



## Prompt Pay Act in Texas

**What is the Prompt Pay Act.** The Texas Prompt Pay Act, listed in Chapter 28 of the Texas Property Code, is a remedial statute designed to ensure that contractors and subcontractors working on construction projects are paid on time. The law establishes strict deadlines for payment under construction contracts and imposes penalties when those deadlines are not met. Specifically, if a party fails to make a timely payment, the law provides for interest on late payments at a rate of 1.5% per month, which begins to accrue the date after the payment was due and continues until payment is made. In addition, the party responsible for the late payment may be liable for the other party's attorneys' fees and costs.

**Payment Deadlines.** An owner, or a person authorized to act on behalf of an owner, must pay a contractor within 35 days of receiving a written payment request. Once a contractor receives payment under a construction contract, that contractor must pay each of its subcontractors no later than the 7<sup>th</sup> day after receipt. The same rule applies down the chain, a subcontractor who receives payment from a contractor has 7 days to pay each of its own subcontractors.

**Contractor/Subcontractor Rights.** The law provides an important remedy for contractors or subcontractors who are not paid the undisputed amount owed on time: the right to suspend work. To utilize this remedy, a contractor or subcontractor must provide 10 days written notice to the owner before suspending performance. Once work is suspended, the contractor or subcontractor is not required to resume until the wrongfully withheld amount is paid. Notably, the suspending party will not be held liable for any costs or damages resulting from the suspension, unless the owner provided notice of a good faith dispute regarding the withheld funds before the suspension took effect.

**Owners Rights.** One of the most commonly raised defenses to a prompt payment claim is the existence of a good faith dispute between the parties. When an owner withholds payment on this basis, the owner must provide notice that includes a list of specific reasons for the nonpayment. If the stated reason involves labor, services, or materials that were not provided in compliance with the contract, the subcontractor must be given a reasonable opportunity to cure the identified deficiencies before any further action is taken.

**General Tips and Best Practices for Compliance.** The following general guidance can help owners, contractors, and subcontractors protect their interests and avoid unnecessary disputes. A) all payment requests should be submitted in writing and should clearly identify the work performed, the amount due, and the date of submission. Maintaining a clear paper trail is one of the most effective ways to support a prompt payment claim or defend against one. B) know your deadlines and track them closely. Each party in the payment chain operates under its own set of deadlines, and it's important to understand which deadlines apply and to monitor them diligently. And C) when in doubt, seek legal counsel early. The penalties for noncompliance under the Prompt Pay Act can be significant and accrue quickly, and early legal guidance can help parties avoid costly missteps and preserve their rights under the statute.

**For further information on these developments, please contact [Arícia E. Amaro](#).**