What is credit card surcharging and is it right for your business?

As a business owner, you understand that there is a cost associated with accepting credit cards. Rather than absorb these costs, some merchants are choosing to pass these fees to their customers in the form of a surcharge. A surcharge is an extra fee that is added to a customer's bill when they pay using a credit card. Surcharges are also known as "checkout fees". Surcharges are intended to cover the additional costs associated when customers pay with a credit card rather than using another form of payment.

Some merchants may confuse cash discounting with surcharging. They are not the same. Cash discount refers to a reduction from the listed price when a customer chooses to pay with cash. A surcharge is a fee added to the listed price when a customer pays with a credit card. The difference is subtle, but the rules and regulations for each method are very different.

Credit card surcharging has gained popularity in the last several years and legal changes have removed some of the barriers. The practice of surcharging may sound like an attractive proposition, but surcharging comes with a long list of considerations. In the rest of this article, we will be reviewing the top 12 items you should understand before implementing a surcharge program.

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1. **Surcharging is a strategy that mitigates a merchant's credit card processing costs**

Surcharging adds a small percentage fee to a customer's bill at the time of checkout. The surcharge is collected and applied to a merchant's credit card processing costs. The surcharge offsets the rising costs of credit card processing fees by passing them to the customer.

2. **How will your customers react when they see a surcharge?**

Implementing a surcharge program could alienate your customers or they may feel penalized for using a credit card. When customers see additional fees on their receipt, it can be frustrating, and it may incent them to take their business elsewhere.

3. **What are your competitors doing?**

If you are surcharging and your competitors aren't, your customers might leave in search of a better deal. You do not want to stand out from your competitors in a bad way. However, if your product is unique or you have strong customer loyalty, imposing a surcharge may not impact your sales.

4. **Encouraging your customers to pay with cash could have an impact on the amount of money your customers spend with you.**

Studies show that customers spend more money when they pay with a credit card. Cash can be somewhat limiting for a consumer, whereas a credit card provides greater access to funds.

5. **Implementing a surcharge program could require new equipment or software**

Not all credit card terminals or point-of-sale providers are equipped to surcharge. You may need to purchase or rent new equipment that allows for surcharging. You will also want to consult with your point-of-sale or software provider about their ability to surcharge.

6. **Surcharging only applies to credit cards. Debit cards and prepaid cards <u>cannot</u> be surcharged.**

Merchants cannot impose surcharges to debit or prepaid cards. This restriction includes debit cards that are run as credit (aka signature debit). For businesses that accept a lot of debit cards, surcharging will only alienate your credit card customers.

7. **Surcharging is not allowed in every state**

As of 2022, it is illegal for merchants to impose a surcharge in Connecticut, Massachusetts, and Puerto Rico. If your business operates in any of these jurisdictions, you will not be able to surcharge.

8. The maximum surcharge cap is 4% (2% in Colorado)

Visa and MasterCard have limited the maximum surcharge to 4%. The card brands have done this to prevent merchants from profiting from surcharges. The surcharge must be the same for all credit card holders, regardless of brand or type.

9. The surcharge must be clearly disclosed to the customer

Any surcharges must appear as a line item on the receipt. Additionally, your business is required to place signage about the surcharge at the entrance to your store and during the checkout process. For online and e-commerce transactions, similar rules apply to the checkout page.

10. You must notify the card brands and your processor of your intent to surcharge 30 days in advance

30 days before any merchant can surcharge, they must provide a written notice to their processor and the card brands of their intent.

11. Surcharging generally applies to consumer businesses

Separate laws and regulations apply to government agencies and educational institutions that want to apply surcharges.

12. If you fail to follow the rules/regulations regarding surcharging, you could lose your ability to process cards

Violations of the card brand rules, or the laws outlined in each state are serious. Processors and the credit cards brands can shut down your processing account for non-compliance. Businesses can also be fined up to $25,000 for violations of the card brand rules. Visa and MasterCard have forms on their websites that allow cardholders to report surcharges.

As you can see, there are a lot of things to consider before implementing a credit card surcharge program.

If it feels like your credit card fees are becoming prohibitively high, surcharging isn't your only solution. Audit Advantage offers a variety of consulting solutions that can reduce your processing fees with your current processor (i.e. you don't have to switch to save).

If you have any additional questions about surcharging, or how Audit Advantage can help, don't hesitate to contact us!

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