

What contractors should do about late payment

Most small businesses have to deal, at one time or another, with the problem of late payment. It's an awkward situation: on the one hand, you need to get the money that you live on; on the other hand, you don't want to go overboard chasing agencies and clients so that you become known as strident and unreasonable.

Nonetheless, it is wise to know your rights, and then to decide whether you want to play it soft or hard with a given agency or client.

Know Your Rights

Repeated late payment might well merit your attention for another reason, though. When it comes time to get the last payment under the terms of the contract, it may not just be late, it may never come. To remind the agency that you are very determined to receive what is due to you, a firm line on late payments can be useful.

Or you may feel that repeated late payment is reason for [terminating the contract](#). This is harder to do, but you may be justified in doing so under certain conditions.

What the Law Says

First, what does the law say? [David Royden](#), a lawyer specialising in contract law with Laytons Solicitors in Manchester, explains. "Under the terms of the '[Late Payment of Commercial Debts \(Interest\) Act of 1998](#)', you have an implied right to interest on debts that are older than 30 days, unless your contract specifically sets a different term."

You have to show that you are a small business (with fewer than 50 workers), and that the debt is due for more than 30 days--if your contract states that payment of your invoice is due after 7 days, then you must of course wait 37 days before claiming that it is overdue.

Satisfy these conditions, and you're entitled to interest at 8% over the 'official dealing rate' (find this on the [Bank of England website](#)). If that rate is currently 5.%, the interest rate you are entitled to is 13.%. You can calculate the interest due using the [Late Payment Calculator](#) on this site.

“ You have a right to 8 per cent interest if payment is later than 30 days ”

David Royden-Laytons Solicitors

Send an Invoice and Collect

If this begins to add up to serious money, send an invoice for the interest with a polite reminder letter. The law has been in force for some time, and many companies are aware that they have to pay this. Usually it will act as a wake-up call and they'll start paying you on time (and probably start showing you a bit more respect). Remember that if the company refuses to pay, and the amount is less than GBP 5000, you can use [Money Claim Online](#), the HM Courts Service for money collection, without a solicitor to collect the debt.

If You Want To Terminate?

But what if you want to [terminate the contract](#)?

Says Royden: "It is possible to treat late payment as a breach of contract, but it must be of the essence of the contract. That means, for you, getting paid on time is absolutely essential, critical to the work you agreed to undertake when you signed the contract."

Some contracts have terms that make this clear in themselves. "But if you need to prove that it is essential that you be paid on time, write a letter to the company and remind them that this is essential to the contract, and that you will consider it a breach of contract if they continue to pay late," Royden continues.

If the company still pays you late, you have the right to terminate without further delay, and you can seek to recover damages. If the amount is large, you should probably take professional advice at this point.

So know your rights, evaluate what you think is the most important aspect of the problem, and proceed accordingly. But one thing should be clear: you don't have to accept late payment.

“ It is possible to treat late payment as a breach of contract ”

David Royden-Laytons Solicitors

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