



The Real Cost of Card Payments

June 2024



Accepting Cards for Payment is a Necessity

Accepting payment via card is a fact of life for anyone looking to sell a product or service. Business is online. We read about it everywhere. E commerce is exploding, and more business transactions are shifting to digital every day.

Whether credit or debit cards, merchants can expect to pay fees to a whole ecosystem of service providers and financial institutions when they accept credit or debit cards for payment.

Two Types of Debit Cards

There are two types of debit cards, PIN and signature. The type of debit card accepted determines which network processes the transaction and the cost of the transaction. Pin debit transactions are processed through debit dedicated networks (Star, Plus, etc.), whereas signature debit transactions are processed through card brand (VISA, Mastercard) networks. Card brand networks charge higher fees.

Signature Debit



Pin Debit



Debit Payment Transaction Cost

When a customer runs their debit card in one of your terminals, are they being asked to sign their name or enter a PIN? The answer could have a significant impact on your margins.

Transaction size and the pricing structure of your processor play the leading roles here.



Card processing costs are lower for Signature debit transactions if your business has \$15 or under average transactions. Conversely, processing costs for a PIN debit transaction are lower if your average ticket is \$15 or more.

Fee Structures and Mark-ups

The difference is the fee structure. Signature debit transactions have higher percentage-based fees and lower transaction-based fees. PIN debit transactions have lower percentage-based fees and higher transaction-based fees. Your processor's mark-up also affects the difference in cost. For signature debit transactions, your processor adds both a percentage and a transaction-based fee.

To determine the actual cost you pay for each debit transaction, you will need to know the type of pricing you have with your processor – tiered or interchange plus.

Interchange-Plus

For example, let's look at a signature debit transaction at interchange-plus pricing. In this example, we'll assume the processor charges .015% plus a \$0.10 per transaction. To calculate the total fee, add the processor fees to the VISA debit interchange fee. As of April 2023, VISA fees were 0.80% plus a \$0.15 transaction fee. The total processing fee would be 0.95% plus a \$0.25 transaction fee.

For a \$15 sale, total fees equal \$0.385. On a \$100 sale, total fees are: \$1.20

In a PIN debit sale with interchange-plus pricing, let's assume our processor adds a transaction-based mark-up of \$0.12. If the debit network's fees are 0.80% plus a \$0.185 transaction fee, the total fees for this PIN debit transaction are 0.80% plus a \$0.305 transaction fee.

For a \$15 sale, total fees would be \$0.425. For a \$100 sale, the total fees would be \$1.11

Tiered Pricing

Let's assume average PIN debit network fees of 0.834% plus \$0.197 per transaction, and the processor's PIN debit fee is \$0.18. Total fees would be 0.834% plus a \$0.377 per transaction fee. For a \$15 sale, total fees equal: \$0.502 On the \$10 sale, total fees are: \$1.21. For a \$15 sale, total fees equal \$0.385. On a \$100 sale, total fees are: \$1.20

The key to understanding which type of debit card is cheaper to process for your business depends on the size of your business, whether you have interchange-plus or tiered pricing, and your processor's mark-up.

A Final Thought About Debit Cards

Generally, signature debit cards are more economical to process if your average sale is under \$15, and you have interchange-plus pricing with your processor. PIN debit is better for larger tickets and when you have interchange-plus pricing from your processor.

Important Note: For signature debit, if a customer selects to process the payment as a Credit, it will still process as a Debit Card. The payment processor identifies the primary account number or PAN, and sees that it's a debit card. Selecting "Credit" on the terminal only bypasses the ability to enter a PIN.

Credit Cards

To the casual observer, the differences between credit cards are mostly aesthetics; colors, patterns, and text. However, there are ten types of credit cards:

- Balance Transfer Credit Cards
- Rewards Credit Cards
- Student Credit Cards
- Charge Cards
- Secured Credit Cards
- Sub-prime Credit Cards
- Limited Purpose Cards
- Business Credit Cards
- Virtual Credit Cards

Each card type has a specific purpose and a set of parameters that define it. It is these parameters and the relative risk that each credit card type represents that determine the interchange fees. Whenever you accept a credit card for payment, a complex series of interactions between processors, acquirers, and other parties take place.

Interchange Fees

There are over 300 Interchange fees making fee structures complex. Interchange fees are charged to merchants by card networks (VISA, Mastercard, etc.) and compromise 70% to 90% of total processing costs. Interchange fees vary by Industry, size of the business, card association, transaction, or card type. Each Interchange fees have two components, a percentage and a fixed cost per transaction. Interchange fees are non-negotiable.

Interchange Fee Examples

[VISA Interchange Fee Examples](#)

Fee Program	VISA Signature Preferred/Infinite	VISA Signature/Infinite	Traditional Rewards	All Others
CPS /Retail Credit-Performance Threshold *1	2.10% + \$0.10	CPS/Rewards 1 1.65% + \$0.10	1.43% + \$0.10	1.43% + \$0.10

Assessment Fees

Assessment fees are a fixed, non-negotiable and charged by the card network in addition to interchange fees. The riskier the business or transaction type is perceived to be, the higher the assessment fee. Assessment fees are non-negotiable.

Card Network Assessment Fee Examples

Card Brand	% per Transaction	\$ per Transaction
VISA	0.14%	\$0.0195
Mastercard	0.1275%	\$0.0195

Processor or Mark-up and Other Fees

Processors and payment gateways charge fees or mark-up. These fees are a percentage plus a fixed dollar amount of each transaction. If a processor charges 0.25% + \$0.10, your cost on a \$100 sale would be \$0.35. Processor fees vary widely across industries and companies and are negotiable.

Other fees that merchants face include set-up fees, account cancellation fees, monthly subscription fees, terminal fees, payment gateway provider fees, PCI fees, statement fees, and even IRS fees. Processor or Mark-up fees are negotiable.

A Cost of Doing Business

Now, you may be thinking that if I want to take cards, I need to pay fees. And up until recently, you would be right. However, intelligent payment software and recent changes in regulations have made it possible for merchants to shift processing costs by adding a fee to a transaction. The addition of fees is 100% legal and card network compliant when managed by platforms like [IntelliPay](#).



Court Rulings and Card Network Rule Changes

A 2013 U.S. supreme court decision and other legal challenges have allowed merchants to reduce or re-coup their processing costs. A merchant can now add fees to the bills of cardholders who choose the convenience of paying with a credit card or through electronic means.

The fees merchants can add to a transaction are often dictated whether debit or credit, prepaid or gift, transaction method, card network, industry, or local or state law.

As of June 2024, Connecticut, Maine, Massachusetts, New York and Puerto Rico prohibit credit card surcharging, while others, like New Jersey and Colorado, limit the maximum surcharge to the merchant's cost of processing the transaction.

Examples of the kinds of fees merchants can charge cardholders:

- Convenience Fee - cardholder pays a fee for using a payment method, not standard to the merchant.
- Service – cardholders pay a fee to a government or educational institution for using a card.
- Surcharge -cardholders pay a fee for the convenience of using a credit card.

See the Fee Model Comparison chart on page 6 for more details. IntelliPay's fee based experts can advise which fee model is the right fit for your industry, business and state.

Credit Card Processing Costs, Erode Margins

The goal of surcharging is to reduce or eliminate the processing fees merchants pay every time a customer uses a credit card.

Today the Fed estimates that 90% of all credit card transactions are on rewards credit cards. Card issuers use rich rewards to entice consumers to use their credit cards, and issuers pass these reward-related costs on to merchants through higher fees.

Competition among card issuers results in richer rewards and ever-increasing processing costs for merchants. In other words, card issuers are using your margins to pay for your customers' rewards credit card perks.

Further, card associations and issuers restrict merchants from steering their customers to lower-fee options like charge cards, debit, and ACH payments. Adding salt to the wound, the card associations "update" their fee structures twice a year, which often results in higher interchange fees.



Between a rock and a hard place, you, as a merchant, are forced to raise the prices you charge all customers to protect your shrinking margins.

Merchants who add a fee to all credit card sales shift the processing costs to the cardholder who chooses the convenience and enjoys the perks of paying by credit card.

Surcharge Fees = Win for Cash and Debit Customers

Shifting processing costs to your credit card paying customers levels the playing field for all your customers. Cash and debit customers pay a price that doesn't include the surcharge fee and are no longer subsidizing customers who choose to pay with credit card for the perks.

Credit card customers share the cost of the perks they enjoy and can always have the option of choosing a payment option with lower processing costs before completing the transaction.

Win for You

You pay the lower processing costs for debit cards, and ACH transactions. Surcharging reduces or eliminates your credit card processing costs, helping you to grow your business and your margins.

You may be thinking this sounds great, but will it work with my customers? Research suggests you will see very little push back from customers.

Surcharging works best for lower-margin businesses like distribution, businesses with larger average ticket sizes, and service-focused businesses. If your business is a restaurant or in a highly competitive industry, surcharging may not be a good fit for you. Surcharging also requires customer disclosures on receipts, signage, and 30-day advance notification of acquiring bank or payment processor.

Service fees are limited to government and education transactions in a limited number of Merchant Category Codes (MCC's).

Convenience fees are an excellent choice for businesses that offer a non-traditional way to pay like movie theaters-buying tickets online versus in the lobby.

Fee-Based Payment Model Comparison

Transactions	Service Fee Model	Surcharge Fee Model	Convenience Fee Model
# of MIDs	2	1	1
# of Transactions	2	1	1
Fee Type	Fixed or Variable	Fixed or Variable	Fixed
Eligible Cards	Credit or Debit	Credit	Credit or Debit
MOTO	Yes	Yes	Yes
Online	Yes	Yes	Yes
Recurring	Yes	Yes	No
Card Present	Yes	Yes	No
ACH	Yes	Yes	Yes
Restrictions	Note 1	Note 2	Note 3

Model Restrictions

Note 1. Government & Education Merchants. Eligible MCC's 8211; 8220; 8244; 8249; 9211; 9222; 9311; 9399. Merchant registration with card network required.

Note 2. Fee cannot exceed 3% (2% Colorado) of the transaction or merchants cost of processing. Notices must be placed at Point of Entry and Point of Sale. Debit, gift, and prepaid cards cannot be surcharged. Debit cards processed as credit cannot be surcharged. As of June 2024, surcharging is prohibited in CT, MA, ME, NY and PR. Other states have other requirements. Merchant registration with acquiring bank/processor required.

Note 3. Must be a flat fee combined into one singular payment. For card-not-present transactions, transaction type cannot be customary to industry. Merchant must offer customer an alternative payment option that does not charge a fee.

Go With a Proven Provider - IntelliPay, Your Fee-Based Payment Option Experts

Payments continue to evolve and become more complex. New payment options, compliance with changing rules, and other regulations make fee-based payments a challenging proposition. IntelliPay is an all-in-one payment solution that enables you to accept, process, and manage your electronic payments in a fast, convenient, and secure environment.

Our Google cloud-based platform handles all the compliance and processing issues for you ensuring you're always 100% compliant. Other platform features include:

- Cloud management suite
- Sophisticated parent/child reporting
- Credit and Debit Cards, ACH/eCheck, ECash, Cash, Check
- Online payments
- Mobile payments
- On-demand text & email payments
- Digital wallets - GPay, PayPal/Venmo
- Recurring installments
- EMV and custom portals
- PCI DSS Level 1 security
- Level 2/3 processing

IntelliPay is a solutions provider helping you solve the business, financial, and technical challenges your business faces. To schedule a demonstration with one of our payment experts, call 855-872-6632 or email us at sales@intellipay.com.

