



The Only Guide You'll Ever Need To Surcharging

Updated October 2025

Executive Summary

Surcharging in 60 seconds: You can add a small fee (typically 2.5-3%) when customers pay by credit card to offset processing costs. About one-third of U.S. small businesses now do this, but it's not right for everyone.

Legal status: Allowed in most states, prohibited in California, Connecticut, Maine, Massachusetts, and Puerto Rico. Several other states have special restrictions.

Key requirements: 30-day advance notice to your processor, maximum 3-4% depending on card brand, cannot exceed your actual cost, proper signage and disclosure, cannot surcharge debit cards.

Best for: B2B companies, professional services, businesses with tight margins and strong customer relationships, specialized services where competition is limited.

Not recommended for: High-competition retail, businesses with large average transactions, situations where customers can easily go elsewhere.

What actually happens: While 68% of consumers say they'd avoid businesses with surcharges, real-world data shows 90% pay the fee anyway rather than abandon their purchase.

Bottom line: Surcharging can save thousands monthly in processing fees, but requires proper implementation, compliant equipment, and careful consideration of your customer base and competitive landscape.

Why This Matters Now

Credit card processing fees have become one of your highest operating costs—right behind payroll. For many small businesses, these fees consume 2-4% of every credit card sale, adding up to thousands of dollars monthly.

The bottom line: About 34% of U.S. small businesses now use surcharging to offset these costs. But is it right for you?

What Is Surcharging?

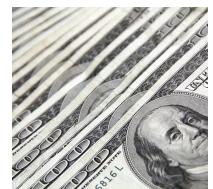
Surcharging means adding a small fee when customers pay by credit card—typically 2.5-3%. This fee helps cover the costs your business pays to card networks and banks for processing.

Important: You can only surcharge credit cards. Debit cards, prepaid cards, and gift cards are off-limits, even when customers select "credit" at checkout.

The Real Cost of Processing

Most merchants focus on interchange rates, but the total cost includes:

- Interchange fees (paid to card-issuing banks)
- Assessment fees (paid to Visa, Mastercard, etc.)
- Processor markup
- Monthly fees and statement charges
- Chargeback fees
- PCI compliance costs



Reality check: When you add everything up, accepting credit cards often costs 3.5-5% per transaction—significantly more than the advertised rate.

What Customers Actually Do

Consumer surveys say: 68% of shoppers claim they'd go elsewhere if charged a surcharge.

Real-world data shows: Nearly 90% of customers pay the surcharge rather than abandon their purchase.

The gap matters. While most customers ultimately pay surcharges, there's still friction. As surcharging becomes more common, customer acceptance increases—but you should still carefully weigh the decision.

Key insight: What people say and what they do are different. Most customers will pay the fee when it's time to complete their purchase, but the perception can still affect your brand reputation.

Is Surcharging Right for Your Business?

If you are considering implementing surcharging, here are a few things you should consider before making a decision:

Consider Surcharging If You:

- Operate B2B wholesale, distribution, or manufacturing
- Provide professional services (legal, accounting, consulting)
- Run a specialized service business (veterinary, towing, restoration)
- Have tight margins and credit cards represent significant volume
- Have strong customer relationships and limited competition
- Operate a nonprofit or charity

Think Twice If:

- Customers can easily go to competitors nearby
- Your average transaction is over \$500 (surcharges become noticeable)
- You operate in retail with heavy foot traffic
- Your market is highly price-sensitive
- Credit cards are less than 30% of your payment mix

Quick Decision Framework

If you answered YES to most "consider" criteria: Continue reading to learn how to implement surcharging compliantly.

If you answered YES to most "think twice" criteria: Skip to the "Surcharging vs. Cash Discounting" section for alternatives, or focus on negotiating better processing rates with your current provider.



State-by-State Rules (2025)

Surcharging is federally legal, but five states and one territory prohibit it:

- California*
- Connecticut
- Maine
- Massachusetts
- Puerto Rico

States with special rules:

Colorado: 2% maximum surcharge (not 3%)

Minnesota: As of January 1, 2025, mandatory fees must be included in advertised prices unless consumers can reasonably avoid them. Additionally, merchants must verbally inform customers about surcharges at the point of sale, and surcharges cannot exceed 5% (though card network rules limit most to 3%). Signs must be conspicuously posted on premises.

Kansas: As of January 1, 2025, now permits surcharging with proper notice after previous ban was overturned. Notice must be clear and conspicuous at point of sale or point of entry for both in-person and online transactions.

Nevada: Permits surcharges up to merchant's actual cost of acceptance, with maximum of 1.5%. Documentation required for any surcharge exceeding this amount.

Texas: While state law prohibits surcharges, federal courts have created exceptions. Many Texas businesses now use cash discount programs or rely on court rulings. Proceed with legal counsel guidance.

Virginia: As of July 1, 2025, requires sellers to clearly and conspicuously disclose surcharge fees in the total price of transactions.

New York, New Jersey, South Dakota: Require surcharges not exceed the merchant's actual cost of acceptance

***California note:** Senate Bill 478 (effective July 2024) requires all mandatory fees in advertised prices, essentially banning traditional surcharging.

Important: Always verify current state law before implementing surcharges. Regulations change frequently.

Surcharging vs. Cash Discounting

Cash discounting is a legal alternative to surcharging that's allowed in all 50 states, including those that prohibit surcharges.

The key difference:

Surcharging: You list one price, then add a fee for credit cards

Example: \$100 item + 3% surcharge = \$103 with credit card

Cash discounting: You list the higher (credit card) price, then offer a discount for cash/alternative payment

Example: \$103 listed price - 3% discount = \$100 when paying cash

Why it matters: The psychology is different. Customers perceive a discount as a benefit, while a surcharge feels like a penalty—even when the math is identical.

Important legal distinction: In states like California where surcharges are prohibited, cash discount programs remain legal because the advertised price is the credit card price. Customers see the full price upfront with no surprise fees added at checkout.

Requirements for cash discounting:

- Listed prices must be the credit card price
- Cash discount clearly posted
- Receipt shows discount as line item
- All payment methods eligible for discount (cash, check, ACH, debit)

Many payment processors offer cash discount programs as turnkey solutions for merchants in surcharge-restricted states.

Card Network Rules You Must Follow

Before You Start

- Notify your processor 30 days in advance. Visa and Mastercard requirement

Maximum Surcharge Amounts

- Visa: 3% maximum
- Mastercard: 4% maximum
- American Express: 4% maximum
- Discover: 4% maximum

Key limitation: You cannot charge more than your actual cost of acceptance, even if the cap is higher.

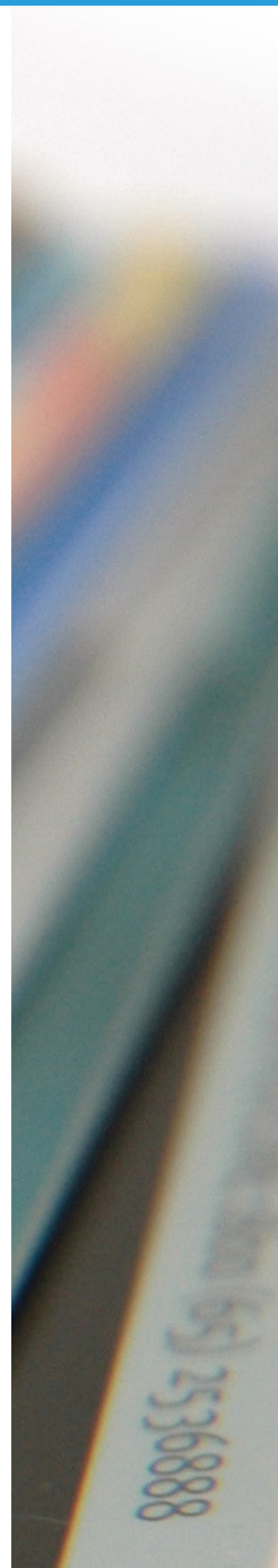
Customer Notification Requirements

Physical locations:

- Signage at entrance
- Signage at checkout/register
- Fee amount on receipt as separate line item

Online stores:

- Clear disclosure before checkout
- Fee amount displayed before payment submission
- Separate line item on digital receipt



Invoices and payment portals:

- Notification when directing customers to pay
- Fee disclosure before payment method selection

What You Cannot Do

- Surcharge debit cards (even signature debit)
- Surcharge prepaid or gift cards
- Charge more than your actual processing cost
- Surcharge some credit cards but not others from the same brand
- Make a profit from surcharges

Understanding Merchant Discount Rate (MDR)

Your surcharge cannot exceed your Merchant Discount Rate—but what exactly is MDR?

MDR includes:

- Interchange fees (paid to card-issuing banks)
- Assessment fees (paid to Visa, Mastercard, etc.)
- Processor markup per transaction

MDR does NOT include:

- Monthly fees
- PCI compliance fees
- Equipment rental
- Statement fees
- Chargeback fees
- Early termination fees
- Other processor fees

Example calculation:

Let's say you process a \$1,000 transaction:

- Interchange fee: 2.2% = \$22
- Assessment fee: 0.14% = \$1.40
- Processor markup: 0.3% = \$3
- Total MDR: 2.64% = \$26.40

In this example, you could surcharge up to 2.64%, which is below Visa's 3% cap.

Why this matters: Many processors promote "free processing" with 3.5-4% surcharges, but if your actual MDR is only 2.5%, you're violating card network rules and risking penalties.

Action item: Ask your processor for a clear breakdown of your MDR by card type. Brand-level surcharging should use your average MDR across all transactions for that brand.



Brand-Level vs. Product-Level Surcharging

Brand-level: All Visa cards surcharged equally, all Mastercard cards surcharged equally, etc.

Product-level: Different surcharges for rewards cards vs. standard cards within the same brand.

You must choose one approach and apply it consistently. Most businesses choose brand-level for simplicity.

A brand-level surcharge is where all cards from that card network get surcharged the same amount. A product-level surcharge is applied to a particular type of card from that network (a traditional card, a rewards card, etc.).

Business-to-Business Transactions

B2B surcharging is increasingly common because:

- Business buyers want credit card convenience and rewards
- B2B transactions often have larger dollar amounts (higher fees)
- State consumer protection laws often don't apply to B2B
- Business customers better understand processing costs

B2B commerce is projected at \$1.8 trillion for 2025. Refusing credit cards means walking away from significant revenue.

Compliance Risks and Penalties

Non-compliance isn't just a slap on the wrist. Card networks and states take surcharging violations seriously.

Potential penalties for violations:

Card network fines:

- \$50,000 to \$1,000,000 per violation according to processor memos
- Suspension of ability to accept cards
- Required refunds of improperly charged fees
- Increased scrutiny and audits

State-level penalties:

Minnesota: \$500 per violation plus mandatory refunds

New York: \$500 per violation

Other states: Varies by jurisdiction

Common violations that trigger penalties:

- Surcharging debit cards (even signature debit)
- Exceeding the 3% cap (Visa) or your actual cost
- Failing to provide 30-day advance notice
- Inadequate signage or disclosure
- Not showing surcharge as separate line item on receipt
- Charging flat fees instead of percentages
- Profiting from surcharges (charging more than actual cost)



Recent enforcement trends: Visa increased enforcement efforts starting in 2024, with particular attention to merchants charging 3.5-4% surcharges when their actual costs are lower. Some "free processing" programs that offset all costs with surcharges have been flagged as violations.

Protection strategy: Work with a processor that automates compliance, monitors card network rule changes, and provides documentation showing your surcharges don't exceed actual costs.

Best Practices for Implementation

Make Alternative Payments Easy

Always offer customers a way to avoid the surcharge:

- ACH/bank transfer
- Cash
- Check (if appropriate)
- Debit card

Use Clear Communication

Don't S: "3% processing fee"

Do: "3% fee for credit card convenience. Pay by debit, ACH, or check at no charge."

Get Explicit Acceptance

For online payments, use a checkbox: "I understand a 3% surcharge applies to credit card payments and accept this fee." This documentation helps prevent chargebacks and disputes.

Make Terms Accessible

Your terms and conditions should be:

- Linked from your payment page
- Written in plain language
- Specific about surcharge amounts
- Clear about alternative payment options

Monitor and Adjust

Track these metrics after implementing surcharges:

- Credit card usage rates
- Overall transaction volume
- Customer complaints
- Cart abandonment (online)
- Average transaction size

If you see significant negative trends, reconsider your approach.

Technical Requirements

Equipment Updates

Your current terminal probably can't handle compliant surcharging. You'll need:

- Terminals that calculate surcharges automatically
- Systems that distinguish credit from debit
- Equipment that prints itemized receipts correctly
- Integration with your accounting software

Important: *Your payment processor can help with equipment updates*

Accounting Considerations

Surcharge revenue must be tracked separately from product/service revenue for:

- Accurate financial reporting
- Tax compliance
- Proof you're not profiting from surcharges

Work with your accountant to set up proper revenue categories before you start surcharging.

The Bigger Picture

Surcharging isn't just about offsetting costs—it's about running a sustainable business. Credit card rewards programs cost merchants billions annually, with small businesses bearing a disproportionate burden.

Without surcharging: Cash and debit customers subsidize rewards for credit card users.

With surcharging: Customers who choose credit cards pay for the cost of their payment method.

The decision is yours. Just make sure it's informed by accurate information and implemented correctly.

What's Coming: Regulatory Trends

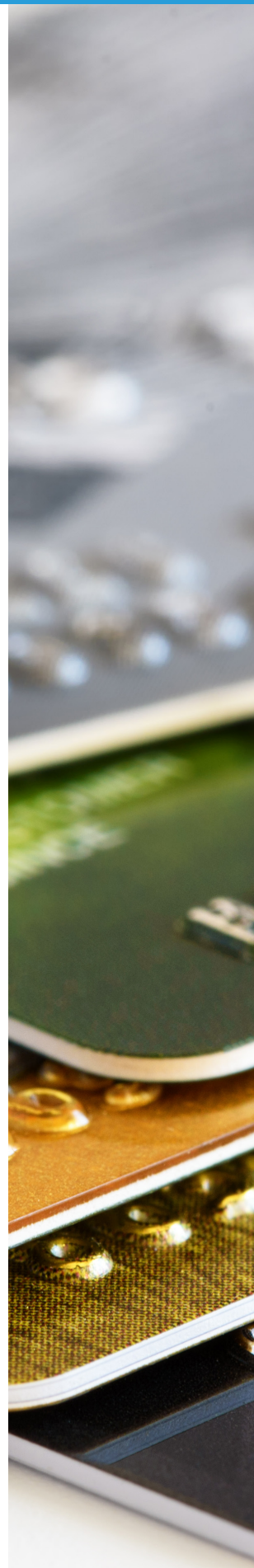
The surcharging landscape continues to evolve. Here's what's on the horizon:

Federal Developments

Credit Card Competition Act (CCCA): Reintroduced with bipartisan support, this bill would require large banks to offer at least one non-Visa/Mastercard processing network. If passed, it could:

- Lower processing fees for merchants
- Potentially reduce or eliminate consumer rewards
- Change the surcharging calculation entirely

FTC "Junk Fees" Initiative: While credit card surcharges aren't classified as junk fees, the FTC's increased scrutiny of hidden charges has influenced state-level transparency requirements. Interest rate caps: Proposed 10% cap on credit card interest rates (supported by both Trump and Sanders) has sparked debate about overall credit card economics.



State-Level Trends

More transparency requirements: Following Minnesota and California's lead, several states are considering laws requiring all mandatory fees in advertised prices.

Swipe fee limitations: Multiple states are advancing laws to limit fees on sales tax and tips, following Illinois' model.

North Carolina: House Bill 13 was introduced in 2025 with potential restrictions effective January 1, 2026.

What This Means for Merchants

If you implement surcharging now, stay flexible. The rules will likely continue changing, and processors that automate compliance updates will be increasingly valuable.

Pro tip: Subscribe to updates from your processor and card networks about rule changes.

What's compliant today might not be compliant next year.

Common Questions

Q: Can I surcharge when a debit card is run as "credit"?

A: No. Never. If it's a debit card, you cannot surcharge it regardless of how it's processed. Doing so violates card network rules and could result in fines or loss of processing privileges.

Q: Do I need new equipment?

A: Yes. Compliant surcharging requires terminals that automatically calculate fees, distinguish card types, and print proper receipts.

Q: What if my state isn't listed in the prohibited states?

A: You can likely surcharge, but verify with legal counsel. State laws change, and some cities have their own regulations.

Q: Can I charge 4% to cover all my processing costs?

A: Only if your actual cost of acceptance is 4% or higher, and only for Mastercard, Amex, and Discover (Visa caps at 3%). You must charge your actual cost or the cap—whichever is lower.

Q: What about American Express and Discover?

A: Both allow surcharging up to 4%, with the same rules: 30-day notice, proper disclosure, cannot exceed actual cost. However, Visa's 3% cap means most merchants implement 3% across all brands for simplicity.

Q: Can I charge convenience fees instead?

A: Convenience fees are different from surcharges and have strict requirements:

- Can only charge for "bona fide convenience" (alternative payment channel)
- Cannot charge if credit cards are your only payment method
- Cannot charge if you're 100% card-absent/online
- Must be a flat fee, not a percentage

Different disclosure requirements apply

Example: A utility that primarily accepts checks by mail can charge a convenience fee for online card payments, since online is an alternative channel.

Q: What's the difference between surcharging and convenience fees?

A: Surcharges apply to your normal payment channels and are percentage-based. Convenience fees apply only to alternative payment channels outside your customary methods and are typically flat fees. Most merchants should use surcharging, not convenience fees.

Q: How do I calculate my actual cost of acceptance?

A: Include interchange fees, assessment fees, and processor markup for the specific card type. Don't include monthly fees, PCI fees, or other flat costs. Your processor should help calculate this.

Q: What happens if I surcharge incorrectly?

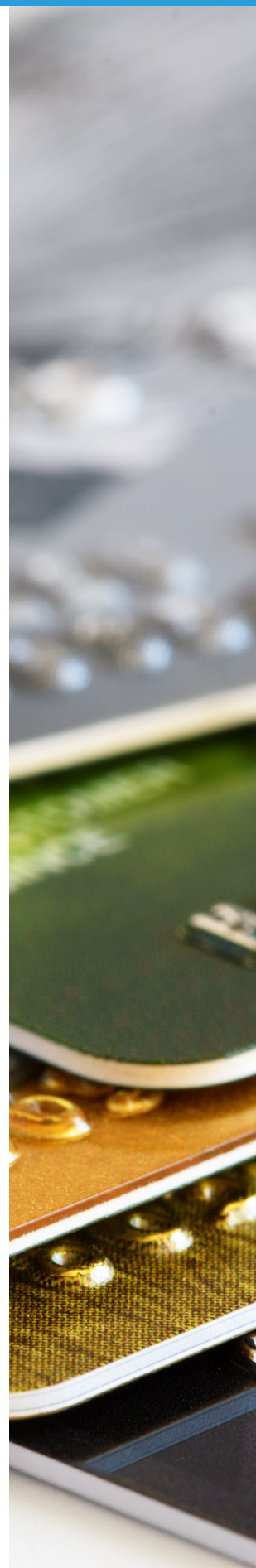
A: Card networks can fine you, suspend your ability to accept cards, or require you to refund improperly charged fees. It's worth getting this right.

Next Steps

If you're considering surcharging:

- Verify it's legal in your state
- Analyze your current processing costs
- Survey key customers (B2B businesses)
- Calculate potential savings
- Notify your processor 30+ days in advance
- Update equipment and signage
- Train staff on customer communication
- Monitor results and adjust as needed

Need help? Work with a processor that understands surcharging compliance and can automate the complex requirements. The rules are intricate enough that manual implementation invites errors.



Legal Disclaimer

This guide is for informational purposes only and does not constitute legal, financial, tax, or professional advice. The information contained in this document is provided as general guidance to help merchants understand credit card surcharging practices and regulations as of October 2025.

Important Considerations:

Laws and regulations change frequently. Credit card surcharging rules at the federal, state, and local levels are subject to ongoing changes and judicial interpretations. Card network policies (Visa, Mastercard, American Express, Discover) are also updated periodically. The information in this guide may become outdated.

State and local laws vary. Surcharging regulations differ significantly by jurisdiction. Some states prohibit surcharging entirely, while others impose specific caps, disclosure requirements, or other restrictions. Additionally, some municipalities may have their own regulations that are not covered in this guide.

Individual circumstances differ. Every business has unique operational, financial, and legal considerations. What works for one merchant may not be appropriate for another.

Card network rules are complex. Visa, Mastercard, American Express, and Discover each have detailed merchant agreements and operating regulations that govern surcharging.

This guide provides an overview but cannot cover every nuance of these agreements. Before Implementing Surcharging:

Consult qualified professionals:

Legal counsel licensed in your state to review applicable laws and regulations

Your payment processor to ensure technical compliance and proper implementation

Your accountant or tax advisor regarding financial reporting and tax implications

Industry associations relevant to your business sector for best practices

Verify current regulations: Always check the most current state statutes, local ordinances, and card network rules before implementing a surcharging program.

Review your merchant agreement: Your existing agreement with your payment processor may contain specific terms related to surcharging that you must follow.

Limitation of Liability:

The authors, publishers, and distributors of this guide make no representations or warranties regarding the accuracy, completeness, or currentness of the information provided. We assume no liability for any errors or omissions, or for any actions taken or not taken based on information in this guide.

Use of this guide does not create a professional relationship between you and the authors or publishers. Any reliance you place on the information in this guide is strictly at your own risk.

You are solely responsible for ensuring compliance with all applicable laws, regulations, and contractual obligations related to credit card surcharging.

Indemnification:

By using this guide, you agree to indemnify and hold harmless the authors, publishers, and distributors from any claims, damages, losses, liabilities, and expenses (including legal fees) arising from your implementation of surcharging practices or reliance on information contained in this guide.

For the most current information:

- Contact a licensed attorney in your jurisdiction
- Consult with your payment processor
- Review official card network resources
- Check your state's consumer protection agency website

This disclaimer applies to all information in this guide, including but not limited to state-by-state rules, card network requirements, compliance guidelines, and implementation recommendations.

Last Updated October 2025

