

Late Payment Law

The Late Payment of Commercial Debts (Interest) Act 1998 has two purposes. Firstly, to compensate creditors for the late payment of debts. Secondly, to deter late payment. It only applies to the commercial supply of goods and services where you don't have a provision for interest in your Terms of Business.

In brief, for invoices that are not paid on time, it enables you to claim interest, compensation and (for orders placed after 16 March 2013) your reasonable costs of collecting the debt where these exceed the compensation. Interest can be claimed at 8% over base together with compensation at the rate of £40 - £100 per invoice.

When you can claim

You can claim Late Payment Interest, Compensation and Costs if:-

- You have supplied goods and services
- Your buyer bought for business purposes
- The contract is not a consumer credit agreement
- The contract does not contain a provision for interest on overdue invoices (or any other substantial remedy for non-payment)

The interest you can claim

You can claim interest at 8% over Bank of England Base Rate (at the previous 31st December or 30th June).

You can claim interest on invoices that were not paid within the credit period but have since been paid. Interest can be claimed for the period starting with the date the invoice should have been paid and ending with the date it was actually paid.

You have up to 6 years to claim the interest.

From what date is interest payable?

Interest is normally payable from the end of the agreed credit period.

If no credit period was agreed, interest is payable 30 days from the later of:

- (a) the date of supply, or
- (b) the date the buyer was told the amount due.

(c) the conclusion of any procedure for checking that the goods conform to the contract (and the procedure itself cannot take more than 30 days)

If you supply a public authority, interest will be payable after 30 days, even if a longer payment date was agreed. You cannot agree to extend the 30 day period.

If you supply another business, interest will normally be payable after 60 days even if a longer payment date was agreed. However, a credit period of more than 60 days can be agreed if it is not grossly unfair to the supplier.

The compensation you can claim

You can claim compensation for every invoice that was not paid within the credit period. You can claim compensation even if the invoice has now been paid. Remember, you have up to 6 years to claim the compensation!

The amount of compensation you can claim is:-

Invoice Amount	Compensation
Up to £999.99	£40 per invoice
£1000 - £9,999.99	£70 per invoice
Over £10,000.00	£100 per invoice

You can find a useful guide to the Late Payment Act as originally implemented [here](#) and useful guides to the updated Act on the [Pay On Time](#) website as well as on the [Gov.uk](#) site.

Reasonable Costs

You can claim compensation whatever your collection costs are. However, if your reasonable costs of recovering the debt come to more than the compensation, you can claim this as well. This can include the cost to your business of your credit control procedures as well as any costs you may incur from instructing Debt Collection Agencies or lawyers.

Inform your customers you will be claiming late payment interest, compensation and costs

You don't have to tell your customers that you will claim Late Payment interest, compensation or costs if they fail to pay on time. However, it may be beneficial for your cash flow to tell them in advance of your intentions, should payment be made late. You could put warnings to this effect on your invoices; your statements and in your terms of business.

Change your terms of business to claim late payment interest, compensation and costs

You are not entitled to late payment interest, compensation or costs if your terms of business already provide for interest on overdue invoices. So, you may want to change your

terms of business and rely on the Late Payment legislation. If you do, make sure your customers know. You should:-

- update all documents on which your Terms and Conditions appear.
- circulate your customers with the revised Terms and Conditions.
- advise your customers when the revised Terms and Conditions will come into effect.
- make sure you can prove each customer has been told about the change in your Terms and Conditions.

N.B. Existing contracts will continue to be governed by the Terms and Conditions which applied at the time they were entered into.

Occasionally your customer's terms of business may be incorporated into the contract and provide for a very low rate of interest on overdue amounts. In this event, the court may take the view that the interest rate is not substantial enough and that the Late Payment legislation applies. In that case you would be able to claim interest, compensation and costs under the Act, rather than just the low rate in the contract.

How to claim late payment interest, compensation and costs

As soon as a payment is overdue you can, if you wish, claim the compensation and, in due course, interest. You can claim the reasonable costs of recovering the debt as and when they are incurred. You don't issue an invoice for the interest, compensation or costs. You just write and tell your customer the amount due.

When you claim interest, compensation or costs, it would be helpful to tell your customer :-

- How much is due for interest, compensation and costs
- What it is owed for e.g. give the invoice number for the principal debt
- How payment should be made:
 - To whom
 - By what date
 - To what address and
 - By what method

However, you don't need to have sent any previous warning letter to your customer to claim interest, compensation or costs in an LPD or proceedings.

If you can't send an LPD because your contract contains a provision for interest, you could claim contractual interest in your LBA.

What happens if there's an argument over what's due?

Sometimes there is genuine doubt about whether an invoice is for the correct amount. Where the customer admits that a certain amount is payable, the courts expect them to pay the amount they agree is due and not wait until all the issues have been dealt with. You are

entitled to late payment interest, compensation and costs on amounts the customer admitted were due but just didn't pay until all queries were resolved.

Sometimes an invoice depends on a calculation. For example, it may be based on timesheets and hourly or daily rates. If the invoice is wrong but the customer has the information to work out the correct amount, the customer is expected to do the calculation and pay accordingly. You will be entitled to late payment interest, compensation and costs if they don't.

If there is real doubt about the amount of the invoice, or a real dispute as to whether the money is due, you will not be entitled to late payment interest, compensation and costs until the position has been clarified.

Can you help me?

We're always happy to help clients when it comes to understanding the Late Payment Act and how it can apply to your business. We offer a range of relevant services, including:-

- Use our free [Claim Calculator](#) to work out what you may be able to recover on a debt
- reviewing your terms of business to ensure you are maximising your chances of recovering all your costs (NB. Anyone signed up to our [Annual Subscription Advice Service](#) is entitled to a FREE terms & conditions review)
- drafting new payment terms for you
- claiming historical interest and/or compensation from your past debtors over the last six years with our [Claim the Unclaimed service](#)
- sending a [Late Payment Demand](#) to your current debtors who owe you money, including any applicable interest, compensation or costs of recovery
- issuing Court proceedings (claiming interest, compensation and reasonable costs of recovery), obtaining judgment and enforcing the judgment

Want to know more?

You can find further information about Late Payment and other topics relating to debt collection in the Knowledge Base on our website at www.lovettts.co.uk .

Lovetts Solicitors specialise in commercial debt collection and contract litigation. Whether your debt is large or small, and your debtor is a small business or an international corporation, Lovetts can advise on the best way to pursue your outstanding balances, often on either a fixed-fee or a commission basis.

To find out more, contact Rui Oliveira on +44 (0)1483 457500 or email info@lovettts.co.uk

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