

Timesheet finance can help new contractors with cashflow

Limited company contractors who have just started contracting, or who have short-term cash requirements, can use timesheet finance to help bridge the gap between when they complete the work and when they actually get paid by their client or agency.

"A **first-time contractor** can typically wait up to 60 days to receive any payment for their first week's contracting," explains Joanna Holloway, managing director of timesheet finance provider UC Finance.

"But they can use a business financing service that allows a limited company contractor - who has a **contract for services** with a creditworthy client or agency - to access up to 80% of their cash within a few days of completing their work and securing an approved timesheet. The contractor receives the balancing 20%, minus providers' fees, when the invoice is paid."

Why use timesheet finance?

Although Holloway recommends that any new contractor or freelancer starts their contracting career with some savings, she acknowledges this is not always possible.

"Many new contractors finish their permanent job, get paid and then start work on their first contract," continues Holloway. "If they are on a day rate and paid monthly, then they have to work for a month before being able to invoice. As they are in a business-to-business relationship with their clients, they may then have to wait a further 30 days to be paid, leaving the contractor without an income for two months or more."

She also points out there are reasons that even established contractors who have savings and a regular contract income may also require some additional cash: "They may need to raise money quickly for a tax bill or to pay for a holiday, so they can gain immediate access to their money sitting in un-invoiced timesheets via Timesheet Finance."

Timesheet finance - how it works

Accessing timesheet finance is straightforward, but Holloway identifies criteria that must be in place for a contractor to qualify:

They must be trading via their own limited company

They must have a contract for services with a client or agency

There must be a timesheet approved by the client/project manager.

"Assuming the contractor meets the above criteria, and the client or agency is creditworthy, they could be advanced 80% of the value of their **timesheets**, with the balance paid, less the timesheet finance provider's fees, once the invoice is paid."

The contractor will be required to provide a copy of their contract and photo ID to sign up. The initial sign-up process can take five to seven working days, which includes credit referencing the client. After that, it can take as little as three days from submitting a signed timesheet to receiving the advance.

Unlike invoice factoring or payday loans

Once in possession of the timesheet, the finance provider then raises the invoice for the amount due on the timesheet, in the contractor's limited company name, and chases the invoice until it is paid. In effect, as well as benefitting from up-front cash, the contractor also outsources their invoicing, client credit referencing and control and collections to their service provider.

According to Holloway, timesheet finance differs from invoice discounting or factoring in two respects: "The debt is not yet 'crystallised', which means that the contractor is securing finance on their timesheet, not on an invoice. In addition, business administration is undertaken by the provider, saving the contractor valuable time.

"Timesheet finance is also not a payday loan, these are short-term small value loans against an employee's payslip. Timesheet finance is a business finance service for more significant sums of money only available to limited companies," adds Holloway.

Timesheet finance example

A contractor on an average day rate of £400 might see the following timesheet finance calculations:

Day rate: £400

“
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Joanna Holloway, UC Finance

Timesheets submitted monthly

30-day payment terms with client

Timesheet value of £8,000

Advance on timesheet: £6,400

Invoice value of £9,600

Balance received when client pays less fees of £250.50

"Contractors are typically charged for the cost of borrowing and a service charge," says Holloway. "The cost of borrowing in the above example is 8% over [Bank of England](#) base interest rate and the service charge is 2.25% of the value of the invoice, which covers credit referencing, raising invoices and credit control.

"For a contractor on £400 a day, that's less than an hour's work a week to cover the costs of accessing their cash when they need it. Plus they are buying a business service, so all the costs should be itemised by the finance company and so are tax deductible."

What happens if the client does not pay?

Bearing in mind that the client is credit checked before the timesheet finance provider will take on the contractor the chances of non-payment by the client are much reduced. In the event that the client does not pay, the service provider can recover the advance from the contractor.

Holloway explains that timesheet financing may not be suitable for all contractors and freelancers: "Freelancers who typically work on multiple fixed-price small projects for many clients simultaneously - without any contract or timesheets - would most likely not benefit from nor qualify for timesheet finance."

Sole traders, partnerships and [Umbrella company contractors](#) are also unlikely to secure timesheet finance from a service provider. "But if there is an exchange of emails confirming terms between the client and freelancer, and the freelancer has confirmation that the project has been completed satisfactorily, then the project may well qualify."

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