

FATAWA LEASING 2008-2012

Subject: key money in lease and sale

From: Muhammad

Sent: Tuesday, February 19, 2008

Question: Payment of key money in lease

ASALLAMUALAKOM,

Dear Sir,

My question is: an example,

A person took a flat by rent, of amount of 20000us\$, for 1 year and he is transferring his flat to my name, and he want 3000\$ key money from me, and the rent of building belong to me, and I sell this flat to other person take from him 5000\$as a key money, and transfer to his name, and then the rent of the flat belong to him.

So kindly please tell me if it is JAEZ OR NOT?

Please if u reply to my email,

Thanks

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Muhammad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Here is someone buying some goods for 20,000 then he decides to sell it and found someone who gives him 20,000 plus 3,000, would you see anything wrong in that? This is of course permissible AS LONG AS YOU SELL WHAT YOU OWN ON HAND. In renting, you bought the usufruct of a building for example for 4 years for 20,000 payable on four installments 5000 for each year. It is permissible to sell the thing you bought, all of it or only the remaining part, that is before the beginning of the 4 year or after using it for some time, for an amount larger than the amount you purchased it for and make the payment as: you pay me now 3000 and then pay the owner of the building 5000 every year if you sell all the usufruct, or the rent of the remaining period if you used it for some time and re-rent it for the rest of the time. This is the KEY money.

There is another practice of it that is caused by WRONG UNJUST LAWS that exist in some countries. Laws that say: once you rent for a year, the rent contract will be repeated forever for the same rental amount and the owner has no right to evict the lessee and has to accept the same amount of rent (there are usually certain exceptions that are difficult to practice). Under these unjust laws, the will of the owner is not to rent for ever and not at the same rent, market rents normally increase but the rent of this asset must remain fixed. This gives a chance to the lessee to profiteer from key money because he gives the right to renew the contract to the new lessee. This key money and remaining in the property after the expiry of the contract without willful consent of the owner ARE HARAM in my opinion. (I know that there exists some scholars

who would argue that this is permissible on the ground that the law is not oppressive but necessary to establish justice between lessees and land lords, this may be correct under certain unusual circumstances, but most countries that made such laws abandoned them later because it turns out that they made market distortions and reduced investment in housing and other commercial constructions and they made more harms and more injustice than benefit and justice).

Wa Allahu A'lam

Wa Al Hamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Car Lease on Hire Purchase

From: Samy, Islam on line

Sent: Monday, May 05, 2008

Question: Islam's Stance on Leasing a Vehicle

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

Is leasing a vehicle Halal or haram considering the following: 1. the leasing company factors in profit using a Riba calculation? 2. Full coverage is required for the car.

Jazakum Allahu Khairan for your constant help

Yours, Sami

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Samy,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please remember that whenever we deal with Fatwa for actions/transactions done under the system of interest credit we would be looking at the Islamic finance paradigm from the angle of interest-based lending. This is what creates hesitations in our mind regarding the "factoring of interest within the rental amount." The plain fact is: Islamic finance is an approach to profit making finance but not through the process of lending/interest. In other words, it is a finance that has its own philosophy that is essentially based of "dealings with real goods and services and facilitating their reaching to consumers/users without making it possible to assign any increment to debts because that is unjust as debts cannot by their own nature create increments". Of course if you own a car you can lease it to a user and make profit out of that transaction. This is financing through goods and assets not through assigning increments to debts because the usufruct of the car is derived through time and it has value. Car leasing is permissible although the car dealer has factored interest within the rental amounts and insurance is made required on it. By the Way, Insurance is not that of a taboo, there is a very respected and rational argument that it is perfectly permissible whenever it is not interest-based! I subscribe to this view.

Wa Allahu A'lam
Wa Alhamdu Lillahi Rabb al Alamin
Wassalam
Prof. Dr. Monzer Kahf

From: Faisal

Sent: Wednesday, April 29, 2009

Question: is car leasing contract in U K permissible?

Dear Dr. Kahf: Assalamu Alaykum Wa Rahmatullah Wa Barakatuh.

My question is regarding Car Leasing. I understand that you have addressed this issue quite few times and I have read your answers as well. As you have mentioned in your answers, until you see the terms of contract you cannot finally comment whether it is Halal or haram. I have attached the copy of terms and conditions of the contract .I would be grateful to you and God Will BLESS you if could help me. Although it is not mentioned in the contract but I asked the car leasing company a specific question and answer was: 'If the leased vehicle will be stolen or completely destroyed, the leasing company continues to charge the lease rent till the settlement of the insurance claim. Is it permissible/halal? As you know almost all leasing company impose a penalty/extra charge for late payment. Is it permissible?

Jazakallahu Khair

Dr. Faisal

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Faisal

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I reviewed this so called "hire purchase agreement." It has a thousand and one violation of Shari'ah not only those you mentioned. The basic structure of it is interest not hire. If it is offered by a company that is not the owner of the car, it says amount of credit and interest added. Insurance is on you without being considered as a part of the rent, you close the gap in case of insufficient insurance it charges interest on delay and more... I wouldn't accept this contract it is in multiple gross violations. It is much closer to interest installment than to lease.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Faisal

Sent: Thursday, April 30, 2009

Dear Dr. Kahf: Assalamu Alaykum Wa Rahmatullah Wa Barakatuh.

My question is regarding Car Leasing. I understand that you have addressed this issue quite few times and I have read your answers as well. As you have mentioned in your answers until you see the terms of contract you cannot finally comment whether it is Halal or haram.

I have attached the copy of terms and conditions of the contract. I would be grateful to you and God Will BLESS you if could help me.

Although it is not mentioned in the contract but I asked the car leasing company a specific question and answer was: ' If the leased vehicle will be stolen or completely Dr Faisal destroyed, the leasing company continues to charge the lease rent till the settlement of the insurance claim. Is it permissible/halal?

As you know almost all leasing company impose a penalty/extra charge for late payment. Is it permissible?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Faisal

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I reviewed this so called "hire purchase agreement." It has a thousand and one violation of Shari'ah not only those you mentioned. The basic structure of it is interest not hire. If it is offered by a company that is not the owner of the car, it says amount of credit and interest added. Insurance is on you without being considered as a part of the rent, you close the gap in case of insufficient insurance it charges interest on delay, and more... I wouldn't accept this contract it is in multiple gross violations. It is much closer to interest installment than to lease.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Sami

Sent: Monday, August 17, 2009

Location: Fulda, Germany

Question: Car leasing

Dear Prof Monzer Kahf

Assalamu o Alaykum

I want to know that how the Car leasing (Ijarah) offering in Pakistan Mezaan Bank is Halal. I shall ask u this question in detail later, but first as you know, the banking system (Invented by Jews) is itself against the fundamentals of Islamic Monetary system, whatever the name we give for our heart satisfaction. What I know basics about a bank is:

A bank is an institute, which gives out money to people from its right hand (e.g. 10 \$), and gets back from people (e.g. 15 \$) over a period of time. The more the period, the more the bank profit is.

Which means an institute that always gets fat and fat, wealthy and wealthy, no loss at all. This is I hope totally essence of Riba, against Shari'ah.

Now all the banks of the world (Islamic, non-Islamic, etc.) are doing the same thing. Loan less money, get more money, i.e. a transaction of money in which bank is always on safe side, bank

bear no loss at all, Bank gets wealthy always in every deal.....! Would you disagree with me.....?

Please reply me, so that I may ask you further, how the Car Ijarah of Mufti Taqi Usmani in Pakistan is Halal.

Wassalam

Sami

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sami

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please before asking me you need to make some research of your own about banks, banking system, monetary system, Islamic banking and the Islamic economic system. Once you make a good reading of about 3000 pages in this area, then you will be qualified to ask questions because you seems to be in need for more info. There are many sources on the internet about these issues please consult them.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Azam

Sent: Sunday, November 08, 2009

Location: Sri Lanka

Question: high cost of Islamic lease

Dear Prof. Dr. Monzer Kahf,

Assalamu Alaykum Sheikh,

A fellow Muslim colleague in my work place needs to buy a used car which is worth Sri Lankan Rupees 700,000/= (US \$ 700) through leasing. He has inquired regarding this from an Islamic Leasing Company (Claimed as Shari'ah Compliant) here in Sri Lanka.

Their main terms & conditions are as follows:

- 1- The Lessee (My Friend) will contribute an initial payment Rs.100,000/=
- 2- The lease period will be 03 years
- 3- The monthly lease rent will be RS.28,200/= (Total Cost = Rs.28,200 X 36 Months = Rs.1,015,200/=)
- 4- The ownership remains with the Lessor (The Leasing Company) till the completion of lease rentals.

Technically the company is charging Rs.415,200/= (Rs.1,015,200 – Rs.600,000) in excess. In other words, the company is charging 69.2% in excess.

What is your opinion about this transaction? Is it really Shari'ah compliant?

Appreciate your kind reply with this regard.

Jazakallahu Khairan

Regards,

Azam

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Azam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The contract is Shari'ah compliant from the point of view of the methodology of contracting in contrast with interest-based lending.

On the other hand if the contract contains overpricing, this makes it abusive and exploitative. Exploitation and abuse of a client because he/she does not accept to go to one's competitors is also Haram.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Habib

Sent: Tuesday, July 20, 2010

Question: Is Sale of assets in Sukuk and buying them back prohibited?

Dear Br. Dr. Monzer,

I had a quick question from a discussion we had on Sukuk transaction while you were here. If an obligor sells an existing asset for a period of time (say 5 years) to investors, pays rent on it for the period, and buys back the asset at maturity—if I understood correctly you mentioned that this transaction is not Shari'ah compliant. You mentioned that this transaction resembles bai al-Inah, but is there any specific source that forbids this transaction?

Best regards,

Habib

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Dr. Habib

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

To have a text for everything one may think of. The argument is based on Inah itself as this form fulfills the same pattern and the cash for cash with increment idea. It was discussed in the conference that we had recently on Sukuk and resolved that it is Inah. Also a court case in Kuwait in 2004 considered it a loan with interest and the ownership in it is in the kind of security ownership (al Rahn al Ihtirazi).

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Jamal

Sent: Friday, September 16, 2011

Question: interest penalty in car leasing

Salam Alaykum Brother Monzer,

Last year I leased a car from VW and before I leased it I asked a local brother who has some knowledge and he said as long as the lease contract does not contain any interest it should be fine. I looked up the lease and I did not find anything talking about paying interest including the section that talks about the default payment, it only mentioned a \$15.00 penalty for late payment, so I signed the lease.

This year I want to lease a Nissan car for my wife and two kids but when I looked under the lease terms I found that Nissan charges 6% interest per annum for default payment so I stopped the process and hoping I can find an answer from you on this issue.

Also I should mention that when they checked my credit score they gave me a higher monthly payment because I don't use credit cards nor have mortgage or loans and my credit score is low. The finance person told me that he calculates something called money factor to figure out the monthly payment and as he described it he said it is a form of interest. Is that OK?

Jazaka Allahu Khair and May Allah bless you for helping us reaching the right path.

Jamal

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Jamal

The inclusion of interest in calculation does not matter as long as it is not a part of the contract. Because it is of course expected that interest in an interest dominated economy would affect rent lease and profit in sale.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Farhan

Sent: Wednesday, August 03, 2011

Location:

Question: quoting interest in car leasing

Dear Br. Kahf,

I hope you are doing well. I have a question re: leasing a car. Is it permissible in Islam. When I talk to the dealers about leasing they quote a certain money factor and the usual company approving a lease is either a bank or a financial institution. I worry if this contract has anything similar to interest or Riba. Can you comment about this situation based on your understanding?

Jazakum Allahu Khairan

Farhan

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Farhan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Leasing as a principle is permissible. We should realize that in an economy that is ridden by interest even the seller of bread will refer to interest because he buys flour on interest-based credit.

Car lease contracts in America and Canada most likely will have certain clauses that violate Shari'ah such as interest on delinquency and closing the gap when the car is totaled. But calculating the payment on reference to interest is not itself a problem.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Ayaz

Sent: Saturday, October 27, 2012

Location: Belgium

Question: figuring interest element in car rent invoice

Salaam upon your Dr Kahf,

I have read some of your fatwas but I'm not very sure if I have found the answer to my problem.

I wanted to offer a car to my father, but a halal car without taking any loans and interest, and therefore decided to sign the contract on renting a new car from the car dealer on a basis of 5 year. Hence the total amount of the car is divided in 60 months and gives up a 'rent' that we need to pay every month consecutively and the rent will remain the same for the following 60 months. At the end of the contract it is not possible 'to buy' the car according to the contract because we are just renting the car, however the car dealer said that is possible to buy the car but we'll have to pay market value of that car in order to buy it and have complete ownership. Throughout the 60 months the owner of the car is the car dealer.

Now where the problem arises is that when they will send us the invoice every month say \$1000 a month (i.e. the rent of hiring the car) they will also tell us the amount of interest that are incorporated in those \$1000 in order to show as financial charges in our company. But for us it is a rent just like for all other things if the car dealer has constituted the rent for us with interest charges then we can't do anything. It is just like if we're renting a house from someone who has taken a house loan from the bank and when we are paying the rent to the owner, the owner with that money pays the bank which includes interest also, so that means that we can't rent a house or flat because the owner will pay the loan and the interest charges with it.

If you could please tell us according the Shari'ah law if the car renting on long term is permissible in Islam? If not, may you give us an alternative?

May Allah give you health and the highest place in Jannah.

Jazaka Allah

Ayaz

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ayaz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The renting as described in your question is permissible. Whatever the car dealer mentions in the invoice or even in the contract is permissible as far as your side is concerned. Laws in some countries require the car dealers to mention the implicit rate of interest in long term rental agreements. This disclosure is meant to protect consumers and does not affect the rental contract.

Alternatively: to agree with the seller to buy the car on installments at a higher price. This is also permissible even if the seller calculates the price differential in the basis of interest. Of course a third alternative is to buy cash or use any of the offers of zero interest which some car dealers make sometimes.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Irfan

Sent: Tuesday, September 15, 2009

Location: Oman

Question: which scenario is better in car leasing?

Dear Dr. Monzer

I am sure you get a lot of emails on car leasing issue. My name is Irfan and I am working in Oman, my question is again on the car leasing.

Here in Oman we unfortunately do not have any Islamic financial institute, hence following are some of the main leasing scenarios:

- Dealers make hire purchase deals with you for installment sales.
- Lease on operating lease with maintenance on lessor and buy back option at a certain period end usually at depreciated value of the car.
- Dealers refer to some conventional banks or specific leasing companies who finance lease you the car, u make at least 20% down payment, the specific car is owned by the lessor however usually maintenance is still borne by the lessee, rate of profit is calculated in relation to the prevailing interest rates.

Can you advise which mode is more nearer to Shari'ah compliance; please note lease on operating basis is more costly.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Irfan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Among the three scenarios below the first one, when done as known conventionally (most likely taken from U K practices) has certain problems of conditional sale, sale suspended on a future date and also interest. This may make it the worst of the three.

The second and third can be closer to Shari'ah. Second scenario is the best if it has no interest clause for delayed payment (from the point of lessee, this clause can be tolerated if lessee can assure himself that he will not delay any payment). The maintenance in the third option may not create any serious problem (although the principle is that maintenance is on the owner) because you can make the lease for the period of manufacturer's warranty. In this case there is no maintenance to worry about. Further, in cars especially, having insurance on the lessee (the driver/user) may be more relevant and it can be an implicit part of the rent anyway. In both again the clause of interest on delayed payment remains an issue to sign but tolerated as mentioned above.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Renting real estate for non-Shari'ah compliant use

From: Rekia

Sent: Sunday, March 09, 2008

Question: Renting a property to alcohol seller

Assalamu Alaykum,

I have a commercial building that I rent. The people who rent my building sell alcohol and lottery. At the time I rented to them I was far away from Islam. Alhamdulillah I am practicing Muslimah now. The rent money I get is my source of income. Is these money haram?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Rekia

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The principle is that it is forbidden to rent a property as a place to serve alcohol drinks. This of course applies when serving alcohol is a major line of business such as liquor stores and alcohol loaded restaurants/ball rooms.

Accordingly, for those shops in your building on which this principle applies you should abstain from renewing the contract and meanwhile give to Muslim charity as much as you can of the net rent of such shops.

If the main line of business is not alcohol such as grocery stores that have a small section for liquor or a beer machine or a lottery sale whereby these forbidden things do not make a major part of the business, space-wise (the contribution to net profit of these things is not of your concern), It may not be specifically Haram to rent to such businesses unless the rent contract

mentions a right to sell alcohol or lottery (such a clause in your rent contract is not permissible because intentionally you must not rent your property to non-permissible activities).

Here again it is of course better to include in your rental contract a clause that forbids these thing in your property and meanwhile you may continue with these rentals and give charity as much as you can to the extent of your estimation of the proportion of your property that is used for non-permissible activities from the Shari'ah point of view.

The idea of giving to charity is derived from the verse that ascertains that good deeds wipe out bad actions. This means that along with charity you should also make as much as you can of prayers, Duaa and seeking God's forgiveness (Istighfar).

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Samy, Islam on line

Sent: Tuesday, April 22, 2008

Question: Renting a House Where the Owner Runs a Liquor in the First Floor

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh,

My husband and I are looking to move to a bigger house as we are expecting. We found a house on second floor of a building and the owner runs a liquor and pharmacy store in the first floor. The house has a separate entrance. Is it permissible to stay on rent in this house?

Jazakum Allahu Khairan for your constant help

Yours,

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Samy

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In the United States and other non-Muslim majority country it is permissible. I should say literally it is also permissible even in Muslim neighborhoods because the rental agreement has nothing to do with what do the owner do in her/his other properties or with other persons. However, you must remember that in America there is concentration of crimes, as statistics tell, around liquor stores and night clubs, would you like to live next door to such places? I strongly recommend you to find some other area to live in!

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Working in leasing company

From: Saqib

Sent: Tuesday, March 11, 2008

Question: Job in leasing company, HALAL?

Asalamu Alaykum

I want one clarification that I'm a student of finance in Pakistan. Currently I have an opportunity of job in a leasing company in the Internal Audit department which is not directly linked to leasing business. My question is, whether the job in a leasing company is halal because leasing is HARAM in Islam but the prospective company deals in commodity lease.

Regards,

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Saqib

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Leasing is Halal, NO ONE IN THE WORLD CAN CLAIM IT HARAM. There are INTEREST clauses in conventional lease contracts these are not permitted in Shari'ah and these contracts (that contain interest clauses) are Haram to issue and sign especially in a country like Pakistan (in contrast to Muslim minority countries where there are no Shari'ah compatible alternatives, then some of these contract may be tolerable to accept but not to issue if the issuer is Muslim). Working in a lease company in jobs that do not require you to issue, write or sign interest containing contract is not Haram. As an auditor, if you audit on the accounts after contracts are signed I don't see anything not permissible in this job. But if you are required to review an interest-containing contract before it is issue, as a part of the issuing procedure then this auditing function is part of writing the contract. Writing a contract that contain interest clauses is not permissible and may be, Na'uthu bi Allah, covered by the Curse of God as mentioned in the Authentic Hadith in this regard.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Zakah on rented properties

From: Nusry

Sent: Monday, September 08, 2008

Question: Zakah on Property for (Resale & Rent)

Dear Respected Scholar,

I am living in Sri Lanka; I need to clarify a small doubt with regard to Zakah payment.

My Question is,

Last month we bought a House (Our intention was to rent it out and sell it after maybe in few years) we normally fulfill our Zakah in the month of Ramadan and we already have a residence where we currently live. As I can see we have to pay Zakah on the House we purchased please correct me if I am wrong.

My Next question is, do we need to give Zakah on the Rental Income and Market value of House both, since we have not still given it for rent InShaAllah maybe from next month we will be renting out the premise, then do we need to take into consideration the rental income for Zakah next year, And also since in few years' time we might sell it do we need to consider the market value and calculate Zakah on that also for next year.

Our intention of buying another House was because we didn't want to keep money in conventional banks (We calculate the interest of any money kept on such and give it away to the needy) We thought it would be good to invest in a house and rent it out and in the future if necessary to sell it off if a need arises or if we come across a better option otherwise.

Could you guide us on the Islamic Ruling on this matter?

Expecting a reply from you Jazaka Allahu brother.

Regards

My Answer:

Bismillah al Rahman al Rahim

Al Hamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Nusry

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Let me assume that today is you due Zakah day, here is the way to calculate Zakah on your properties: The market value as of today of this house + any other investments + business net worth + any cash you have on hand and in banks + any saving accounts, etc. + any debt you own on other persons - your personal any family expenses until next time you get income (suppose you are salaried on monthly basis) - any debts that you think are not going to be paid by your debtors - any amount due on you for business expenses, maintenance of building (including this house and your residence) provided they are going to be paid out of existing Zakatable assets as of today (I.e. not out of future cash flow/income).

Please notice that rent of this house if any or any other property and profit of investment, etc. all have entered in this calculation because these rent and incomes are either cash or debt on others or already spent (so they are included in not spent).

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Sherif

Sent: Sunday, September 06, 2009

Location:

Question: Is a rented property subject to Zakah

Assalamu Alaykum.

I saw your answer to question on this regard at

<http://www.quranforall.org/fatawaa/zonrentalproperty.htm>

I think there is one additional factor to consider here, if you consider it appropriate. The analogy of investment asset should also consider if the asset is liquid or fixed. In the case of livestock it is liquid, and can be disposed of piecemeal. (Sell or give away any one out of 40)

Whereas, agricultural land cannot be easily sold off like that. Rental buildings are hence more aptly compared with agricultural land than livestock and Allah knows best.
Jazakallahu Khairan for taking time to read my submission on this.

Sherif

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sherif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't agree with you because of the change in the composition of wealth people hold. Investment real estate and business fixed assets are a major item of wealth in our age, agricultural land was not of any weight at the time of the Prophet. Besides, the Prophet obligated Zakah on two large golden bracelets although they cannot be divided. Zakah is obligatory on the rich, be he rich by owning inventory or real estate, other investment or business fixed assets. Because these are the rich in our time not anymore the owner of 40 sheep! As for payment, it can be delayed until liquidation and it can also be a factor in liquidating unproductive fixed assets/investments.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Lease Hold Properties

From: Mahasin

Sent: Thursday, February 03, 2011

Location: Canada

Question: buying property on lease hold

Assalamu Alikom W Rahmatu Allah W Barakatuh:

I need your advice; I have Lease Hold property till year 2073. I paid for that 210,000.00, I paid 1/2 of that, and carry 1/2 as mortgage.

Now, I am in position to pay the mortgage. But I am scared if I pay the mortgage, I might lose the lease hold property for any reason, as you know I own nothing from the property. What is your advice keeping mortgage on this lease hold is HARAM OR NOT. I am 64 years old single women, and I am afraid to put all my eggs in one basket.

Thank you so much in advance for your advice.

MAHASIN

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Mahasin,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't know about the conditions of lease hold in Canada, what happens after it expires. I cannot therefore advise you about it. However, it is not a new practice in Canada or in UK. Lease hold is been there for centuries. I think normally it is renewable for another 99 years. Besides, you still have 73 years and I am sure it is better that you settle the loan on it if you can. This does not affect its price and prices will not decline in the long run even with the declining number of years. With your age now, you will still gain over its purchase price whenever you sell it.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Renting a property on mortgage

From: mohamed

Sent: Tuesday, March 17, 2009

Question: Renting a property purchased on interest-mortgage

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

Following is a financial question:

Should a person who rents a residential place be concerned about the possibility of an existing mortgage on the property (which translates into Riba)? Is the renter obliged to investigate such thing before renting? Basically, can one live and pray in a place that is purchased via mortgage?

Asalum -al-Alaykum

Jazakum Allahu Khairan for your constant help

Muhammad

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The renter is not responsible about the action of the owner of the house. This means that you do not ask the owner how he got the house and what loans are on him when you rent. This is not your responsibility and none of your business.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Subject: Ijarah Contracts and Funds

From: Mohammad

Sent: Saturday, March 14, 2009

Question: Ijarah as an Islamic finance mode

Assalaamu Alaykum Sh. Monzer,

What is your opinion about Ijarah Funds or 'Ijarah contracts' - particularly in light of modern Islamic Banking institutions?

Jazaka Allah Khayr.

Fi Aman Allah

Mohammad

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohammad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Ijarah funds and Ijarah contracts are one of the best forms of Islamic financing. Ijarah contracts are perfectly all right. We should notice a couple of differences between Islamic Ijarah and lease that exists in the west. Basically two differences: 1) a basic principle in Islamic Ijarah is that rent is due against usufruct, if there is no usufruct no rent is due. In Western lease there may be a gap where rent continues while there is no usufruct; and 2) In Islamic Ijarah there must be no interest for delay of any payment. A high penalty may be imposed but it must go to charity. I encourage Ijarah funds if it is economically viable. BTW, you can securitize Ijarah contracts because it is a real asset that is securitized.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf
