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Spotting the warning signs that a customer isn't planning to pay

Of all the responsibilities that a business owner must juggle, perhaps the most unpleasant is collecting from clients and customers who, for whatever reason, aren't paying for the services or goods they purchased. This is a critical job, especially when large amounts of money are involved.

Try to identify — and avoid — prospects that are likely to go AWOL when presented with a bill. While it's impossible to fully identify deadbeat clients in advance, you can get ahead of the game by paying attention to certain warning signs.

Anonymous clients

Some prospective customers don't seem to exist anywhere other than, say, a vague e-mail address. This is a sign to move cautiously.

It's not too much to expect that even start-up businesses, as well as individuals, have some sort of online presence, a true location, and a working e-mail address and phone number.

Empty assurances

One red flag is clients who ask that work on their product or service start immediately, but without providing assurances that payment will be forthcoming. In some industries, it might be common practice for suppliers to provide goods or services, and follow up with invoices later.

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When that's not the case, however, consider the lack of credible assurances a warning sign. That's especially true if a prospective customer is vague on the budget for a project.

Future earnings as payment

Customers who promise some portion of future earnings as payment may be legitimate. But, before you begin work, nail down the terms and decide if the potential reward compensates for the risk.

How realistic are the visions of success? And what happens if, despite everyone's best efforts, the new idea never takes off?

Perpetual nitpicking

A client who regularly nitpicks most elements of a project may keep it from ever getting off the ground. While clients have a right to expect the level of quality promised at the outset of a project, those who seem to continually search for reasons to criticize products or services may be using their purported dissatisfaction to avoid paying for their purchase.

Combating the problem

Even business owners who are adept at distinguishing good prospects from those that won't pay find it difficult to always get it right. Fortunately, there are certain steps you can take. Here are just a few:

Politely but firmly follow up. A tactful e-mail can provide a gentle nudge when an invoice is overdue. For example: "It looks like Invoice #1000, dated April 1, 2014, for $500 and covering 25 widgets you purchased, may have been overlooked. In case it was lost, I'm resending it."

This message lets customers know that you're aware of the payments due, yet offers them the benefit of the doubt. Most people want to operate ethically, and even prompt payers make mistakes from time to time.

Move to a phone call. If your follow-up e-mail(s) aren't generating a response, a polite phone call should get the client's attention. Many people find it harder to ignore or say "no" to someone with whom they're talking than to those they connect to via e-mail.

Try the customer's AP or business manager. If previous efforts aren't working, a shift to the accounts payable or business manager may be more fruitful. It still makes sense to remain polite, however. It's possible that the invoice truly is lost or is stuck on someone's desk. And this may be the first time the person learns of the payment delay.

Considering legal action?

With many customers, persistence eventually results in payment. A few, however, may still resist. If you have clients withholding payment, you may want to take legal action. Before taking such a step, ask these three questions:

1. How much money is at stake? If it's not a great deal, it may make business sense to drop the matter and move on to other clients.

2. Is the other party able to pay? If the customer has few assets, trying to obtain payment may be futile.

3. How much time is required to proceed with legal action? Even if the client clearly is in the wrong, assembling the information and presenting a case will take time away from other projects and clients.

Be polite, but assertive

No company wants to hound clients for payment. But you are, after all, in business to make money. Thus, it's critical that you assertively follow up on delinquent payments. Moreover, before you get to the difficult collection stage, if you're skeptical of the ability to collect from the customer, create a policy of asking for a retainer or deposit up front before starting a project, and asking for progress payments while the project is in process. And, of course, you can always hand over the matter to a collection agency. ◈

College expenses getting you down?

Uncle Sam offers some valuable relief

If you have children in college, you know how expensive putting a child through school can be. Fortunately, the U.S. tax code may provide you some relief — in the form of the American Opportunity and Lifetime Learning credits.

How the credits work

The American Opportunity credit (formerly known as the "Hope" credit) has been extended through 2017. Many of those eligible may qualify for the maximum annual credit of $2,500 *per student* (100% of the first $2,000 of qualifying expenses and 25% of the next $2,000 of qualifying expenses). The expenses must be for the first four years of a post-secondary education.

The full credit is available to individuals whose modified adjusted gross income (MAGI) is up to $80,000, or $160,000 for married couples filing a joint return. The credit begins to phase out for taxpayers with incomes above these levels.

Another tax credit, known as the Lifetime Learning credit, also can help parents and students pay for postsecondary education. If you meet the requirements, you may be able to claim the credit of up to $2,000 *per tax return*. However, not only is the maximum credit lower than that of the American Opportunity credit, but so is the phaseout range: The full credit is available to individuals whose MAGI is up to $54,000, or $108,000 for married couples filing jointly.

If you're eligible for both credits for a student, the American Opportunity credit will likely provide the greater benefit.

The good news: There's no limit on the number of years the credit can be claimed for each student.

You can't claim both the Lifetime Learning credit and the American Opportunity credit for the same student in one year. However, if you pay qualified education expenses for more than one student in the same year, you can claim the American Opportunity credit for one student and the Lifetime Learning credit for another student in the same year.

Taking credit

If you're eligible for both credits for a student, the American Opportunity credit will likely provide the greater benefit because it can save you as much as $2,500 in federal income taxes compared with the maximum Lifetime Learning credit savings of $2,000.

If you're paying for a fifth or later year of college or for graduate school or continuing education expenses, only the Lifetime Learning credit can potentially provide a benefit.

If your income disqualifies you from claiming these credits, your children may claim payment of the education expenses on their income tax returns and may be able to take advantage of a credit — as long as you don't claim them as dependents. In many cases, the tax benefits to children outweigh the value of the dependency exemption to their parents.

One reason is that a credit reduces taxes dollar-for-dollar, while an exemption reduces only the amount of income that's subject to tax. Another is that an income-based phaseout may reduce or eliminate the benefit of your exemption even if you did claim your children as dependents.

The phaseout reduces exemptions by 2% for each $2,500 (or portion thereof) by which a taxpayer's adjusted gross income (AGI) exceeds the applicable threshold (2% for each $1,250 for married taxpayers filing separately). The 2014 AGI thresholds are $254,200 (singles), $279,650 (heads of households), $305,050 (married filing jointly) and $152,525 (married filing separately).

If your exemption isn't phased out or is only partially phased out, you'll need to determine whether the savings you'd receive from the exemption or the savings your child would receive from the credit would save your family more taxes overall. If your exemption is *fully* phased out, it probably will make sense to *not* claim your child as a dependent so he or she can claim an education credit.

Work with a tax advisor

Whether you are just now sending your kids to college, or you want to go back to school yourself, the American Opportunity and Lifetime Learning credits may help you foot the bill. Contact your tax advisor for more information. ◈

The ins and outs of the individual shared responsibility payment

Among the many provisions of the Affordable Care Act is what's known as the "individual shared responsibility payment." It applies primarily to individuals who don't purchase qualifying health insurance, yet aren't exempt from the requirement to purchase coverage. As a result, the provision likely will apply to just a sliver of the population.

Background

In 2012, the Congressional Budget Office estimated that about 6 million people — less than 2% of Americans — would have to make the individual shared responsibility payment. That's because many taxpayers have qualifying health insurance coverage through an employer, the Health Insurance Marketplace, Medicaid or some parts of Medicare, as well as other plans. The individual shared responsibility payment likely won't apply to them.

In addition, some taxpayers are exempt from the coverage requirement. This may be the case, for instance, for those who lack affordable coverage options, have a gap in their coverage of less than three months, or whose income falls below the minimum threshold for filing a tax return.

If none of the exemptions apply, however, individuals who lack coverage will have to make an individual shared responsibility payment for each month they go without coverage. The payment is intended to prevent taxpayers from willfully going without health insurance that they can afford, only to try to obtain coverage if they become sick or are injured.

Moreover, children are included. If a child lacks coverage and doesn't qualify for an exemption, the adult(s) who claim him or her as a dependent generally will have to make a shared responsibility payment for the child.

Calculating the payment

The requirement went into effect on Jan. 1, 2014. But, because the payment is made when filing a tax return, the 2014 payment won't be due until the 2014 return is filed in 2015.

Generally, the payment amount is calculated in one of two ways. For 2014, it's the greater of two figures: 1% of household income above the tax return threshold for the taxpayer's filing status, or a flat dollar amount.

For 2014, the flat amount is $95 per adult and $47.50 per child, to a maximum of $285 per filer. The payment also is capped at the cost of the national average premium for the bronze level health plan available through the Insurance Marketplace.

Note that the individual shared responsibility payment levels are scheduled to rise each year.

Here's an example showing how this calculation might work: For 2014, an individual under age 65 must file a tax return once his or her gross income exceeds $10,150. So, if an individual earns $30,000, doesn't purchase health insurance, and doesn't have an exemption, the following calculation would come into play: $30,000 less the $10,150 threshold, multiplied by 1%, or ($30,000 - $10,150) × .01 = $198.50.

Of course, this is more than $95, so the individual would pay $198.50, or $16.54 for each month he or she goes without insurance.

It's important to note that the individual shared responsibility payment levels are scheduled to rise each year (and rather dramatically). In 2015, for instance, the flat dollar amount jumps to $325 per adult, while the income-based penalty rises to 2% of household income above the filing threshold.

Finding answers

When it comes to how the tax return forms will account for the shared responsibility payments and exemptions, the IRS (as of this writing) indicated that the needed information would be forthcoming. In the meantime, information can be found on IRS.gov. In the search box, type "shared questions" to find questions and answers on how the provision works and "ACA calculate" to calculate the payment. ◈

Copyright basics 101: How to avoid violating the law

Business owners with an online presence often post images or articles that they find on the Internet to their own sites. While most postings likely are done with the best intentions, some could inadvertently violate copyright laws. The U.S. Library of Congress states, "Copyright protects text and pictures on websites just like books, CDs, DVDs, and works in other media are protected."

The law

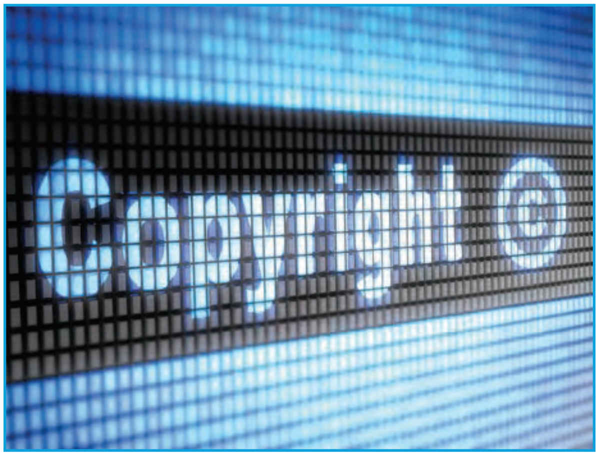
Copyright laws can be complex, and the growth in social media has just added to the complexity. Having a basic understanding of copyright law and the protection it affords is a starting point when determining how to proceed.

In the United States, copyright protection is available to published and unpublished "original works of authorship." That includes literary, musical, graphic and other works. Among other rights, the copyright holder has exclusive rights to reproduce, sell and distribute the work.

Not all online posts and shares are likely to violate copyright regulations. It often is OK to include a link to public websites.

Copyright protection begins once a work is fixed in a tangible form, such as when an image or song is captured on paper or electronically. The author doesn't need to register the work with the U.S. Copyright Office, although doing so offers him or her some protection.

While including a copyright notice (typically, the © symbol) on a work is recommended, it's no longer a requirement to claim or maintain copyright protection. Just because a work



doesn't include a copyright notice doesn't mean that work is in the public domain.

What's permissible

Not all online posts and shares are likely to violate copyright regulations. It often is OK to include a link to public websites. However, it's good practice to review the linked website for its policies and, when in doubt, ask permission. Some organizations like to restrict links to their sites.

What's known as the "fair use" doctrine provides a defense to certain limited uses of copyrighted material. Case in point: including a few sentences from a copyrighted book within a review of the work.

Although it can be difficult to identify what constitutes fair use, the following principle can help: When copying the work could harm the market for the original piece or generate income for the entity copying, it's less likely to be considered fair use.

If in doubt, check it out

Making sense of copyright protection in today's social media environment can be challenging. Erring on the side of caution and checking with a legal professional when a question arises is always prudent. ◈