6 money leaks in a trade business, and how to plug them

A free guide from Danny Wood, AMBA Accounting, Marketing & Business Advisory. Written for directors of trades businesses with limited companies.

"We're flat out every week, but there's never any money in the bank." It is the thing Danny hears most from builders, electricians, carpenters, plumbers and heating engineers, and it sounds like a sales problem. It almost never is.

In a trade business, profit and cash are two different things. The work can be good, the prices can be fair, and the bank can still be empty, because money is leaking out in places nobody is looking. These are the six leaks that come up most often, what each one costs, and what to do instead.

1 Paying for the job before the job pays you

What happens

Materials go on the account at the start. Wages go out every week or every month. The customer pays at the end, or in stages, and often later than agreed. Every new job starts with you lending it money, and the bigger the job, the bigger the loan.

What it costs

Friday's wages come out of whatever happens to be in the bank, which is often the deposit from the next customer, or the overdraft, or you. You end up turning work down, or taking work you don't want, because of cash rather than because of the work.

What to do instead

Agree deposits or stage payments up front on anything sizeable, and put them in writing. Invoice materials as they go in rather than at the end. Invoice the day the stage is done, not at the weekend when you get round to it. Between businesses, you may also have a legal right to add interest and compensation to invoices that are paid late, and saying so on your terms is often enough on its own.

2 Extras and variations that never get invoiced

What happens

"While you're here, could you just..." The extra socket, the moved wall, the upgraded boiler, the half-day lost waiting for another trade. It gets done on site, agreed with a nod, and never makes it onto the final invoice.

What it costs

Extras are usually the most profitable work on the job, because you are already there with the van and the tools. Lose a few of them on every job and the profit you priced in disappears without anyone noticing.

What to do instead

Write every variation down before you do it, even as a text message or a photo of the note, with what was asked for and roughly what it will cost. Keep one running list per job. When you invoice, the list goes on the invoice. Customers rarely argue with something they agreed in writing.

3 Retentions nobody chases

What happens

If you work for main contractors, part of every payment is held back until the job is finished, and part again until the defects period is over. It is your money and it is in your profit figures. It is not in your bank.

What it costs

Retentions are easy to forget, because by the time they are due you are three jobs further on. Contractors are rarely in a hurry to remind you. Some never get paid at all, and some are lost when a contractor goes under.

What to do instead

Keep one list of every retention you are owed, who owes it and the date it falls due, and put the dates in your diary. Chase them like any other invoice. When you price new work for a main contractor, factor the retention into the price and the cash plan, rather than treating it as a nice surprise later.

4 CIS deductions left sitting with HMRC

What happens

As a subcontractor, CIS comes off every payment you receive. Many trade companies let those deductions pile up and wait for the year end to get them back, sometimes longer if the paperwork does not match.

> **Monthly, not yearly**
>
> **CIS taken off your invoices, put back to work in your business sooner**

What it costs

That is your money, held by HMRC for months, while you run the business on less. If contractors' statements are missing or do not match your claim, the repayment stops while HMRC ask questions.

What to do instead

A limited company can set the CIS taken off its income against what it owes HMRC through payroll each month, including the PAYE on the director's own salary. Keep every monthly CIS statement, chase the missing ones and check they match. Once your company has a clean track record, look at applying for gross payment status, so nothing is deducted at all.

5 Spending HMRC's money as if it were yours

What happens

The VAT you collect, the PAYE you deduct from wages and the Corporation Tax building up on your profit all sit in the same account as the money you can actually spend. The balance looks healthy. Then the VAT quarter, the payroll bill and the Corporation Tax land within weeks of each other.

What it costs

A tax bill you were not ready for means paying late, which brings penalties and interest, or paying on time out of money that was meant for wages and suppliers. Late payments to HMRC can also count against you when you apply for gross payment status.

What to do instead

Open a separate account for tax and move a set amount into it every week or every month. When a bill arrives, it is a transfer, not a crisis. If most of your sales are under the VAT domestic reverse charge, check whether HMRC now owes you VAT rather than the other way round, and whether monthly returns would get it back to you sooner.

6 Pricing without knowing what jobs really cost

What happens

You price from experience, a day rate and what the last customer paid. You find out how the year went when the accounts arrive, long after every job in that year has finished.

What it costs

If one type of job quietly loses money, you can do a year's worth of it before anyone notices. Busy and underpriced is the most tiring way there is to run a business, and it is very common in the trades.

What to do instead

Track each job's costs as they happen: materials, labour at what it really costs you, subcontractors and hire. In Xero or QuickBooks, every bill and invoice can be tagged to a job, so profit job by job is there at the end of each month. Start with your next three jobs. They will tell you more about your pricing than a year of accounts.

Which of these six apply to you?

Every trade business is different. What each leak is worth depends on the work you do, who you work for and how your company is set up today. Book a call and Danny will go through them against your actual position.

Book a call: calendly.com/danny-wood/30min · 01634 540064 · ambaaccounting.co.uk

This guide is general information for trades businesses that trade through a UK limited company. It is not advice, and it should not be relied on as advice about your own position. Tax rules change, and how any of this applies depends on your circumstances.

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