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Information

Late Payment of Commercial (Interest) Debts Act 1998

A new act comes into effect from 1 November called the Late Payment of Commercial Debts (Interest) Act 1998. It gives businesses a statutory right to claim interest if another business pays its bills late. Up until now, businesses have only been able to claim interest on late paid debts if this right is mentioned as a specific term in the supply contract, or if they actually pursue the debt through the courts and the courts decide to award them interest.

To make the implications of the Act easier to understand, the Better Payment Group (a partnership between the private sector and government) has produced a guide. This explains how the Act will work and how it will affect businesses. The following questions have been extracted from the guide and the answers have been summarised to give you a brief idea of the content of the Act.

When does the statutory right to claim interest start?

The Government intends to phase the legislation as follows:

- For the first two years - 1 November 1998 to 31 October 2000 - small businesses can claim interest from large businesses and the public sector on debts incurred under contracts agreed after 1 November. A small business is one with 50 or fewer employees.
- The right to claim interest will be extended from 1 November 2000 to 31 October 2002 so that small businesses on debts incurred under contracts agreed after that starting date.
- From 1 November 2002 all businesses and the public sector can claim interest from all businesses and the public sector on debts incurred under contracts agreed after that date.

Is a supplier obliged to exercise the right to claim statutory interest?

No. A supplier is free to decide whether or not to make a claim.

What is the rate of interest?

The rate of interest is Bank of England base rate +8%. The interest owed is simple not compound.

When is a payment late?

If it is made after the last day of the credit period agreed with the purchaser.

What if there is no agreed credit period?

If no credit period has been agreed, then the Act sets a default period of 30 days after which interest can run. The principal debt will still become due as soon as the goods are delivered or the service performed.

Will it impact on importers and exporters?

Yes. If the contracts are made under UK law the terms of the Act apply. For an importer, an overseas supplier may claim interest. For exporters, a UK supplier may claim interest from an overseas purchase.

Copies of the Better Payment Practice Group's publication *The Late Payment of Commercial Debts (Interest) Act 1998: A User's Guide* is available by calling the DTI publications unit on **0870 1502500**.

This information is subject to change at any time by the Government

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