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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

UK Bill Would Transform Commercial Payments Terms

By **Sam Cooper** (July 17, 2026, 2:21 PM BST)

Sam Cooper

Introduced to Parliament on May 19, the Commercial Payments Bill represents a significant proposed reform to payment legislation.[1]

Targeting a problem that costs the economy £11 billion ($14.9 billion) per year, the bill seeks to introduce a package of hard-edged protections that businesses will not be able to contract out of.

The bill makes provision about payment terms in commercial contracts, interest on late payment of commercial debts, the banning of retention clauses in the construction sector, and the expansion of powers of the Small Business Commissioner in relation to payment disputes and poor payment practices.

Notably, the amendments made to existing legislation by the bill will not affect contracts entered into before the date on which the relevant provision comes into force.

Maximum Payment Terms

A contract to which the new provisions apply will need to make provision for a relevant payment to become due before the end of a specified period, beginning with one of four prescribed trigger events:

- Performance of the supplier's obligation;
- The last day of a hire period;
- The day on which the purchaser has notice of the payment amount; or
- The day after completion of an acceptance or verification procedure.

The maximum length of the period that may be specified is 30 days where the purchaser is a public authority, and 60 days where it is not. A term of the contract will be void so far as it purports to provide for payment terms that differ from those requirements.

Where the contract does not contain any compliant payment terms, whether because no such terms were included or because the agreed term is void, it will be an implied term of the contract that the relevant payment will become due at the end of a period of 30 days, beginning with the latest to occur of the four prescribed trigger events.

The practical significance of this provision should not be underestimated. Extended payment terms beyond 60 days are a well-established feature of commercial contracting, particularly in supply chain arrangements where larger purchasers have historically imposed 90- or 120-day terms on smaller suppliers. The rationale for voiding such terms is that smaller suppliers typically lack the bargaining power to resist extended terms dictated by larger counterparties.

The bill addresses this imbalance by directly rendering noncompliant terms void. The 30-day implied term that applies in their place serves a dual protective function: It operates both where a contract contains no payment term at all, and where the agreed term is void, ensuring that suppliers are never left without a defined, enforceable payment date.

The choice of 30 days, shorter than the 60-day maximum, creates a commercial incentive for parties to agree compliant express terms, since a failure to do so will result in the shorter default applying automatically. Businesses that have structured their cash flow assumptions around extended payment cycles will need to revisit those assumptions.

Moreover, the antiavoidance provisions are notably broad, leaving little room for creative structuring around the statutory requirements.

Practitioners should note the antiavoidance provisions — any term of any other contract binding the parties will be void so far as it purports to vary or override those payment terms in a noncompliant way.

Acceptance and Verification Procedures

Acceptance or verification procedures, under which the conformity of goods or services with the contract is ascertained, are of particular importance in technology and software procurement. An implied term will apply such that, where such a procedure is not completed within 30 days of the supplier performing its obligation, it is treated as completed immediately after the end of that period unless the contract contains a long acceptance or verification term.

Any such longer term will be void unless it is fair and reasonable, having regard to the matters specified in Schedule 2 to the Unfair Contract Terms Act 1977, with the burden of proving reasonableness falling on the purchaser.

This provision is likely to have a particularly acute impact on technology procurement, where acceptance testing periods of 60 or 90 days are commonplace. The effect is to create a rebuttable presumption that acceptance occurs after 30 days, with any longer period subject to a reasonableness test, placing the burden squarely on the purchaser.

Purchasers may need to redesign their testing frameworks to ensure meaningful testing can be completed within the 30-day window or prepare robust justifications for a longer period.

Exemptions

A contract can be exempted if one of three conditions is met and certain additional conditions are satisfied. Relevant exemptions include where the purchaser is the smaller party, and where both parties are large undertakings. However, an exemption will only be available where neither party is a public authority, the contract is in writing, and the contract expressly identifies the applicable exemption condition.

The exemption framework reflects a deliberate policy choice: The bill's protections are primarily aimed at smaller businesses that lack the bargaining power to negotiate fair payment terms. However, the conditions for relying on an exemption are prescriptive.

A contract between two large undertakings that simply provides for 90-day payment terms, without expressly stating that the exemption under the relevant subsection applies, will not benefit from the exemption. The 90-day term will be void. This is a potential formality trap that will need to be embedded into contract templates and negotiation processes.

Statutory Interest

It will be an implied term of any contract to which the legislation applies that any qualifying debt carries simple interest. The rate — 8% above the Bank of England base rate — already exists under the current Late Payment of Commercial Debts (Interest) Act 1998.

What changes fundamentally is its mandatory character: A contract term will be void in so far as it purports to exclude or vary the right to statutory interest. The breadth is notable — a term varies the right to statutory interest if it imposes conditions on the right to interest; provides that interest starts to run from a later day, including in the event of a dispute; or specifies a different rate.

Part 2 of the existing 1998 act, which currently allows parties to agree substantial remedy alternatives to statutory interest, will be abolished entirely. Clauses providing for contractual interest at any rate below 8% above base rate, or deferring interest during a dispute, will be void. With the Bank of England base rate currently standing at 3.75%, the effective statutory rate will be 11.75%.

The abolition of the substantial remedy regime represents perhaps the most commercially significant change in the bill. Under the current regime, it is standard market practice for commercial contracts to include a contractual interest rate that displaces the statutory default — often significantly below 8% above base. The bill eliminates this practice entirely.

The voiding provision catches not only clauses specifying a lower rate, but also clauses that impose conditions on the accrual of interest or that defer its commencement during a dispute. Interest will run regardless of any dispute, creating a powerful financial incentive for purchasers to resolve disputes promptly. For businesses with significant payables, the cumulative interest exposure could be substantial.

Invoice Dispute Deadline

It will be an implied term of every contract, other than a construction contract, that the supplier is entitled to recover a fixed sum if the purchaser either notifies a relevant dispute after the last dispute day, or fails to provide sufficient information for the supplier to understand the dispute by that date. A relevant dispute is any dispute relied upon to decline or postpone payment.

The last dispute day will, in most cases, be the first day of a period of eight days ending with the date on which interest will begin to run. The fixed sum payable is the higher of £40 and 1% of the contract price, or disputed amount. Any contract term purporting to exclude or vary this implied term will be void, though there is a limited judicial discretion to remit the sum where the interests of justice require it.

The Small Business Commissioner

The commissioner will be required to establish and administer an adjudication scheme for relevant payment disputes. Only small businesses may refer disputes to the scheme, with any contractual term purporting to exclude or restrict this right being void.

In the absence of a written agreement to accept the decision as final, the adjudicator's decision will be binding unless and until the dispute is finally determined by legal proceedings, arbitration or written agreement. Challenge grounds are narrow: excess of jurisdiction, fundamental breach of natural justice or perpetration of fraud.

The commissioner will have the power to investigate the payment practices of a larger business where there are reasonable grounds to suspect persistent engagement in poor payment practices — including failing to pay on time, entering into contracts containing void terms, and engaging in practices that seek to circumvent the new requirements.

Following an investigation, the commissioner may make recommendations, issue publication or enforcement directions, and impose financial penalties of up to 1% of annual U.K. turnover, subject to the "beyond reasonable doubt" standard.

Enforcement directions may require a business to amend standard terms, stop entering into contracts on particular terms, ensure staff receive training or arrange for an external review of payment practices.

The expansion of the commissioner's powers represents a step-change in the regulatory landscape, transforming the role from an advisory one into that of a regulator with investigatory powers, binding directions and financial penalties.

The reputational impact of a published investigation report and the operational burden of an enforcement direction should not be underestimated.

Implications for Businesses

In practice, extended payment terms beyond 60 days and contractual provisions that replace the statutory interest rate with a lower rate are commonplace. However, the bill will render these arrangements void. The legislative timetable provides some runway for preparation, but businesses that wait for royal assent risk finding themselves behind the curve.

Businesses should take this opportunity to audit payment terms in standard contracts for compliance with the proposed 60-day cap, and to identify any provisions that purport to exclude or vary the right to statutory interest.

Invoice dispute processes will need to be reviewed and, in many cases, redesigned to meet the proposed statutory deadline. Businesses should also assess their exposure to enforcement action by the commissioner, particularly where existing payment performance data already shows high rates of late payment.

Key Takeaways

Against this backdrop, practitioners advising commercial clients should consider a number of preparatory steps. Noncompliant payment terms and interest provisions will be void, making it essential to audit standard contracts, particularly supply chain arrangements, for compliance with the 60-day cap and to remove clauses that purport to exclude or vary the right to statutory interest.

Acceptance or verification periods exceeding 30 days will need to satisfy a reasonableness test with the burden on the purchaser, and the eight-day dispute deadline will require structured invoice review processes capable of identifying and communicating disputes with sufficient particularity before the statutory deadline.

The commissioner's proposed investigatory and adjudicatory powers represent a significant source of regulatory exposure, and large businesses with poor payment records should treat this as a prospective risk management issue.

Finally, parties wishing to rely on an exemption from the 60-day cap will need to ensure their written contracts expressly identify the applicable exemption condition, as failing to do so will mean the exemption does not apply, regardless of the parties' intentions.

Conclusion

The bill is at an early stage of its passage through Parliament and may be subject to amendment. However, the direction of travel is clear: The era of contractual freedom in relation to payment terms, interest rates and dispute procedures in commercial contracts is drawing to a close.

If enacted, the bill will fundamentally alter the balance of power in commercial payment relationships, replacing negotiated terms with mandatory statutory requirements backed by regulatory enforcement. Practitioners should monitor the bill's progress closely and begin advising clients on the preparatory steps outlined above.

Sam Cooper is counsel at Crowell & Moring LLP.

[1] https://bills.parliament.uk/bills/4128.