

Keeping the cash flowing through a contractor limited company

Contractors who create and implement simple systems to keep the cash flowing into their **contracting limited company** are much less likely to suffer from slow payment and bad debts.

There are easy and inexpensive steps that contractors can take that will minimise the risk that they won't get paid at the end of the month and maximise their chances of securing payment if a client or agent gets into financial trouble.

Check the client or agency is financially sound

The first step is for contractors to ensure that when they are considering starting a new contract with a new client or agency, they check that their potential paymaster actually has the cash to pay them.

Contractors should credit check any new client or agency before they sign the contract. Using a credit checking service is generally inexpensive, and compared with what could be lost if a client goes bust, is a worthwhile investment.

And if the credit report is negative, this does not mean that the contractor should turn down the contract. They might simply ensure that with the particular client or agency that is a credit risk they negotiate different payment terms. For example, this might mean weekly invoicing with payment required in seven days, rather than monthly invoicing with payment required in 30 days. If the client defaults once, the contractor has an early warning system to mitigate any losses.

Organise timesheets and invoices

The client or agency won't pay at all if they don't receive **timesheets and invoices**, and by careful management, contractors can ensure that they receive a constant stream of cash into the business simply by staying on top of the admin.

Process timesheets at regular intervals, weekly or, at the very least, monthly. Then issue invoices to the client or agency promptly and confirm that your invoice has been received. Find out when the cheque run is processed, and make sure you put in a call on the day – 'has my cheque been signed and put in the post?'

It sounds obvious, but it is important that contractors check they have been paid. For some contractors who are earning good money and have large surpluses in their business bank account, it is possible not to realise they have suffered a non-payment or a late payment.

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Persistent late payment

Being regularly paid late by the client or the agency could mean that their finance department is badly organised. Or it could be a symptom of a more serious underlying issue, which could ultimately threaten a contractor's livelihood.

Whatever the reasons, there are steps a contractor should take immediately if their client or agency pays late. Technically, a contractor can charge interest of 8% over the 'official dealing rate' on any **late payments**, and the symbolism of telling a client they will be charged interest can be very powerful.

If the client or agency is persistently late in paying, then it is worth considering a change of contract. Remember that the client or agency is in **breach of contract** if they do not pay contractors according to the contractual payment terms.

Breaches of contract

Paying their contractors later than the contractually agreed terms, or not at all, is only one way that a client or agency can be in breach of contract. Others include the **client failing to sign-off on timesheets**, **demanding services not included** in the original contract and **early termination without notice**.

Although contractors could technically sue for damages as a result of breach of contract by the client or agency, in practice this may not be appropriate because the contractor wants to resolve the issue and continue working. Late payment is generally a minor breach where a negotiated settlement can be found.

A major breach, such as **non-payment**, is grounds for immediate **termination of the contract**. It is also grounds for taking legal action to **recover any debt** and potentially for damages, too. If contractors have been credit checking and monitoring payments regularly, they will not have too much exposure to their client any only be owed money for the last invoice.

When the agency or client goes bust

If a client or an agency is unable to meet the payments to its creditors, it means it is insolvent, and, depending on the severity of the financial difficulties, this results in the appointment of an administrator, receiver or liquidator.

Creditors owed money by insolvent companies are paid according to a strict hierarchy set by the [Insolvency Service](#). The contractor's position is near the bottom, well below employees, [HMRC](#), the banks and larger creditors. Remember, contractors using their own contracting limited company are treated as regular suppliers and not employees.

If the contractor's agency or client cannot pay, the best move for the contractor to mitigate losses is to contact the administrator to register as a creditor with unpaid invoices. They also need to move on, and quickly, to secure a new contract.

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