

Paying your contractor – timesheets, invoices and payment

Unlike permanent employees who work for a client's organisation, contractors don't receive a regular salary that gets automatically paid direct into their account every month. Contractors submit timesheets or invoices on a regular basis, which the client must approve and process, so that the contractor gets paid.

Failure to authorise payment on the client's part, which then leads to a delay or non-payment of a contractor's invoice, could constitute a breach of contract, which if not remedied swiftly, will leave the client's organisation liable for debt recovery action by the contractor.

In addition, the client is likely to be in breach of contract, so the contractor could be within their rights simply to stop work on the project and to issue legal proceedings against the client's organisation. The solution is simple: clients must ensure contractors are paid on time, every time, by signing timesheets when requested and promptly processing invoices.

The weekly contractor timesheet cycle

Clients who have been used to managing teams of permanent employees may be familiar with signing-off on their direct reports' expenses claims. But they generally don't have to authorise their employees' weekly or monthly salaries.

With contractors, it's very different. If a contractor is paid hourly, they typically prepare a timesheet at the end of the week, which details exactly how many hours they have worked. The contractor submits their timesheet to their client project manager for authorisation.

It is the client project manager's responsibility to check the contractor's claims are accurate and authorise the timesheets according to the organisation's protocols. The timesheet should then be passed back to the contractor, who will then send it to their agency or umbrella company to raise an invoice. If the contractor is contracting direct through their own limited company, they will raise the invoices themselves.

Monthly and direct invoicing

Contractors who are paid day rates would usually prepare a timesheet for the month and submit this to the client project manager for authorisation. On receiving the authorised timesheet, the contractor will send it to their agency, or possibly their **umbrella company**, who will then invoice the client.

Many higher earning contractors, who contract direct with the client using their own **limited company**, will simply send the client a single monthly invoice that details days worked, at what rate and the total. In virtually all such cases, VAT will be added, as most contractors with their own limited companies will be VAT-registered.

Depending on the organisations processes, the client project manager would usually check the contractor's invoice, authorise it and pass the invoice to relevant colleagues in the finance or HR department for payment. The contractor will then receive their money by cheque or bank transfer, according to the terms agreed in the contract, typically within 7, 14 or even 30 days.

When things go wrong

It can be very difficult in a busy office or on site for a client project manager to keep tabs on all their contractors. And the client may feel that the contractor appears to be 'padding' their timesheet, claiming hours that they may not have actually worked.

If they suspect a contractor is completing their timesheets inaccurately, it is possible to check sign-in and entry logs or conduct spot checks for attendance, and draw the contractor's attention to the fact that they may be over-claiming. It is also good practice for the client project manager to raise the issue with their manager, HR team or other relevant colleagues in their organisation.

Conversely, if the client misplaces timesheets or invoices, it is best policy to be up-front with contractors and tell them the paperwork has gone astray. But clients should endeavour to ensure this does not happen too often, or it could even lead to a claim of breach of contract as, although contractors are not employees, their contracts give them the right to be paid regularly, accurately and on time.

Late payment

For this reason, it is essential for clients to ensure their contractors are paid on time. Not only is this part of the contract, but naturally it will also ensure the contractors' continuing goodwill and the project's smooth process.

Contractors typically get paid late because of the following reasons:

The contractor submitted the timesheet late and missed the weekly payment cycle

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The client authorised the timesheet late and missed the weekly payment cycle

The client's finance department is withholding payment to the contractor for some reason

The agency or umbrella is withholding payment to the contractor for some reason

The client's organisation has not paid the contractor, or their agency or umbrella company, for some reason.

A contractor who has been paid late will look to their agency and client project manager for a solution, or just the client project manager if there is no agency. Clients responsible for managing contractors might find it a worthwhile investment to investigate how their organisation pays contractors and agencies, and whom best to talk to if there are payment problems, in order to prevent late payment escalating.

Sometimes, payments are delayed because of a simple mistake on an invoice and a short conversation can resolve the issue. With all payment issues, the buck often stops with the client project manager as they are the contractor's main management contact within the client organisation, so it is best to be prepared.

Late payment hurts clients more than contractors

For nearly all contractor contracts, late payment is a breach of contract. So, if not remedied swiftly, the contractor is fully within their rights to start debt recovery proceedings that could ultimately land the client organisation with a county court judgement. And this, in turn, could impact on the client organisation's credit rating and ability to access finance or negotiate credit terms with other suppliers.

In addition, the worlds of recruitment agencies and contractors are very small, and word very quickly gets round about late payers. A bad reputation amongst such suppliers could make it very hard indeed to attract the best talent in future.

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