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CEN/ISSS WS/BIIGL08

## **Payment Terms**

### **GUIDELINE**

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# 1 Introduction

The CEN/ISSS Workshop on business interoperability interfaces for public procurement in Europe (CEN/ISSS WS/BII) is established in order to

- Identify and document the required business interoperability interfaces related to pan-European electronic transactions in public procurement expressed as a set of technical specifications, developed by taking due account of current and emerging UN/CEFACT standards in order to ensure global interoperability;
- Co-ordinate and provide support to pilot projects implementing the technical specifications in order to remove technical barriers preventing interoperability.

To facilitate implementation of electronic commerce in a standardized way, thereby enabling the development of standardized software solutions as well as efficient connections between business partners without case by case specification of the data interchange, the workshop agreed to document the required business interoperability interfaces as profile descriptions. The end goal is to reduce the cost of implementing electronic commerce to a level that is economical for small and medium size companies and institutions.

The main focus of the profile description and the associated transaction data models is to address generally expressed business requirements applicable throughout the European market. Although the profile description and associated transaction data model are designed to meet generally expressed requirements, it is still the responsibility of the users to ensure that the actual business transactions exchanges meets all the legal, fiscal and commercial requirements relevant to their business.

This guideline is one of a series of documents providing detailed guidance on the purpose and use of some key elements of the transaction data models developed by CEN/ISSS WS/BII.

All cardinalities shown in this document represent elements and associations at from the full data models; see 'Profile Architecture' for further information.

## 1.1 Purpose

The purpose of this guideline is to specify the use of classes and elements used to specify payment terms information.

## 1.2 Summary

- Payment Terms communicates information from the Supplier to the Customer about terms that apply to a payment e.g. charges that may apply if payment is late or discounts if payment is early.
- More than one Payment Terms may be specified and may be linked to Payment Means.
- If no Payment Terms are specified, general payment terms agreed between the Supplier and the Customer apply.
- Payment Terms are informative and their values are not included in any Invoice totals.

## 2 Payment terms classes and elements

Payment Terms information is described in the Payment Terms class.

Payment Terms is specified at document level.

Many Payment Terms may be specified and Payment Terms may be linked to Payment Means.

Note: Payment Due Date in the Payment Means class is used to specify the due date of an Invoice; if no specific Payment Means is required, the Payment Means Code = "1" (instrument not defined)

### 2.1 Settlement discounts

Settlement discounts result in the Payer paying less than the invoiced amount, typically if:

- The payment is made before a specified date
- and/or
- The payment is made by a specified means.

Settlement discounts may be applied as follows:

- The total amount is reduced by a fixed amount for the period e.g. if paid by cash within 5 days of Invoice date the total amount is 95 rather than 100. This fixed amount can be expressed as a percentage deduction from the total (5%) or an amount that is to be deducted (-5).
- The total amount is reduced by a specified percentage for each day the payment is made before. For example, the due date for the specified Payment Means.

Settlement discounts can be specified in more than one period e.g. first 5 days 10%, next 5 days 5% using multiple instances of the Payment Terms class.

Note: in some countries, the use of Settlement discounts may require complementary documentation as to how the corresponding VAT is adjusted.

### 2.2 Penalty charges

Penalty charges are added to the invoiced amount if the Payer pays later than the Payment Means due date and/or by a specific Payment Means. Penalty charges are commonly applied as follows:

- A fixed charge is added to the invoiced amount
- A specified penalty percentage is added to the invoiced amount for each day that the payment date exceeds the due date
- Multiple penalty periods (specified in multiple instances of the Payment Terms class) must be summed and added to the invoiced amount. For example, there may be one penalty percentage for the first 10 days past due date, another for the next 10 days, and so on.

Discounts and charges described in Payment Terms are informative and their values are not included in any Invoice totals.

### 2.3 Payment Terms

Payment Terms information is described in the Payment Terms class. Associated information is described in:

1. Settlement Period
2. Penalty Period

Payment Terms ID

- Payment Terms may be applied by validity period therefore it is practical to use sequential numbering in allocating Payment Terms ID e.g. 1, 2, 3
- If, for example, one Payment Terms applies to the period starting 31st March 2007 and another to the period starting 21st May 2007, the first Payment Terms should have the lower value in ID

#### Payment Means ID

- Payment Means ID links Payment Terms to a specific Payment Means. If multiple Payment Means are available with their own specific Payment Terms, multiple instances of the Payment Terms class must be used
- If Payment Means ID is specified, the Payment Terms apply only to the Payment Terms specified [and not to other means of payment]

#### Settlement Discount Percent

- The discount percentage offered for payment within the settlement period. The discount is pro rata per diem. Settlement discounts are not cumulative; if a payment is made in an earlier period, a discount stated for a later period does not apply

#### Penalty Surcharge Percent

- The surcharge percentage imposed for late payment. Penalty surcharges are cumulative; the percentages applied in consecutive periods should be summed

#### Amount

- A fixed monetary amount to be charged to or discounted from the LegalTotal / PayableAmount
- Use of this element may be changes in the next UBL version and new 'amount' elements may be added to the class. In the interim for BII, if the Amount element is used, the Payment Terms Note must be present with one of the following values:
  - o 'payment penalty' – indicates that the Amount represents a fixed penalty value
  - o 'payment stage' – indicates that the Amount represents the total value for a payment stage; used in the case of multiple Payment Terms in staged payment scenarios.

## 2.4 Settlement Period

Settlement period defines the period during which the Payment Terms apply. An invoice can include more than one payment period with different terms but they should not overlap.

## 2.5 Penalty Period

Penalty Period specifies the dates that should be used when calculating penalty charges for the given Payment Terms.

For example, if:

- The payment due date (specified in Payment Means) is 1st January 2007 and
- The terms specify that penalty charge should not be applied until the 15th January 2007, but using the due date (1st January 2007) as the date from which the penalty should apply then
- The Settlement Period start date would then be 15th January 2007 but the Penalty Period Start Date would be 1st January 2007

## 3 Examples

### 3.1 Simple example

If the invoice is paid after the 25<sup>th</sup> of January 2007 there is a fixed late payment fee of 2 Euros and penalty surcharge of 10%.

```
<cac:PaymentTerms>
  <cbc:ID>1</cbc:ID>
  <cbc:Note>If paid after due date there are penalty charges.</cbc:Note>
  <cbc:PenaltySurchargePercent>10.00</cbc:PenaltySurchargePercent>
  <cbc:Amount CurrencyID="EUR">2</cbc:Amount>
  <cac:SettlementPeriod>
    <cbc:StartDate>2007-01-25</cbc:StartDate>
  </cac:SettlementPeriod>
  <cac:PenaltyPeriod>
    <cbc:StartDate>2007-01-26</cbc:StartDate>
  </cac:PenaltyPeriod>
</cac:PaymentTerms>
```

### 3.2 Complex example

An Invoice is issued on 1<sup>st</sup> January 2007. The due date specified in Payment Means is 15<sup>th</sup> January 2007. Penalties are charged from 25<sup>th</sup> January 2007 (after a 10 day grace period) but calculated from the due date. If the Invoice is paid 10 or more days before due date there is a 5% discount.

Penalty charges are 10%. When penalty charges start, there is a 5 Euro fixed charge. Thirty days after the due date there is an additional 10 Euro collection charge and penalty interest is raised to 15%.

```
<cac:PaymentTerms>
  <cbc:ID>1</cbc:ID>
  <cbc:Note>Discount if paid 10 days before due date or earlier</cbc:Note>
  <cbc:SettlementDiscountPercent>5.00</cbc:SettlementDiscountPercent>
  <cac:SettlementPeriod>
    <cbc:StartDate>2007-01-01</cbc:StartDate>
    <cbc:EndDate>2007-01-06</cbc:EndDate>
  </cac:SettlementPeriod>
</cac:PaymentTerms>

<cac:PaymentTerms>
  <cbc:ID>2</cbc:ID>
  <cbc:Note>Penalty applies for late payment within 30 days past the due date.</cbc:Note>
  <cbc:PenaltySurchargePercent>10.00</cbc:PenaltySurchargePercent>
  <cbc:Amount CurrencyID="EUR">5</cbc:Amount>
  <cac:SettlementPeriod>
    <cbc:StartDate>2007-01-25</cbc:StartDate>
    <cbc:EndDate>2007-02-15</cbc:EndDate>
  </cac:SettlementPeriod>
  <cac:PenaltyPeriod>
    <cbc:StartDate>2007-01-15</cbc:StartDate>
  </cac:PenaltyPeriod>
</cac:PaymentTerms>

<cac:PaymentTerms>
```

<cbc:ID>**3**</cbc:ID>

<cbc:Note>***If paid later than 30 days after due date***</cbc:Note>

<cbc:PenaltySurchargePercent>**15.00**</cbc:PenaltySurchargePercent>

<cbc:Amount CurrencyID="EUR">**10**</cbc:Amount>

<cac:SettlementPeriod>

<cbc:StartDate>**2007-02-16**</cbc:StartDate>

</cac:SettlementPeriod>

</cac:PaymentTerms>