

Late Payment Interest & Compensation

There is a piece of legislation called *The Late Payment of Commercial Debts (Interest) Act 1998* which gives you a legal right to claim interest and compensation from businesses which exceed your credit terms.

The rate of statutory interest is 8% above the Bank of England base rate as at the 31st December and the 30th June. For example:

<u>Between Dates</u>	<u>Base Rate</u>	<u>Statutory Interest Rate</u>
1 st Jul 2009 – 31 st Dec 2009	0.5%	8.5%
1 st Jan 2009 – 30 th Jun 2009	2%	10%
1 st Jul 2008 – 31 st Dec 2008	5%	13%
1 st Jan 2008 – 30 th Jun 2008	5.5%	13.5%
1 st Jul 2007 – 31 st Dec 2007	5.5%	13.5%
1 st Jan 2007 – 30 th Jun 2007	5%	13%
1 st Jul 2006 – 31 st Dec 2006	4.5%	12.5%
1 st Jan 2006 – 30 th Jun 2006	4.5%	12.5%
1 st Jul 2005 – 31 st Dec 2005	4.75%	12.75%
1 st Jan 2005 – 30 th Jun 2005	4.75%	12.75%
1 st Jul 2004 – 31 st Dec 2004	4.5%	12.5%

The date that the amount actually became overdue should be used as a point of reference. For example, if your payment terms are 30 days and you raise an invoice for £1,000 on 1st March 2009, payment would be due on 31st March 2009. The statutory interest rate would be the rate applicable on the 1st April 2009 – the day the amount became overdue. The daily rate of interest should be calculated as follows:

Today's Date:	1 st August 2009
Invoice Date:	1 st March 2009 (payment terms 30 days)
Date Amount Became Overdue:	1 st April 2009
No. Days Overdue:	122 days
Amount Including VAT:	£1,000
Annual Interest:	£1,000 x 13% = £130
Daily Rate:	£130 ÷ 365 = 36 pence per day
Total Interest Due:	36 pence x 122 days = £43.92

There is an automatic calculator on our website that you can use to calculate statutory interest, simply go to www.top-service.co.uk. Compensation can also be claimed at the rate of:

<u>Amount Overdue Including VAT</u>	<u>Compensation</u>
Up to £999.99	£40
£1,000 - £9,999.99	£70
Over £10,000	£100

When claiming interest and compensation you should write to the debtor stating how much is owed, the relevant invoice numbers and where, when & how payment should be made. Claims for interest and compensation are entirely at your own discretion - you do not *have* to claim. You may wish to claim it from some customers but not others. It should be noted, however, that *The Late Payment of Commercial Debts (Interest) Act 1998* only applies to business to business transactions. You cannot claim interest or compensation from a private individual.

Some companies have a clause in their terms of trade, credit application form or contract which stipulates that interest must be paid on overdue accounts. If such a clause exists then the late payment legislation does not apply. It is worth ensuring that if you are claiming contractual interest, that it is on par with statutory interest, i.e., 8% over base rate. The calculator on our website can also be used to calculate contractual interest, simply go to www.top-service.co.uk.

Business debtors are legally obliged to pay statutory interest and compensation. Some debtors will pay it when requested while some debtors will just pay the original amount. You are legally entitled to sue for the interest and compensation if it remains unpaid, however, it is usually only worth suing if the amount involved is substantial. It may well be worth paying the £30 court fee to recover £100 worth of interest and £100 worth of compensation.

For more information log onto the government website www.payontime.co.uk