Quick guide to legal tender

Legal basis

Legal tender comprises the coins and notes that are accepted as being money in the UK.

Despite talk of moving to a cashless society, the quantity of bank notes and coins in circulation is still increasing each year.

If you owe money to someone, they are expected to accept payment in legal tender. No-one has to give change; you should tender the exact amount.

The Royal Mint defines legal tender thus:

> Legal tender has a very narrow and technical meaning in the settlement of debts. It means that a debtor cannot successfully be sued for non-payment if he pays into court in legal tender. It does not mean that any ordinary transaction has to take place in legal tender or only within the amount denominated by the legislation. Both parties are free to agree to accept any form of payment whether legal tender or otherwise according to their wishes. In order to comply with the very strict rules governing an actual legal tender it is necessary, for example, actually to offer the exact amount due because no change can be demanded.

In practice, people are free to accept whatever they wish as payment. Cheques and cards are routinely accepted as payment. Similarly, a party may accept euros, dollars or any other currency. Someone may agree to give change (and usually will). A person may agree to accept stamps, savings certificates or even goods as payment. The point is that a person *may* agree to these arrangements, but does not *have to* agree.

There is much misunderstanding about legal tender.

For example, **Scottish bank notes** are *not* legal tender in England (or indeed in Scotland as it has no law of legal tender). They *may* be accepted as legal tender and usually are, as the banks will accept them. But they can be legally refused unlike a Bank of England note. Scots law requires acceptance of any reasonable means of payment. Currency and Banknotes Act 1954 made the Bank of England ten-shilling and £1 note legal tender in Scotland between 1954 and 1988.

A **debt** is not discharged if you offer legal tender and it is refused. The debt remains outstanding (at least for six years). However having a cash payment refused is a good defence if accused of not paying a debt. Refusing cash is, strictly, a breach of contract.

Legal tender does not have to be accepted *before* a debt arises. This is important for sales and services provided by a machine. They do not have to accept £50 notes or pennies for example.

In the USA, some petrol stations refuse to accept cash for security reasons. You may only pay by card. It is unlikely that this would be possible under UK law. By filling up your car, you create a debt to the petrol station which may be settled in cash.

Although cards and cheques remain popular, the UK still made 20 billion purchases in cash in 2010 totalling £267 billion. About 80% were for less than £10. About 28 billion coins and 2.7 billion bank notes are in circulation.

Money is thus both a means of exchange and a store of value. The £50 note is mainly used as a store of value. The £20 and £10 notes are the commonest bank notes representing 65% and 31% of all bank notes used in transactions.

What is legal tender?

Only coins produced by the Royal Mint are legal tender throughout the UK.
Notes produced by the Bank of England are legal tender in England and Wales. They are not, strictly, legal tender in Scotland or Northern Ireland, though they are accepted there in practice.

The Bank of England produces notes for £5, £10, £20 and £50. These are legal tender for any amount.

The Royal Mint produces coins for ordinary circulation of 1p, 2p, 5p, 10p, 20p, 50p, £1 and £2. There are some other coins that are legal tender.

Coins for £1 or more are legal tender to any amount.
Coins for 20p to 50p are legal tender to £10.
Coins for 5p or 10p are legal tender to £5.
Coins below 5p are legal tender to 20p.

These limits restrict protests and publicity stunts such as paying council tax in a huge number of 10p coins. The law is Coinage Act 1971 s2.

Coins are still assayed by the trial of the pyx dating from 1282, and still required by Coinage Act 1971 s8. The mint also uses modern machine-based quality control.

Jersey, Guernsey and the Isle of Man produce notes and coins similar to British notes and coins, and bearing a portrait of the Queen. These notes and coins are only legal tender in those territories.

Bank notes

The Bank of England periodically redesigns its bank notes. Each redesign is designated by a series letter starting with D in 1970. There is an overlap period when two designs of notes are legal tender. Letters A to C were retrospectively applied to previous issues.

Since 1970 the obverse includes a picture of the Queen. From series E, the reverse includes a picture of a leading British person.

Bank notes which are currently legal tender are:

Value	Series	Picture on reverse	First issued
£50	E	Sir John Houblon	20 April 1994
£20	F	Adam Smith	13 March 2007
£10	E	Charles Darwin	7 November 2000
£5	E	Elizabeth Fry	21 May 2002

A new series F £50 note is expected soon.
Other bank notes have been demonetised. This means that they are no longer legal tender. Any Bank of England note, however old, may be exchanged for a current note of the same value. In practice, many old notes are worth much more to collectors.

These bank notes are no longer legal tender:

Value	Series	Picture on reverse	First issued	Withdrawn
£50	D	Christopher Wren	20 March 1981	20 September 1996
£20	E	Edward Elgar	22 June 1999	30 June 2010
£20	E	Michael Faraday	5 June 1991	28 February 2001
£20	D	William Shakespeare	9 July 1970	19 March 1993
£10	E	Charles Dickens	29 April 1992	31 July 2003
£10	D	Florence Nightingale	20 February 1975	20 May 1994
£5	E	George Stephenson	7 June 1990	21 November 2003
£5	D	Duke of Wellington	11 November 1971	29 November 1991
£1	D	Isaac Newton	9 February 1978	11 March 1988

All previous issues of bank notes were withdrawn by 31 May 1979.
The ten-shilling note (worth 50p) was demonetised on 22 November 1970.
White five-pound notes were demonetised on 13 March 1961.

All bank notes worth more than £50 were demonetised in 1943, except that some very high value notes are used between the banks.

Most bank notes are now acquired from automated teller machines (ATMs). By 2010, there were 60,000 such machines in the UK, including in shops and in stand-alone units on streets. They dispensed £200 billion in 2010, which is about 85% of all cash from banks. The average British adult uses an ATM machine 60 times a year.

Since 1993, bank notes have included a simple coloured shape to assist users with poor sight:

Denomination	Coloured shape
£50	Blue circle
£20	Purple square
£10	Orange diamond
£5	Red triangle

Coins

The following coins are minted for general circulation:

Value	First minted	Colour	Shape
£2	15 June 1998	Bimetallic	Circular
£1	21 April 1983	Brass	Circular
50p	14 October 1969	Silver	Seven-sided
20p	9 June 1982	Silver	Seven-sided
10p	1968	Silver	Circular
5p	1968	Silver	Circular
2p	1968	Copper	Circular
1p	1968	Copper	Circular

The 1p and 2p coins were issued in 1968 but did not become legal tender until 15 February 1971. The 5p and 10p coins were legal tender immediately for one shilling and two shillings.

The obverse of all coins has a portrait of the Queen. This portrait has changed several times during her reign.

Various reverse designs have been adopted, including some commemorative designs. The £1 reverse changes each year.

Three coins have **reduced in size** since their first issue.

• 50p coin was replaced on 1 September 1997 and the old coins demonetised on 28 February 1998.

• 10p coin was replaced on 31 December 1990
• 5p coin was replaced on 30 June 1993.

There was a ½p coin introduced in 1968 which was demonetised on 31 December 1984.

The seven-sided 20p and 50p coins have curved sides so they have a constant diameter.

Royal Mint coins never lose their value. Demonetised coins may be exchanged at face value for current coins provided at least £1 worth of such coins are offered.

Other legal tender coins

Top row: gold Britannia; silver Britannia; £5 gold coin; double sovereign; sovereign; half sovereign
Lower row: £5 commemorative crown; £2 coin; crown; double florin; Maundy money..

There are some other coins which for historic or legal reasons are legal tender though they are not in general circulation.

Most of these coins are worth more to coin collectors. The exception are the £5 commemorative crowns which tend not to appreciate in value.

These coins are legal tender though not in circulation:
• Britannia gold and silver coins minted from 1987
• £2 and £5 gold coins minted from 1887
• sovereign (£1) and half-sovereign (50p) minted from 1838
• £5 commemorative crowns minted from 1990
• £2 coins minted in 1986, 1989, 1994, 1995 and 1996
• crowns (25p) minted between 1816 and 1981
• double florins (20p) minted between 1887 and 1890
• Maundy money for 1p, 2p, 3p and 4p.

Britannia are bullion coins in four weights: one ounce, half ounce, quarter ounce, and tenth of an ounce. The gold coins have face values of £100, £50, £25 and £10 respectively. Silver coins were first issued in 1997 with face value of £2, £1, 50p and 20p respectively.

The **double florin** was a four-shilling coin experimentally minted in an early effort at introducing decimal currency. When other pre-decimal coins were demonetised, the double florin was forgotten. The Royal Mint confirms that it is still legal tender for 20p.

Maundy money is a quaint British custom that dates from 1213. The monarch gives a bag of coins to a small number of deserving poor people on Maundy Thursday, the day before Good Friday. Historically the ceremony was attended by washing people's feet in allusion to Jesus washing his disciples' feet. The money has at times been accompanied by gifts of food, clothing and more substantial amounts.

The four coins are small and made of silver, based on coins that were once in general circulation — the silver threepence as recently as 1936. Coins issued before 1972 were denominated in old pence. They are all now redenominated in new pence — the only instance when a coin's value has changed after minting.

Decimal currency

Decimal currency on its introduction in 1971

Britain finally and belatedly adopted decimal currency on 15 February 1971 having discussed the matter for more than a century, and having made firm plans for more than ten years. The law is Decimal Currency Act 1969.

This kept the pound at the same face value, but divided it into 100 pence, indicated as p. These were originally known as "new pence" but that description was dropped in 1982 under Currency Act 1982 s1. There was an 18-month overlap period in which both pre-decimal and post-decimal currencies could circulate. In practice, banks and most businesses and individuals moved to decimal currency as soon as possible.

Before decimalisation, the pound was divided into 20 shillings, each divided into 12 pence. This would be indicated as £12 4s 6d or 6/8. There were thus 240 old pence to the pound.

The florin and shilling remained legal tender for a while as 10 and 5 pence respectively. The sixpence remained as 2½p.

Pre-decimal coins were demonetised thus:

- half-crown (2s 6d or 12½p): 1 January 1970
- florin (2s or 10p): 30 June 1993
- shilling (1s or 5p): 31 December 1990
- sixpence (6d or 2½p): 30 June 1980
- threepence (3d or 1¼p): 31 August 1971
- penny (1d or 0.42p): 31 August 1971
- halfpenny (½d or 0.21p): 1 August 1969
- farthing (¼d or 0.10p): 31 December 1960

Historic perspective

The understanding of legal tender is enhanced from a historic perspective.

Money was invented around 6000 BC as a means of avoiding the **coincidence of supply** needed for a barter transaction. It became possible to buy goods without having goods to sell. This was achieved by using something of generally recognised value. Metals became a popular medium, particularly gold, silver and copper. They could be made into any size or shape, and imprinted with marks.

The first coins were pieces of gold or silver. The marks were to assay the provenance of the metal (it was gold and not an alloy) and its weight. The reverse bore a symbol to indicate the value of the metal. The obverse traditionally bore a portrait of the monarch or emperor in whose name the coin was assayed.

To stop clipping of coins once assayed, they first were redesigned with a long cross to the edges, and then had milled edges.

This remained the basis of coinage until 1914. If you had three pounds in gold or silver coins, you had three pounds' worth of metal. In practice, the coins were worth a little more than their metal content because of the assay value. This is known as the seigniorage. Even today there are bullion coins such as the Britannia and sovereign where the main value is in the metal.

Seigniorage can be seen as either a tax on the currency, or as the government's gross profit on producing the currency.

Another wartime measure was the reduction in the silver content in coins. The traditional standard of **sterling silver** from 1800 to 1920 is an alloy of 92.5% silver and 7.5% other metals, predominantly copper. Pure silver is too soft to be used on its own. In 1920, the silver content was reduced to 50%. In 1947, silver coins was not used except for some commemorative and special coins.

Modern silver coins are made from cupro-nickel. This is an alloy of 75% copper and 25% nickel, except for 20p coins which are 84% copper and 16% tin. From 2012, it is planned to replace the coins with cupro-nickel plated steel.

In 1937, the silver threepence was replaced by a brass 12-sided coin.

Copper coins were made of bronze from 1860 to 1992. This is an alloy of 97% copper, 2.5% zinc and 0.5% tin. From 1 September 1992, most copper coins are now copper-plated steel. Such coins can be picked up with a magnet.

Bank notes have a completely different history. Paper money was first used in China in the 7th century, but was not adopted in Europe for another 1000 years.

They were originally promissory notes issued by goldsmiths and later by banks in respect of gold deposited with them. These were known as running cash notes. They originally bore the name of the person to whom it was first issued. A promissory note is a cross between an IOU and a cheque. A holder of a note can demand that the issue provides him with money to that value. The "promise to pay" means that the note never loses its face value. The right to demand gold was finally abolished in 1935.

The goldsmith had the security to store gold safely and would issue a note to the owner of the gold. These notes started to circulate as the equivalent of gold coins. The right to the gold passed simply by passing the promissory note. The Bank of England has issued notes since 1694.

In the court case *Miller v Race [1791]* it was recognised that these promissory notes were widely regarded as money. To facilitate this, the notes started to be issued in convenient round amounts rather than for specific figures. Also, some of the note would be pre-printed.

In 1725, the Bank of England issued notes in fixed amounts from £20 to £1,000. It was still possible to add odd amounts of pounds and shillings by hand.

Promissory notes had to be signed. Bank notes were signed by the chief cashier, whose pre-printed signature still appears on bank notes.

The note would be indexed by a serial number. This was kept in a log by the bank, and still is.

Because of the risk of theft when sending a note by post or coach, it became common for a note to be cut in half and sent in two journeys. The serial number was printed twice to allow the halves to be joined together.

As few people ever demanded the gold to which a promissory note related, it was possible for unscrupulous bankers to issue more notes than were supported by the gold. This could lead to a run on the bank and its insolvency. The promissory note was therefore worthless unlike a gold coin.

To address this, the Bank Charter Act 1844 restricted the right to issue bank notes in England to the Bank of England, except that banks already issuing notes were allowed to continue doing so. The last such English bank note was issued by Fox, Fowler & Co in 1921 when acquired by Barclays Bank. The last Welsh bank note was issued by North and South Wales Bank in 1906 when acquired by Midland Bank.

Equivalent legislation was passed in Scotland under the Bank Notes (Scotland) Act 1845. To this day, three banks (from the original 19) still issue their own notes:

- Bank of Scotland
- Clydesdale Bank
- Royal Bank of Scotland.

These banks have deposited funds with the Bank of England equal to the value of their notes in circulation, as a result of which the Bank of England accepts them at face value.

In Northern Ireland, similar arrangements apply for four banks:

- Allied Irish Bank (trading as First Trust Bank)
- Bank of Ireland
- Northern Bank
- Ulster Bank.

The Republic of Ireland established its own pound, the punt, in 1928. This was kept at parity with the UK pound for many years. The Republic now uses the euro.

Bank notes were recognised as legal tender by the courts in the case *Suffell v Bank of England [1882]*.

In 1914, the outbreak of war caused Chancellor David Lloyd George to be concerned about the risk of a run of the country's gold reserves. Within hours of declaring war, he announced that £1 and 10-shilling notes would be issued. They would be legal tender, backed by the authority of the government. The Bank of England refused to print the notes other than on its special hand-made paper which would not have produced enough notes. So the first notes were issued by the Treasury using postage stamp paper. The notes were not backed by gold and so did not "promise to pay" but stated "currency notes are legal tender for the payment of any amount". The Bank of England started printed notes for these values in 1928 when it introduced colour.

The Treasury considered issuing notes for smaller amounts down to one shilling. The plan was abandoned as it was feared that so many notes for currency unsupported by gold would lead to inflation. However such low value notes were printed for use by troops during the war.

Counterfeiting

Producing a false bank note or legal tender coin is not forgery but counterfeiting. It is a criminal offence under Forgery and Counterfeiting Act 1981 s27.

The restriction applies to the bank notes of any part of the UK (including Scotland, Irish Republic and Channel Islands) and notes issued by other countries. A protected coin is legal tender in any country or coin specified by Treasury order. Such orders have been specified for euros and bullion coins.

A counterfeit is something that “resembles a currency note or protected coin (whether on one side only or both) to such an extent that it is reasonably capable of passing for a currency note or protected coin of that description” (Forgery and Counterfeiting Act 1981 s28(1)(a)). The offence is also committed if a genuine note or coin is altered so as to pass for another value.

Someone offered a counterfeit note should retain the note, provided this can be done without putting staff at risk. The police should be contacted. A customer should be handed a receipt for the note. If it proves to be genuine, the note is returned. The retained note is not payment, so a customer needs to find an alternative method of payment.

It is illegal to hold a counterfeit note or coin without lawful authority. It would seem that keeping it in a coin collection is lawful authority.

Counterfeit notes are mostly collected by banks. In 2010, the Bank of England collected 300,000 forged notes with a face value of £5.9 million. This is fewer than one hundredth of 1% of the 2.7 billion banknotes in circulation. The commonest value to be forged as £20, which is the commonest banknote. A counterfeit note is worthless.

Modern bank notes have many security features. In practice, the best test is the “feel” of the paper itself. The paper is not used for any other purpose and has never been reproduced. This is made to a secret formula using cotton fibre and linen rag. The fibre is thus stronger than in ordinary paper. The process uses large amounts of water to break down the cloth to individual fibres. This is reformed into reels of paper to which the watermark and metallic thread is added before printing, using three different processes.

Other security features are:

- raised print on the words Bank of England that can be felt by running a finger over the words
- a silver thread appears on all notes and on the front of a £50 note. This appears as a dotted line when looking at the note normally, and as a solid line when held to the light
- bank notes have a watermark portrait of the Queen
- genuine notes are clearly printed with sharp lines, free from blurs and smudges seen on many counterfeit notes
- notes have a hologram in a silver-coloured box. By changing the angle of light, the picture alternates between Britannia and the note value
- using a strong lens, the swirling lines under the portrait of the Queen will reveal micro-lettering spelling out the value of the note
- placed under ultra-violet light, the value of the note appears in red and green (except for £50).

An **ultra-violet light** should be 365 nanometres frequency. Many cheap devices have a higher frequency.

Detector pens use a chemical to test the ink. Such pens are not always reliable.

Further guidance can be found at http://www.bankofengland.co.uk/banknotes/kyb_lo_res.pdf.

It is an offence to reproduce any part of a bank note (even those no longer legal tender) on any material without Bank of England approval. This includes advertising material and novelty bank notes. The Bank also owns the copyright in the note design. For other purposes, such as in a note from series D in a collector's catalogue, the word SPECIMEN must appear twice diagonally in solid black capital letters across the note.

Coins present a bigger problem as there is less security. The Royal Mint estimates that 2.5% of £1 coins are forgeries. Identifying traits are:

- the legends and images are less well defined and uneven in depth
- the coins are not of the right colour
- the obverse and reverse are not aligned so that they are equally horizontal
- the reverses and legends do not correspond to those for the year
- genuine coins lose their lustre in circulation. Counterfeit coins may therefore appear more shiny than expected.

Damaged bank notes

A bank note retains its value however damaged it becomes. A mutilated note may be sent to the Bank's Mutilated Note Service, King Street, Leeds, LS1 1HT. 0113 244 1711. Special arrangements are made if the note is mutilated so that it cannot legally be posted. Payment is usually made within a few days by direct payment to a bank account.

To avoid paying twice on one note, it is usually required that at least half the note is present. The commonest causes of mutilation are washing machines, burning when hidden in ovens or chimneys, decay when stashed improperly, and eating by a pet.

Cash machines, safes and tills are often fitted with a **dye** that automatically stains a note. They usually also produce red smoke to attract attention to the theft. A stained note is a mutilated note that can be exchanged for value. However a stained note is usually a stolen note, so an explanation is needed as to how you came to possess it. This does not apply when the ink is clearly not from a machine, such as when a bottle of ink has been spilled on a note.

Bank notes also become damaged through **normal use**. Such notes are removed from circulation by banks under special arrangements with the Bank of England. The average life of a bank note ranges from one year for a £5 note to five years for a £50 note.

Notes removed from circulation were burnt until 1990. They are now shredded and used as an ingredient for agricultural compost.

A particular problem was identified in 2010 in relation to **£5 notes**. As these are rarely provided from cash dispensers, an insufficient number of new notes enter circulation. The Bank of England has millions of crisp clean notes that it cannot get into circulation. Instead old notes are used beyond their shelf life, often in a dirty and damaged state. An agreement was made with banks to reintroduce £5 notes into many cash machines. Banks also agreed a tougher standard known as "super ATM-fit" so that £5 notes will be withdrawn in a condition where another value note would not be.

Notes are also dispensed from bank counters and as "cashback" on debit cards used in large retailers. Such retailers order their floats of currency from the bank.

It is an offence to print or stamp anything on to a bank note (Currency and Banknotes Act 1928 s12). This is because it may alter the value of the note. It is not an offence to write on a bank note or even to destroy it. Defacing a coin appears no longer to be an offence.

Payment of wages

Until 15th century, employers were largely free to pay their employees how they wished.

Until 1806, there was often insufficient coins of low value to make up pay packets. So a practice grew up of using **truck** tokens. These were tokens produced by employers either individually or collectively. They often contained promotional slogans.

The practice fell into disrepute when employers paid workers only in truck, forcing workers to spend their wages in shops they controlled, often at inflated prices and where the employer would earn a further profit.

To prevent this abuse, a series of laws were introduced from 1464. These were consolidated into the Truck Act 1831, supplemented by further Acts to 1940. These required employees to be paid in "coin of the realm". In 1887, the scope was extended from artificers to all employees.

The law was relaxed in 1960 to allow employees to agree to be paid by cheque or bank transfer. The Truck Acts were finally repealed in 1986. The Truck Acts also dealt with unauthorised deductions from wages, which is now covered by Employment Rights Act 1999 ss13-27.

Cash handling

Banks bag coins in standard amounts:

Coin	Amount
£1 and £2	£20
20p and 50p	£10
5p and 10p	£5
1p and 2p	£1

Coins should not have their denominations mixed in a bag.

Handling legal tender creates several **problems**.

First there is the weight of 1,000 coins:

Coin	Weight in kg	Weight in lb
£1	15.98	35.26
50p	13.5	29.7
20p	5.0	11.0
10p	6.5	14.3
5p	3.25	7.2
2p	7.13	15.7
1p	3.564	7.86

Second, there is the security aspect. Special safes and transit arrangements are needed for storing and moving cash. Cash is readily stolen. Although this is insurable, this is usually subject to strict conditions and an upper limit.

Third, bank charges can be high when there is a significant amount of cash handling.

Businesses that handle cash must be aware of **money laundering** regulations. These regulations were introduced on 1 June 2002 and tightened up on 1 February 2008. Money laundering is the process of taking "dirty money", such as from drug dealing or terrorism, and turning it into "clean money" such as by gambling it at a casino. Certain money service businesses, accountancy service providers and trust or company service providers may need to register with HMRC and be licensed to handle large cash transactions.

Any other business may be regarded as a **high value dealer** if it receives £9,000 or more in cash for a single transaction, such as a sale of a vehicle. The regulations do not apply for single cash sales of a lower amount or for sales of any amount made other than in cash. The dealer must be registered as such with HMRC or decline a large cash sale.

From 15 June 2007, anyone coming into the UK from outside the EU, or leaving the UK to go outside the EU, must declare to Customs any cash sum they are carrying worth more than €10,000 (which is regarded as £7,000). This is declared on form C9011. There is a fine for not declaring cash. In addition, cash that is reasonably believed to be proceeds of crime may be seized.