

CREDIT CARD SURCHARGING 101



You've heard it called many names: convenience fee, cash discount, surcharge, merchant fee, service fee. They aren't all the same though, and there are rules. Surcharging is growing in popularity, with more businesses every day enrolling in the program. Before you decide if surcharging is the right option for your business, you should know what it entails.

A Supreme Court decision in 2013 made it legal for businesses to assess a surcharge on credit card transactions, provided that the local state laws didn't specifically outlaw the fee. **Currently there are 6 states that have laws prohibiting surcharge: Colorado, Connecticut, Kansas, Maine, Massachusetts, and Oklahoma.** California, Florida and New York also prohibit the fee, but the law is being challenged in the respective state courts, and it seems likely the bans will be overturned. Texas prohibited surcharging up until 2018, when the State lost the case and the Court determined it was legal to surcharge.

For those states that allow surcharging, businesses must abide by the rules of the Court judgment:

- The surcharge fee is capped at 4%, or your effective rate, whichever is lower.
- The fee can ONLY be assessed on credit card sales. Debit cards processed as credit **cannot** be assessed the fee.
- The merchant must disclose the surcharge fee in four places: the front door, the register, behind the counter, and on the receipt.
- Merchants must register with their card processor, Visa, and MasterCard. There is a 30-day waiting period after registration before a merchant can activate the surcharge fee.
- Surcharge fees must be included when issuing a return to a customer.

Not all processors, and not all terminals, are capable of supporting the requirements for compliant surcharging. It's important that you talk with your processor to make sure your terminal can determine between credit and debit cards, and the equipment should give you the option of bypassing the surcharge fee in order to avoid losing the sale should a customer refuse.

It's important to understand the distinction between the various fee programs available, as well. 'Cash discount' is the most common one in today's market, aside from surcharge. When using 'cash discount,' the posted prices include the credit card surcharge, and customers who pay using cash are given a discount as an incentive. Convenience fees are the next most common program, where a business charges a fee for the convenience of paying with a credit card when other available methods of payment are more complicated. Most states limit the convenience fee to just government and utility payments, and it's typically a flat fee. Merchant fees are the closest to surcharge fees, just using a different term, and Service fees are generally billed in relation to labor fees. While not as regulated as surcharge fees, these types of fees carry their own requirements, and any business utilizing one of these programs is urged to verify they are compliant with all laws to avoid potential fines for non compliance.

One last component of the surcharge program is customer feedback. Customer response to the program has been mixed, and in most cases, negative. Since the surcharge program only applies to customers who use traditional credit cards, not debit cards, customers are feeling double charged – once from their credit card company for the interest they pay, and once from the business for the fee the business pays. As a business owner, you will have to decide whether the 4% you collect is worth the irritation and potential loss of business as customers search for other companies who are not assessing surcharges.

If you are interested in surcharges, our team at Superior Financial Systems is ready to answer any questions you may have, and help get you set up. Contact Todd Lazar for more information: (888) 737-7762 | Todd@SFSProcessing.com