchants today is that in bulk shipments of goods, a cash sale is understood as the buyer paying the value of the goods within five days or a week. In a credit sale, the price of the goods is paid within one or two months. In industrial enterprises, this period often constitutes three or six months. However, such periods are not strictly fixed; rather,

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it is sufficient for the seller and buyer to agree on any timeframe they deem appropriate. The length or shortness of the credit period does not matter in this regard.

If a merchant or manufacturer brings goods acquired on credit into their shop or warehouse, they come under their ownership and possession (tasarruf mulki), and they may use them for any purpose they wish.

Question: In this case, is it permissible for them to sell it to others?

Answer: Yes, it is valid. That person can sell these goods in any manner they wish—cash, credit, or installments. Because, as mentioned above, this good is considered to have passed into their ownership through the credit sale.

However, it is not permissible for them to sell it for cash to the original seller who sold it to them on credit before paying off the price (Bada'i al-Sana'i). This is because this transaction may become a medium for usury (riba). This type of trade has historically been called "Bay' al-'Inah" (Inah sale). The Prophet (peace and blessings be upon him) prohibited this type of trade.

For instance, a person purchases one ton of cotton from another on credit terms for one thousand dollars, and then sells it back to that same person for cash in exchange for eight hundred.

The reason this sale is called "Inah" is that the buyer sells the goods they acquired on credit back to the very same former owner for cash. Because it is sold specifically to the former owner, it was named with this term. Indeed, an Inah sale is considered one of the major factors leading to usury.

If a merchant purchases goods on credit and brings them to their shop, the goods are considered to have come under their disposal and control (tasarruf). Therefore, the disposition over them belongs to that merchant. That is, it is also valid for them to sell it to another person. This trade with a third party can be in cash, installments, or credit, depending on the situation. However, selling it for cash to the original seller (before paying the initial debt) is not permissible (mubah). Because this may result in usury. This type of trade has long been called "Bay' al-'Inah" (Inah sale). Indeed, the Prophet (peace and blessings be upon him) prohibited trading in this manner.

The reason this type of trade is called "Bay' al-'Inah" is that the buyer purchases goods on credit from a person and sells the exact same goods back to that seller for a cheaper cash price. For this reason, it was named with this term.

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