



### Charge Fee on Credit Card Transactions? Read This!

Interested business groups, including the Alabama Retail Association, have sought clarification recently from the Alabama Department of Revenue about surcharges placed **on credit-card transactions** and the applicable sales and use taxes on transactions with such charges.

In response, Alabama Revenue Department officials issued this statement:

***“A credit card fee, even if separately stated, is part of the retailer’s cost of doing business, and the entire consideration for the sale of tangible personal property is subject to sales and use taxes.”***

Here is the example the Revenue Department provided:

***Example:*** A sale of tangible personal property totals \$100. The customer pays with a credit card and is charged a \$3 credit card transaction fee. The total price of \$103, including the credit card transaction fee, is subject to sales and use taxes.

Questions also were raised about goods and services on the same credit card transaction. Here is what state law says specifically about auto parts and repairs:

- “The full amount of an invoice will be subject to sales or use tax when it does not separately state the parts from the labor.”
- “(3) Labor, installation and service charges not separately stated on the invoice to the customer are taxable. If the labor, installation, and service charges are separately stated from the sale of parts, the labor, installation, and service charges are not taxable. (4) Books must be kept in a manner

that clearly reflects the separation of the charges for the tangible items sold and the charges for the labor or installation charges.”

- (11) If automotive supply jobbers perform labor in connection with a sale of repair parts, invoices covering the transaction must clearly show the amounts charged for each part and amounts charged for labor. For invoices not showing parts and labor separately, sales tax is due on the total amount of the invoice.

A sales and tax division spokesman added, “**if you buy a part AND pay for labor to install it, and it is on one credit card charge/bill of sale, then the whole fee would be taxable.** To make the credit card fee for the labor portion non-taxable, you’d have to do two separate bills of sale/credit card charges.”

**The Alabama Revenue Department also addresses these questions in Frequently Asked Questions (FAQ) section of its website under Tax: General – Sales and Use:**

**Are credit card transaction fees subject to sales and use taxes?**

A credit card transaction fee is a charge added to the regular price of an item by a retailer when the purchaser pays for the item using a credit card. Other names for this fee include swipe fee, credit card surcharge, processing fee, service charge or convenience fee.

These fees are subject to sales and use tax and should be included in the seller’s gross sales on retail transactions when calculating tax due. **Example:** A sale of tangible personal property totals \$100. The customer pays with a credit card and is charged a \$3 credit card transaction fee. The total price of \$103, including the credit card transaction fee, is subject to sales and use taxes.

A credit card fee, even if separately stated, is part of the retailer’s cost of doing business, and the entire consideration for the sale of tangible personal property is subject to sales and use taxes.

**If a transaction consists of only non-taxable goods or services, the credit card transaction fee is not subject to sales and use taxes.** **Example:** A customer is charged \$50 for a haircut. The customer pays with a credit card and is charged a \$3 credit card transaction fee. Since the haircut is not subject to sales and use

taxes, the corresponding credit card transaction fee is not subject to sales and use taxes.

**Reminder:**

The ability to surcharge only applies to credit card purchases, and only under certain conditions. **U.S. merchants cannot surcharge debit card or prepaid card purchases.**

*Still have questions?:* Contact a local Alabama Revenue Department taxpayer service center. Full contact information can be found here: [https://www.revenue.alabama.gov/help-center/](https://www.revenue.alabama.gov/help-center) and/or call the general information number for the Sales & Use Tax division, (334) 242-1490.

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