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Leslie A. Cesario, Ltd.
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Was Your No-Health-Insurance Penalty A Surprise?

Article Highlights:

- 2014 Uninsured Penalty Notices
- Flat Dollar Amount Penalty
- Percentage of Income Penalty
- Penalties Increase in 2015 and 2016

A tweet from an Indiana resident by the name of Benjamin Miller, including a picture of the IRS notice he received advising him that he owes $2,344 as a penalty for not having health insurance, has gone viral and ignited a firestorm.

Mr. Miller stated in his post that he didn't buy health insurance because his premiums jumped by over $1,000 to $1,400 per month. Of course the increase in Mr. Miller's insurance premiums were most likely due to the mandatory provisions included in the health plan that were needed to meet the minimum essential coverage requirements of the Affordable Care Act (ACA).

Mr. Miller, like many uninsured taxpayers, probably didn't fully read the penalty provisions or didn't fully grasp them, which is understandable since they were written by attorneys. What Mr. Miller, and probably thousands of other taxpayers, overlooked when making the decision whether to buy insurance was the fact the penalty was the HIGHER of two computations, the flat dollar amount and the percentage of income amount. The flat dollar amount for 2014 was $95 per adult and $47.50 for a child, with a maximum of $285 per family. This is where lots of people stopped reading and erroneously concluded that the penalty wouldn't be so bad when compared to the high premiums they were quoted, especially if they were relatively healthy and didn't feel a great need for insurance coverage. These taxpayers failed to consider the percentage of income penalty amount, which for 2014 is 1% of the taxpayer's household income after deducting his filing threshold (the sum of the filer's standard deduction and exemption amount for the filer and spouse, if any).

So even though the penalty was much higher than expected, Mr. Miller did save the difference ($14,456) between the insurance premiums he would have paid and the penalty. Having been shown the penalty amount, we know that Mr. Miller's income is in excess of $234,400 since the penalty is 1% of his income, and it likely won't break Mr. Miller's bank account to pay it.

If his penalty had been for 2015, Mr. Miller would be looking at a penalty about double the 2014 amount. The penalty is being phased in over a three-year period, and for 2015 the flat dollar amount is $325 per adult and $162.50 per child, with a maximum of $975, while the percentage of income penalty jumps to 2%. Then in 2016 the flat dollar amount will jump to $695 per adult and $347.50 per child (maximum $2,085) with the percentage of income penalty rate at 2.5%.

So if you are considering skipping health insurance coverage and paying the penalty, remember it amounts to the HIGHER of the flat dollar amount or the percentage of income.

Marketplace Insurance Checkup

Article Highlights:

- Advance Premium Tax Credit
- Family Income
- Family Size

- Reporting Changes to the Marketplace
- Repayment of Credit
- Married Filing Separately

If you are one of the many individuals or families who purchase their health insurance through the federal or a state government health insurance marketplace and are receiving an advance premium tax credit (subsidy of premium available to those with low to moderate income) to help you pay the cost of that insurance, you should make sure you report changes in family income and family size, as they occur, to the marketplace through which you purchased your insurance.

Changes in either family income or family size can have a significant impact on the amount of the advance premium tax credit (APTC) to which you are entitled. Reporting the changes as they occur allows the marketplace to adjust the APTC to the amount to which you are entitled.

Here are some changes in circumstances that you should report to the marketplace:

- An increase or decrease in your income
- Marriage or divorce
- The birth or adoption of a child
- Starting a job that provides you with or access to health insurance
- Gaining or losing your eligibility for other health care coverage
- Changing your residence

You can estimate (using the IRS estimator) the effect that changes in your family circumstances and income may have upon the amount of premium tax credit that you can claim.

Reporting these changes to the marketplace will help you avoid getting too much or too little advance payment of the premium tax credit. Getting too much APTC means you may owe additional money or get a smaller refund when you file your taxes for this year. Getting too little APTC could mean missing out on premium assistance to reduce your monthly premiums.

Repayments of excess premium assistance may be limited to an amount between $300 and $2,500, depending on your income and filing status. However, if advance payments of the premium tax credit were made, but your income for the year turns out to be too high to receive any amount of premium tax credit, you will have to repay all of the premium subsidies that were made on your behalf—with no limitation. Therefore, it is important that you report changes in circumstances that may have occurred since you signed up for your plan.

You should also be aware that married individuals filing separate returns are generally not allowed a premium tax credit and that any advance credit will have to be fully repaid. There are exceptions for abused or abandoned spouses and for those who meet the requirements to file as head of household.

If you have questions related to the APTC or how it may affect your particular circumstances, please give this office a call.

Increase Your Withholding to Avoid Underpayment Penalties

Article Highlights:

- Withholding
- Estimated Tax Payments
- Underpayment Penalties
- Safe Harbor Payments

- Withholding Strategy

Uncle Sam considers our tax system a "pay-as-you-go" system and expects taxpayers to prepay taxes on income as they receive it throughout the year. Taxes are prepaid through withholding and by estimated tax payments.

Since withholding is not an exact science and estimated tax payments are—just as the title suggests—estimates, the IRS, and most states, provide safe harbor payments that a taxpayer can make through a combination of withholding and estimated payments that will ensure no underpayment penalties are assessed.

There are two federal safe harbor amounts that apply when the payments are **made evenly throughout the year**.

1. The first safe harbor is based on the tax owed in the current year. If your payments equal or exceed **90% of your current year's tax liability**, you can escape a penalty.
2. The second safe harbor—and the one taxpayers rely on most often—is based on your tax in the immediately preceding tax year. If your current year's payments equal or exceed **100% of the amount of your prior year's tax**, you can escape a penalty. If your prior year's adjusted gross income was more than $150,000 ($75,000 if you file married separate status), then your payments for the current year must be **110% of the prior year's tax** to meet the safe harbor amount.

But what if you don't meet one of the safe harbors? Then the IRS will assess a penalty based upon amounts due on a quarterly basis (although for this purpose all quarters aren't made up of the same number of months). So if you didn't meet the safe harbor requirements in the earlier part of the year, trying to make up for it with estimated tax payments in the later quarters will not lessen the penalties in the earlier periods, for which the penalties are generally higher because you held on to Uncle Sam's money for a longer period of time.

But there is a little-known strategy that can help solve that problem. Withholding is treated as made ratably (equally) throughout the year, regardless of when it was withheld. So, for example, if you shortchanged Uncle Sam in the first three quarters, you can make up for it through increased payroll withholding in the last quarter of the year.

If you want to implement this strategy, don't put it off too long, since the longer you wait the fewer pay periods you'll have in which to make up the shortfall before the end of the year—and the smaller your take-home pay will be. Although payroll income is the most common source of withholding, there are also pension, Social Security, and brokerage account income withholding, just to name a few other potential sources.

If you had an increase in income this year and are facing a substantial tax liability at the end of the year, it may be appropriate to contact this office for a year-end planning appointment to discuss how to maximize tax deductions and credits for the year and minimize any underpayment penalties. Please call this office for an appointment.

Facing a Huge Gain from a Realty Sale?

Article Highlights:

- Adjusted Basis
- Acquisition Value
- Passive Loss Carryovers
- Installment Sale

- Tax-Deferred Exchange
- Tax on Net Investment Income

If you are contemplating selling real-estate property, there are a number of issues that could impact the taxes that you might owe, and there are steps you can take to minimize the gain, defer the gain, or spread it over a number of years.

The first and possibly most important issue is adjusted basis. When computing the gain or loss from the sale of property, your gain or loss is measured from your adjusted basis in the property. Thus, your gain or loss would be the sales price minus the sales expenses and adjusted basis.

So what is adjusted basis? Determining adjusted basis can sometimes be complicated, but in a simplified overview, it is a dollar amount that starts with your acquisition value and is then adjusted up for improvements to the property, down for depreciation taken on the property, and down for any casualty losses claimed on the property. The acquisition value could be the price you paid for the property, the fair market value of an inheritance at the date of the decedent's death, or, in the case of a gift, the donor's adjusted basis at the time of making the gift.

As you can see, it is extremely important that you keep track of your basis, since it is a key factor in determining gain or loss upon the sale of the property. Failure to keep a record and substantiating documentation could cost you dearly in income tax.

If the property was a rental and the rental operated at a loss, there is a chance that the losses were not fully deductible in the year of the loss because of the passive loss limitation rules; in this case, you will have a passive loss carryover that can be used to offset the gain. In addition, passive loss carryovers you may have from other properties can also be used to offset any gain from selling a rental property.

Next, you have to decide whether you want to take (i.e., report on your tax return) all the income in one year or whether to attempt to spread the income over a period of years with an installment sale (by carrying back a loan) or defer the income into a replacement property through a tax-deferred exchange.

In an installment sale, the seller acts as the lender to the buyer. That can entail holding the first trust deed or taking back a second trust deed for only a portion of the loan amount. However, second trust deeds are as the name implies: They are second in line to be paid if the buyer defaults on the loan and thus are riskier. When set up as an installment sale, part of the gain is reported for each year that payments are received, generally as capital-gain income. In addition, the interest that the buyer pays the seller is taxable as ordinary income to the seller. Installment sales can be structured as short- or long-term loans, but remember, the buyer can always pay off the loan early or refinance. Either of these actions would make the balance of the profit from the sale taxable at that time.

Another option if the property is held for investment or used in a trade or business is to defer the gain down the road. This is accomplished by using the rules of IRS Code Section 1031, which allows the taxpayer to acquire like-kind property and defer the gain into the replacement property, which also must be used for business or be held for investment. However, the rules for like-kind exchanges are complicated, have strict timing issues, and require advance planning with a professional familiar with Section 1031 rules.

Adding complications to the sale-planning issue is the surtax on net investment income. This 3.8% additional tax kicks in when a taxpayer's modified adjusted gross income (MAGI) exceeds $200,000 ($250,000 for married joint filers and $125,000 for married individuals filing separately). Gain from the realty sale is included in the MAGI and could cause the MAGI threshold to be exceeded, resulting in this surtax applying to some or all of the realty gain. However, it may be minimized, or possibly eliminated, by using an installment sale and spreading the gain over a number of years or deferring down the road with a tax-deferred exchange.

If the real estate is your home (primary residence), there are special rules. Generally, if you own and occupy the home in two out of the five years prior to the sale, you will be able to exclude a substantial portion of your gain. The tax-deferred exchange rules do not apply to personal-residence sales.

As you can see, the result of selling real-estate property can include a number of tax issues, and minimizing current taxes requires some careful planning. Please give this office a call for assistance in planning your real-estate transactions.

Tax Benefits for People with Disabilities

Article Highlights:

- Able Accounts
- Disabled Spouse or Dependent Care Credit
- Medical Deductions
- Home Modifications
- Special Schooling
- Nursing Services

The code includes a number of benefits for individuals with disabilities, but you can't take advantage of these benefits unless you know about them and understand how they might benefit you and your special circumstances. Many of the benefits also apply to the parents of children with disabilities. Here is a rundown:

ABLE Accounts - Under tax law, states can offer specially designed, tax-favored ABLE accounts to people with disabilities who became disabled before age 26.

Recognizing the special financial burdens faced by families raising children with disabilities, ABLE accounts are designed to enable people with disabilities, who became disabled before age 26, and their families to save for and pay for disability-related expenses.

They are state run programs authorized by the federal tax statute, and must be established by your state. States that have established ABLE accounts can offer its residents the option of setting up one of these accounts, or if it chooses, contract with another state that offers such accounts. Contributions totaling up to the annual gift tax exclusion amount, currently $14,000, can be made to an ABLE account each year, and distributions are tax-free if used to pay qualified disability expenses.

Disabled Spouse or Dependent Care Credit - A tax credit is available to individuals that incur child-care expenses for children who are under the age of 13 at the time the care is provided. This credit is also available for the care of the taxpayer's spouse or dependent that is physically or mentally not able to care for himself or herself and lived with the taxpayer for more than half the year. This also true for individuals that would have been dependents except for the fact that they earned $4,000 or more (2015) or filed a joint return with their spouse. The credit ranges from 20 to 35%, with lower income taxpayers, benefiting from the higher percentage and those with AGI's of $43,000 or more receiving only 20%. The care expenses qualifying for the credit are limited to $3,000 for one and $6,000 for two or more qualifying individuals.

Medical Expense Deductions - In addition, to the "normal" medical expenses there other unusual deductible expenses that are incurred by individuals with disabilities. However, to gain a tax benefit, an eligible taxpayer must itemize their deductions on Schedule A, and their total medical expenses must exceed 10 percent of their adjusted gross income (7.5 percent for taxpayers who are at least age 65). Eligible expenses include:

- **Prosthesis,**
- **Vision Aids** - contact lenses and eyeglasses,
- **Hearing Aids** – and cost and repair of special telephone equipment for people who are deaf or hard of hearing,
- **Wheelchair -** cost and maintenance,
- **Service Dog -** cost and care of a guide dog or service animal,
- **Transportation** – Modifications or special equipment added to vehicles to accommodate a disability.
- **Impairment-Related Capital Expenses** - Amounts paid for special equipment installed in the home, or for improvements may be included in medical expenses, if their main purpose is medical care for the taxpayer, the spouse, or a dependent. The cost of permanent improvements that increase the value of the property may be partly included as a medical expense. The cost of the improvement is reduced by the increase in the value of the property. The difference is a medical expense. If the value of the property is not increased by the improvement, the entire cost is included as a medical expense. Certain improvements made to accommodate a home to a taxpayer's disabled condition, or that of the spouse or dependents who live with the taxpayer, do not usually increase the value of the home and the cost can be included in full as medical expenses.
- **Learning Disability -** Tuition fees paid to a special school for a child who has severe learning disabilities caused by mental or physical impairments, including nervous system disorders can be included in medical expenses. A doctor must recommend that the child attend the school. Tutoring fees recommended by a doctor for the child's tutoring by a teacher who is specially trained and qualified to work with children who have severe learning disabilities may also be included.
- **Special Schooling** - Medical care includes the cost of attending a special school designed to compensate for or overcome a physical handicap, in order to qualify the individual for future normal education or for normal living. This includes a school for the teaching of Braille or lip reading. The principal reason for attending must be the special resources for alleviating the handicap. The cost of tuition for ordinary education that is incidental to the special services provided at the school, and the cost of meals and lodging supplied by the school also is included as a medical expense.
- **Nursing Services** - Wages and other amounts paid for nursing services can be included in

medical expenses. Services need not be performed by a nurse as long as the services are of a kind generally performed by a nurse. This includes services connected with caring for the patient's condition, such as giving medication or changing dressings, as well as bathing and grooming the patient. These services can be provided in the home or another care facility. Generally, only the amount spent for nursing services is a medical expense. If the attendant also provides personal and household services, these amounts must be divided between the time spent performing household and personal services and the time spent for nursing services.

If you have questions related to any of the tax benefits listed above or have questions related to potential medical expenses not discussed above, please give this office a call.

Should You Itemize Your Deductions for Taxes?

Article Highlights:

- Who Qualifies for the Standard Deduction
- Who Is Not Allowed to Use the Standard Deduction
- Income Limitations for Itemized Deductions
- Phase-out of Itemized Deductions

Looking ahead to the filing season for this year's tax returns, a frequent question is whether you should keep track of tax-deductible expenditures or simply settle for the standard deduction amount.

Whether you can itemize deductions on your tax return depends on how much you spent on certain expenses during the year. Money paid for medical care, mortgage interest, taxes, charitable contributions, casualty losses and miscellaneous deductions (usually job or investment related) can reduce your taxes. If the total amount spent on those categories is more than the standard deduction, you can usually benefit by itemizing.

The standard deduction amounts are based on your filing status, your age and whether or not you or your spouse is blind. The standard amounts are adjusted for inflation annually and for 2015 are:

Single	$ 6,300
Married filing jointly[1]	$12,600
Head of household	$ 9,250
Married filing separately	$ 6,300

Additional amounts if age 65 or older and for those who are blind [2] (each taxpayer):

Married taxpayers filing jointly	$ 1,250
Others	$ 1,550

[1] Also applies to qualifying widows and widowers (have a dependent child and spouse died in 2013 or 2014)

[2] If a taxpayer (or spouse) is both age 65 or over and blind the taxpayer (or spouse) gets two extra amounts. The extra allowance is not available for dependents.

But, as with most aspects of taxes, it's not that simple. There are certain taxpayers who are precluded from taking the standard amount because of special circumstances, and they include:

- **Taxpayers subject to the alternative minimum tax (AMT)** – The standard deduction is only used when computing your tax in the normal manner. You receive no benefit from the standard deduction to the extent you are taxed by the AMT.
- **Married taxpayers filing separately** – There is a rule that prevents one spouse from filing separately and claiming all of the couple's deductions while the other takes the standard deduction. Simply stated, if one spouse itemizes deductions, the other spouse must also itemize and cannot claim the standard deduction.
- **Taxpayers ineligible for the standard deduction** – Certain taxpayers, by law, are not eligible for the standard deduction. They include nonresident aliens, dual-status aliens and individuals who file returns for periods of less than 12 months.

When it comes to itemizing your deductions there are still more complications. First of all, not all of your deductions will be included in the final total that you compare against the standard deduction to decide whether you itemize or not. Certain ones are adjusted as follows:

- **Medical deductions** - They are only included to the extent that they exceed 10% (7.5% for taxpayers age 65 and over) of your adjusted gross income (AGI).
- **Taxes** - Deductions for state income or sales taxes and real property tax are not limited by income, but they are not deductible at all for AMT purposes. Thus large tax deductions can result in the addition of an alternative minimum tax.
- **Interest** - Deductible interest includes home mortgage interest and investment interest. However, home mortgage interest is limited just to the interest on up to $1 million of acquisition debt and $100,000 of equity debt. For AMT purposes, only acquisition debt interest is deductible, so the interest paid on equity debt to buy a motor home, boat, car, etc., is not deductible for the AMT.
- **Charitable contribution deductions** – They are the same for both regular tax and AMT, and the total in any year is generally limited to 50% of your income (AGI). There are lower income limits for certain non-cash contributions.
- **Miscellaneous deductions** - They are where most employee business and investment expenses are deducted. Generally these deductions are only deductible to the extent that they exceed 2% your income (AGI).

As if those complications were not enough, some of the itemized deductions for higher-income taxpayers are further limited by a formula if adjusted gross income is more than $309,900 for a married couple filing jointly or qualifying widow(er), $258,250 for single taxpayers, $284,050 for taxpayers filing as head of household, and $154,950 for married-filing-separate taxpayers. This limit applies to all itemized deductions except medical and dental expenses, casualty and theft losses, gambling losses, and investment interest.

As you can see, the choice of whether to itemize or claim the standard deduction is not always clear, and that is essentially why it is necessary to save the documentation for itemized deductions throughout the year so the two options can be compared and the better one selected. If you took the standard deduction last year and think you might have been able to itemize your deductions, an amended tax return can be prepared for a refund. Please call this office for assistance.

Retirement Plan Distribution Pitfalls

Article Highlights:

- Distribution Hazards
- Trustee-to-Trustee Transfers
- Rollovers
- Taxability
- Withholding Requirements
- Early Withdrawal Penalty

When an individual retires or leaves an employer's service, the individual will be required to take a distribution from the employer's retirement plan (if the employer had a plan). Depending on the employee's age and the plan's terms, a distribution may not be required immediately, but when it's time to take the distribution there are a number of tax pitfalls that can create some very big tax headaches for the employee. This article will explore those hazards and discuss how to avoid them.

First and foremost, if the employee does not transfer or roll the distribution over into another employer's qualified plan or an IRA, the entire taxable amount of the distribution will be included in the employee's taxed income for the year of the distribution. In addition, if the employee is under 59-1/2 years of age at the time of the distribution, the employee may also be subject to a 10% early withdrawal penalty on the taxable portion of the distribution.

There is also a major distinction between rolling over the distribution and having it directly transferred to another qualified plan or IRA account. A rollover is when the individual actually takes possession of the funds and then, within the statutory 60-day limit, deposits the funds into another qualified plan or IRA. As the name implies, a direct transfer is when the administrator (trustee) of the employer's plan transfers the funds directly to another qualified plan or an IRA in a trustee-to-trustee transfer for the departing employee.

Taking possession of the funds and subsequently rolling them over to another plan exposes the employee to a couple of substantial hazards. The first potential problem occurs when the employee fails to get the funds deposited into a new plan within the 60-day limit. In that case, the entire distribution will be taxable (except for the amount equal to the employee's after-tax contributions, if any) and the taxable amount may also be subject to the 10% early distribution penalty. The second hazard occurs because the employer is required by law to withhold 20% of the distribution for federal income taxes. Thus, when it comes time to roll the funds into another plan, the employee only has 80% of the funds needed to complete a tax-free rollover. If the employee does not have other funds to make up for the 20% withheld, 20% of the distribution will become taxable. Of course, the amount that was withheld is claimed as federal income tax withholding when the employee files his tax return for the year. However, depending on the employee's overall taxable income and tax bracket, the amount withheld from the retirement distribution may not be sufficient to cover all the tax liability on the non-rolled distribution, especially if the 10% penalty also applies.

On the other hand, when funds from the retirement plan are transferred trustee-to-trustee to another qualified plan or IRA, there is no withholding requirement, the employer can transfer the entire amount to the new plan, and the employee pays no tax on the transferred amount until it is withdrawn at some later date.

Pulling money from a retirement plan prior to retirement is never a good financial or tax move. Sometimes, however, a current financial need will make it necessary. The distribution will always be taxable (or partly taxable if the employee made post-tax contributions to the plan), but there are exceptions that may allow you to avoid all or part of the penalty. Please call for further details.

If you have already taken or anticipate taking a distribution in the near future and wish to discuss the tax issues that are related to the distribution, please give this office a call.

Show Me the Money: Six Best Practices in Billings and Collections

One area where most small-business owners can improve their cash flow is in billings and collections. A thorough credit check before you offer payment terms is not enough. Here are six best practices that can make a real difference in your cash balance at the end of every month.

1. Get it right.
One legitimate reason for nonpayment is a confusing or inaccurate invoice. Make sure your invoices spell out in clear, plain English what was purchased, the price, the payment terms (or when payment is due), the customer's PO number, when it was shipped, to where it was shipped, and any tracking number.

You may also want to tighten your sales process. Don't start work without a formal PO from your business customers—many companies won't pay against a verbal PO. When you receive a PO, make sure that it matches your quotation. Companies often put their payment terms on their paperwork, so if your customer tries to play this game, resolve any discrepancies before you start work.

Finally, make certain every shipment and invoice is 100% correct. Set up processes to assure the customer gets exactly what was ordered and that invoices are equally accurate.

2. Get it out.
See that four-day-old pile of shipping papers waiting to be invoiced? That's a pile of cash you can't collect.

Set a goal to issue all invoices within one working day of the ship date or completion of work. If your team struggles to meet this, give them the tools and/or manpower to make it happen. And if an invoice gets held up internally, make sure your supervision is immediately notified so the problem can be quickly resolved.

To further speed payments, try to invoice your customers by email. Some won't accept emailed invoices, but getting even a portion of your billing done electronically will help overall cash flow.

3. Get it to the right person.
How many times has one of your employees called about a past-due payment and been told "we didn't receive your invoice" or "that needs to be approved by the department manager"? It's another game, one that can take weeks to play out. As part of getting an accurate customer PO, make sure your sales staff gets a valid address for invoicing.

Large sales deserve special attention. Where applicable, have your salesperson get the contact information for the customer employee that will approve payment. This might be a department or plant manager and maybe even the business owner. Also get the contact information for the customer's finance-side people (accounting manager, accounts payable clerk), who will cut and approve the check. When your invoice goes out, make sure they all get a copy.

4. Get it sooner.
Offer a discount for early payment—for example, 2% off for payment within 10 days. Not all of your customers will take advantage of this, but it's a great way to pull cash in.

5. Get friendly.
The best way to get paid on time is to build a positive working relationship with your customer before the money is due.

Have your salesperson call his or her customer contacts shortly after the invoice goes out. Confirm the product has been received or affirm that your assignment is now complete. Ask them if they're satisfied with your work, what you can do better to improve, and if they've received your invoice. This communicates (in a nice way) that it's time to start the payment process. If these calls uncover problems, it's an opportunity to address them on the spot as opposed to when payment is past due.

Your employee responsible for collections should also make a call—in this case, to the customer's finance-side people. Your employee should confirm the receipt of your invoice, remind them of any discounts for early payment, and check whether there are any administrative problems with the document. They should not ask for a payment date. If possible, they should also try to get to know their counterparts. A simple "How's the weather where you are?" is a great opening that can lead to a long conversations about, well, everything. Your customer's payables team can be your best friend later in the collections process, but it won't happen if you have not built a working relationship.

There's one other person who needs to get friendly: you, the business owner or general manager. As your company develops large customers make sure you get to know your customer counterparts. A phone call from you asking "How's my team doing?" is a great way to initiate a conversation and assure customer satisfaction. For very large projects, make a face-to-face visit. It will pay off later. If the time comes when a payment problem needs to be escalated, you will have an established relationship on which to call.

6. Make it fun.
Some companies take the "get friendly" notion to the next level. From putting silly "Thank You!" notes on their invoices, to handing out promotional swag, to sending little stuffed animals for on-time payment, it's amazing how these goofy gimmicks can change the atmosphere around the collection process.

You want your customer to smile and shake his head as he signs the check to pay your bill. And if the day comes when your customer needs to decide whom to pay and whom to put off, chances are he will pay you first.

In Closing

What about the actual collections process? Good companies contact their customers if a payment is more than five working days late. You should do the same.

What's different is that you've laid the foundation for a successful endgame. Any excuses for non-payment have been addressed. Your people know whom to call, and you have working contacts who will give you straight answers. Above all, you've strengthened the relationship with your customer and have built a basis for future business.