

# Preventing Late Payments

Managing and reducing the risk of late payment is essential. Indeed, small and medium-sized enterprises are particularly vulnerable to the effects that late payment can have on cash flow, profitability, and ultimately the viability of a business.

If you want to avoid falling victim to the 'late payment culture', consider the following strategies.

## Credit check your customers

Failure to research the credit history of both new and potential customers could leave your business at risk of late or even non-payment. Minimise this threat by conducting the necessary checks with the customer's bank, a credit reference agency and some of their suppliers. Further financial information may be obtained from Companies House, the Institute of Credit Management and local media.

It is also advisable to monitor your customers' payment trends on an ongoing basis, as this may allow you to spot potential problems before they develop into something more damaging.

## Publicise your terms and conditions

Clearly print your terms and conditions for payment on all relevant documentation that is sent to new and potential customers. Terms should clearly state the payment period for any invoice – settlement is often expected within 30 days, although this may vary depending on the type of business.

## Promote a positive payment culture

To encourage customers to pay on time, you could consider offering small discounts for the early settlement of bills. If a customer is having problems with their payment, you may want to negotiate a deal with them. However, be wary of excuses – if the client has paid by cheque and they tell you the cheque is in the post, ask for further details, such as the cheque number and the date of posting.

## Invoice on time

Distribute invoices in a timely manner to ensure the payment process remains as efficient as possible, and prevent unnecessary delays by addressing the invoice to the correct contact and department. If a client has not paid on time, it is essential to pursue payment.

## Know your rights

Amended late payment legislation came into force on 16 March 2013, implementing European Directive 2011/7/EU on combating late payment in commercial transactions. The rules are simple – debtors will be forced to pay interest and reimburse the reasonable recovery costs of the creditor, if they do not pay for the goods and services on time.

## Summary of measures

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| <b>Business to business payment terms</b> | The period for payment fixed in the contract does not exceed 60 calendar days, unless otherwise expressly agreed in the contract and provided it is not grossly unfair to the creditor. It should therefore remain possible for parties to agree on payment periods longer than 60 calendar days provided such extension is not grossly unfair to the creditor. |
| <b>Public sector payment terms</b>        | That in commercial transactions, where the debtor is a public authority, the payment period does not exceed 30 calendar days following receipt by the debtor of the invoice.  |
| <b>Statutory interest rate</b>            | Simple interest is calculated as equal to the sum of the Bank of England reference rate plus at least eight percentage points.  |
| <b>Compensation for recovery costs</b>    | The creditor is entitled to obtain from the debtor a fixed charge of £40, £70 or £100 depending on the size of the debt (under £1,000, under £10,000 and higher), plus additional reasonable costs incurred.  |
| <b>Verification periods</b>               | The maximum duration of a procedure of acceptance or verification does not exceed, as a general rule, 30 calendar days. Nevertheless, it should be possible for a verification procedure to exceed 30 days where agreed and not grossly unfair to the creditor.   |

## What is meant by Late Payment Legislation?

The term Late Payment legislation refers to the Late Payments of Commercial Debts (Interest) Act 1998, the Late Payment of Commercial Debts Regulations 2002 and the Late Payment of Commercial Debts Regulations 2013.

The statutory right to claim interest and other compensation recovery costs and entitlements being made from 16 March 2013, are not compulsory and it is for the supplier to decide whether or not to use rights made available.

Remember: customers who fail to pay their bills could jeopardise your business. Enforcing a fair but strict payment policy will protect your client relationships and your business in the long term.

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Updated 06 October 2017

We can work with you to help improve your debt collection and cash flow management procedures. Please contact us for more information.

## **New payment reporting procedures for large businesses**

From April 2017, large businesses and limited liability partnerships (LLPs) are required to publish details on how quickly they pay their suppliers. The measures require large firms to publicly report twice a year on both their payment practices and their performance, including the average time taken to pay supplier invoices.

The government hopes the measures will help to 'increase transparency' and assist small businesses in making 'informed decisions' as to who they do business with.