

# Money Matters

*Your guide to spending, earning and investing in a Halāl way*

*"The feet of the son of Ādam will not move on the Day of Judgement until he is asked regarding five matters; how he spent his life, how he utilised his youth, how he earned his wealth and how he spent it, and what he did with his knowledge." (Tirmidhi, saḥīh)*

*The Sharī'ah accuracy of the contents of this guide have been verified by the Al-Qalam Sharī'ah Scholar Panel.*

# Contents

## 1. Introduction

## 2. Part 1: Staying Halāl: General Principles

- 2.1 Etiquettes of Business Dealings
- 2.2 Self Sufficiency and Avoiding Dependency
- 2.3 Earning Wealth Beyond Basic Needs
- 2.4 Extravagance and Miserliness- Striking a Balance
- 2.5 Avoiding Debt & Living Within Your Means
- 2.6 How to Budget

## 3. Part 2: Specific Scenarios

- 3.0 3 Key Principles to ensure a Sharī'ah Compliant Transaction
- 3.1 Mortgage Alternatives
- 3.2 Islamic Bank Accounts
- 3.3 Personal Loans
- 3.4 Student Loans
- 3.5 Guarantees and Warranties
- 3.6 Credit Cards
- 3.7 Insurance and Takāful
- 3.8 Car and Equipment Leases
- 3.9 Investments, Pensions and Child Trust Funds

## 4. Frequently Asked Questions

## 5. Conclusion

## 6. Get Involved

The contents of the guide are provided for information purposes only and do not constitute legal and / or financial advice. Should any such advice be required, please contact a suitably qualified adviser.

# 1. Introduction

We praise Allah, Creator of the heavens and the earth, Owner of the Day of Judgement. All praises to He who has determined that which is permissible and that which is not. We bear witness that there is nothing worthy of worship other than Allah (SWT) and that the Prophet Muhammed is His final Messenger, may Allah's peace and blessings be upon him.

As Muslims, we believe that the purpose of life is to please our Creator. This understanding, though simple, has far reaching implications which impact upon all aspects of our lives. Islam is not referred to as a 'religion' in Arabic, but as a '*deen*' which better translates as an 'all-encompassing way of life'. Thus, we aspire to reach a constant state of awareness of Allah ('*taqwa*'), which can only be done acting in each deed of our day in a way pleasing to Allah.

Through His mercy, Allah has not left us to our own devices in finding out what pleases or displeases Him. We have the revealed Word of Allah (the Qur'ān), and the sayings and actions of his Prophet Muhammed (PBUH) (the Sunnah) as authoritative sources of divine guidance. These two sources have been carefully preserved and meticulously codified over fourteen centuries of Islamic scholarship into a comprehensive code of legal and civic rulings known as the **Sharī'ah**. Muslims believe the **Sharī'ah** is the authoritative means that determine what is pleasing to our Creator.

Whilst the Sharī'ah is vast, this booklet focuses on the subject of wealth.

The Sharī'ah accuracy of this guide has been approved by the Al-Qalam Sharī'ah Scholar Panel, who specialise in applying Islamic precepts to contemporary legal and financial challenges facing British Muslims.

And success is only by Allah.

## 2. Part One: Staying Halāl: General Principles

### Understanding the Sharī'ah Holistically

Islam states that human beings have been created to worship Allah; yet we are societal creatures who also interact with others. Thus in Islam there are the rights of the Creator (*Huqūq-Allāh*) and the rights of His creation (*Huqūq'l-'Ibād*). One of the key ways to serve our Lord is through serving His creatures.

The greatest right Allah has upon us is that we have absolute conviction that He alone, is worthy of worship :

*“Know that there is nothing worthy of worship except Allah...” (Qur’ān, 47:19)*

*“O you who believe! Fear Allah as He should be feared, and do not die unless you are in a state of submission.” (Qur’ān, 3:102)*

The rights Allah has upon us are fulfilled primarily through *‘ibādāt* (ritual worship) such as prayer, fasting, pilgrimage and supplications.

The laws of *mu‘āsharāt* (social etiquette) and *mu‘āmalāt* (societal transactions) address the relationship between **us and other creatures**. This second concept (*mu‘āmalāt*) is derived from the original root verb of *ta‘āmala* which means 'to cooperate' or 'work with one another', or 'to do business with one another and use our wealth'. It is a sad reality that while many Muslims are particular about ritual worship, they neglect to fulfil the rights of others by behaving dishonestly or running their businesses unethically.

**To please our Creator, it is essential that both His rights and the rights of His creatures are fulfilled.** Earning, spending and investing wealth in a halāl manner is key to achieving this and the focus of this booklet.

# 2.1 Etiquette of Business Dealing

We shop, buy and negotiate on an almost daily basis. Islam takes the manner in which we earn our income and do business extremely seriously. There are a few key principles to guide our behaviour in this area:

## 1. Be honest, and not deceitful

*“Do you know who is the bankrupt person?” The companions replied, “The one with no money or possessions.” The Prophet (PBUH) then clarified, “The bankrupt of my Ummah is he who will come with a multitude of fasts, prayers and charity. But he will have violated the honour of one person and slandered another and deceived someone else... The man will be sat and his victim will be given from his good deeds. One by one, each victim will be satisfied until the man has no more good deeds in his account. Then he will be burdened with the sins of the remaining victims and thrown into the Hellfire.” (Muslim)*

*“He who is fraudulent is not from us.” (Tirmidhi, saḥīḥ)*

*“An honest truthful businessman will be [resurrected] with the prophets, truthful, martyrs and the righteous.” (Tirmidhi, dhaʿīf)*

## 2. Keep your promises

*“O you who believe, honour your contracts...” (Qurʾān, 5:1)*

## 3. Earn through Halāl means

*“The feet of the son of Ādam will not move on the Day of Judgement until he is asked regarding how he earned his wealth and how he spent it.” (Tirmidhi, saḥīḥ)*

## 4. Treat others as you would want them to treat you

*“He has not truly believed until he loves for his brother what he loves for himself.” (Bukhāri)*

*“Woe to the fraudsters...who, when they take a measure from people, take in full, but when they measure or weigh something to give it to them, give less than due.” (Qurʾān, 83:1-4)*

## 5. Avoid receiving or paying interest

*From a Sharīʿah perspective, Interest is defined as any addition to the initial amount lent or borrowed.*

*Virtually all Muslims are aware of the seriousness of dealing in interest. If one doesn't refrain then the Qurʾan states:*

***“...And if you do not do it, then take a notice of war from Allah and His Messenger . . .” (2:279)***

## 2.2 Self Sufficiency and Avoiding Dependency

As a general principle, Islam encourages Muslims to be self sufficient and not dependant financially on other Whilst there are some defined obligations on certain individuals to provide for others (a husband for his wife and children, for example), but dependency in a wider sense, such as claiming unemployment benefit is not encouraged. The Qur'ān describes sustenance as a bounty and asks that Muslims to seek it:

***“So disperse in the land and seek the bounty of Allah.” (Qur'ān, 62:10)***

The Prophets of Allah used to work for their livelihood. The Prophet Muhammed (PBUH) was himself a successful trader and told us that the best of earnings was, *“...that which a man earns with his own hands and every pure sale.” (Tabarāni, hasan)*

He (PBUH) also said, *“No one has ever eaten better food than that which he eats from his own labour. And verily the Prophet of Allah Dāwūd used to eat from the earnings of his own labour.” (Bukhāri)*. The Prophet Dāwūd (PBUH) was a shepherd and basket maker.

And the Prophet Muhammad (PBUH) also said, *“One would rather cut and carry a bundle of wood on his back than ask somebody [i.e. beg from somebody else] who may give it to him or refuse to give it to him.” (Bukhāri)*

Further, National Statistics Office data have indicated Muslim unemployment is three to four times greater than the national average (please see Statistics page on 1<sup>st</sup> Ethical website for more details) which is surprising given the emphasis Islam places on self sufficiency, notwithstanding the undoubted role discrimination plays in hindering employment.

## 2.3 Earning Wealth Beyond Basic Needs

Some scholars discourage earning more wealth than you need for your basic necessities, recognising *hadīth* such as: *“Two hungry wolves loose among sheep do not cause as much damage as that caused to a man’s deen by his greed for money and reputation (Tirmidhi, saḥīh) and “Every community has a trial and the trial of my community is wealth (Tirmidhi, saḥīh). Aiming for wealth in itself is a dangerous objective as we know that: “If a son of man had a valley full of gold, he would desire to have two. Nothing can fill his mouth except the earth (of the grave). Allah turns with mercy to him who turns to Him in repentance.” (Bukhāri)*

However, many scholars state that earning wealth is not discouraged as long as the *manner* in which you earn, store and spend it is **permissible**, and that your Islamic priorities and goals are not neglected.

The Prophet (PBUH) said, *“You can only have envy for two things: for a man to whom Allah has given wealth which he spends in the way of truth, and for a man to whom Allah has given wisdom and he acts by it and teaches it.” (Bukhāri)* Allah also says in the Qur’ān that:

***“Those who (in charity) spend of their goods by day and night, in secret and in public, have their reward with their Lord: on them shall be no fear, nor shall they grieve.” (Qur’ān, 2:274).***

Many pious predecessors, such as Abu Bakr (ra) and Imām Sufyān al-Thawri were wealthy and successfully spent their wealth in the cause of Allah. Further *hadīth* illustrate this point:

*“There is no harm in richness, for him who has taqwa, but good health is better than being rich, for he who has taqwa.” (Ibn Mājah, saḥīh)*

*“This money is green and luscious (like ripe fruits), so he who takes it properly, will be blessed in it!” (Muslim)*

Many scholars have also stated that encouraging Muslims to become professionally employed is in the long term interests of both the Muslim and wider communities, and this approach would require Muslims to excel in more senior professions.

## 2.4 Extravagance and Miserliness – Striking a Balance

Allah (SWT) created human beings with longings and desires, often related to gathering and increasing our possessions of the *dunya* [world], yet He has also commanded us to be moderate and balanced in how we fulfil these desires. Extravagance is defined as 'spending more than is necessary' and is often motivated by a desire to show off. Islam promotes moderation in consumption, as in all other matters, and proscribes both niggardliness and extravagance. The latter is commonly referred to as *tabdheer* - squandering and *israaf* – prodigality. While both words are used synonymously, al-Jurjani has indicated a slight difference. *Tabdheer* denotes extravagance wherein one spends in that which is in itself unlawful, while *israaf* denotes extravagance wherein one spends in that which is lawful but exceeds limits.

Miserliness means 'to not spend when it is right to do so', and often stems from a fear of poverty. Both are extremes condemned by the Shari'ah as it is moderation that is the middle path of the believer:

Allah (SWT) says:

***“Mutual rivalry for piling up (worldly things) distracts you. Until you come to the graves. No indeed; but soon you shall know! Again, no indeed; but soon you shall know!” (Qur’ān, 102:1-4)***

Whilst recounting the positive qualities of the 'servants of the Most Merciful', Allah (SWT) says:  
***“Those who in their spending are neither extravagant nor stingy but maintain moderation.” (Qur’ān, 25:67)***

On extravagance, Allah (SWT) says:

***“Do not spend wastefully. Indeed, the wasteful are brothers of the devils, and ever has Satan been to his Lord ungrateful.” (Qur’ān, 17:26-27)***

## 2.5 Avoiding Debt and Living Within Your Means

If our desires for worldly-things are not controlled, we can find ourselves plunging deep into debt. Though borrowing from others when there is a need is *allowed*, and something the Prophet (PBUH) did a few times, today we find many people – Muslim and non-Muslim – borrowing so much money and getting into debt, just to fund needlessly extravagant lifestyles.

This irresponsible behaviour is strictly discouraged because debt must be avoided at all costs. The Prophet (PBUH) even said about the martyr that if, “...he owed a debt, he would not enter Paradise until his debt was paid off.” (*al-Nasā’i, hasan*). He also said “Whoever dies free from three things – arrogance, cheating and debt – will enter Paradise.” (*Tirmidhi, sahīh*) In a slightly weak narration, it is reported that the Prophet (PBUH) said, “I don’t buy anything for which I don’t have the money.” (*Ahmed, dha’īf*).

### How to avoid falling into debt:

- **Be content**

Be content with the *rizq* (provision) that Allah has decreed for you. Contentment with *dunya* is an important quality of the believer, as the Prophet (SAW) is reported to have said, “Abandon the world and Allah will love you, and abandon what people possess and they will love you.” (*Ibn Mājah, al-Hākim and Abu Nu’aim though one of the narrators is considered weak*)

- **Du’ā**

The Prophet (PBUH) would regularly supplicate to Allah to protect him from overpowering debt by saying “Oh Allah, I seek refuge in You from worry and grief, from helplessness and laziness, from cowardice and stinginess, and from overpowering of debt and from oppression of men.”[*Bukhāri*]

## 2.6 Seeking Advice on Debt / Budgeting / Legal Problems

The Citizens Advice Bureau offer free impartial advice to those with money problems. For more information please visit <http://www.citizensadvice.org.uk/>.

# 3. Part Two

## 3.0

### 3 principles to ensure a Sharī'ah-compliant transaction

Knowing these key principles will make it easy for you to decide if any product or service meets Sharī'ah standards:

#### 1. Sharī'ah-compliant product/service

For example, buying alcohol or buying shares in an interest-based bank is not Sharī'ah-compliant. If an investment is made into a company with a mix of permissible and impermissible activities, scholars state the investment is only tolerated if the impermissible element makes up less than 5% of the turnover, and the owner must give any profits earned from the impermissible element to charity without any expectation of reward from Allah (swt). However, This rule relates to companies with a large number of share holders wherein the Muslim shareholder is unable to effect change by his lone/limited voice and expresses his disagreement where possible such as in the AGM. It does not apply to a small company wherein the Muslim shareholder's voice has clout and can effect change.

#### 2. No interest (ribā) involved

Examples include using a loan with money secured on an interest-bearing basis from the bank to buy a house, or buying shares in companies whose trade is halāl but who are heavily indebted to the banks. Scholars have stated it is only permissible to invest in companies whose total debt is less than one-third of its market value.

#### 3. Sharī'ah-compliant documentation and wording of the contract

##### i. No interest on penalty clauses

Gas, water, electricity and other common contracts require the householder to pay interest charges if he/she does not pay on time. Scholars have allowed Muslims to accept such contracts for essential services and goods on the basis of 'necessity', though all efforts must be made to ensure that payments are made on time to avoid interest charges.

##### ii. Necessity of seller's possession

Most scholars consider it necessary for the seller to have possession of the product or service they are selling, in order for the transaction to be valid under Sharī'ah. For example, to sell a phone, one must own it first, before selling it. This is simple for day-to-day transactions, but many transactions on financial markets involve speculating on the future price of items not currently owned, and all scholars discourage this type of behaviour. There are also traders, who would sell an item they have not yet bought as they know they will be able to buy these goods later. Most scholars say this is impermissible, though some scholars considered this valid, as long as the seller can deliver the goods on the date promised.

##### iii. No excessive uncertainty (gharar)

This occurs in contracts where the buyer is uncertain if they would receive a service, as this depends on an uncertain future event happening. For example, when buying an insurance service, the customer only receives a service if an insurance claim is made. Most scholars (with some notable exceptions) consider insurance to be impermissible. However, all scholars permit insurance to be taken where it is a legal necessity such as third party car insurance.

##### iv. No interlinked contracts

Scripture prohibits rolling two contracts into one. For example a contract permitting the hire of a particular asset (e.g. a car) would need to be separate from the contract permitting the sale of the car to the person hiring it.

**These principles are a very brief introduction to complex concepts. To learn more, please read 1st Ethical's text book on Islamic Finance, available here: [www.1stethical.com](http://www.1stethical.com)**

## 3.1 Mortgage Alternatives (Islamic Home Purchase Plans)

### **Why are mortgages not allowed?**

Because as a borrower, you have to pay back the amount you borrowed PLUS interest payments - giving or receiving interest money is a major sin, repeatedly and unequivocally prohibited in the Qur'ān and Sunnah.

### **What makes Islamic Home Purchase different?**

Islamic Home Purchase Plans allow the bank to buy a share of the property in partnership with you. You enter into an agreement as a tenant to pay rent to the bank for using the bank's share in the property.\* The bank would also promise that you are allowed to buy shares in the house on an incremental basis, at the same price originally paid by the bank. Over time, you would steadily be increasing your share in the house and the bank would receive a diminishing amount of rent (this model is known as **diminishing mushārahah (or diminishing partnership)**).

### **Example**

Aisha wants to buy a house for £200,000. She enters into an Islamic Home Purchase Plan agreement with a bank who splits the ownership of the house into 10 equal segments worth £20,000 each. Aisha is able to afford two segments now (£40,000) so the bank buys the remaining eight segments (£160,000).

Every month, Aisha pays 2 things to the bank:  
Rent, on the eight segments of the house owned by the bank  
A purchase payment (known as an on-account payment) to increase her share in the house. Every time Aisha's on-account payments to the bank reach £20,000, the bank will transfer ownership of one share to her. Over time her share in the property will continue to increase whilst the bank's will decrease – hence the name diminishing mushārahah.

### **Want to know more?**

The Al-Qalam Sharī'ah Scholar Panel provide information on how to set up a Sharī'ah-compliant home purchase scheme, or transfer from an existing mortgage to a Sharī'ah-compliant one. [www.alqalam.org.uk](http://www.alqalam.org.uk)

*\*The rental payment amount may be linked to LIBOR (London Inter-Bank Offer Rate - the interest rate that banks use to lend to each other), merely using it as a benchmark. Although distasteful, this does not go against Sharī'ah rulings*

## 3.2 Islamic Bank Accounts

### Why are conventional bank accounts not allowed?

Because they pay interest (ribā) on the money you deposit in them. Even current accounts which do not pay any interest are not ideal because banks use the money deposited in them to loan to others on an interest-bearing basis. Despite this, most scholars permit the use of current accounts.

How are Islamic bank accounts different?

Some banks offer accounts which do not promise any return, but where the bank undertakes not to use your money to lend out to others. Other banks offer accounts which do give a return which is generated from investments in permitted trades.

### Note

Islamic bank accounts are not widely available, hence not available for many types of personal and business activities. For Muslims who are unable to open Islamic bank accounts, such as those who run businesses or those with trust-based activities, some scholars have allowed them to receive the interest on their deposit, on condition all interest earned is given away to the poor, without intention of reward. Other scholars maintain no interest should be taken even when an Islamic bank account is not an option. For more information, the Al-Qalam Sharī'ah Scholar Panel provides information on how to apply Sharī'ah precepts to such concerns. [www.alqalam.org.uk](http://www.alqalam.org.uk)

### Jargon Buster

**LOAN:** a set amount of money which a bank agrees to lend you for a set period of time, often with an interest rate. Loans are usually taken out for many reasons such as home improvements, new cars or paying for a wedding.

**QARDH-HASAN:** an Islamic loan where the lender supports someone in need by lending money, and only receiving the amount they lent and nothing more. There is no ribā.

**Basic bank account** – also for managing day-to-day money. It doesn't usually allow you to go overdrawn by more than £10, if at all.

**Savings (or deposit) account** – for putting away money that you'd like to save, say for furniture, a holiday or emergencies. It often pays a higher rate of interest than current accounts, so your money grows.

**Sharī'ah-compliant account** – a current or savings account that is structured

## 3.3 Personal Loans

### What's wrong with a conventional personal loan?

They require you, the lender, to repay the money loaned PLUS interest charges. Giving or receiving interest money is a major sin, repeatedly and unequivocally prohibited in the Qur'ān and Sunnah.

What makes an Islamic loan different?

A Qardh-Hasan (“a beautiful loan”) is purely a gesture of support by the lender to the borrower. The lender is entitled to every penny of their money back but not a penny more – no interest. This supports, rather than exploits, people in need of money. A Qardh-Hasan is a highly praiseworthy act in Islam.

For those wishing to borrow money to fund personal consumption such as a car, holiday etc. the Islamic perspective is generally to advise against borrowing and to live within one's means.

For those wishing to borrow money to set up a business, Islam discourages the taking of a loan, and instead, encourages the person from whom the money is sourced to own a share in the business venture, and thereby share in the profits and losses generated.

### Jargon Buster

**STUDENT LOAN:** a set amount of money provided by the government to help students cover the cost of tuition fees and accommodation whilst at university. It is repayable only after graduation when the individual starts to earn over a specified threshold. The rate of repayment is subject to at least the rate of inflation. In addition, an extra rate of interest (which is up to 3% in the UK as of 2011) is charged.

## 3.4 Student Loans

### Why are student loans not allowed?

To repay any more than the original amount borrowed is considered 'ribā' which is a major sin. A small minority of scholars have excluded additional repayments to cater for inflation. The government is introducing a new student loan scheme for September 2012, which, unlike the previous scheme, will require students to pay back a rate of return in excess of inflation. This scheme will therefore be considered impermissible by all scholars.

### Is there a solution?

It is extremely important that Muslims continue in higher education so that they are empowered to participate fully in society. Student loans are a grave issue facing the British Muslim community, with no direct alternatives yet developed for Muslims unwilling to compromise on the practice of their faith. Until such a scheme is developed by the government, we would encourage potential students to explore all alternatives such as:

- Search for University Scholarships and sponsorships.
- Look for companies who fund students through university as part of a professional contract.
- Work on a part-time basis while you're studying.
- Take out a gap-year and work full time to save money for University.
- Ask close friends and family for non interest-based loans (Qardh-Hasan).

For further information, the Al-Qalam Shari'ah Scholar Panel provides free guidance on how to apply Shari'ah precepts to such concerns. [www.alqalam.org.uk](http://www.alqalam.org.uk)

### Jargon Buster

**GUARANTEE:** a binding assurance normally provided by the seller or manufacturer of a new product you've bought, that the item they sell will meet specified standards over a period of time. If the product fails to meet these standards, the seller will repair or replace the product for you at their own cost.

**WARRANTY:** allow guarantee periods to be extended for an additional charge.

## 3.5 Guarantees and Warranties

### Are guarantees and warranties permitted?

Guarantees offered as part of the purchase price are allowed under Sharī'ah, for example receiving a 36 month guarantee when you buy a car. Warranties, on the other hand, which require a separate payment to be made, for example to increase a 12 month guarantee for a new fridge to a 60 month warranty, are a form of insurance hence not permitted by the majority of scholars, though a minority of scholars do consider insurance to be permitted.

### What about breakdown cover for cars?

Car breakdown cover, provided by companies such as RAC or the AA, involve paying a set amount of money per year (called an annual premium) in return for a recovery service if your car breaks down. This contract contains aspects of ribā and gharar, both prohibited. However, the Al-Qalam Sharī'ah Scholar Panel have ruled that due to the principle of istihsān (juristic preference due to societal need), certain levels of basic cover are allowed. These relate to recovery from a remote location only and do not include home recovery elements alone or other financial compensation packages. We recommend reading the research paper in full for more information at [www.alqalam.org.uk](http://www.alqalam.org.uk).

## 3.6 Credit Cards

### Can I use a credit Card?

In general, scholars forbid the use of credit cards due to 2 reasons:

**Interest:** When using a credit card, you would be charged interest on any outstanding balances you don't pay off within 4 weeks of your monthly statement, so credit cards violate the Sharī'ah principle which prohibits dealing with interest. Even just agreeing to use a credit card which has this contract clause is against Sharī'ah principles.

**Encouragement of living beyond your means:** scholars consider this as the philosophy underpinning credit cards which is discouraged as discussed on page xx.

However, many scholars have provided an exception to this rule for those who would face significant inconvenience if they had to stop using their cards, only if payments are made to always avoid interest charges, such as setting up a monthly direct debit to pay off the total outstanding amount.

### Jargon Buster

#### INSURANCE:

A product you buy to pay you money if something goes wrong.

## 3.7 Insurance and Takāful

### What's wrong with insurance?

Most scholars consider insurance to be impermissible due to the uncertainty (gharar) involved, as you are not certain that you will receive anything in exchange for the money (insurance premium) that you pay. For example, if you buy car insurance, and your car is stolen or damaged, you would receive a new replacement car. However given you do not know if your car will be stolen or damaged, you do not know at the time of taking the insurance out what you will be receiving in return.

However, scholars have tolerated the use of insurance when it is a legal requirement, e.g. to drive a car or to have indemnity insurance.

For a detailed Sharī'ah analysis of insurance please read 'Insurance Revisited – The Sharī'ah View' <http://www.1stethical.com/zakah-wills-finance/research-papers/other/insurance-revisited-the-Sharī'ah-view-2/>

### So how does "Islamic insurance" work?

Many scholars have cited takāful as an alternative to conventional insurance.

Takāful operates on the premise that unlike a contractual payment, money given as a gift can have uncertainty (gharar) arising as a consequence of making the gift. Consequently all those paying into a takāful pool, would be eligible to receive a variable compensatory payment if they needed to make an 'insurance claim'. Further, the Sharī'ah permits the pool to restrict benefits only to those who paid in to the same.

#### Jargon Buster

**LEASE:** a lease permits the user (lessee) to rent something from its owner (lessor) for an agreed period of time for a fixed rental charge.

## 3.8 Car and Equipment Leases

### Are normal leases harām?

In principle, a basic lease is fine. However, conventional leases under English law have some defects which render the contract defective (fāsīd), though not void (bātil) under Sharī'ah. Consequently these defects should be remedied prior to the leases being taken, or a sin will be committed in taking the lease, notwithstanding the contract itself still being valid.

Conventional leases have a number of key defects as follows:

<b>Conventional Leases</b>	<b>Amendments that need to be made for lease to be Sharī'ah-compliant:</b>
Lessee responsibility for replacing the item if lost, stolen or destroyed.	Scholars recommend the contract wording be changed to make the lessor responsible.
Interest-based penalties if the lessee does not pay rent	Fixed penalties to go to charity if lessee does not pay rent. However scholars tolerate existing contracts where a contract is considered a necessity and a change is not possible.

Small companies will be prepared to vary contracts as above.

## 3.9 Investments, Pensions and Child Trust Funds (CTF)

### What's wrong with conventional investments?

Islam does not permit most conventional investments as they either invest in a prohibited activity (such as alcohol or gambling) or else invest in companies whose total debt is more than one-third of their market value. It is therefore difficult to find Sharī'ah-compliant investments and pension investments.

### How do Sharī'ah-compliant investments work?

Scholars maintain any investments which have less than 5% of turnover derived from impermissible sources, and have total debt of less than 33% of market value can be deemed acceptable. Some scholars would have a zero tolerance approach to the 5% / 33% ratios.

### What About Shares?

The Dow Jones Islamic Market Index (DJIM) applies the above criteria to all the major stock market companies so investors can more easily determine which shares conform to Sharī'ah standards.

### Trusts / Individual Savings Accounts (ISA's)

With Unit Trusts, Child Trust Funds and ISAs, the ideal way to determine whether they are Sharī'ah-compliant is to look at the underlying shares into which they are invested. In practice, this may be difficult as the trusts normally pool tens, if not hundreds, of shares. It may therefore be easier to invest through a pre-screened Sharī'ah-compliant index such as the Dow Jones Islamic Index. Alternatively, one may choose to invest directly in a ready-made Sharī'ah-compliant trust fund.

### Pensions

Clearly any investments made by a pension fund would need to be Sharī'ah-compliant. There are additional contractual issues which also need looking at which will differ depending on whether the pension scheme itself is either a 'final salary scheme' or a 'money purchase scheme'. We look at each of these in more detail below. The Basic State Pension (and S2P), which are paid in exchange for National Insurance contributions, also fall into this category.

### 1. Final Salary Pension

As the name suggests, this type of pension scheme is based upon the pensioner receiving a percentage of their 'final salary' as a pension. This type of pension is now mostly offered by public sector employers only, as most private employers have stopped operating these schemes given they are more costly.

The Final Salary Pension scheme tends not to have an underlying fund into which members' monthly contributions are invested. Instead, these contributions are used to directly fund the pensions of those who have already retired. In these schemes, the pension that one is entitled to receive is seen as deferred salary - the exact value of which cannot be determined as it depends on future life span. Because of this, the requisite contract clause is deficient from a Sharī'ah perspective. However this deficiency does not render the overall contract harām and money received from the pension is considered halāl.

### 2. Money Purchase Pension

This pension scheme operates either through deducting funds at source from salary or through voluntarily giving to a pension provider, normally a specialist, who invests the funds to try and generate a return.

This type of pension scheme will be considered as halāl if the underlying investment is Sharī'ah-compliant. Care must also be taken when accessing the pension benefits upon retirement to ensure certain types of annuities are avoided, as they involve excessive uncertainty (gharar). Individuals with specific question on how to access pension funds are advised to contact Al-Qalam Sharī'ah Panel, whose website also contains a detailed research paper on this topic.

### 3. State Pensions

State pensions are permitted given they are considered an contractual entitlement of all citizens, and are funded by taxation which all qualifying citizens are legally obliged to pay.

# 4. Frequently Asked Questions

(provided courtesy of Al-Qalam Sharī'ah Panel)

**Q. Is it permissible to over-claim benefits by under-declaring income?**

A. It is not permissible to over-claim benefits by under-declaring one's income. Any excess benefit fraudulently received in this manner is unlawful and must be returned to the State.

**Q. Is a Muslim better off earning no interest on money in the bank, or taking interest with the intention of giving it to the poor?**

A. If it is possible to open an account with an Islamic bank or the Islamic window of a conventional bank and each adheres properly to Sharī'ah principles then one should do so. If one is not able to do so, one can open a non-interest-bearing account with a conventional bank. If one only has access to an account that gives the account holder interest, then, as the lesser of two evils, one should take the interest and distribute it amongst the poor or to public welfare projects without the intention of reward. If an account that adheres to Sharī'ah principles or that does not earn any interest is available then one cannot open an interest-bearing account with the intention of giving the interest to the poor.

**Q. Is a Muslim allowed to take interest money from the bank and use it to pay their own taxes or insurance premiums?**

A. When needed, one should seek to open an account with an Islamic bank or the Islamic window of a conventional bank or a non-interest-bearing account with a conventional bank. If one only has access to an interest-bearing account which then earns interest, such interest is actually the property of others and must be returned to them. If the rightful proprietors cannot be identified or there is no mechanism to return their money to them, then to absolve oneself, one should distribute the interest amongst the poor or to public welfare projects without any intention of reward. One cannot use that interest to one's benefit. Thus, one cannot use that interest to pay one's taxes or towards insurance premiums.

**Q. If a Muslim is working as a cab driver, can they charge a customer who wishes to travel to engage in an Islamically unlawful activity e.g. to a casino?**

A. According to the position of Imām Abu Hanīfah, it would be permissible for a Muslim cab driver to earn income by charging customers to go to the pub or nightclub for it is the client who is committing the sin, whereas the act of transportation is lawful in itself. Therefore this income would be ritually pure, though not recommended.

As a general point, sometimes the simplicity of online fatwas is quite frustrating for people, if it is not comprehensive enough in terms of a) really explaining things (why is something wrong, the wisdom behind it – a generic audience won't all be so pious, but wisdoms could help them apply more than "The Qur'ān says this is hāram" as it will attract them to the beauty, logic and justice in our deen) and b) giving real world options.

Please visit [www.alqalam.org.uk](http://www.alqalam.org.uk) for more information.

# 5. Conclusion

Anything correct and beneficial in this guide is from Allah (SWT) and any errors can only be from ourselves. We pray the Almighty is pleased with this guide, and it becomes a means for both its authors and readers to gain His pleasure. Ameen.

The first part of this guide attempted to explain some general Islamic principles pertaining to the area of money, finance, budgeting and debt.

The second part of this guide attempted to explain how Muslims can apply Sharī'ah precepts to common place specific challenges such as buying a house / university tuition fees / pension planning.

For readers experiences problems with debt or budgeting issues, we would recommend contacting the Citizens Advice Bureau for free impartial advice.

For readers with Sharī'ah questions, we would recommend contacting the Al-Qalam Sharī'ah Scholar Panel for scriptural guidance.

1st Ethical Charitable Trust is committed to helping British Muslims meet their religious and legal obligations in ways which benefit wider society. To this end, we have produced a number of guides on subjects such as ribā (interest), wills and zakāh. For more information, please visit [www.1stethical.com](http://www.1stethical.com).

There are an extensive number of fatwas, research papers and presentations on these topics which you can access on the website of the Al-Qalam Sharī'ah Scholar Panel ([www.alqalam.org.uk](http://www.alqalam.org.uk)), who have verified the Sharī'ah accuracy of this guide.

# 6. Get Involved

We at 1st Ethical recognise many British Muslims want to get involved in campaigns which help others. Our vision is to empower Muslims to benefit society through faith-based campaigns.

We have therefore partnered with leading charities and developed easy to follow toolkits to make it much easier to get involved. Please tick the relevant toolkit below to get involved in our Money Matters campaign

- Toolkit for [Imams](#)
- Toolkit for [Teachers](#)
- Toolkit for [ISocs](#)

To find out more about our other campaigns and partners, please click on the links below or visit us on: [www.1stethical.com/our-campaigns/](http://www.1stethical.com/our-campaigns/)

- [Food Drive Campaign](#) in partnership with the [Salvation Army](#)
- [Bequests and Islamic Wills Campaign](#) in partnership with [Islamic Relief](#), [Muslim Aid](#), [Muslim Hands](#), and [Ummah Welfare Trust](#)
- [Zakah Campaign](#) in partnership with Al-Qalam
- [Animal Welfare Campaign](#) in Partnership with the RSPCA

## Who are 1st Ethical Charitable Trust?

We at 1st Ethical recognise many British Muslims want to get involved in campaigns which help others. Our vision is to empower Muslims to benefit society through faith-based campaigns.

We have therefore partnered with leading charities and developed easy to follow toolkits to make it much easier to get involved. Please see our website for more information, guides and campaign toolkits.

We also provide scripturally compliant solutions to common legal and financial challenges facing British Muslims, such as how to donate Zakāh on contemporary assets, or how to prepare an Islamic Will under English law.

## Download our FREE Islamic Wills and Zakah Guides from: [www.1stethical.com](http://www.1stethical.com)



*This guide has been prepared in order to enable British-based Muslims to better understand how to put in place a legally valid Sharī'ah compliant Will. The guide addresses both Sharī'ah concerns and potential legal concerns. A free Islamic Will template is available within the guide, ready for use.*



*Islam has made the payment of Zakāh a compulsory obligation upon each Muslim. Although Zakāh is a fundamental pillar of faith, many Muslims are confused by the subject. This guide offers some practical advice.*

**1st Ethical**  
Empowering through Partnership

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**AL QALAM**

The Sharī'ah compliancy of this guide has been verified by Al-Qalam Sharī'ah Panel

[www.alqalam.org.uk](http://www.alqalam.org.uk)