Credit Card Surcharging: What Retailers Should Consider

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RetailEdge regularly hears from customers and prospective customers who are exploring credit card surcharging. We always aim to help retailers find the right balance between controlling costs, staying compliant, and protecting the customer experience.

Surcharging may be the right choice for your business, but it is not a simple decision. Before adopting it, consider the potential savings, your customers' expectations, your product margins, the payment methods you accept, and the laws and card-network rules that apply in your state.

Credit Card Costs Over Time

It can feel as though credit card processing costs have risen dramatically over the years. In many cases, however, the percentage paid on each transaction has remained relatively stable—roughly 2% for credit cards and about 1.5% as a blended average across payment types.

What has changed is the amount of spending that moves through cards. Customers use cards far more often than they did decades ago, and average ticket sizes have increased. As a result, merchants may be paying more in total processing fees each month even when their effective percentage rate has not changed significantly.

Why Credit Cards Became Standard

Historically, accepting credit cards helped retailers capture sales they might otherwise have missed. A customer who did not have enough cash—or preferred to finance a purchase through a card—could still complete the transaction. For many retailers, paying a 2%–3% acceptance cost was worthwhile because it generated additional sales.

American Express has traditionally carried higher acceptance costs than some other card brands. That is often attributed to the spending patterns of its cardholders, who may have higher average

transaction values and annual spending than other card users.

Today, card acceptance is less of a competitive advantage and more of a customer expectation. Most consumers assume they will be able to pay by card, tap-to-pay, mobile wallet, or debit card wherever they shop.

Reduce Costs Before Surcharging

Before passing costs to customers, review your current processing setup and rates. One of the easiest ways to reduce expenses is to evaluate your existing processor and determine whether your pricing structure is still competitive.

RetailEdge customers can use our integrated payment partners, but you are not required to do so. Regardless of your processor, it is worth reviewing your statements, effective processing rate, monthly fees, equipment charges, gateway charges, PCI-related fees, and contract terms.

You can start with RetailEdge's guide to credit card rate tips.

Consider Integrated Processing

Integrated card processing can help reduce costs and simplify operations. It can also improve transaction flow, reduce duplicate entry, streamline reconciliation, and provide a more reliable checkout experience.

RetailEdge does not set merchant processing rates. Your actual rate depends on factors such as:

1. Your business type.
2. Your sales volume.
3. Your average transaction amount.
4. The types of cards your customers use.
5. Your negotiated agreement with the processor.

You may see heavily advertised flat-rate plans from companies such as Square or Clover. Flat rates can be simple and predictable, but they are not always the lowest-cost option—especially for established retailers with meaningful processing volume. RetailEdge works with integrated processing partners to help merchants access competitive pricing, including flat-rate options that may be lower

than common advertised rates.

For help choosing the right pricing structure, see our article on flat-rate versus interchange-plus pricing.

RetailEdge's View on Surcharging

RetailEdge has historically been cautious about credit card surcharging. It is not a new concept, but for many retailers it has not offered enough benefit to outweigh the risk of customer frustration.

For example, adding 3% to a $300 Patagonia jacket or a high-fashion dress adds $9 to the customer's bill. That may feel especially difficult to justify on merchandise with healthy margins. The same concern applies to everyday purchases: even where margins are thin, customers may react negatively to a separate fee on groceries, essentials, or routine purchases.

For that reason, we have generally preferred a cash-discount approach over a credit-card surcharge. With a cash discount, the displayed price can reflect the standard card price, while customers who pay with cash receive a discount. RetailEdge users can configure a cash-discount rule; see this RetailEdge cash-discount setup video.

Customer attitudes can also change by market. Several years ago, credit card surcharges became common at many New York City restaurants. In some cases, restaurants later removed those fees after receiving substantial customer pushback. More recently, consumers appear to be more accustomed to service fees and payment-related charges, so the market may be shifting.

RetailEdge may add surcharge support in the future, but we want to ensure that any implementation is practical, compliant, and flexible enough to support the varying rules that apply to merchants.

Why Processors Promote Surcharging

Credit card surcharging is often promoted by payment processors because it can shift the processing cost from the merchant to the customer.

A simplified example:

1. A card brand charges approximately 2% of a transaction.
2. The processor adds another 0.5%.

3. The merchant’s total processing cost is 2.5%.
4. A 3% surcharge is added to the customer’s transaction.

The customer pays the surcharge, rather than the merchant.

The merchant is happy since they have eliminated or significantly reduced their processing expense. The processor collects more revenue.

This is one reason retailers should carefully review the terms, pricing, compliance support, reporting, and customer-facing disclosures offered by any surcharge program.

Compliance Is Complicated

Surcharge rules vary by state, payment-card network, and transaction type. A program that is acceptable in one state may require different disclosures, pricing practices, or restrictions in another.

Important requirements commonly typically include:

1. Clear, prominent disclosure before the customer pays.
2. Limits on the amount that can be charged.
3. A surcharge that does not exceed the merchant’s actual cost of card acceptance.
4. No surcharge on debit-card transactions, even when a debit card is processed without entering a PIN.
5. No surcharge on certain store-branded or private-label cards.
6. Possible notice, registration, or processor requirements before starting a surcharge program.
7. Different state rules on advertised prices, fee disclosures, and whether the charge must be included in the displayed price.
8. Tax treatment that may apply to the surcharge itself.

For example, Minnesota’s updated consumer-pricing rules require businesses to include mandatory fees in advertised prices rather than simply adding unavoidable fees at checkout. A surcharge may be permitted only when consumers have a reasonable way to avoid it, such as by using a different payment method. **That distinction is important:** if a fee is unavoidable, it may need to be included in the advertised price rather than displayed as an additional line item at checkout.

Minnesota-related considerations may include:

Disclosure: Fees should be clearly disclosed through pricing, menus, websites, signage, and—where appropriate—notice at the point of sale.

Caps: Card-network and federal rules generally limit surcharges and prohibit charging more than the actual cost of acceptance. Visa and Mastercard rules may impose different caps or program requirements.

Debit restrictions: Debit and prepaid card transactions generally cannot be surcharged.

Tax treatment: A surcharge may be subject to sales and use tax, depending on the state's rules.

Because these requirements can change and may depend on how your particular surcharge program is structured, merchants should review their state's current rules and obtain qualified legal or tax guidance for their state before launching a program.

Consider the Full Payment Mix

Before deciding whether surcharging will save money, analyze your actual payment mix. Your processing statement and POS reporting can help answer questions such as:

1. What percentage of sales are credit cards versus debit cards?
2. How much of your payment volume is EBT, prepaid, or other non-eligible tender?
3. What is your true effective processing rate?
4. How much processing cost would remain after excluding pin debit and other ineligible transactions?
5. Would the potential savings justify the risk of customer dissatisfaction?
6. Are your customers price-sensitive or likely to compare your total checkout price with local competitors?
7. Do your brand agreements, MAP policies, leases, or online pricing rules limit your ability to raise prices or add fees?

RetailEdge is not planning to implement credit card surcharging in the immediate term. A reliable implementation requires processor coordination, technical integration, certification, internal testing, beta testing, and safeguards to distinguish eligible credit transactions from debit and other restricted payment types. That time gives retailers an opportunity to study their statements and determine

whether surcharging would deliver meaningful savings for their business.

The Alternative: Build Costs Into Prices

For some merchants, the simplest option is to increase prices modestly across the board rather than add a separate card surcharge.

For example, a retailer might raise prices by 3%–4% to account for payment acceptance costs. This approach has several advantages:

1. Customers see one final price rather than a last-minute payment fee.
2. The business avoids much of the complexity associated with card-surcharge rules.
3. The increase applies to all sales, including credit, debit, and cash transactions.
4. A cash discount can still be offered to reward customers who pay with cash.
5. The retailer may avoid having to separately calculate and tax a surcharge where state rules treat it as taxable.
6. The pricing model may better align with state laws that require mandatory fees to be included in advertised prices.

This strategy is not always available. Local competition, manufacturer-advertised-price (MAP) policies, price-sensitive shoppers, and online pricing pressures can make across-the-board increases difficult. But when feasible, building payment costs into regular pricing can be easier to administer and less likely to create friction at checkout, and make you more money in the end.

In many cases, that may be the direction restaurants and other businesses ultimately take: raise menu prices enough to cover operating costs, avoid a separate payment fee, and offer a cash discount where it makes business sense.