

“ Plain speaking legal advice ”

**Don't Lose Interest in
Late Payers**

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Most commercial contracts will contain a clause which sets the interest rate to be applied on late payment. Generally this will be 3 or 4% above bank base rate. The Courts have always regarded that as being reasonable.

If the contract is silent on the rate of interest or the contract fails to provide some other substantial remedy the Late Payment of Commercial Debts (Interest) Act 1998 sets out a statutory regime for applying interest. Interest under the 1998 Act is 8% above base plus a fixed sum intended to be compensation for the costs of recovering the debt. That fixed sum will be between £40 and £100.

With the bank base rate so low at present (currently 0.5%), the standard contract rate may only be worth 3.5% or 4.5%. On that basis many businesses would be better off amending their standard Terms & Conditions to remove the interest clause at e.g. 4% above base rate and relying instead on the 1998 Act which would give them 8.5% pa interest on the debt.

Once base rates recover so that 4% above base is a better rate than the 1998 Act, you can change your terms back. What you need to be wary of is committing yourself to the 1998 Act rates for contracts that might last some time. You won't be able to switch terms mid-contract unless both parties agree

For further information on late payment recovery and our debt collection service, please contact Frankie Tierney - 01276 686222 or email frankie.tierney@herrington-carmichael.com

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