

Small business late payment - how to manage late payers.

Article provided by From [Bytestart](#), the small business portal.

Small companies have, for years been vulnerable to slow payments from large clients. Severe late payment can even lead to insolvency in the worst cases. In most cases, chasing payment and managing debtors is a day-to-day task for many small businesses.

As part of its package of measures to combat late payment, the Government introduced the Late Payment of Commercial Debts (Interest) Act 1998, which gave small firms with 50 or less employees a statutory right to interest for the late payment of commercial debts. This statutory right to interest and other new entitlements are available to all businesses and public sector bodies from 7 August 2002.

To avoid late payment, there are several things you can do in advance:

1. Clearly print your terms and conditions for payment on any contracts signed with an end-client. These terms should clearly state the payment period for any invoice - quite often you would expect payment within 30 days, but this could be shorter or longer depending on your type of business.
2. You could offer an early payment discount, or a discount for upfront payment of several installments. For example, you could charge £500 + VAT for a service/product if the amount is settled within your agreed payment period, and £475 + VAT if payment is made within 10 days. This is likely to encourage many clients to pay early, although you will of course make less money on each deal.
3. If a client has not paid on time, it is essential to follow up on the invoice. Always try to obtain a point of contact in the accounts department since this will save time. Politely ask for the payment to be made and if the problem persists, you can consider charging interest on the overdue amount, or in the worst case, threaten the late payer with legal action.
4. The Late Payment of Commercial Debts (Interest) Act 1998 allows small businesses to claim interest on overdue payments from other companies. Originally drawn up to help small businesses claim against larger businesses, the law now extends this rule to claim against other small businesses. Even if you did not state a payment period in the initial agreement with a client, the Act states that a payment becomes 'late' after 30 days. You are entitled to claim interest at 8% above the prevailing Bank of England base rate. It is worth quoting the Act on any invoices sent to clients. To calculate the interest due use our [Late Payment Calculator](#).
5. Clearly many small businesses feel vulnerable in demanding payment from larger companies, this is very understandable. For this reason, it is essential to follow the initial steps mentioned above when doing business with clients. If late payment occurs, always try to politely obtain settlement for overdue invoices before taking further action.

There are many sources of information related to late payment and credit control on the web:

Business Link [section](#) on credit control and invoicing.

[Better Payment Practice](#) : devoted to commercial late payment.

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