

Late Payment of Commercial Debts (Interest) Act

One thing that comes up again and again when I am talking to small business owners is the age-old problem of overdue accounts and how to encourage their customers to pay promptly.

According to the FSB website Small businesses are owed on average £6,142 mostly by larger firms not paying them for goods and services on time. The impact of late payments has a negative impact on small businesses with FSB research showing that 37% have run into cash flow difficulties, 30% have been forced to use an overdraft and 20% cite a slowdown in profit growth.

If all payments were made on time 50,000 more businesses could be kept open whilst the UK economy would receive a £2.5 billion boost, these figures are astounding.

So, what are the options for the small business owner to encourage their customers to pay on time, some people offer early settlement discounts, the downside of this is obvious – less income.



The Late Payment of Commercial Debt Act was introduced in 1998 and amended in 2002 to give small businesses the right to claim interest from business customers who pay late irrespective of size.

The statutory interest chargeable is the Bank of England base rate plus 8%. The interest runs from the day after the credit period. If there is no agreed credit period, the legislation sets a default credit period of 30 days after which interest can run.

Once statutory interest runs on a qualifying debt, the supplier is also entitled under the legislation to claim a fixed compensation sum as follows:





For Debts less than £1,000.00 the supplier can claim £40.00

For Debts between £1,000.00 and £9,999.99 the supplier can claim £70.00

For Debts over £10,000.00 the supplier can claim £100.00

Here is the formula for working out the interest owed: $\text{Gross Debt} \times (\text{Bank of England base rate} + 8\%) \times (\text{number of days late}/365)$

