

CUSTOMERS SLOW PAYING? CHARGE INTEREST!

To maintain a successful business, a supplier must make an adequate profit. Late payment is a perennial problem for businesses and can lead to serious cash flow problems for the supplier, which can reduce profits and threaten commercial survival. If a business is continually paid late it will have to raise its prices, if it can, to reflect the costs of finance required. Or go out of business.

The Government has introduced legislation, under the Late Payment of Commercial Debts (Interest) Act 1998, to give businesses a statutory right to claim interest if another business pays its bills late.

COMPENSATION ARISING OUT OF LATE PAYMENT

The legislation is phased as follows:

- Once statutory interest begins to run in relation to a qualifying debt, the supplier shall be entitled to a fixed sum towards debt recovery costs (in addition to the statutory interest on the debt).
- That sum shall be:
 - a) for a debt less than £1,000, the sum of £40;
 - b) for a debt of £1,000 or more, but less than £10,000, the sum of £70;
 - c) for a debt of £10,000 or more, the sum of £100.
- The obligation to pay an additional fixed sum under this section in respect of a qualifying debt shall be treated as part of the term implied by section 1(1) in the contract creating the debt.

WHEN TO CLAIM INTEREST

A claim for interest can be made once a payment is deemed late, i.e.

- Where there is an agreed credit period, to which the supplier has agreed, either in writing or orally, with the purchaser, and payment is made after the last day of the credit period.
- Where there is no credit period agreed, the Act sets a default period of 30 days from which interest can run.

HOW TO CLAIM INTEREST

When payment is late, a supplier should inform the purchaser that they are claiming interest on the late payment under the Late Payment of Commercial Debts (Interest) Act 1998. It may be helpful to indicate a daily rate of interest that will be claimed, although it is not necessary to do so.

HOW MUCH INTEREST CAN BE CLAIMED

The interest rate that can be charged is the official dealing rate of the Bank of England, the base rate, plus 8%.

INFORMING PURCHASERS OF INTENTION TO CLAIM INTEREST

Rather than using it as a last resort when faced with an overdue invoice, the Act is designed as a deterrent to be used as part of standard business practices and credit management techniques. In much the same way the supplier reminds purchasers that payment is due within a specified time limit, the supplier should also remind them that interest will be charged on overdue invoices under the Act.

HELP

If you require any further information on this matter please do not hesitate to contact us.

“ ... not just numbers

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