

Long-Term Installment Plans for Small Service Businesses

When to offer them, how to structure and document them, how to collect them, and where AI fits

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Publisher disclosure: Invoice My Clients sells invoicing software that includes installment plans, and section 13 describes how our product implements them. The other sections are written to be useful whatever software you use. This is general information, not legal, tax or accounting advice. Rules differ by country, state and the kind of customer you serve; ask a qualified advisor about your own situation. The paper contains no survey statistics: where it states a rule, it links the primary source.

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1. Executive summary

A long-term installment plan lets a client pay one known amount in several scheduled parts instead of one lump sum. For a small service business it is often the difference between a job that gets paid slowly and a job that does not get paid at all. It is also a commitment: for months, someone has to know what is due, notice what is late, and decide what to do about it.

Plans work best when they are offered early, before a client is in trouble, and when the terms are short, written down and accepted by the client. They work worst when they are improvised in text messages after an invoice is already months overdue. The most common failures are administrative rather than financial: amounts that do not add up, no record of what was agreed, reminders that chase the whole balance when one payment is late, and no clear rule for when a plan has failed.

This paper covers when to offer a plan, how to structure the down payment, length and frequency, what consent and documentation to keep, how automatic card charges and card failures should be handled, how to define default, how plans appear in your books and aging report, the main US legal considerations, and the risks. A dedicated section explains where AI genuinely helps (watching plans, drafting messages, suggesting terms you can explain) and what it should deliberately not do (send messages on its own or make opaque credit decisions). The last part describes how Invoice My Clients implements plans, limited to what is released.

2. Scope and how to read this paper

The paper is written for owner-operated service businesses: contractors and trades, agencies and consultants, clinics and studios, and anyone else who invoices a client for work already done or about to be done. The typical plan here is a few months to a couple of years long, covers one invoice, and is arranged directly between the business and its client without a third-party lender.

It is deliberately qualitative. We do not quote default rates, recovery rates or cash-flow improvements, because the published figures we found are surveys with their own definitions and they rarely transfer to an individual business. Your own history with your own clients is the better evidence, and section 11 explains how to use it.

Legal references are US federal rules with links to the regulation text. State law varies and often matters more than federal law for a small business; where the paper says a rule may apply, read that as a reason to ask an advisor, not as a conclusion.

3. What an installment plan is, and what it is not

An installment plan divides a known obligation into scheduled payments. The total is fixed when the plan is made; the plan decides only when and in what parts it is paid. That makes it different from several neighbouring arrangements that are often confused with it.

A deposit is a payment before or at the start of work. Progress or milestone billing ties each invoice to accepted progress on the job. Recurring billing repeats a charge for an ongoing service with no fixed end. A partial payment is a client paying less than the balance with no agreed schedule. Financing, including buy now, pay later, means a third party pays you and the client owes the lender; the lender sets the terms, carries the credit risk and is regulated as a lender.

An in-house installment plan sits between these: the business itself waits for its money, the client owes the business, and the plan is a promise about timing. The business carries the risk that the client stops paying. In exchange it keeps the client relationship and avoids a lender's fees. Whether that trade is worth it depends on the client and the amount, which is the subject of the next section.

Arrangements that are often confused

General descriptions. Contracts and products differ; read the actual terms.

Deposit

Who waits for the money: Nobody; the client pays first

When it fits: Materials or booking costs up front; cancellation risk

Progress billing

Who waits for the money: The business, until each stage is accepted

When it fits: Long jobs with measurable stages

Recurring billing

Who waits for the money: Nobody; each period is billed as it occurs

When it fits: Ongoing services with no fixed end

Partial payments

Who waits for the money: The business, with no agreed schedule

When it fits: Occasional shortfalls; informal

In-house installment plan

Who waits for the money: The business, on an agreed schedule

When it fits: A known amount the client cannot pay at once

Third-party financing

Who waits for the money: The lender; the business is paid up front

When it fits: Large consumer purchases; the client qualifies with a lender

4. When to offer a plan, and when not to

Offer a plan when the amount is large relative to what the client normally pays you, the client has a reason that sounds like timing rather than unwillingness, and you would rather be paid slowly than argue. Good signals are a history of paying, even late; a client who raises the question before the due date; and a job whose value is not in dispute. A plan offered at that point is goodwill. A plan offered after months of silence is a collections tool, and it should be shorter and stricter.

Be cautious when the work itself is disputed (a plan does not settle a dispute and may later be read as an admission that the amount is owed in full), when the client has already broken an informal promise, when the plan would run longer than your relationship with the client is likely to last, or when the amount is one you could not afford to lose. A plan is not a substitute for a deposit on work you have not yet done.

Decide your policy before you need it and apply it consistently: the smallest invoice you will split, the longest length you will accept, the minimum down payment and what happens after a missed payment. Consistency is fairer to clients, easier to explain, and it protects you from making a generous exception under pressure that you would not make on a calm day.

5. Structuring the terms

The down payment is the most protective term you control. It shows commitment, covers your immediate costs and reduces what is at risk. A larger down payment generally allows a longer schedule for the rest. Due on the start date, it also tests whether the client's card or bank account actually works before the plan depends on it.

Length and frequency should follow the client's cash flow, not your preference. Weekly or biweekly payments suit clients paid weekly or biweekly and keep each amount small; monthly payments suit businesses and salaried households. Shorter plans are easier to keep and to monitor. Long plans multiply the chances of a missed payment and the administrative cost, and they can bring in legal rules that a short plan avoids (see section 10).

The amounts must add up to the balance exactly. Dividing an odd total by the number of payments leaves cents over; decide where they go (for example, one extra cent on the first few payments) so that no payment differs from another by more than a cent and the last payment does not carry a surprising remainder. Monthly dates need a rule for short months: a plan that starts on the 31st should fall on the last day of February, not skip it.

Write the default rule into the terms from the start: how many days after a due date a payment counts as missed, how many missed payments end the plan, and what happens then (typically, the remaining balance becomes due at once). A rule the client accepted is far easier to apply than one announced after the fact.

Term choices and their trade-offs

Qualitative trade-offs, not recommended values. Your own clients' payment history is the best guide.

Down payment

Shorter or smaller: Easier for the client to start

Longer or larger: Less at risk; shows commitment; tests the payment method

Plan length

Shorter or smaller: Fewer chances to miss; simpler to monitor

Longer or larger: Smaller payments; more administrative and legal exposure

Frequency

Shorter or smaller: Monthly: fewer transactions and reminders

Longer or larger: Weekly or biweekly: smaller amounts aligned with pay cycles

Grace period

Shorter or smaller: Problems surface quickly

Longer or larger: Room for a late paycheck without escalating

Missed payments before default

Shorter or smaller: Clear consequence; less exposure

Longer or larger: More forgiving; risk accumulates

6. Consent and documentation

A plan is an agreement, and the evidence of the agreement is what protects both sides. At a minimum keep the schedule (every date and amount), the total, the down payment, whether automatic charges are part of it, the default rule, and who accepted it and when. Keep the exact wording the client saw, not a summary: if a dispute arises months later, the question will be what the client agreed to, word for word.

Acceptance should be an affirmative act by the client: typing a name, ticking a box, signing. Record when it happened and enough technical context (such as the device or browser and network address) to show it was done by the person who received the offer. If you change the offer, the old version should no longer be acceptable; otherwise a client can accept terms you have withdrawn.

Changes made after acceptance (pausing, moving a payment, rescheduling) should be visible to the client in the same place as the original schedule, and you should decide whether a change needs fresh acceptance. Changes that make the plan easier for the client are usually uncontroversial; changes that make it stricter should be agreed again.

Keep the record for as long as you keep the invoice. A plan that ended in default is exactly the case where you will need it.

7. Automatic charges and card failure handling

Automatic charges remove the most common reason a payment is late: the client forgot. They also create obligations. Charging a saved card when the client is not present depends on the client's permission to save the card and charge it later, collected at the time the card is saved; payment processors document how that permission is captured. For preauthorized transfers from a consumer's account, US Regulation E requires authorization in writing, signed or similarly authenticated, and a copy for the consumer. Ask your processor and advisor which rules apply to your setup.

[\[3\] Stripe documentation: Save a customer's payment method without making a payment](#)

[\[2\] Consumer Financial Protection Bureau: 12 CFR 1005.10 \(Regulation E\), preauthorized transfers](#)

Make the authorization specific: which card, which amounts, which dates, and whether it covers anything beyond the schedule (for example, the remaining balance after a default). Let the client switch automatic charges off as easily as they switched them on. The business should be able to switch them off, but should never be able to switch them on for the client.

Cards fail for ordinary reasons: insufficient funds, an expired or replaced card, or an issuer's fraud check. Issuers return codes that say whether a retry makes sense; some declines should not be retried at all, and card networks limit how many times a single charge can be retried. A small number of retries spread over several days, followed by asking the client to pay on the page, respects those limits and the client's patience.

[\[4\] Stripe documentation: Declines](#)

[\[5\] Stripe documentation: Card declines \(declined card retries\)](#)

Decide in advance who pays processing fees on automatic charges. Passing a surcharge to the client is restricted by card network rules and by some states, and it must be disclosed before the client pays; on an automatic charge the client is not present to see it. Many businesses simply absorb the fee on plan payments.

A failed charge is a moment for a gentle, specific message about that one payment, not an escalation about the whole balance.

8. Collections and default policy

A plan changes what late means. A client on a plan who misses one payment owes that payment, not the whole invoice, unless and until the plan ends. Reminders, aging and any escalation should follow the late installment.

Chasing the full balance for one missed payment undermines the plan and the relationship it was meant to save.

Define missed and default precisely: a grace period after each due date before a payment counts as missed, and a number of missed payments after which the plan ends. When it ends, the remaining balance typically becomes due at once (sometimes called acceleration); that consequence should be in the terms the client accepted. Whether to charge the remaining balance to a saved card automatically is a separate decision, and it needs the client's explicit authorization for that amount.

Leave room for judgment. Pausing a plan for a client who lost a contract, moving one payment to the end, or rescheduling the rest is often worth more than enforcing the default rule. Reinstating a defaulted plan on a new schedule is a reasonable second chance. Record every such change so the history stays clear.

When a plan finally fails, it becomes an ordinary overdue invoice, and the same collections practice applies: a statement, a firm and courteous demand, and if needed a decision about small claims or a collection agency. Rules for collecting consumer debts differ by state and by who is collecting; take advice before escalating.

9. Accounting treatment

For most service businesses a plan does not change the invoice: there is still one invoice for the full amount, and the client makes several payments against it. Your books should show exactly that, one receivable and several payments, rather than a series of new invoices that would double the revenue or need offsetting credits.

Aging needs care. If the whole balance is reported as overdue the moment one installment is late, the aging report overstates the problem; if the whole balance is reported as current, it hides it. The useful view ages the plan by its oldest unpaid installment and treats the parts that are not yet due as current. Days sales outstanding and similar measures will look slower for invoices on a plan; that is the plan working as designed, so read those figures with the plan in mind.

Revenue recognition, sales tax timing and the treatment of a plan that defaults depend on your accounting method and jurisdiction. Cash-basis and accrual-basis businesses see a plan differently in their profit figures. Ask your accountant how to treat the receivable, when tax is due, and when an unpaid remainder should be written off.

Refunds on a plan invoice should reduce the amount paid toward it, and therefore reopen the latest installments, rather than being recorded somewhere disconnected from the schedule.

10. Legal and compliance notes (United States)

This section is general information, not legal advice. A business that offers its own plan is extending time to pay, and some laws treat that as credit. Keeping a plan simple keeps it clear of most of them.

Interest and fees. The simplest position is that a plan adds no interest and no fees: the client pays the invoice amount in parts. Adding a finance charge brings in disclosure duties and state limits on rates and fees. If you ever add one, it must be lawful where you and your client are and disclosed before the client agrees.

Consumer credit. Under the federal Truth in Lending Act's Regulation Z, a creditor is, among other conditions, a person who regularly extends consumer credit that is subject to a finance charge or is payable by written agreement in more than four installments, not counting a down payment. A business that regularly offers consumers written plans of more than four payments should ask whether those rules reach it, even when no interest is charged. Plans for business clients are generally outside consumer credit rules, but not outside contract law.

[\[1\] Consumer Financial Protection Bureau: 12 CFR 1026.2 \(Regulation Z\), definitions, including "creditor"](#)

State law. Many states regulate retail installment contracts, debt collection by creditors, late fees and surcharges, and some require particular wording or licenses. The rules for a home improvement contractor can differ from those for a consultant, and the client's state may matter as much as yours.

Automatic charges. See section 7: consumer debit authorizations fall under Regulation E, and card network rules govern stored credentials and surcharges.

[\[2\] Consumer Financial Protection Bureau: 12 CFR 1005.10 \(Regulation E\), preauthorized transfers](#)

Plain disclosure. Whatever the law requires, say plainly what the plan is: an arrangement between the business and its client to pay an invoice in parts. If software or a platform is involved, the client should not be led to believe that the platform is lending them money or guaranteeing anything.

11. Risks and how to reduce them

Credit risk is the obvious one: the client may never finish paying. It is reduced by a down payment, a shorter plan, automatic charges the client authorized, and a default rule applied consistently. Concentration risk is less obvious: several large plans with clients in the same industry can fail together when that industry slows.

Administrative risk is the most common: amounts that do not add up, a missed due date nobody noticed, a reminder for the wrong amount, or a change made by phone and never recorded. These are what software should remove.

Relationship risk runs both ways. A rigid plan can lose a good client over one bad month; a loose plan can teach a client that your due dates are suggestions. Disputes and chargebacks are a further risk on card payments; a clear record of acceptance and receipts for every payment is the best defence.

Your own history is the best risk evidence you have. Before offering a plan, look at how this client has paid you before: how many invoices, how many late, by how much. The same review across all your plans shows whether your policy works.

12. Where AI fits

Installment plans create a lot of small, repetitive work over a long period: checking who is behind, deciding whether a pattern is worrying, and writing a message that is firm without being rude. That is where AI is useful. Deciding whether to extend credit, what the terms should be, and whether to send a message to a client are decisions with consequences for a relationship and sometimes legal duties; they should stay with a person.

Risk scoring. A useful risk signal on an active plan is explainable: it adds up visible facts such as missed payments, late payments, failed charges and time since the last payment, and it says which facts drove the score. An owner can act on 'two late payments and a failed charge'; an unexplained number invites either blind trust or no trust at all.

Reminder drafting. Language models are good at writing a specific, polite message about one late payment from the plan's facts. The draft should be reviewed and approved by the owner before it is sent, with a plain template as a fallback when the model is unavailable.

Terms suggestion. Suggesting a down payment, length and frequency from a client's payment history does not need a model at all. Fixed rules (for example, more down payment for a client who has paid late before) give the same answer every time and can be explained in a sentence, which is exactly what you want when a client asks why their terms differ from someone else's.

Creating plans by conversation. An assistant that sets up a plan from a request such as 'put this client on a six month plan' saves clicks, provided it shows the schedule and waits for confirmation before saving, and never sends anything to the client by itself.

Audit trail. Every action on a plan, whoever or whatever took it, should be recorded with the actor: the owner, the client, an assistant acting for the owner, or the system.

What AI should deliberately not do: send messages to clients on its own; approve or refuse a client for a plan; make credit decisions from signals nobody can inspect; set interest or fees; or change a plan the client has accepted without the owner.

13. How Invoice My Clients implements installment plans

Availability. Installment plans were released on 18 October 2026 on the Professional plan and above (Professional, Business, Enterprise and White Label), including automatic charges. Free and Starter accounts see an upgrade prompt. Clients need no account. A plan never changes the invoice total and adds no interest or fees; the client sees "Invoice My Clients is not a lender."

[\[6\] Invoice My Clients: Installment plans feature page](#)

[\[7\] Invoice My Clients: Pricing and plan comparison](#)

The plan. A plan covers one invoice's open balance, draft or sent, on a weekly, biweekly, monthly or custom-date schedule, with an optional down payment on the start date. It allows at most 60 payments over at most 5 years. Amounts are exact to the cent and no two payments differ by more than one cent. For an estimate, the owner converts it to an invoice first; a deposit paid on the estimate acts as the down payment.

[\[6\] Invoice My Clients: Installment plans feature page](#)

Consent. The owner offers the plan or starts it now with notice. When offered, the client accepts on the invoice link with a typed name, a checkbox and the exact terms. The consent record keeps the time, a hash of the wording, the IP address and the browser. If the offer changes, a stale acceptance is refused.

[\[6\] Invoice My Clients: Installment plans feature page](#)

The client's view and payments. The client's invoice page shows the schedule with each payment's status, the amount due now, the next payment and the payoff amount. The pay amount defaults to the amount due now; the client can pay more or pay off early, which completes the plan. The invoice PDF shows a payment schedule table in English or Spanish, and each payment gets a normal receipt.

[\[6\] Invoice My Clients: Installment plans feature page](#)

Automatic charges. Optional card charges are authorized only by the client; the owner chooses Off, Offered or Required. Charges run on due dates with two retries within 7 days. The owner pays the processing fees, and there is no client surcharge. The client or the owner can switch automatic charges off. A failed charge is counted, and the existing soft-decline reminder applies to that installment only.

[\[6\] Invoice My Clients: Installment plans feature page](#)

Changes and default. The owner can pause and resume (optionally shifting dates), move one payment to the end, reschedule the rest, cancel, or reinstate a defaulted plan on a new schedule. A plan defaults after a set number of missed payments (by default 2, with 10 days of grace); the remainder is then due at once.

[\[6\] Invoice My Clients: Installment plans feature page](#)

Aging, reminders and notifications. AR aging follows the oldest unpaid installment, with the rest in Current.

Automatic reminders, when the owner has them on, chase only the late installment. The owner is notified when a plan is accepted, a payment is missed, a plan defaults or is at risk, and when the client switches automatic charges off.

[\[6\] Invoice My Clients: Installment plans feature page](#)

AI. Risk cases: a points score rated low, medium or high; medium and high open a "Payment plan at risk" case in Escalations. AI-drafted reminder wording (Amazon Bedrock, with a template fallback) that the owner approves and that is never sent automatically. A deterministic, explainable terms suggestion from the client's history, with no model. Every plan action recorded in the invoice history with the right actor.

[\[6\] Invoice My Clients: Installment plans feature page](#)

Not available yet: creating a plan through the AI assistant by text or voice. It is built and awaits deployment.

[\[6\] Invoice My Clients: Installment plans feature page](#)

What Invoice My Clients plans do not do (as of 18 October 2026)

Each item is a released limitation, not a promise of future work.

Interest or finance charges on a plan

What to do instead: Offer the plan interest-free, or do not offer it

Note: There is no interest setting on a plan

[\[6\] Invoice My Clients: Installment plans feature page](#)

One plan across several invoices

What to do instead: Put each invoice on its own plan

Note: A plan covers one invoice

[\[6\] Invoice My Clients: Installment plans feature page](#)

ACH or bank automatic charges

What to do instead: The client pays each payment on the invoice page

Note: Automatic charges are card only

[\[6\] Invoice My Clients: Installment plans feature page](#)

Automatic charges on persona invoices

What to do instead: The client pays on the invoice page

Note: Personas are an Enterprise feature

[\[6\] Invoice My Clients: Installment plans feature page](#)

A plan directly on an unconverted estimate

What to do instead: Convert the estimate to an invoice first

Note: An estimate deposit acts as the down payment

[\[6\] Invoice My Clients: Installment plans feature page](#)

Client-pays surcharge on automatic charges

What to do instead: The owner pays the processing fee

Note: Applies to automatic plan charges

[\[6\] Invoice My Clients: Installment plans feature page](#)

Automatic charging of the remainder after default

What to do instead: Reinstate on a new schedule or follow up

Note: The remainder is due at once

[\[6\] Invoice My Clients: Installment plans feature page](#)

Emails to the client about plan changes

What to do instead: Send or resend the invoice yourself

Note: Changes show on the client's invoice page

[\[6\] Invoice My Clients: Installment plans feature page](#)

A client portal

What to do instead: Each plan lives on its invoice page

Note: No separate client login

[\[6\] Invoice My Clients: Installment plans feature page](#)

A plan marker in the invoice list

What to do instead: Open the invoice to see its plan

Note: Plan status shows on the invoice

[\[6\] Invoice My Clients: Installment plans feature page](#)

Android plan screens

What to do instead: Set up and manage plans on the web

Note: The Android app has no plan screens

[\[6\] Invoice My Clients: Installment plans feature page](#)

14. A short policy checklist

Before you offer plans, write down: the smallest invoice you will split; the longest plan you will accept; the minimum down payment; the frequencies you offer; whether automatic charges are optional or required; the grace period and the number of missed payments that end a plan; what happens to the remainder; who pays processing fees; and who in the business reviews plans that fall behind.

For each plan, keep: the exact terms the client saw, the acceptance record, every payment and receipt, every change and who made it, and every message sent about it.

Once a quarter, review: how many plans completed, how many were paused or rescheduled, how many defaulted, and whether the clients who defaulted had warning signs in their history that your policy should have caught.

15. Conclusion

An installment plan is a small credit decision wrapped in a lot of bookkeeping. The credit decision deserves a clear, consistent policy made by a person. The bookkeeping (exact amounts, a record of consent, reminders for the right payment, aging that tells the truth) is what software, and in places AI, should take off your hands. Whatever tools you use, the test is the same: could you show a client, an accountant or a judge exactly what was agreed, what was paid and what happened when a payment was missed?

Primary sources and references

[1] [Consumer Financial Protection Bureau: 12 CFR 1026.2 \(Regulation Z\), definitions, including "creditor"](#)

Regulation text; accessed 18 October 2026

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[3] [Stripe documentation: Save a customer's payment method without making a payment](#)

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[7] [Invoice My Clients: Pricing and plan comparison](#)

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<https://www.invoicemyclients.com/white-papers/long-term-installment-plans>