

Late Payment Legislation

The late payment of commercial debts (interest) Act 1998 In November 1998, the UK Government introduced legislation to give businesses a statutory right to claim interest from other businesses for the late payment of commercial debt. The UK was one of the first countries in the EU to introduce late payment legislation to help promote a culture of prompt payment.

From 7 August 2002, the Late Payment of Commercial Debts (Interest) Act 1998 was amended and supplemented to incorporate the features of European Directive 2000/35/EC on combating late payment in commercial transactions.

Under the revised legislation, all business owners and managers can claim reasonable debt recovery costs and can benefit from the simplification of the calculation of Statutory Interest. Additionally small and medium sized enterprises can ask a representative body to challenge grossly unfair contract terms used by their customers which do not provide a substantial remedy for late payment of commercial debts.

The compensation entitlement varies in accordance with the size of the debt:

Size of unpaid debt	Sum to be paid to the creditor
Up to £999.99	£ 40.00
£1,000.00 to £9,999.99	£ 70.00
£10,000.00 or more	£100.00

The revisions to the legislation also include the simplification of the calculation of statutory interest. A reference rate is now used to determine the late payment interest rate, which is fixed for a six-month period. The late payment interest rate that applies in the UK is the reference rate + eight per cent. The new fixed-reference periods are:

The Bank of England base rate on 31st December will be the reference rate for: 1st January to 30th June.

The Bank of England base rate on 30th June will be the reference rate for:

1st July to 31st December.

Use this table to look up previous 6 monthly reference periods:

Period	Reference Rate	Interest Rate (Reference rate plus 8%)
1st July - 31st December 2011	0.5%	8.5%
1st January - 31st June 2011	0.5%	8.5%
1st July - 31st December 2010	0.5%	8.5%
1st January - 30th June 2010	0.5%	8.5%
1st July - 31st December 2009	0.5%	8.5%
1st January - 30th June 2009	2.0%	10.0%