

PAYMENT TERMS



In the current climate, it is more important than ever for businesses to make sure that their customers are paying invoices promptly and that they have robust cash collection procedures. Late payment of invoices can have a significant impact on a business' cash flow and their financial stability.

Take a look out our top tips below as to how you can increase your prospects of getting paid promptly:-

1 Minimise your exposure

checking them out

Before entering into a legally binding contract with a third party, it can often be helpful to carry out some due diligence on your customers to check that they will be able to pay your invoices. There is a lot of information that can be obtained from free online resources (such as Companies House) which will give you some indicators as to another business' financial health. In addition, you may wish to ask the customer to pay a deposit to cover your upfront costs/ show their commitment.



2 Be proactive

payment terms

We would always recommend that you include payment terms in your standard terms and conditions. In the absence of any specific term, the customer is only required to pay you within 30 days of getting your invoice/ receiving the goods or service. This can lead to significant delays in payments being received. Studies have shown that the longer invoices are left outstanding, the lower the likelihood that they will be paid.



3 Don't lose out

interest provisions

It is sensible to have a contractual right to interest in your terms and conditions. This ensures that you will be able to charge a certain amount of interest on any unpaid invoices. Whilst the Court can award interest of up to 8% on unpaid sums, this is only discretionary. Accordingly, you may get awarded a much lower rate of interest than you were expecting.



4 Thinking ahead

contractual right to costs

We would recommend that you include a clause in your terms and conditions which allows you to recover any legal costs incurred as a result of non-payment by the customer.

The Court has held that a contractual right to costs overrides the normal limits on cost recovery on the small claims track (which is for claims under £10,000). Even if the invoice is over £10,000, a contractual right to costs can still be very helpful as it should allow you to recover a larger proportion of your legal costs.



5 Being creative

other helpful contractual provisions

Alongside the standard payment term provisions, you may wish to include other terms that protect your business. These may include (i) a retention of title clause (which means the legal title to the goods/ assets will not pass to the customer until they have paid in full), (ii) a factoring clause (where unpaid invoices/ debts can be assigned to a finance company) or (iii) early payment discounts to encourage customers to pay upfront.



6 Don't delay in sending them out

incorporation of payment terms

A common mistake is for businesses to include their payment terms on the invoice itself after the services have been provided and/ or the goods delivered. Unfortunately, this is often too late.

Contractual terms will only be incorporated into a contract if they are accepted at the time the contract was formed. As such, a statement on the invoice saying that the invoice must be settled within 14 days will not be legally enforceable against the customer. In those circumstances, it is likely that the customer will be entitled to rely upon the statutory 30 day payment period.

Best practice is to send out your terms and conditions with your quote and/ or when the contract is formed to ensure that any payment terms are properly incorporated and are legally enforceable.



7 Payment is not received

what next?

In the event that payment is not received within the relevant payment time period, you should promptly contact the customer to find out why they have not settled your invoice. It may just be that they did not receive it and/ or they had forgotten about it.

If matters cannot be resolved with the customer directly, our experienced DebtLink team are here to help. They can issue a formal Letter of Claim on your behalf to encourage payment. They can also assist with the issuing of Court proceedings (if necessary). Please see further details of our Debtlink offering here: www.stephens-scown.co.uk/DebtLink

