Invoicing in the UK

A complete guide

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What is an invoice?

What is an invoice?

An invoice is effectively a bill; it's a payment demand issued by a seller to the buyer of goods or services after the sale, detailing what goods have been provided or work done, and how much must be paid in return.

Invoices can be used to bill for one-off projects or for recurring work, but they are most widely used to request payment after work is completed, and where there is an ongoing relationship with the customer. Traditionally, invoices came in paper form, either handwritten or typed, then sent by post.

In recent years, many businesses have used email to speed up delivery. But the most tech-savvy firms now employ specialist software to generate e-invoices immediately, with information flowing automatically between seller and buyer.

What's included in an invoice?

Regardless of how it's delivered, a standard invoice includes the following elements:

- The word 'Invoice' marked clearly at the top of the document
- A unique number or reference
- The name, address, and contact details of the individual or company issuing the invoice
- The name and address of the person or organisation being invoiced
- A description of what product or service the invoice covers
- The supply date of the goods or service
- The date the invoice was issued
- The amount of money owed, detailing the VAT sum, if applicable, or any pre-agreed discounts, plus the overall total due
- The deadline date for payment

How does invoicing work?

Unless you have agreed alternative payment terms with a customer, UK rules dictate they must pay you within 30 days of receiving your invoice for the goods or services provided.

Some businesses do operate a different model. One familiar scenario being larger companies requiring that smaller suppliers accept payment terms of 90 or even 120 days.

Some companies choose to offer clients discounts for early settlement or payment in advance. Increasingly, SMEs are going further to protect themselves from late payment, and are asking for invoices to be settled within as little as seven days.

The UK is fairly typical among its neighbours in Europe in its approach to invoicing, with payment terms of 30 days from receipt of an invoice being commonplace in most European countries. But this does vary:

- Scandinavian businesses typically employ a payment deadline of 14 days.
- Spanish firms set payment terms of 45 days on average, for example
- Companies in Greece and Italy demand payment within 50 days or more.

How quickly invoices are paid often depends in part on how the document is issued. Manual invoices are slower both to deliver and to be processed at the other end. But modern, automated methods can ensure payments are made quickly and efficiently, even immediately.

Chapter 1
What is an invoice?

What are the advantages of using invoices?

You have a right to be paid for your efforts, and you can set your own payment terms.

These should be made clear at the start of a trading relationship, but it is the invoice that formalises your demand for payment. The use of an invoice has several advantages.

- **It prompts payment.** Where upfront payment is not required, the chances are that a customer won't pay you without receiving an invoice first. It's rare to be paid for goods or services provided before an invoice has been issued, with debts rarely settled voluntarily and without a prompt.

- **Invoices remind clients of the work completed or goods provided.** It's an itemised bill, so a customer can see what they're getting for their money.

- **They're a useful record-keeping tool.** HMRC requires businesses to retain records for up to six years, and the self-employed to keep evidence of sales, income, and expenses for five years. Not having up-to-date and accurate archives of invoices issued and received can risk a hefty fine from the Revenue.

- **It's an opportunity to send a positive message about your company and brand.** This applies to the document itself – how polished it looks, with a company logo, website address, and use of professional language – and the invoicing process. Efficient invoice generation and payment collection can improve customer satisfaction. Equally, poorly managed systems can easily damage a company's reputation.

What are the disadvantages of using invoices?

There are some potential downsides to using invoices, but these are mostly caused by poor management and inadequate processes:

- A badly drafted, vaguely worded document can be wrongly interpreted or easily disputed, delaying payment.

- If product sales or the hours of work undertaken are not meticulously noted, an invoice can appear approximate and could be challenged. A good invoice is clear, detailed, and precise.

- Invoices being issued late can encourage customers to be equally relaxed about settling the debt. Demands should be raised immediately to impress upon the client the need for swift payment.

When is invoicing not appropriate?

Invoices are not suitable for all types of payment. For example, if there is no ongoing relationship with the customer or if payment is required upfront, an invoice wouldn't be used.

Some industries use a lot of upfront payments for goods or services, such as retail and e-commerce. Merchants within these sectors require instant payment before they hand over or dispatch physical goods. Those operating in the hospitality industry, such as pubs, bars, and cafes, also often take cash or digital payments from customers on the spot, so they rarely issue invoices.upon the client the need for swift payment.

Chapter 2
Industry approaches to invoicing

Industry approaches to invoicing

One size does not fit all when it comes to invoicing, and industries take different approaches to billing customers. Here is a quick guide to different types of billing by invoice.

Progress billing

Invoicing in the digital industries - web development and design businesses, for example - often use progress invoicing, which involves charging clients incrementally for work completed, since projects can stretch out over many months. Equally, sectors where the items sold are particularly expensive, such as manufacturing, engineering, or aerospace and defence, can opt to spread cost for clients in this way.

The construction sector is particularly well known for using progress invoicing because most of its projects are on a large scale and spread over a long period. Construction also uses a lot of sub-contractors and these third-party costs must be recorded accurately. The total time worked by all concerned is needed to break down costs for clients in the final analysis.

Collective invoicing

A collective invoice is a summary that includes several orders or pieces of work in one document. It's commonly used for customers who make regular orders for smaller amounts, and is a time-efficient and cost-effective approach to billing and payment for both vendor and client.

Wholesale is a good example - wholesalers often issue collective invoices on a monthly basis, even though their customers are making frequent purchases throughout that 30-day period. Elsewhere, businesses that outsource a lot, making a number of small orders worth small amounts, often prefer being invoiced on a collective basis to save time and money processing payments. It can also work well with long-term

supply agreements, such as private medical or dental providers invoicing either the health insurance firm or the patient direct for a number of services supplied.

Recurring invoicing

Recurring billing sees invoices generated on a cyclical basis typically during the lifetime of a contract. Longer-term rental agreements, such as equipment hire, are often charged this way, for example. Digital and advertising agencies doing ongoing work for a client also sometimes use recurring invoicing.

Subscription invoicing

Subscription invoicing charges customers for goods or services on a pre-arranged schedule. In the day-to-day this can be seen with food box delivery firms, software providers, gym memberships, and online streaming services. Often, these are pre-billed, with people receiving an invoice and paying automatically at the start of the billing cycle. Club and society memberships, as well as regular charity donations, are other examples where subscription invoicing is the preferred model. Some accountancy firms are also beginning to use subscription charges rather than the traditional approach of invoicing clients annually or monthly.

Metered invoicing

Invoices in the utility and mobile phone sectors are strictly governed by regulators who insist providers issue clear, accurate bills to customers. Consumers usually sign up to an agreed package or tariff, but it is still metered billing, where individuals can be charged extra for any add-ons used during a given period. The invoices issued by these firms must show how many units have been used, the charge per unit, and the total cost for services used.

Chapter 2
Industry approaches to invoicing

Common invoicing errors – and how to avoid them

A badly designed invoice can cause confusion, delays in payment, and even reputational damage to a company. But there are several other commonplace mistakes businesses make when demanding payment.

Using manual systems

A surprising number of SMEs still use paper invoices, which are slow to deliver, take longer to process, and can be prone to duplication. They're also more likely to contain inaccuracies and sometimes get lost altogether. Accounting software issues invoices automatically, improves efficiency, and can personalise digital templates for each customer. These electronic systems are affordable, and can also track the payment process, sending automatic reminders for bills remaining unpaid.

Getting information wrong or sending the invoice to the wrong person

Misspelling a company name or addressing an invoice incorrectly happens all too often, causing delays while the mistake is discovered, a new invoice requested, and the amended document re-issued. Avoid confusion by being explicit and detailed in describing what product or service has been provided. Don't give the client any excuse for disputing the invoice.

Asking for the wrong amount

Always double-check the price quoted to ensure it's the one agreed with a customer and matches the job in hand. If an incorrect invoice has been sent, the business must issue a cancellation invoice with its own, new invoice number. This will include a negative invoice amount, as well as the original invoice number and the date it was issued. Then, a correct invoice can be raised with a different invoice number. However, the original invoice reference should also be stated should HMRC seek clarification at a later date.

Including the wrong VAT rate

If your business is VAT-registered, be certain to use the right calculation for the goods and services provided. If your rate differs from the standard VAT level of 20% or you've only recently registered for VAT, make sure customers are aware to prevent giving them a nasty shock.

Providing incorrect payment information

Ensure your company's payment details, bank account number, and mailing address are correct and easy to read. Better yet, provide the facility for customers to pay immediately with the click of a button. Providing a link to an online payment service makes their life easier, and means money hits your account sooner.

Chapter 2
Industry approaches to invoicing

Invoicing best practices

There are several invoicing best practices that businesses should follow:

Invoice promptly, preferably immediately

Some small companies still save up their invoices and send them out weekly or once a month. This creates a drag on cash flow. Invest in invoicing software to issue demands as soon as work is finished or goods have been shipped.

Research online accounting apps

These can make it easy to track hours worked on a project, as well as any expenses incurred, and will allow you to bill clients accurately, quickly, and on the move using a mobile phone or tablet. Apps will even issue reminders for tardy payers. Having a reliable, detailed record is also useful if the final bill is disputed.

Offer early settlement discounts

This could be a 2/10 Net 30 arrangement, whereby customers get a 2% discount on an invoice paid in ten days, with the full amount due within 30 days if this early deadline isn't met. Some businesses go further and offer a 5% or even 10% discount for a ten-day settlement period.

Tighten your payment terms

While many businesses still operate a 30-day payment cycle, it's not obligatory to do so. Some SMEs now ask for bills to be settled within seven working days. And keep an eye out for customers who are drifting in meeting payment terms. Credit control is an important part of your business, so nip any bad behaviour in the bud.

Know who you're dealing with

Undertake a credit risk assessment and research a new client before agreeing to provide them with expensive goods or services. Is it a real company? Is it a sole trader or limited company? Ask industry peers about the individual or organisation's reputation before doing business with them.

Don't be embarrassed to chase late payment

Enforce your payment terms, but always be polite and persistent to try to achieve an informal settlement. There are legal measures at your disposal – late payment legislation allows a business to charge 8% over base rate in interest where payment hasn't been received, plus a penalty fee – but this can sour relations permanently. The legal route should be a last resort. Try persuasion first.

Chapter 3
Invoicing templates

Invoice best practice features

The layout of an invoice often varies depending on the business issuing it.

Limited company invoice

Below is an invoice template for a limited company. You can download an editable version here. Simply download, fill the invoice out in your browser and export as a PDF to send on.
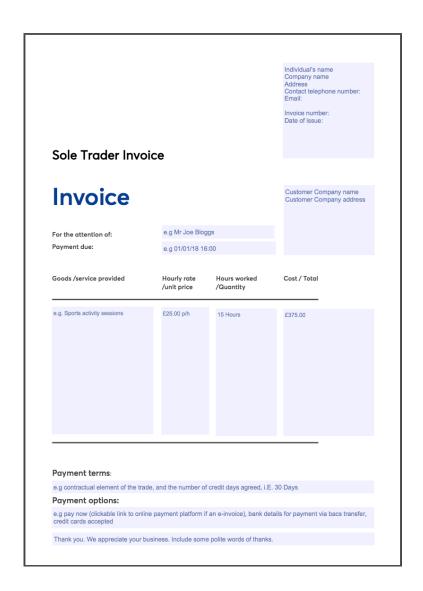
Limited Company Invoice

Invoice

Company name
Company address
Registered company number:
Contact telephone number:
Email:

Invoice number:
Date of issue:

Customer Company name
Customer Company address

| For the attention of: | e.g Mr Joe Bloggs |
| Payment due: | e.g 01/01/18 16:00 |

Goods /service provided	Hourly rate /unit price	Hours worked /Quantity	Cost / Total
e.g. Sports activity sessions	£25.00 p/h	15 Hours	£375.00

Payment terms:
e.g contractual element of the trade, and the number of credit days agreed, i.E. 30 Days

Payment options:
e.g pay now (clickable link to online payment platform if an e-invoice), bank details for payment via bacs transfer, credit cards accepted

Thank you. We appreciate your business. Include some polite words of thanks.

Chapter 3
Invoicing templates

Sole trader invoice

The requirements for sole traders' invoices are more straightforward, though they have many of the elements of a limited company invoice.

Below is an invoice template for a sole trader. You can download an editable version here. Simply download, fill the invoice out in your browser and export as a PDF to send on.

Individual's name
Company name
Address
Contact telephone number:
Email:

Invoice number:
Date of issue:

Sole Trader Invoice

Invoice

Customer Company name
Customer Company address

| For the attention of: | e.g Mr Joe Bloggs |
| Payment due: | e.g 01/01/18 16:00 |

Goods /service provided	Hourly rate /unit price	Hours worked /Quantity	Cost / Total
e.g. Sports activity sessions	£25.00 p/h	15 Hours	£375.00

Payment terms:

e.g contractual element of the trade, and the number of credit days agreed, i.E. 30 Days

Payment options:

e.g pay now (clickable link to online payment platform if an e-invoice), bank details for payment via bacs transfer, credit cards accepted

Thank you. We appreciate your business. Include some polite words of thanks.

Chapter 3
Invoicing templates

VAT invoice

Only VAT-registered businesses can issue VAT invoices, and this type of invoice must be used if you and your customer are registered for VAT with HMRC. Usually, VAT invoices should be raised within 30 days of the date of supply or the date of payment if the vendor was paid in advance. VAT invoices include more information than a standard invoice.

Below is an invoice template for a VAT trader. You can download an editable version here. Simply download, fill the invoice out in your browser and export as a PDF to send on.

Chapter 4
How to prepare an international invoice

International invoicing

We have looked in previous chapters at the key elements of a domestic invoice. But when British businesses begin trading abroad or dealing with overseas customers, things become more complicated.

The first consideration when invoicing a foreign customer is where they are based. Roughly half of the UK's trade is with the European Union (EU), though more companies are setting their sights on markets further afield now Brexit is on the horizon. Wherever your customer is, you must agree with them the currency in which you will invoice and in which they will pay.

Currency considerations

When issuing invoices to foreign customers, businesses often work in commonly-used currencies, such as euros, dollars or sterling, to minimise complication. The advantage of invoicing and being paid in pounds is that there is no exchange rate risk. However, foreign customers may prefer to pay in their own currency. Most small businesses billing in a foreign currency hedge against currency risk by getting forward cover (also known as Forward Exchange Contracts) from their bank. This locks in the current exchange rate, so they won't lose if the rate moves against them while they're waiting for payment.

In most instances, issuing an invoice is a requirement - EU rules, for example, dictate that an invoice must be produced whenever you sell goods, offer services or receive payment on account. This can be done electronically or on paper, with all countries in the EU required to treat electronic and paper invoices as equal. But emailing international invoices makes good sense for reasons of speed, plus avoiding possible mistakes in postal addresses.

VAT issues with EU & international invoicing

If you're issuing invoices in a foreign currency, different rules apply depending on whether you're selling goods or services, plus whether you're dealing with other businesses or directly with consumers. It may also be necessary to register for VAT or the equivalent sales tax in the country with which you're trading.

Zero rating international invoices

If you sell goods from the UK to someone in another country, you might need to charge VAT on the sales. However, you can zero rate most items sold outside the EU or those sent to someone who is VAT-registered in another EU country. There are exceptions, such as second-hand goods and means of transportation, so always check. If you're selling services to a foreign customer who is VAT-registered, you don't charge VAT, but they pay the sales tax in their own country. This detail should be acknowledged on the invoice. When a service is sold to a customer not registered for VAT, VAT is charged at UK rates.

In instances where the VAT payable is zero, this should also be noted on the invoice. Your invoices are important since they can be used by HMRC as 'evidence of removal', demonstrating the goods concerned left Britain. Records should be kept for up to six years, but businesses registered for VAT Mini One Stop Shop (MOSS), the service for firms selling digital services to consumers within the EU, must keep invoices up to ten years.

Distance selling

If you're selling goods or services to someone not registered to pay VAT in another EU country and you're responsible for delivery, this qualifies as a distance sale and you charge VAT at UK rates. However, each EU country has a distance selling threshold – 35,000 euros in many countries including France, Ireland and Italy, but up to 100,000 euros in Germany, Luxembourg and the Netherlands, for example. If the value of your sales exceed those limits, you must register for VAT in that country and charge VAT at the local rate.

Chapter 4
How to prepare an international invoice

International invoicing and accurate record keeping

When invoicing sales overseas, often the reverse charge mechanism applies. This shifts responsibility for reporting a VAT transaction from the seller to the buyer of a good or service. Most sales between EU member states are subject to reverse charge rules, which are designed to simplify trade by making the customer accountable for VAT. But the seller must state on the invoice: 'Subject to reverse charge in the country of receipt'.

The British tax authorities require businesses dealing with foreign customers to issue a VAT invoice clearly showing the VAT sum in sterling as well as the other currency. When updating your accounts, invoices in foreign currencies must be recorded in sterling with the foreign sum converted using a commercial rate as of the invoice date. If you're owed money in foreign currencies, it's necessary to keep track of the amount outstanding in sterling even though exchange rates are constantly fluctuating. So, if you issued an invoice in euros, the bill has yet to be paid, but the euro has dropped in value against the pound in the intervening period, you must recalculate the amount owed based on the new exchange rate. The difference should be registered in your profit and loss account as a foreign exchange loss.

Selling to foreign customers can be complex, so talk to an experienced accountant to check which rules and regulations apply in different jurisdictions and where you should be paying tax.

What to include on an international invoice

• The date of issue

• A unique invoice number

• Your company's full name and address

• The customer's full name and address

• A description of the goods or services provided and the quantity

• The date and place of supply

• The total amount payable in the agreed currency

If you're registered to pay VAT and are sending the invoice to a customer in another EU country also include:

• Your VAT number

• The VAT number of the customer if applicable

• The VAT rate being charged

• The taxable amount per rate

• The VAT amount payable

• The sterling equivalent of VAT payable if the invoice is in another currency

• If you've delivered a service and the VAT rate is zero, state: 'Article 44 of the EU VAT Directive; VAT is due by the recipient of the service'

• If you've sold goods and the VAT rate is zero, state: 'VAT exempt, EC Supply Article 138 of the EU VAT Directive'

Chapter 5
Automated invoicing

Paper versus paperless invoicing

It may seem surprising in this day and age, but many smaller companies still stubbornly hold onto paper invoicing processes, printing out bills that are sent to customers by post. But issuing invoices this way is slow, time-consuming and vulnerable to human error. Technology is available to offer even the smallest firms greater efficiency when demanding and collecting payments. Here are just a few reasons why you should consider going paperless:

1. Processing a single paper invoice costs anywhere between £30 and £50 per document, research from Wax Digital has found. Electronic invoicing reduces costs by as much as 60%, according to findings from GXS.

2. Paper invoices use up valuable staff time and are prone to human error. About 25% of accounts payable time is spent on resolving problems related to invoice data entry and processing, the Wax Digital study found. When digital systems are introduced, fewer people are needed to process payments in accounts payable, so manpower can be deployed to more valuable parts of the business. Invoice accuracy also typically improves.

3. Businesses using online tools are paid 33% faster than those issuing paper invoices, according to cloud accounting provider Xero. It's no surprise given paper invoicing involves documents being dispatched by post, opened and sorted at the customer's premises, then often passed for approval by more than one member of staff before payment is activated. Conversely, electronic processes can allow for a 'pay-now' facility embedded in the invoice itself.

4. Technology-based invoicing allows for greater levels of personalisation. If desired, business owners can create bespoke invoice templates for each client. As billing becomes more innovative, customer satisfaction should increase.

5. Better efficiency equates to faster approval cycles, which itself can create trade discount opportunities. Business owners can pass on the benefits of better cash flow to customers. When invoices are being processed more quickly companies can offer customers payment discounts for settling up debts early.

6. Reducing paper use is better for the environment and can help a business reduce its carbon footprint. It saves on delivery costs, too. Plus, given the legal requirements to retain invoices for at least six years, going digital can free up a lot of physical storage space.

Antiquated systems, fragmented invoice processing and a one-size-fits-all approach to billing can have a negative impact on profits, cash flow and a business's reputation. Moving from paper to digital processes should improve accuracy, boost staff productivity and see cash begin to flow more reliably into a business.

Chapter 5
Automated invoicing

Automated online invoicing systems

Online invoicing packages offer easy-to-use systems that enable business owners to set up scheduled payment demands that go out automatically at specific dates and times. No more manual data entry or laborious paperwork. Alternatively, one-off invoices can be issued swiftly and directly by the business owner without the need for a bookkeeper's help, even being sent from a mobile device at any time from any place.

E-invoicing systems build invoicing into a firm's workflow, with automated invoices being delivered immediately. This itself leads to faster payment, with the most up-to-date payment services allowing customers to click straight through via the invoice to settle their bill straightaway. This pay-now facility is proving increasingly popular as it boosts cash flow for the vendor and reduces accounts processing time for the busy customer. The best systems offer a range of payment options, including credit cards, bank transfers or Direct Debit to make it easy for customers to pay. Make sure you choose an invoicing software that integrates with established online payment providers.

When payment processes move online it makes tracking invoices much easier. Most systems use a dashboard that shows payments already received, those pending and those that are overdue. It's also possible to set reminders for customers who have yet to pay and run reports to get a snapshot of those who are on time and those who are persistently tardy. With such thorough and detailed record-keeping it's simple to get information should your accountant or the authorities demand it.

Automated invoicing systems

It's quick and easy to buy and set up off-the-shelf invoicing software packages or subscribe to cloud-based providers. Some tech-minded firms even opt to build their own platforms. But how do some of the most commonly-used invoice management systems compare?

QuickBooks is a well-established accounting software package that allows users to create and send invoices, as well as manage all the accounting needs businesses face. It also tracks overdue invoices to make chasing payments easier.

Xero is very popular with small firms who are attracted by its cloud-based invoice management system with automatic reminders and online payment facilities. Xero also integrates with hundreds of existing finance-related apps, as well as offering its own app to allow users to do their accounting on the move.

ClearBooks offers online invoicing, purchases and expenses tracking. One feature of its cloud-based software allows businesses to run accounts in more than 170 different currencies.

FreeAgent's online accounting software provides all the important business accounting services, including invoice issuing and tracking. It also allows subscribers to have unlimited numbers of users, clients and projects at any one time.

KashFlow has a handy app enabling users to invoice on the move. It also links direct to HMRC to give customers their data in one place, making compliance easier. Invoices are customisable, plus data encryption is available for those concerned about security.

Salesforce is a cloud-based service that allows for subscription billing using GoCardless, as well as the option to set up mandates using online invoices or emails with pay-now links.

GoCardless has an extensive list of available partner integrations. You can see them all here.

Chapter 6
Receiving payment of invoices

Getting paid

Any business wants to get paid as soon as possible and while issuing invoices promptly is the first step, making paying easy for customers is also essential to good invoice management. There are a variety of popular payment methods available to business owners:

Cheques and cash

Despite increased use of digital payments, some customers still prefer paying with cheques or cash. This approach has the merit of largely avoiding transaction fees. However, payments in hard currency or by cheque involve more admin, are inflexible and can be slow and unpredictable. Late payers can also go unnoticed without automated notifications of overdue invoices.

Standing orders

Customers instruct their bank to pay a company a fixed sum via standing order on a set date, giving the client control to determine how much they pay and when, plus the opportunity to cancel arrangements should they so wish. It's a cheap or free way for businesses to take payments, but lacks flexibility and can involve a lot of paperwork. It also brings an increased risk of late payments, with no notifications if invoices aren't settled as expected.

Credit and debit cards

Continuous Payment Authority (CPA) payments – those where customers give permission for companies to take funds from their credit or debit cards – are commonplace and easy to use. The customer supplies their card number online, by phone or in person, which is then linked to their bank account by card networks and settlement banks to take the money owing. It's a useful way of making one-off transactions or subscribing for regular payments, but can be expensive for merchants as costs are high both per payment and in monthly fees. Failed payments are also reasonably common due to cards being rejected, expiring or getting lost or stolen.

Direct Debit

Companies can automate payments, taking money from customers' bank accounts when payments are due, varying the frequency and amount as required, but without having to seek the permission of the customer each time. Direct Debit carries a low cost per payment for the merchant and failure rates are very low, less than 1% with GoCardless. It's a very flexible way to take payments, with minimal hassle involved.

Bank transfer

Payments by Bacs allow direct transfers from the customer's bank account to that of the business. While this method is commonly used for regular payments, it can also work for one-off transactions. Bank transfers are popular due to low transaction fees and a low failure rate. Again, they carry the risk companies will not be alerted if payments fail. They are also inflexible, only allowing customers to pay the right amount at a specified time.

Chapter 6
Receiving payment of invoices

How to get paid on time

Helpful advice on ensuring that your debtors always pay on time, every time you invoice them.

Automated payments

Automating payment collection is increasingly easy with electronic invoicing, which allows customers to pay immediately using integrated methods. It's convenient for business owners who get money on its due date and for customers who don't have to waste time processing invoices and arranging payments. Preventing late payments really matters, particularly to SMEs, as more than a third of which experience cash flow difficulties as a result of bills going unpaid, research from the Federation of Small Businesses shows. By automating payments, via Direct Debit, for example, companies can predict how much money they will have in the bank at any time. This means they can plan ahead and focus on their relationship with the customer rather than pestering them for unpaid bills.

Setting payment terms

Standard payment terms in the UK state the customer should pay for goods or services within 30 days of receiving an invoice, but this does vary. More businesses are shortening payment terms, demanding money be received in as little as seven working days. At the other extreme, some industries ask suppliers to agree to 90 or even 120-day payment terms, which can be damaging to a business's financial flexibility, credit options and productivity. It's advisable to keep your own payment terms tight to maintain decent credit control.

Prompt payment discount

Incentivising customers to pay early by offering them discounts is commonplace. For example, a business might use a prompt payment discount of 5%, taking that percentage off the total owed for a bill paid within 14 days rather than the standard 30. Other credit terms might be 1/10, net 30, meaning a customer could deduct 1% of the sum owed if the payment was made within 10 days rather than the full amount being due within 30 days of the invoice being issued. Additionally, tax rules in the UK dictate that companies making prompt payment discount offers can mark on the invoice the amount due for the discounted price, even if the undiscounted amount is the one finally paid.

Pros and cons of offering discounts

While businesses may be sacrificing some of the money they're owed, payment discounts can stimulate payments and provide working capital. On the flip side, some customers may try to abuse the goodwill gesture and stretch out payment terms anyway, hoping to pay the discounted rate in the end, which could lead to a dispute. Agreements like these do need policing, which can take time and effort. Also, companies already operating on low margins may find that they have little give in their pricing to allow for such a strategy.

It is essential to calculate thoroughly to see if offering a discount makes financial sense. Explore, too, whether other options might achieve the desired outcome. If you're looking for working capital, is there a cheaper solution, such as invoice factoring? Might the cost of setting up automated payments, such as Direct Debit, be a more economical option than offering money off the final bill? When one compares a 5% discount on an invoice with the typical fee of 1% GoCardless charges to process Direct Debit payments, for example, paying a payment provider to collect money more efficiently could seem preferable to taking a smaller sum than you're owed.

Chapter 7
Unpaid and overdue invoices

Handling late payers

Businesses live in dread of late payment and with good reason. Two-thirds of invoices in the UK are paid late, according to research by MarketInvoice, with SMEs particularly vulnerable. They're also the most likely to be damaged by unpaid bills, with cash flow and productivity suffering. Some even go under due to unpaid invoices. And there's evidence that late payments are on the increase, with some industries being notably worse than others.

- Businesses operating in the transport sector are the worst offenders, being an average of 25 days late paying, MarketInvoice data shows.

- The utilities industry takes an average of 23 days extra to settle its bills.

- Media firms are an average of 21 days overdue paying invoices, while management consultants take 20 days more than requested to pay up.

- Tech companies are an average of 19 days late, compared with the 18 days extra both financial services and energy businesses take to pay their debts.

- Construction businesses are an average of 17 days late paying invoices.

- Supermarket and retail firms are 14 days late paying on average, while wholesalers and food and beverage businesses pay up 13 days late on average.

Escalating action against late payers

Given late payment is evidently so ubiquitous, what can companies do to encourage sluggish payers to hand over the money? Most firms start gently by sending a friendly reminder by email to jog the accounts department into action. If this fails, a call to the bookkeeper or accounts payable team may be necessary. Next come formal written demands.

These typically escalate from a polite request for payment followed by a firm reminder. If such efforts yield no meaningful response, it may be time to send a final notice warning that the next step is to charge statutory interest on the amount owed as per the Late Payment of Commercial Debts Act. Alternatively, you may have set out a late payment interest rate in your original payment terms, which you could now threaten to apply.

It's understandable that many businesses are reluctant to take this final action for fear of antagonising a customer. Just one in five smaller firms has tried to apply late payment interest on an unpaid invoice, Zurich Insurance research shows. But given the real threat of losing your business if invoices go unpaid, action is sensible.

The last resort is passing over the bill to a debt collection agency or getting solicitors involved to chase payment. The Government also has a Money Claim Online service for sole traders or small businesses owed less than £100,000. This involves filling out a small claims court form online, which will prompt a court letter to the customer demanding prompt payment and threatening a County Court Judgement for failure to settle the invoice.

Ways to avoid late payment

Of course, prevention is better than cure and taking measures to avoid being paid late is essential to good business:

- Run credit checks on new customers of any size or, at the very least, ask around about their reputation. And always trust your gut. If you don't have a good feeling about a customer, don't deal with them.

- Make sure your payment terms are clear and easy to read on the invoice. Include details of late payment interest charges, too.

Chapter 7
Unpaid and overdue invoices

- Send out the payment demand as soon as the work is finished. A follow-up call or email to check the invoice has been received and is in order doesn't go amiss either. In fact, maintaining a friendly relationship with whoever handles payments at the other end is always worthwhile to smooth out problems when and if they arise.

- Consider whether it's possible to ask for all or some of the money owed up front.

- Set up payment reminders and alerts so that you're immediately aware if a debt has gone over its due date.

- Think about automating payments where possible to avoid the hassle of chasing invoices altogether. Payment providers such as GoCardless can do all the hard work for you, taking regular payments or one-off amounts quickly and at minimal cost.

Chapter 8
The future of invoicing

Machine learning and invoice automation

One thing's certain – technology will continue to shape how payments are demanded and collected in the years ahead. Paper invoices will become increasingly rare as more businesses move to digital processes. Bills will be generated immediately, with payments accelerated as vital functions are integrated into the invoice itself. Billing techniques will become more refined, customisable and intuitive for both business owner and customer.

But an even greater shift is beginning to take place. Machine learning allows invoicing systems to analyse and digitise invoices, extracting relevant information to speed up and automate payment processing. Plus, blockchains, the building blocks which power cryptocurrencies, are increasingly being put to use in invoice reconciliation, allowing for fast, transparent, secure processing of payments.

Machine learning software

Machine learning software is already available that scans keywords and numbers on incoming invoices, recognising company names, invoice numbers and money owed. Relevant information is automatically generated, removing the need for manual data entry; invoices are matched to purchase orders, and the individual giving final approval is informed and can confirm payment in a single click. One provider of this type of software, French firm AODocs, estimates that companies can save 15 minutes of employee time per invoice using this digitised approach, which would translate to a staggering 375 hours a month saved for a firm processing 1,500 invoices monthly.

Because these smart analysis systems extract structured data from sets of documents, the need for human intervention is almost entirely removed. Not only does this improve the speed, efficiency and accuracy of invoice management, the fact that captured information is automatically filed into databases makes business analytics much easier. It can also aid further software development in the future.

However, systems with machine learning capabilities often struggle with invoices that don't have a set format. Accuracy can be high when scrutinising text and numeric data, but less reliable when trying to make sense of graphics, tables or visual features, such as logos. This is improving all the time as technology develops. But, a world where full automation of invoice processing is commonplace is a little way off yet.

Chapter 8
The future of invoicing

Blockchain and e-billing

Blockchain technology is also being applied to electronic invoicing. And it has the potential to revolutionise how transactions are validated, invoices issued and payments made. Still best known as the building blocks of cryptocurrencies such as Bitcoin, these distributed ledgers based on blocks, each of which record a transaction, are a perfect fit with payment reconciliation. A document sits in a decentralised blockchain network, which can be accessed and altered – with a record of who made changes and when – by several users at once. It is tamper-proof and transparent. Each record or block is linked and secured using cryptography, with all transactions visible to all parties, therefore removing the need for an intermediary. Using an invoicing system on the blockchain will allow for seamless payments made automatically from the customer to a business's digital wallet. Transactions are easy to track and monitor and the entire history of an exchange can be downloaded from the blockchain.

Increased visibility with blockchain

Traditional payment processes tend to be opaque, based on paper, with little or no audit trail available. Debtors can easily delay payment by hiding behind bureaucracy or claiming demands are held up or lost. Request Networks, TallySticks and Applied Blockchain are just some of the companies seeking to change all this by shaking up business invoicing using blockchain. They argue that the blockchain means information is accessible and accurate at each step, allowing the financial decision makers in businesses to see exactly how much money they're owed and what's on its way, making planning easier.

It all sounds quite utopian. In reality, uptake is likely to be fairly slow. When one considers how resistant many businesses have been to adopting existing electronic invoice and payment technologies, it may take time before the average company adopts blockchain technology to handle invoicing. But they should watch the progress of this new kid on the block – if you'll forgive the pun. Blockchain certainly looks set to be integrated increasingly into business processes in the years to come.

Chapter 9
Is GoCardless right for me?

Is GoCardless right for me?

Automating payments is a possibility right now with a system that has been around for decades and is trusted by millions of users across the UK - Direct Debit. Using Direct Debit via GoCardless is a way to automate the payment of your business's invoices and improve cash flow. And it's even more powerful when it's used with online invoicing systems to reconcile bills on the spot.

Ask yourself a few simple questions:

How long do you spend chasing payments each month?

If it's more than two or three hours, then Direct Debit could be a good solution. Once a Direct Debit mandate is set up, payments are collected automatically and at any time, with money clearing in between three and five days.

How long on average do you wait for payment past your agreed payment terms?

If it's more than 10 days, again, Direct Debit could be for you. Because money is collected whenever it's due, you're in control.

What percentage of your customers pay you late at least once a year?

If it's more than 10%, Direct Debit could help. For those who collect fixed amounts at regular intervals, GoCardless can let you 'set and forget'. Payments are automated, but, equally, you can use Direct Debit for one-off sums, too.

Do you take regular or recurring payments from the same customers?

If so, Direct Debit or standing order may be the answer. They are both low or no cost in terms of transaction fees, unlike cards or bank transfers. In particular, Direct Debit has the advantages of being highly flexible, with a low failure rate and no risk of late payment.

How many customers do you have?

If you have fewer than 25 customers, standing order may be the best method of taking payment, as it works well for those who have close relationships with a small number of clients. Direct Debit is better for those with a larger customer base – 25 customers and above - since payments are easy to set up and are then automated. Plus, failed payments will be flagged up, so you won't be left out of pocket.

For more information on different forms of payment and how they compare, plus how GoCardless may be able to help your business take a look at the GoCardless Guides.