



Introduction

Getting your invoicing system and payment terms right can be key to a healthy cash flow. You need to ensure your customers understand how much they need to pay and when they must settle up. They are more likely to pay you on time if these terms are clearly set out in writing from the start.

This guide outlines the information you are required by law to include in an invoice and what terms and conditions it should cover. It also explains how to pitch payment terms to customers and some of the commonly used invoice payment terms.

Invoicing and payment terms

Information that invoices must contain

All invoices should clearly state that this is what they are with the word "invoice".

They should also include the following:

- a unique identification number
- your company name, address and contact information
- the company name and address of the customer you are invoicing
- a clear description of what you are charging for
- the date the goods or service were provided (supply date)
- the date of the invoice
- the amount(s) being charged
- VAT amount if applicable
- the total amount owed

In addition, if you are a limited company, sole trader and/or VAT registered, the law requires you to provide certain information on any invoices you send to your customers.

Limited companies' invoices

Limited companies **must** have the following additional information on their invoices:

- the full company name as it appears on the certificate of incorporation
- any business name used in your business
- an address where any legal documents can be delivered to you if you are using a business name

Limited companies **may** include the names of the directors on their invoices. However, if you are going to publish this information on your invoices, you must include the names of **all** directors.

Sole traders's invoices

A sole trader **must** have the following additional information on their invoices:

- the trader's name or any business name being used
- an address where any legal documents can be delivered to you if you are using a business name

VAT details on invoices

If you are **registered for VAT**, whether the business is a limited company or a sole trader, you must also put the following information on your invoices:

- a unique and sequential identifying invoice number
- the date the invoice is issued
- your customer's name and address
- your business' name, address and VAT registration number
- date of supply to the customer
- a description sufficient to identify the supply of goods or services
- the quantity of the goods or services with a unit price - excluding VAT
- the rate of VAT per item
- the total amount of VAT amount owed without VAT added
- the total amount of VAT

If you are selling to an individual customer or a non-VAT registered company in another European Union (EU) country, you must pay VAT. However, if the customer is a VAT-registered company in another EU country, you do not charge VAT, but you must:

- obtain and show your customer's VAT number (including the two-letter country prefix) and your own VAT number on your VAT sales invoice
- send or transport the goods to your customer within three months, or six months if the goods need processing before being sent
- keep valid commercial evidence that the goods have been removed from the UK within the correct time limit

Your evidence can include a number of different documents - eg the customer's order or your sales invoice. It must clearly identify the:

- supplier
- transporter of the goods
- customer
- goods and their accurate value
- mode and route of transport
- EU destination

If you cannot fulfil these conditions, you will have to pay VAT at the appropriate UK rate.

It's best to set up records and invoice correctly for VAT from the time your business starts. You may find it useful to set up a pro forma invoice. A pro forma invoice can be an invoice drawn up by you and sent to

Contact Office: Credebt Ltd, Trym Lodge, 1 Henbury Road, Westbury-on Trym, Bristol BS9 3HQ tel no: 0845 6385256

the buyer to confirm the details of a contract, or a polite reminder to the buyer that a debt will be due for payment.

You can also add additional information to your invoices as you see fit to avoid delays in them being approved for payment.

Setting terms and conditions

Terms and conditions - sometimes known as terms of trade - are the terms of the contract between you and your customers. They're designed to **protect your rights, limit your liabilities** and provide you with some **security** when you sell your goods or provide a service.

Many businesses supply goods and services on the basis of informal, verbal arrangements. However, there is less chance of a dispute arising if agreements are clearly set out in writing.

It's important to get your terms and conditions right. If they're inadequate, it can be difficult to pursue or prevent bad debt. You may wish to consult a **solicitor** when drafting your **standard terms**.

Your terms and conditions should cover:

- Costs.
- Delivery arrangements.
- Payment terms. Is it full or part payment in advance or payment in arrears? You could offer customers a discount for paying by the due date and/or for paying within, for example, seven days of the invoice date.
- Credit limits and credit periods. If you don't agree a credit period with your customers, the law sets a default period of 30 days.
- Your right to charge interest on late payments and claim compensation for debt recovery costs.
- A commitment to quality.
- Data protection.

Make your terms binding

You need to make your customer aware of, and agree to, your terms and conditions.

Explain your terms and conditions to customers at the start of your relationship, ie with your estimate or quotation, or when they place an order. Allow them to discuss with you any problems they have before you raise an invoice. When you do raise an invoice ensure your terms and conditions are included.

You should also remember that the law allows you to challenge customers who attempt to impose terms and conditions that remove your rights to claim late payment interest or compensation.

Setting suitable payment terms for your customers

Most businesses give some level of **credit** to customers.

However, if customers do not pay you promptly, it can place a considerable strain on your business.

Before you agree to supply credit, check up on your customer. This can be done by using information supplied by credit agencies, analysing company accounts or consulting bank references. Based on the information that you find, you can then ask for payment in advance if necessary. This will help you to safeguard your cashflow.

Payment terms and conditions

Explain your terms and conditions to customers at the start of your relationship, ie with your estimate or quotation, or when they place an order. Send out a **written** confirmation of their order with a copy of your terms and conditions of sale. This enables them to examine the terms and conditions and discuss any problems they have before you supply goods or services. It also sets out mutual expectations, which can avoid misunderstandings later.

You can also print the terms and conditions on the back of your invoices.

If you communicate with customers electronically your terms and conditions should encourage electronic payment, eg via BACS or CHAPS. These systems provide payment certainty and prevent the risk of bounced, missing or lost cheques.

You could also consider sending your invoices electronically along with a copy of your terms and conditions, which is much quicker than sending invoices through the post.

Early payment discounts

You might encourage customers to pay early by offering a discount for early payment. The level of the discount should depend on the profits you are making on orders.

Advantages to offering an early payment discount are that it:

- speeds up payment
- improves cashflow
- reduces bad debts

Disadvantages to offering an early payment discount are that:

- discounts cost your business money
- some customers will pay early anyway, so you are giving them a discount for nothing
- when your business is bigger or more financially secure you may decide to discontinue the discount, which could result in offending or losing customers
- the discount needs to be closely controlled to stop customers who do not pay early from receiving a discounted rate
- accounting for VAT is more complicated than with undiscounted invoices

Collecting Payment

Collecting on overdue accounts can be a frustrating experience for a small business owner, particularly during the start-up period when every £ of revenue counts toward staying solvent and repaying debts. It's not the most pleasant part of being a Business Owner, but not handling them expeditiously will almost certainly endanger your business's cash flow and long-term viability.

Do what you Can to Prevent Late Payments

establish a standard policy for payment and make your customers aware of them before starting work. Some types of businesses may require all or a portion of the payment up front, while others allow terms such as payment within 30 days after receipt of invoice (i.e., Net 30). Your invoices should also clearly state any surcharges for late payments.

Be Careful with Credit

If you provide goods or services on credit, develop qualification standards that are specific, yet fair (e.g., a good credit history from a credit reference agency or good bank references). Put your credit policy in writing and make sure all employees understand it..

Take the Right Attitude

Your collections policy will do no good unless you enforce it. Do not shy away from a potential confrontation, but avoid provoking it as well. If you've met your obligation and a customer has not, you're entirely in the right.

Find Out Why

On the other hand, don't assume the customer is entirely wrong. Contact the Overdue account and ask politely for an explanation. It may well be that the invoice has been lost or is awaiting approval. A customer with cash flow problems may request extra time. How you proceed may be very situational. Based on your experience with the customer, you may feel confident enough to allow extra time or instalment payments. Make sure you and the customer clearly understand any compromise. Be flexible, but firm; and don't hesitate to follow up.

Take Stronger Action

If your collection attempts fail, it may be time to turn to an attorney or collections firm. Terms for these services vary; they may require a fee and/or a percentage of the invoice amount, or a retainer. Again, your course of action will depend on the situation. You may decide the amount of the overdue account does not justify the cost and effort to collect. If so, write it off as a bad debt and move on.

Don't Make the Same Mistake Twice

Mostly everyone deserves a second chance. Should customers with poor payment histories approach you about working for them or restoring credit, don't immediately refuse unless you are absolutely certain they remain bad risks. Ask them to explain how their situation has changed and decide whether it makes sense to restore the relationship. As a precaution, insist on stricter terms such as advance payment or cash-only.

Don't Go it Alone

Credebt offers comprehensive Business Assistance and can help you get paid on time by your customers. If all of the above seems daunting and you want help and advice then please contact us to discuss your requirements. We can help!