

INTEREST ON LATE PAYMENTS

The statutory right to interest introduced under the Late Payment of Commercial Debts (interest) Act 1998 has now been extended to all businesses and public bodies

Late payments create cash flow problems and leave small businesses exposed to the risk that they will never be paid.

Since 1 November 1998 small businesses have been able to claim interest from large businesses and the public sector – in respect of unpaid overdue accounts. A small business is deemed to be one with 50 or fewer employees whereas a large business is deemed to be one that falls outside this specific definition of a small business.

Since 1 November 2000, small businesses have been able to claim interest on late payments from other small businesses.

With effect from 8 August 2002 all businesses and the public sector have been allowed to claim interest on late payments.

** Consumers remain unaffected by this law. If you sell to an individual, as opposed to a business, you cannot claim interest on late payments under this legislation.**

The rate of interest will be set at the Bank of England base rate plus 8%. The Bank of England base rate of 31 December will be the reference rate for the six month period 1 January to 30 June. The Bank of England base rate on 30 June will be the reference rate for the six month period 1 July to 31 December.

You will be entitled to a statutory rate of at least 7% over the European Central Bank Rate for Euro area countries.

Under a recent amendment to the Act you will be able to **reclaim reasonable debt recovery costs**. I recommend that your business makes reference to your right to claim reasonable debt recovery costs in all of your credit management documentation ie: credit application forms, order confirmation, invoices, statements of account and contracts.

It is recommended that you use wording to the effect of:

“We understand and will exercise our statutory right to claim interest and compensation for debt recovery costs under the late payment legislation if we are not paid according to the agreed credit terms.”

Payment will be deemed to be late if payment is still outstanding after the last day of the agreed credit period. In the absence of no “agreed credit period” the law sets a “default period” of 30 days.

Where a standard practise on payment has become established, ie your customer regularly pays on day 45, this is accepted – in the absence of any other agreement – as the credit period.

You may also charge compensation in respect of overdue accounts as follows:

Up to £999.99	£40.00 compensation
£1,000.00 to £9,999.99	£70.00 “
£10,000.00 or more	£100.00 “

Spartan Works, 534 Attercliffe Road, Sheffield S9 3QQ
Telephone: (+44) 0114 2499970 Fax: (+44) 0114 2499972 E-mail: Info@Accesscm.co.uk

Access Credit Management Ltd
www.accesscm.co.uk

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