

Should You Charge “Late Fees” For Invoice Payments?

Chasing down payments is one of the least glamorous aspects of running a web design agency. In fact, **small [businesses spend 15 days every year](#)** chasing down late invoice payments.

...that's why **17% of them [require some form of deposit or full payment](#)** before they begin work.

Unfortunately, resolving payment issues is a rite of passage for web design agencies. The good news is you can resolve them with a late fee policy and good upfront communication.

In this guide, we share exactly how to charge late fees and prevent missed payments.

What Is a Late Fee Policy?

A late fee policy is a **set of guidelines that outlines the penalties a client will face when they don't pay their invoices on time.**

Bill to:

Invoice:

2021-002

Invoice Date:

27/05/2021

Due Date:

26/06/2021

Description	Quantity	Unit	Price	VAT	Amount
Website creation Corporate website creation and new logo design.	1	each	750.00	20%	750.00
Subtotal without VAT					750.00
VAT 20% of 750.00					150.00
Total GBP					900.00
Amount Paid					0.00
Amount Due (GBP)					900.00

Terms & Conditions

Net 30 - payment is due within 30 calendar days.

Please pay with a credit card via the payment link below.

Late fees:

Overdue payments will incur statutory interest charged at 8% of the invoice total plus the Bank of England base rate.

Think of it as a credit card company that charges interest when you don't make monthly payments.

Ensure to **include a late fee policy, the amount that will be charged, and any grace period** provided within the original client agreement.

You can choose to charge either:

- A percentage of the overdue balance
- Fixed amount.

What is the standard late fee charge?

There isn't a standard flat fee.

However, many web design agencies **charge between 1 to 2% in monthly interest**, so staying near this range would be the optimal approach.

What Is A Reasonable Late Payment Fee? Typically, a low, percentage-based late fee is used when a payment is overdue on an invoice. Late fees usually range from **1% to 2% monthly interest rate**, so staying near that range is the most reasonable approach.



FreshBooks

<https://www.freshbooks.com> › hub › invoicing › how-do... ⋮

How to Charge Late Fees on an Invoice and Get Paid Faster

Let's say a client was late on a \$1,000 project. The first late payment would be \$20, while the second would be \$40, and so on.

How to Prevent Not Getting Paid in The First Place?

Not getting paid can leave a sour taste in your mouth. Nobody likes to get bamboozled. It's bad business and can lower your confidence.

If you want to prevent not getting paid in the first place, here's what you can do.

Take Upfront Payment

The best way to eliminate not getting paid is to force clients to take all the risk by taking full upfront payments for the project.

In this case, **the client pays you 100% of the negotiated fee before you begin any work.**

Here are a few tips to help you get a full upfront payment.

4 Tips to Ask Customers for Upfront Payment



Create a policy

Your policy should detail information like:

- Whether you require partial or full upfront payments
- The payment amount
- Due dates
- How customers can pay you



Show off your credentials

Create an online presence through a website and social media profiles to help build trust with prospective and current customers. Ask for and share reviews, too.



Be upfront about your policy

Explain your policy to customers, including amounts and due dates, to help avoid any surprises.



Have a reliable system

Prevent repeat billing and other mistakes by using a reliable recordkeeping system. Consider using

[Source](#)

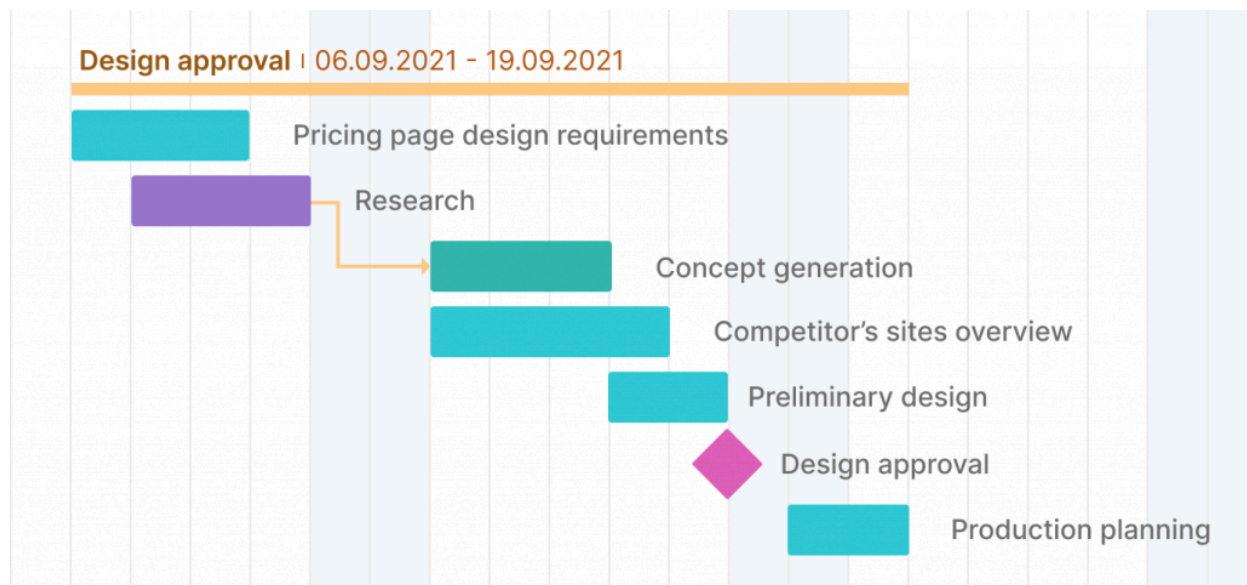
It's important to have a fixed scope that clients sign off on, so you and your clients know what to expect. If your clients are uncomfortable with paying the full amount before beginning, you can **agree on a 50% deposit upfront**, due when the contract is signed.

Typically your contract should state that you have the right to hold the work until the balance is paid.

Break the Project Fee Into Milestone Payments

Earning trust can be difficult, especially in the beginning stages of a client relationship. You can take this a step further by asking for milestone payments.

This is effective for longer projects like an entire website rebuild that may take up to six months.



[Source](#)

You can negotiate an initial deposit and split-up remainder payments at certain deliverables or milestones.

Set Up Autopay or Have Their Card On File

According to this Facebook poll, many freelancers encourage using autopay as the best solution to avoid not getting paid.



Rachael Portier Walker

Top contributor · April 11 at 11:47 PM · 🌐



What is your late fee policy or do you require direct draft?



1

12 comments



Like



Comment



Send

All comments ▾



Marleen Kiral

I have none, I am way too lenient. My policy is friendly monthly reminder mails until I run out of patience and hand it off to my VA Eric, who is more assertive

Like Reply 1w



Dawn Perkins

I gave up on late fees. Mine are on auto draft.

Like Reply 1w



Jennifer Beam Top contributor

I figure out how much I'm willing to bet that my clients pay before I start working and adjust over time when I hit that value. I stop working on their account. No warning, no invoices, no anything. . They can login and see their balance and pay at any point. We're all grown and I am too busy to hand hold.

Like Reply 1w Edited



Zane Swanger

No late fee, however, failure to pay may result in suspension or termination of services (just like a phone bill). I have automated to suspend services after 20 days of non-payment. I usually send a courtesy email or text to clients and let them know their payment is due, this usually settles it. Rarely has the suspension page on their hosting/website occur, but once it goes up I get payment instantly.

Remember: without income, we cannot function as a business. If we are not in business, the businesses we serve could be impacted.

Tip: Be sure to include in your Terms of Service and disclosures/contracts that any recurring services (like hosting) that are late may be suspended or terminated due to lack of payment. OR, add late fees, just be sure to disclose the method you will proceed with and make sure the client has agreed/signed to your terms and conditions.

Like Reply 1w Edited



Gen Herres [Group expert in Web Development](#) Top contributor

I only take small stuff as post pay. Large stuff is prepay.

Late fees I know there are legal items around it, and they can vary greatly by location. So if you are considering, consult someone about that. ... [See more](#)

Like Reply 1w



James Rice Top contributor

Really depends on the client base. I work primarily with large companies and agencies these days, and while luckily the risk of not getting paid is exceeding low, it can take a while, so just gotta roll with it. I factor that into my pricing.

Like Reply 1w



Melanie Richards Top contributor

If you're talking about late as in no-show or delays getting needed content: \$400 for rescheduling fee - if they didn't get me all the assets I need by said date, we must reschedule. (but I disclose that I understand that emergencies can happen and happy to wave fee in such events once.)

Like Reply 1w Edited



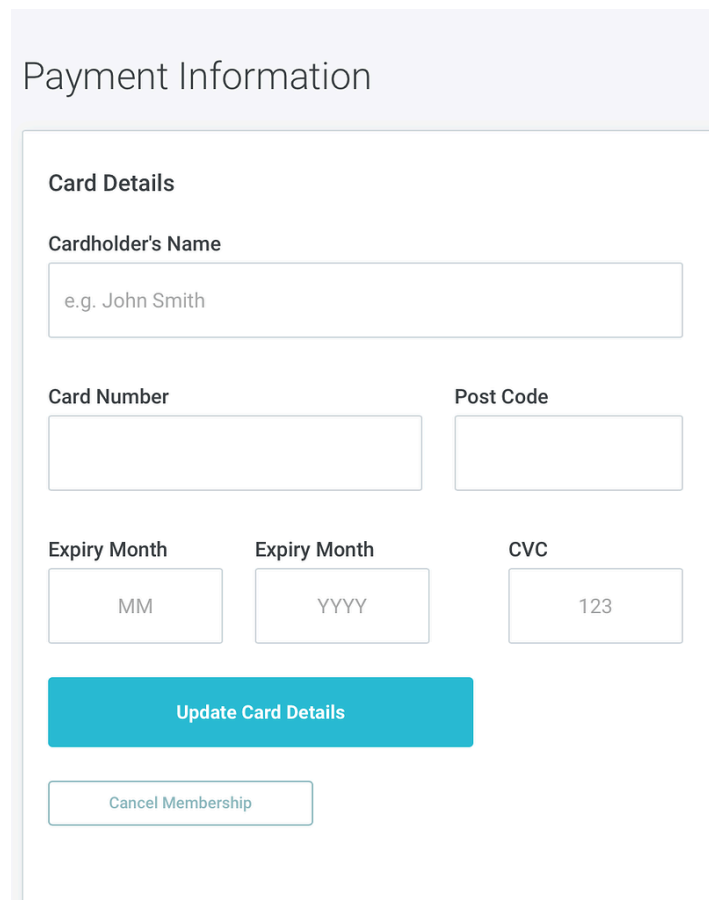
Charles Henry

Auto draft

As Greg Mount mentions, it's important to **get their card on file upon signing the agreement**. Then, agree on charging their cards that are aligned with deliverables. This is a fair way to ensure you're paid.

And if the card declines, you can withhold delivering the project or website upon payment.

Many payment providers like Stripe have a Save Card feature letting you **store your client's credit card info for future use**.

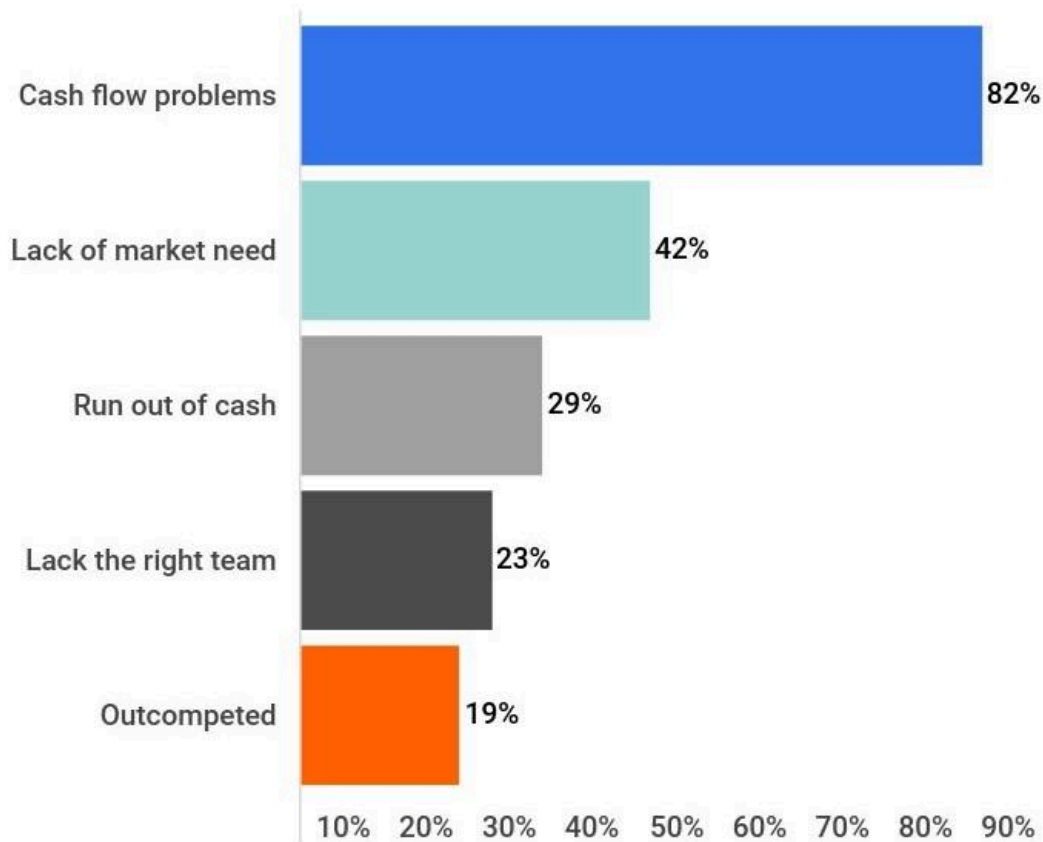
A screenshot of a 'Payment Information' form. The form has a light purple header with the title 'Payment Information'. Below the header, there's a section titled 'Card Details'. Inside this section, there's a label 'Cardholder's Name' followed by a text input field containing 'e.g. John Smith'. Below that, there are two input fields: 'Card Number' and 'Post Code'. Further down, there are three input fields: 'Expiry Month' (containing 'MM'), 'Expiry Month' (containing 'YYYY'), and 'CVC' (containing '123'). At the bottom of the form, there are two buttons: a teal button labeled 'Update Card Details' and a light blue button labeled 'Cancel Membership'.

It's more convenient than waiting for them to manually send payments on their end.

How to Charge Late Fees

82% of small businesses have cash flow problems. It's a major reason why businesses fail.

WHY SMALL BUSINESSES FAIL



[Source](#)

You can fix it by simply charging a late fee, ensuring you always get paid on time. Here are essential tips on how to do it.

#1: Do Your Research

While late fees may not seem like a big deal, they can have a **positive effect on your business**.

Agencies tend to get paid more promptly when a late fee policy is included in their contract. Also, it shows you're a professional business that takes your work seriously.

However, you can't charge late fees as you want...

There are laws in place that may place a ceiling on how much you can charge for your late fees.

Many states in the U.S. do not have any max late fees or grace periods. But it's important to check since it [varies by state](#).

Here are a few notable states to be aware of:

- **D.C.** - 5% per month and 5-day grace period
- **Florida** - Maximum 5% and 15-day grace period
- **New York** - \$50 or 5% per month max late fee and 5-day grace period
- **Oregon** - Maximum 5% per month
- **Tennessee** - Maximum \$30 or 10% per month and 5-day grace period

#2: Add Your Late Policy to Your Invoice Payment Terms

Including a late fee policy in your invoice payment terms is imperative. Without it, you can't legally charge any late fees. This gives you the legal authority to pursue invoice payments and tack on a fee.

The best way to word it is to **keep it simple and easy to read, eliminating any confusion.**

Here's how you can phrase it:

"Invoice payment is due within 30 days. Please be advised that we will charge 1% interest per month on late invoices."

If a customer is late paying an invoice, you can then follow up with a late fee letter. The late fee letter should be polite, accurate, informative, and based on the terms in the original invoice.

Make sure to consult your attorney so your client's contracts comply with local and country regulations. This protects you in the case of disputes that may occur down the line.

#3" Notify Clients Ahead of Time

For existing clients, you want to keep them in the loop about any changes you've made to the terms. Never blindside your client with a fee that wasn't previously mentioned.

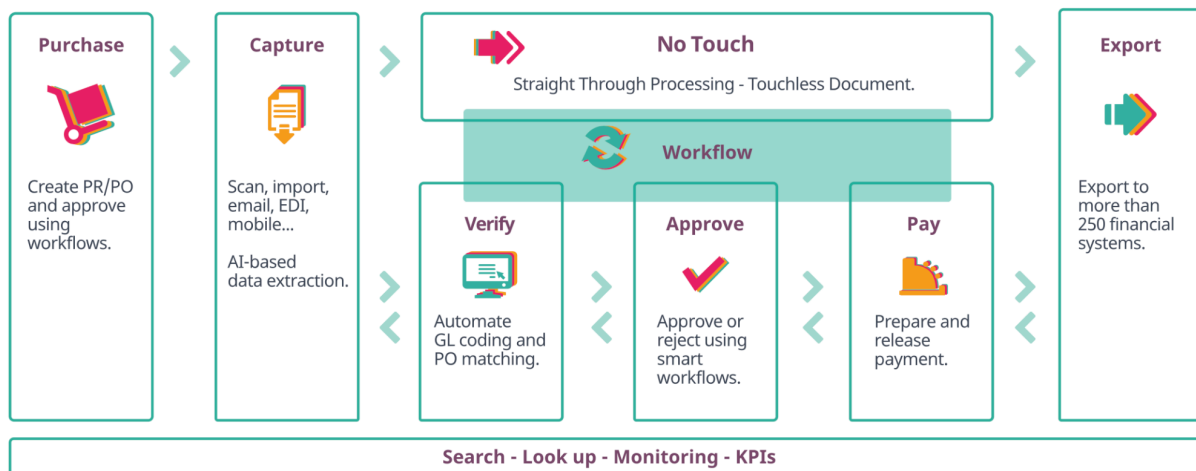
Instead, let them know about the change so they aren't caught off guard.

Discuss the late fee policy with all clients before the contract is signed to ensure they understand the ramifications of late payments.

#4: Send Invoices Promptly

It's always good to send your invoices promptly, along with the final work. Sending it when the project is fresh in their mind increases the chances your client processes the payment right away – but never leave this to chance.

Invoicing should be automated using cloud-based accounting software that can automatically create invoices.



[Source](#)

Also, sending the invoice promptly gives your clients enough time to pay. When sending your invoices, make sure you make it crystal clear what clients are paying for, such as:

- **Hours spent** (if necessary)
- **Distinct project numbers for deliverables** such as (X web pages, etc.)
- **Cost of materials**
- **Consultation time**

#5: Follow Up Immediately on Late Payments

Many invoicing software can send out reminders for the due date.

However, sometimes those get quickly ignored. In that case, you can **write a personalized and polite email reminder** mentioning that perhaps your invoice has gotten lost in the shuffle.

Dashboard Business Accounting Payroll Contacts

Invoice Settings >

Invoice Reminders

☒ Email customers when an invoice is...

7 days overdue Edit

14 days overdue Edit

21 days overdue Edit

+ Add reminder

☒ Include quick link to online invoice and detail summary

☒ Include a link to the invoice PDF

☐ Don't send reminders for amounts owing on an invoice under 1.00

Send replies to sonny-miles.eastwood@hotmail.com

Save

That should be enough to jog their memory; however, you should also **include the invoice number along with the project details.**

Here's a template you can use for payment reminders:

Payment reminder email template

Subject line: [Your Business Name]: Follow up on Invoice #XXXXX for [Product/Service]

Body:

Hi [Customer's Name],

I hope all is well. This email is a friendly reminder that your payment on invoice #XXXXX, which was sent on [sent date], is due [due date].

We wanted to take this opportunity to see if you've had a chance to look over the invoice and confirm that everything is ok and on track for payment by [due date]. Attached is the invoice for your review.

Please let me know if you have any questions or concerns.

Thank you,

[Your Name]

[Your Company Name]

#6: Send a Revised Invoice

When your client fails to pay on time, it's best to send them a revised invoice. After each month, you can create an updated invoice that includes all the late fees added to the total.

You can include a note that reminds customers that the payment is overdue.

Subject line: [Company Name - Invoice Number] Regarding Your Overdue Payment

Dear [Name],

I am sending you this email because I noticed an overdue payment issue.

According to my records, the payment for invoice No. [Invoice Number] is X days overdue. The payment was due on [Date]. Could you please let me know when to expect proof of payment for this?

If you have any questions or dealing with any issues, please let us know as soon as possible. Also, please note that you will find attached the original invoice below.

Kind regards,

[Name]

...and warn them that another late fee will be added if they don't pay within the given time frame.

#7: If Necessary, Escalate the Issue

54% of workers within the gig economy complain **that it takes too long to get paid**.

If the issue prolongs and there doesn't seem to be any traction on the client's end to resolve this payment issue, it may be time to seek legal help.

You can **send a letter of demand, which serves as official documentation requesting payment**.

[Final Demand Letter]

[To be placed on your headed paper]

[Name of Debtor]

[Address of Debtor]

[Date of Letter]

Re: Outstanding Debt of €[Insert Amount]

FINAL DEMAND

Dear [Mr/Ms Surname of Debtor],

We regret to note that despite previous letters the above balance is still outstanding.

Unless you contact us within 48 to agree payment:

1. We will commence our legal Debt Collection Procedure against you and place the matter in the hands of our solicitors to issue legal proceedings against you for the full amount overdue including interest and legal costs.
2. In the event that judgement is entered against you in those proceedings, we will register the judgment and publish it in all relevant trade journals, including Stubbs Gazette and the Irish Credit Bureau.

Yours faithfully,

[Source](#)

For some clients, it's serious enough to make a payment. There are a few options to pursue further action if they ignore this letter:

1. **Hire a lawyer.** The lawyer can file a lawsuit on your behalf to recover the payment, legal fees, and other damages incurred by the agency.
2. **Hand over the case to a collection agency.** Collection agencies will help get your money back and take a small portion of the invoices they successfully recover.
3. **A small claims court.** This is a venue designed to help businesses resolve any disputes over small amounts of money, however, this can only be done for local clients.

Conclusion

The vaunted missed payments keep many freelancers and web design agencies up at night.

Doing all the work with no moolah to show for it is a nightmare. With these tips for constructing your late fee policy, you'll never have to lose sleep over missed payments again.

Upfront communication is key, and doing so will establish mutual trust for both parties.

If you want to better organize your projects and streamline client communication, we recommend checking out Atarim, the best place for web design agencies to house all their project work and communication.