

Charging a Penalty for Defaulting in Payment

Question: We run a clothing business and charge a higher price for credit than for cash. Is this permissible? Is it also permissible to charge a penalty when the customer defaults in payment?

Answer: Charging two prices for cash and credit will be permissible when it is made clear at the time when the deal is being made. The cash price as well as the credit price should be made clear and the buyer then needs to specify which option he intends taking. If he chooses credit, the credit period then needs to be specified,

If the customer chooses the credit option and then defaults in payment. It is not permissible to charge a penalty. And Allaah knows best what is most correct.

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