

ACTIVE PRACTICE UPDATES

JUNE 2019

THE SCOURGE OF LATE PAYMENTS

Outstanding invoices compromise cashflow.

When you supply goods and services, you expect to be paid, and promptly, but Britain has a deeply embedded culture of late payments. Indeed, for some businesses, delaying payment is an essential part of the business model.

Outstanding payments are problematic for various reasons. First, there's the basic problem of cashflow within the supplying business – electricity bills, rent and other regular outgoings need to be paid regardless.

Then there's the time spent chasing late payments and the stress it can cause if the conversation becomes bad-tempered, or when you start to worry that the job might be a write-off.

You might even find yourself incurring lawyers' or bailiffs' fees, or being forced to sell the debt on to a collection agency at a discounted rate.

For the smallest businesses, the problem can be particularly acute. With around 3.4 million sole traders making up 59% of the UK's total business population in 2018, not everyone can spare time or resource to chase late payments.

As a result, many businesses simply go to the wall (around 357,000 in 2016/17, according to the most recent research from the Office for National Statistics).

With this issue in mind, the Government last year called for evidence to help end the scourge of late payments, claiming it threatens a quarter of the UK's 5.7m SMEs.

Naturally, ministers also recognise that finally eradicating the culture of late payments is an opportunity for economic growth.

The Federation of Small Businesses (FSB) adds weight to that, claiming that it could add £2.5 billion more to the UK economy each year – and help 50,000 firms survive.

So with the elephant in the room firmly established, the question is, what methods can you deploy to improve cashflow?



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PLAN FOR ALL EVENTUALITIES

One of the first rules of running a business is to have a business plan and review it at regular intervals.

Avoid looking too far ahead, and focus your planning on three different scenarios so your business is braced for all outcomes in the short term.

Ask yourself what is a realistic baseline for your business? Is there any precedent to suggest what will happen further down the line?

Obviously we all love to factor in the best-case scenario, when sales for the second quarter are 20% higher than forecast.

Conversely, you need to plan for the worst-case scenario when sales are 20% down, to ensure your cashflow is healthy enough to tide you over a rough patch.

It would also be wise to prepare a checklist – ranging from the risks of natural events, to personnel changes or supply chain issues – to revisit in the future.

The dynamics of managing cashflow are not a case of feast or famine, they involve being thoroughly prepared, staying rational and aiming to break even.

After all, most businesses achieve growth from a steady base.

CLARIFY YOUR PAYMENT TERMS

Most businesses, including accountancy practices like ours, offer a no-obligation initial assessment before agreeing to undertake work for a customer.

It enables us to deliver a quote for the work, agree a fee with the customer, and gives us an opportunity to clarify how long the client has to pay.

You should always outline what you will charge in interest should your client exceed the time limit to settle your invoice.

Technology, which we will come on to in more detail later on, can make it crystal clear to your customers that they need to pay you on time, every time.

If you are reluctant to adopt technology, you can also claim a one-off fee to cover the costs of recovering late payments.

If you don't specify a deadline for payment, the default is generally assumed to be 30 days from receipt of the invoice. After that point, statutory interest can be charged.

Some purchasers, though – especially larger ones – have their own default terms, which can be as much as 120 days in extreme cases.

That's something the Government is keen to crack down on but, in the meantime, you'll have to balance the risks and benefits of working with these kinds of 'super-buyer'.

CLEAR, ACCURATE, AND QUICK INVOICES

It may sound simple, but being able to issue your customer with a clear, error-free, prompt invoice offers you the best chance of being paid on time.

You should contain all the relevant information on your invoice, starting with boldly displaying the word 'invoice' and going on to include your pre-agreed terms and conditions.

In addition, you should include a reference number, the name of your business, its address and contact details, plus the customer's name and address.

You also need to include a clear description of the service you provided, the date it was supplied, the date of the invoice, the amount charged, and VAT if applicable.

Also bear in mind that you need to keep any invoices for six years in case HMRC comes knocking to further scrutinise your record-keeping.

EMBRACE MODERN TECHNOLOGY

While we are on the topic of keeping accurate records, technology offers you an opportunity to make your business's processes more efficient.

Making Tax Digital (MTD) has arrived for VAT-registered businesses and crucially, it is here to stay.

In the not too distant future, it will affect businesses under the £85,000 registration threshold for VAT and those individuals who complete self-assessment, too.

MTD is not only a government scheme to improve the way it collects tax for the Treasury, it also offers you the chance to improve the way you run your business.

Several pieces of software are on the market enabling you to submit digital invoices to customers, including user-friendly ways for them to pay.

For example, you can invoice a customer from your smartphone as soon as you get into your van after supplying a service.

The customer can submit payment online, putting the cash in your account immediately. On to the next job.

It is easy to see how you should be able to support more customers in less time if you adopt technology in your business.

Using software also enables you to monitor your business's cashflow in real-time, tracking money from anywhere with a 4G, WiFi or internet connection.

Then there is the small issue of security, which is handled in what we accountants refer to as 'the Cloud' – a secure system for data storage and transfer accessed online.

This removes the need to store files on your computer's hard drive or a USB stick.

As well as reducing the risk of accidentally deleting files or running into problems with version control, storing files on the Cloud also offers better opportunities for collaboration.

Depending on who you give access to your files, you can work on documents at the same time as your staff or external parties.

If you authorise us, technology makes our task as your accountants much easier.

It improves accuracy when it comes to applying for tax reliefs ahead of filing your tax returns, or submitting payments on account with the Revenue.

ON THE UP

Between technology and the evident desire of the Government to address this issue, things are looking up around the issue of late payments.

In the meantime, rigorous cashflow management and meticulous invoicing remain vital disciplines to keep your business afloat.

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