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September 2022

U.S. Surcharging Snapshot Report

This snapshot report covers select trends in the U.S. related to credit card surcharging and includes feedback from a short poll of small business merchants on their understanding and use of surcharging.

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**March 2023 TSG
Article Update:**

**[Visa Plans to Lower
Surcharging Maximum](#)**



REPORT OVERVIEW

Report Overview

Economic issues and limitations exacerbated by the pandemic have caused substantial hardship for both merchants and consumers. Surcharging, an additional fee merchants sometimes issue their customers to defray the cost of card processing, has grown in popularity over the past few years as a potential solution. Cash discount programs – another mode of passing on the cost of credit card transactions to customers – is also growing in popularity.

According to an estimate produced by TSG's [Acquiring Industry Metrics](#) (AIM) platform, a business with approximately \$200,000 in annual credit and debit card sales could expect to save around \$2,700 per year (assuming half the business's sales were made using credit cards with a card processing fee of 2.7%).

Aside from merchants, who have shown an increased interest in surcharging as a result of the pandemic, many acquirers have also begun actively promoting cash discounting programs as a way of attracting merchants and saving money. Some are emphasizing their ability to help merchants develop their own compliant surcharging programs. For example, CardX (acquired by Stax Payments in 2021), has a vision to make surcharging easier and more transparent for both merchants and cardholders. Further, some payments companies have technology offers that allow for the presentation of two prices (cash price and credit price) at the point of sale; this is called Dual Pricing.

Although the rules for developing and maintaining cash discounting programs make non-compliant merchants a target by Visa, when used the right way, cash discounting can be highly lucrative for both merchants and acquirers.

Report Overview

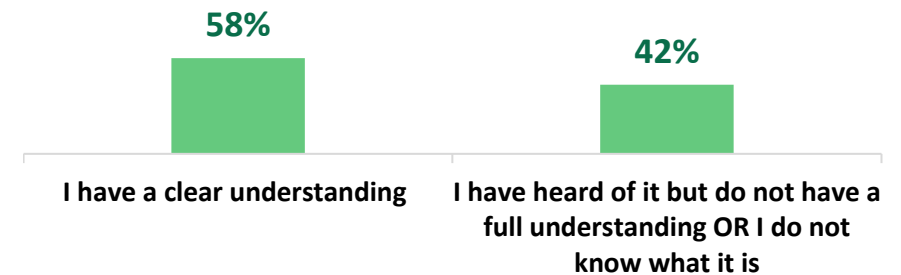
Given the renewed interest in surcharging programs, as well as to gain insight into merchants' use and understanding of surcharging, TSG conducted a short snapshot survey of small business micro-merchants in the United States in early 2022.

Overall, a portion of merchants (23%) did report using surcharging to offset card processing costs. Further, over half of merchants were at least familiar with surcharging, and those who did use surcharging charged their customers an average fee of 2.27%. This is in alignment with previous estimates of the most common surcharging fee hovering at 2.7%. However, overall utilization (approximately 23% of the micro-merchants surveyed) is likely inflated here and would likely be somewhat lower if larger merchants had been assessed.

As more merchants seek options to save on fees wherever possible, surcharging programs (and cash discounting programs) are expected to continue to grow in popularity in the U.S.

Select Survey Findings

Overall, only **58%** of small business merchants were familiar with surcharging.



Of merchants who were familiar with surcharging:

- 23%** Of reported adding a surcharge to customers' fees
- 77%** Of did not charge surcharge fees to their customers (or were unsure if they did)



SURCHARGING IN THE U.S.

Surcharging in the U.S.

→ *Surcharging has become increasingly common in the U.S.*

What is Credit Card Surcharging?

Surcharging became permitted in the U.S. on January 27th, 2013. A surcharge, sometimes referred to as a 'checkout fee,' is an additional fee merchants may add to the listed price of goods or services for credit card purchases in an effort to 'pass on' the fees incurred by accepting credit cards to their customers. Surcharges cannot exceed the cost of credit card acceptance or be greater than the purchase itself. They are limited by Visa and Mastercard to 4%.

General Criteria

U.S. merchants that intend to surcharge must:

- Provide notification to [Visa](#), [Mastercard](#), and their acquirer 30 days in advance
- Limit surcharging to credit cards only (i.e., not debit or prepaid cards), and limit the amount to their merchant discount rate
- Disclose the surcharge as a merchant fee and notify consumers to the practice at the point of entry, the point of sale, and on every receipt
- Comply with all applicable state and/or federal laws (some states cap surcharges at 2% or impose other limitations)

U.S. States/Territories that Prohibit or Limit Surcharging*

- Connecticut
- Maine
- Massachusetts
- Oklahoma
- Puerto Rico

**As of July 2022. Currently, Maine and New York require additional disclosures to customers if the merchant implements a surcharge program. Some states beyond the ones listed continue to have anti-surcharge laws at the state level which are unenforceable due to legal challenges and thus are not included on this list.*

Surcharging in the U.S.

→ *Cash Discounting offers an alternative to surcharge fees for merchants*

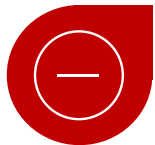
Surcharging vs Cash Discounting: Pros and Cons for Merchants

Cash discounting occurs when merchants offer customers a discounted price if the customer pays for good and services using cash or check. Both surcharging and cash discounting can be used by merchants to recoup fees associated with credit card processing, but surcharging requires a higher level of accounting from merchants, who must evaluate state law to ensure regulatory compliance.

Surcharging



- **Reduced card processing fees**
- **Debit and pre-paid cards continue to have no added fees for customers**
- **Can be implemented online (in places where physical cash is not an option)**

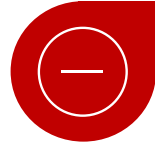


- **Some customers may feel they are being penalized for paying with a credit card**
- **Customers may refuse to pay and find a different merchant**
- **Regulatory complexity**

Cash Discounting



- **Cash has no card processing fees**
- **Reduced chargebacks**
- **Appeal to customers who see value in paying with cash**



- **Some customers may feel they are being penalized for paying with other means**
- **Customers tend to spend more when using credit cards**
- **Merchants may spend more time and resources taking deposits to the bank**

Source: Payment Cloud, TSG Analysis

Surcharging in the U.S.

→ Although similar, surcharging is different from cash discounting

Surcharging vs Cash Discounting: What's the Difference?

Differences in surcharge fees and cash discounts often come down to framing and advertising. Materially, cash discounting tends to be somewhat simpler for merchants to enact.

	Surcharging	Cash Discounting
Fee Framing	Fee added to the regular price of an item at checkout	Two different prices – one for cash and one for credit. No additional service fee or cash discount listed on the receipt
Transaction Mode	Credit Card Transactions <i>only</i>	Credit, Debit, and Prepaid Card Transactions
Rules and Regulations	Prohibited or Limited in Five U.S. States/Territories	Legal in all 50 U.S. States
Advanced Notification	30 Days of Notice Required for Card Networks and Merchant Acquirer	No Notice Required

Source: Merchant Maverick, Stax Payments, TSG Analysis

Surcharging in the U.S.

→ The following slide provides an example of what a surcharge transaction might look like to a customer

Surcharging from a Customer View

Although there is overlap in terms of the benefits of a surcharge or cash discount program, from a customer viewpoint a transaction will look somewhat different according to the type of program used. When a surcharge is added at the register, cash prices should be posted throughout the store or on menus.

Surcharge
Credit Card Used for Payment

Cost of Item*:	\$10.00
4% Surcharge added at Register:	+ \$0.40
<hr/>	
Total Cost of Item to Customer:	\$10.40

**Cash prices are posted on shelves. Example cost does not include tax or other fees.*

Surcharge
Cash, Debit, or Prepaid Card Used for Payment

Cost of Item*:	\$10.00
No Surcharge added at Register:	-----
<hr/>	
Total Cost of Item to Customer:	\$10.00

**Cash prices are posted on shelves. Example cost does not include tax or other fees.*

Source: Cardfellow, TSG Analysis

Surcharging in the U.S.

➔ *Merchants operating a business in some verticals are more likely to utilize surcharging than others*

Popular Verticals

Surcharging is more common in the following verticals:

- Government
- B2B commerce
- Nonprofit
- Education
- Business or professional services
- Medical/dental offices
- Auto
- Legal
- Construction
- Veterinary

...And among merchants with smaller businesses and smaller ticket sizes. Increasingly, merchants are using surcharging or cash discounting to combat increased costs they may experience due to inflation.

Source: NBC News, TSG Analysis



Surcharging in the U.S.

→ *Cash Discounting is lucrative for merchants in the U.S.*

Selling Surcharging and Cash Discounting Programs to Merchants

When it comes to selling surcharging and cash discounts to merchants, the level of effort required from acquirers tends to be minimal for several reasons.

- 1. Merchants may be looking for ways to ‘steer’ customers to more cost-effective payment instruments**
 - For merchants already searching for ways to encourage customers to use cash over credit cards, a cash discount program can provide the needed incentive
- 2. Merchants are typically able to observe substantial savings from surcharging programs**
 - CardX, acquired by Stax Payments in December of 2021, notes on its website that they have saved their merchants \$27 Million through surcharging programs since 2020



Surcharging in the U.S.

→ *Cash Discounting has become a popular strategy for acquirers*

Cash Discounting: Advantages for Acquirers

In addition to the advantages afforded to merchants, the use of cash discounting can also be beneficial to acquirers for several reasons.

1. Cash discounting is a highly effective selling and conversion strategy

- Without cash discounting, acquirers may otherwise have to compromise and offer reduced fees to merchants (reducing the profitability of a merchant account) in order to entice them into switching providers

2. Cash discounting typically provides additional profit margin to acquirers

- Added profit margin for acquirers is often between 0.70% - 1% compared to interchange-plus pricing structures



Source: CardX, CCSalesPro, Digital Transactions, Elavon, SwipeSum, TSG Analysis

Surcharging in the U.S.

→ When done correctly, cash discounting can be tremendously valuable to merchants and acquirers

A History of Cracking Down on Cash Discounting

Historically, Visa has been strict in enforcing surcharge and cash discounting programs and surcharging programs to ensure compliance from merchants. Some of the confusion when it comes to developing and setting up these types of programs have to do with following the current rules in several key areas.

Key Issues

- Surcharging is not allowed on prepaid cards or debit cards (even when run as 'credit')
- For cash discounting, 'cash' prices, rather than credit prices (or prices for both cash and credit), are posted on shelves and menus
- For cash discounting, the addition of 'non-cash discount' fees added at a merchant's register
- Some merchants may not post appropriate signage both at business entry points and at the register

Non-compliance around surcharging and cash discount programs, or cash discount programs which are truly surcharge programs, can lead to significant fines and other penalties.

Source: Payments Journal, PYMNTS.com, TSG Analysis







Surcharging in the U.S.

→ *Despite advantages, merchants could have concerns about cash discount programs*

Merchant Hesitation in Using Cash Discounts

Some merchants may express reluctance to utilize cash discounts for a variety of reasons, including:

-  **1. Concerns over Customer Confusion/Checkout Delays** – Some customers may not know that credit card transactions are more expensive to merchants than those made with cash or debit. This could cause delay as merchants must engage in discussions with customers to explain why they are offering a discount for using specific payment methods.
-  **2. Customer Distrust** – Customers may view merchants offering cash discounts with mistrust and express skepticism/negative feelings.
-  **3. Lack of Full Understanding** – Some merchants may have a general idea of what cash discount programs are but lack awareness of the specifics of such programs and worry about non-compliance or other consequences should they fail to set up a program correctly. They may also view it as more trouble than its worth.
-  **4. Unintended Consequences/Potential Revenue Loss** – Merchants may be fearful of losing funds from cash discounts by offering lower prices to customers who would have paid for their purchases using cash, debit, or pre-paid cards regardless of any discount offered.

Source: Consumer Payments Research Center, TSG Analysis

Surcharging in the U.S.

➔ *Cardholders are typically more accepting of surcharging than they report being through consumer surveys*

What do Cardholders Think?

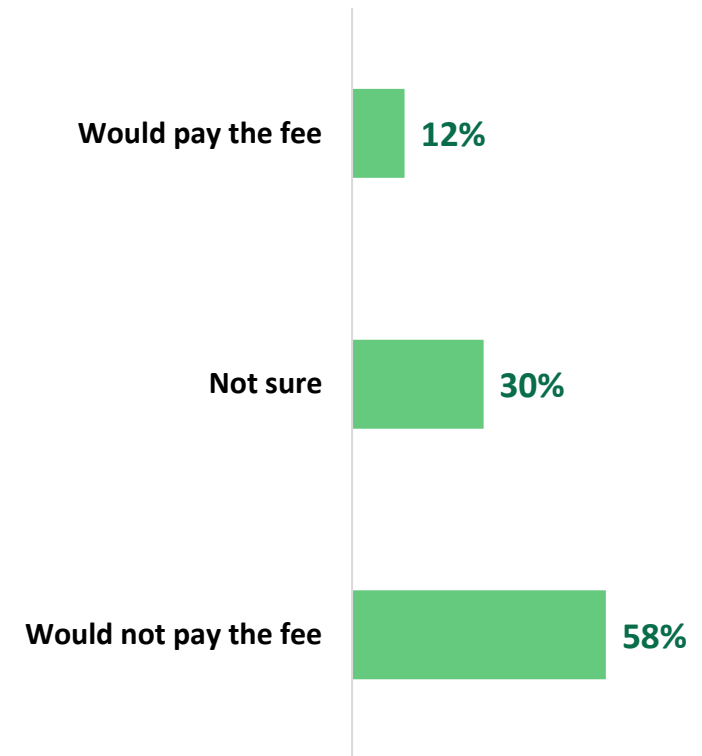
According to a survey of consumers conducted in November 2021, surcharging is becoming more familiar to consumers, with almost 50% of consumers reporting paying a surcharge fee at least once at a store or restaurant. Further, only 19% of consumers reported using a different method of payment when a surcharge fee was disclosed.

Although approximately 85% of consumers reported ultimately paying a surcharging fee when presented with one, for consumers who had never been faced with a surcharging fee, 58% reported they would not be willing to pay the fee if asked, indicating that negative sentiment around surcharging is prevalent, but would not affect consumers' actual intention to purchase a product in real life as much as reported.

This discrepancy may have something to do with the fact that in real life, businesses have the opportunity to provide consumers with additional options to pay such as debit, granting more choice and limiting loss of potential business.

Would you pay a surcharging fee?

Percent of Consumers



Source: Payroc, PYMNTS.com, TSG Analysis



MERCHANT FEEDBACK

Merchant Feedback

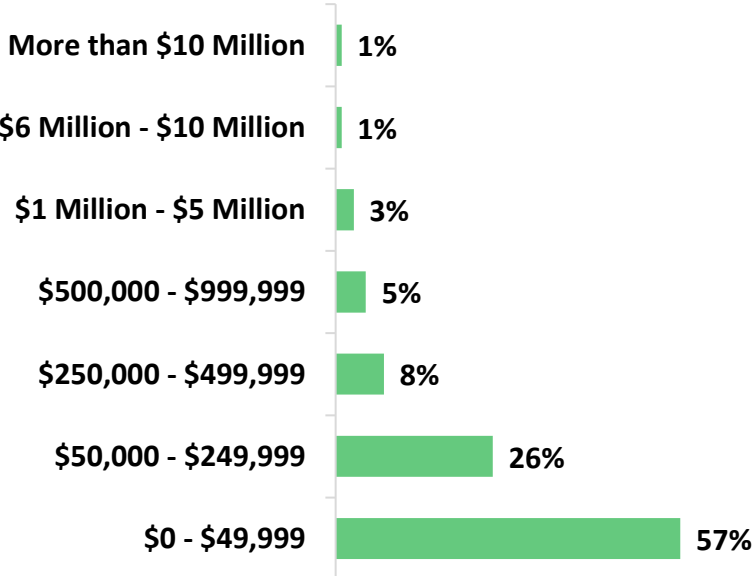
→ Survey Overview

Objectives

To explore merchants' thoughts around surcharging, TSG conducted a survey of 530 small businesses in the U.S. with the goal of understanding their usage of surcharging. Merchants who replied to the survey tended to be smaller, with 83% reporting total annual sales of less than \$250,000 per year, and 55% reported being their company's sole employee.

530
U.S. Small Businesses

Reported Annual Sales



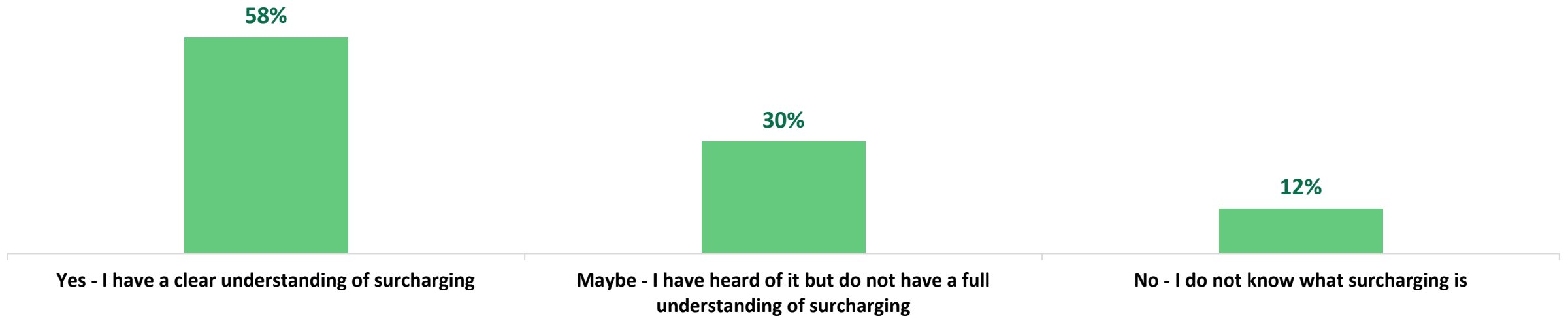
+/- 4.26%
Margin of Error at a
95% Confidence
Level

Merchant Feedback

→ 58% of merchants were familiar with surcharging

Do Merchants Know What Surcharging is?

When asked about their card acceptance, most merchants reported understanding what surcharging was, with a smaller number (30%) reporting their understanding was less clear. Only 12% of merchants did not know what surcharging was.



As it relates to your acceptance of credit card payments, do you know what surcharging is?

N = 528

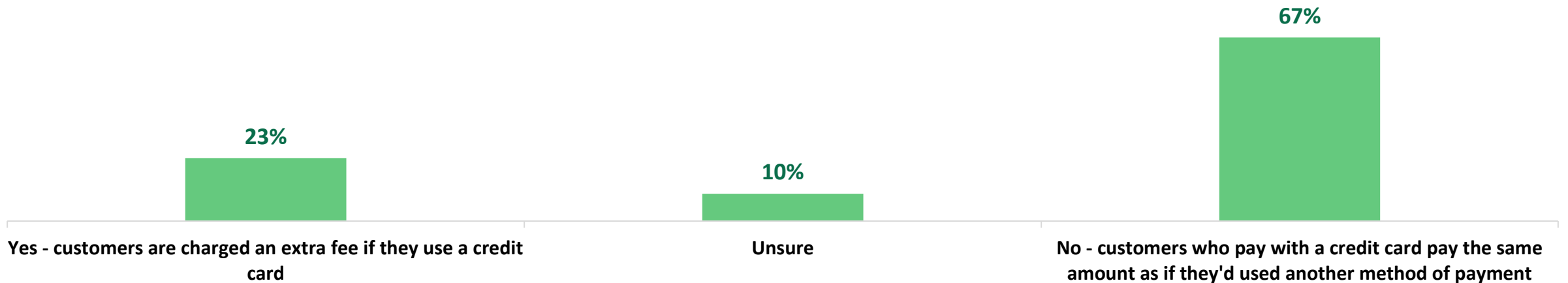
Merchant Feedback

→ 67% of merchants did not utilize surcharging

How Many Merchants Use Surcharging?

Among merchants who accepted credit cards from consumers, two-thirds reported that they did not currently use surcharge fees to pass along the cost of card acceptance to their customers, while 23% reported that they did use surcharging, and 10% were unsure.

As a general note, this amount may be greater than among larger merchants, as more of the merchants who responded to the survey reported being very small and may have had a greater need to reduce costs.



Do you currently add an additional fee to your consumer transactions when they pay using a credit card? That is – do you ‘pass along’ the cost of credit card processing to your customers?

N = 307

Merchant Feedback

→ On average, merchants added a fee of 2.27% for surcharging

What Size Fee is Typical for Merchants Who Surcharge?

Among merchants who accepted credit cards and reported charging their customers a surcharge fee, the average amount added to the customer transaction was 2.27%, with some merchants charging up to 4% and some merchants charging as little as 1%.



What size of fee do you charge to customers who pay using credit cards (i.e., what surcharging fee)?

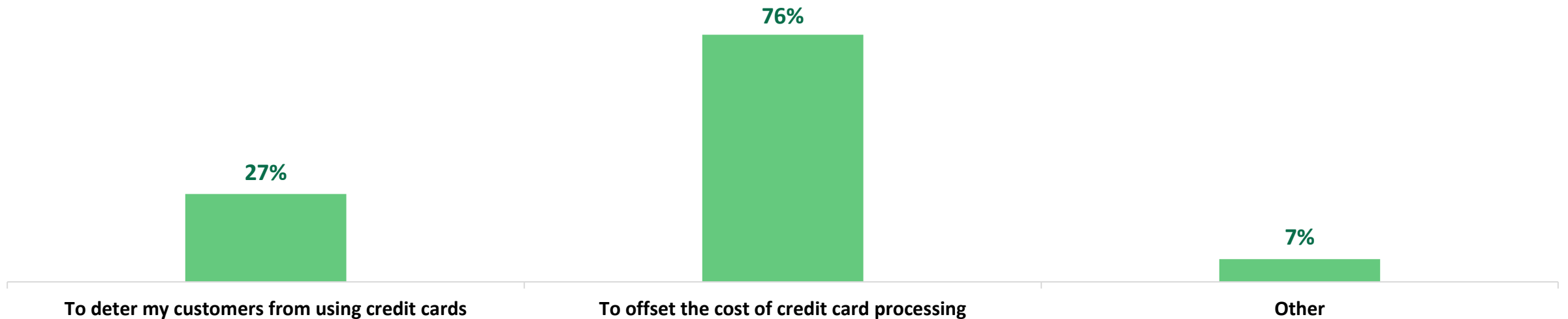
N = 41

Merchant Feedback

→ 76% of merchants that do use surcharging did so to offset the cost of credit card processing

Why Do Merchants Use Surcharging?

When asked about their motives for using surcharging at their businesses, 76% of merchants that do report that they used surcharging to offset the cost of card processing, while only 27% used it to deter customers from using credit cards. Several merchants reported using surcharging for other reasons (i.e., to recoup lost revenue, or because they otherwise could not afford to accept credit cards).



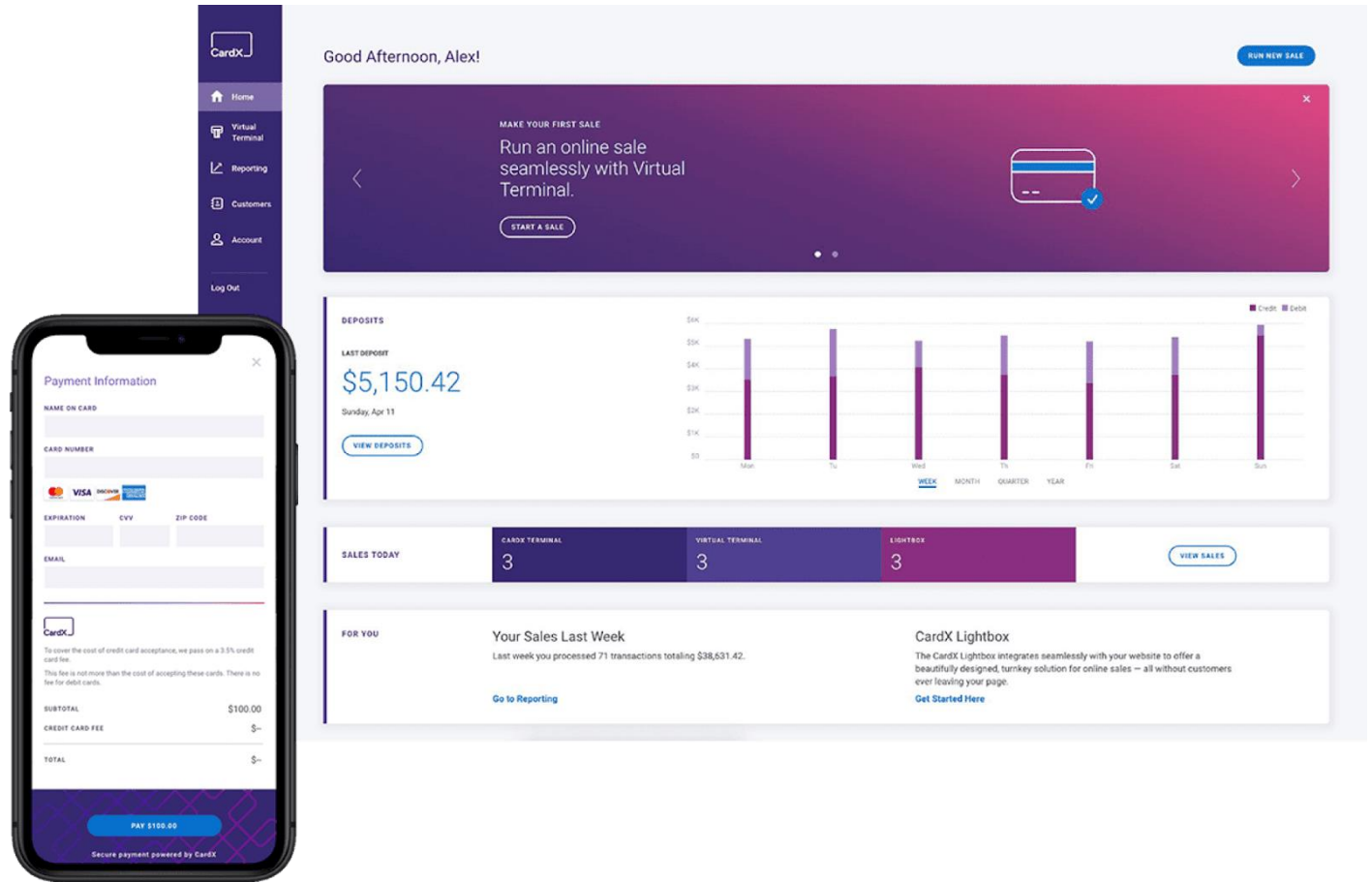
Why do you use surcharging at your business? Please select all that apply.

N = 74



CardX was founded in 2013 to provide businesses with powerful automated surcharging compliance. The CardX platform is powered by patent-pending technology that instantly identifies the card type in every environment, even online, at the highest level of accuracy in the industry. CardX technology ensures that, no matter how you accept payments, all regulations are met and that businesses are not only saving money on payment processing but completely compliant.

CardX CEO/Founder, Jonathan Razi, has worked with government leaders and testified in front of lawmakers to actively change legislation to allow credit card surcharging to be more widely implemented.



CardX was acquired by **Stax Payments**, the all-in-one payment technology provider, in 2021, with a vision to make surcharging easier and more transparent for both merchants and cardholders through powerful automation and technology.



TSG is a fast-growing analytics and consulting firm. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving space.



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1000+

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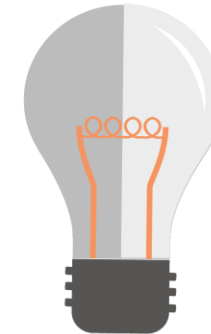
~4M

CARD-ACCEPTING MERCHANTS IN TSG'S AIM ANALYTICS PLATFORM, DRIVING MILLIONS OF DOLLARS IN ROI FOR ITS USERS



250+

COMPLETED PAYMENTS COMPANY EVALUATIONS; AS WELL AS ~30 BUY/SELL/INVESTMENT ADVERTISEMENTS



40+

OF THE TOP 50 MERCHANT ACQUIRERS SERVED, INCLUDING 9 OF THE TOP 10



400+

COMPLETED MARKET INTELLIGENCE ANALYSES ON THE GLOBAL PAYMENTS LANDSCAPE, UNCOVERING HUNDREDS OF THOUSANDS OF DATA POINTS

