

# The Ultimate Small Business Guide to Credit Card Processing Fees

Learn about credit card processing fees and how to negotiate for lower costs.

To get the best possible pricing for your credit card processing service, understanding the different pricing models that processors use and how they work is key. There are various fees that credit card processing companies charge, including some you should never have to pay.

Understanding these costs will help you choose a processor that has the best rates and the lowest fees.

## What are credit card processing fees?

In order to accept credit cards, there are several different services you will need to get. These services work together on different parts of the transaction and each of them charge some kind of fee. You will need a credit card processor, merchant account provider and, if you have an ecommerce business or accept payment by phone, a payment gateway.

Some of these fees are dependent on the total dollar amount purchased and some are based on the number of transactions made. Other types of fees are only activated if a particular event, like a chargeback, takes place. Fees vary from provider to provider, so it pays to inquire about all of the fees and to shop around to ensure you are not overpaying.

These are the three main types of fees:

- Transaction rate – This is a amount that you will pay every time a customer buys from you with a credit card. It is a percentage of the purchase amount, called the discount rate, and sometimes also a flat per-transaction amount. It includes the interchange rate, assessment fee and payment processor markup (see below).
- Flat fee – This is a set amount you will pay, usually monthly, to the merchant account provider and, if applicable, the payment gateway.
- Incidental fees – These are fees you are charged by the payment processor or merchant account provider only when specific events take place

**FYI: Credit card transaction rates usually total between 2% and 4% of the purchase amount.**

## What's the difference between rates and fees?

When you contract with a [credit card processor](#), you typically pay two different sets of costs: rates and fees. Rates are costs you pay every time a purchase is made with a credit card. Fees are costs you pay the processor to maintain your account and include flat fees and incidental fees.

The rate breaks down as follows:

	<b>Interchange fees</b>	<b>Assessment fees</b>	<b>Processor's markup</b>
Paid to	Cardholder's issuing bank	Card brand (Visa, Mastercard, Discover, American Express)	Credit card processing company
Negotiable?	No	No	Yes

## Who determines credit card processing fees?

The card networks set the interchange rates and assessment fees, and the credit card processing companies determine their markups. As mentioned above, all processors pay the same interchange rates and assessment fees. The only negotiable part of a credit card processing fee is the processor's markup.

How to get the lowest credit card processing fees

Many of the best processors post their rates and fees on their websites, and charge all their merchants the same rates. Processors that provide custom rates consider several factors when determining the rates and fees they quote you. Companies that meet these criteria will qualify for the lowest rates:

- High monthly processing volume
- High average ticket size
- A fixed retail location where you accept credit cards in person
- A good processing history
- Excellent business and personal credit

The type of card you accept and how you accept those cards also influence processing fees. Here are the different types of cards from cheapest to most expensive:

- Regular debit card
- Regular credit cards
- Rewards credit cards

As for how you accept card payments, cards that you accept in person have the lowest risk of fraud and are therefore the cheapest to accept. Cards accepted online or over the phone are more expensive to process because they have a greater risk of fraud – it's more difficult to verify the authenticity of the cardholder and the card.

"The processing method, meaning how you use the card, can also spike or reduce those fees," said John Davis, a finance expert and education ambassador at [Score Sense](#).

Merchants with a high volume of transactions are better able to negotiate low rates.

"Merchants with more transactions have more value to the processor because they collect more in fees through volume than rate," Tom Scarda, CEO and founder of [The Franchise Academy](#) told business.com.

### Credit cards with low processing fees

Finding a processor that charges low fees is critical for small businesses looking to maximize every dollar. In our review of [credit card processors](#), we selected [Square](#) as the best low-fee credit card processing service for small businesses because it only charges a flat-rate transaction fee – there are no monthly or annual statement fees, payment gateway fees, PCI compliance fees or chargeback fees.

[Helcim](#), [Payment Depot](#) and [PayPal](#) are also good processors. All of Helcim's merchants receive interchange-plus pricing, and the company has a rate-lock guarantee, which keeps its markup from increasing during the life of your account. PayPal has flat rates and no monthly fees or processing minimums, meaning you only pay for the processing you use.

"My top pick would be PayPal, which has competitive pricing for all sorts of processing methods," said Davis. "Square has a slightly higher processing fee than PayPal but comes with a bunch of freebies like a free POS system."

Comparative rates for fixed location in-person sales

Credit card processor	Discount rate	Per transaction rate	Other fees
Square	2.6%	\$0.10	None
Helcim	1.92% for credit; 0.91% for PIN debit	\$0.08	\$15 fee for each chargeback
Payment Depot (starter membership)	Between 0.05% for debit regulated and 2.7% for corporate	Between \$0.25 and \$0.37	\$79/month
Paypal Zettle	2.29%	\$0.09	None

## Credit card processing pricing models

It may be tempting to pass on the cost of [processing fees](#) to your customers in the form of a [surcharge](#), but it's not recommended. Surcharging isn't a best practice when accepting credit cards and is illegal in some states.

Most credit card processing companies offer one or more of the following pricing models to calculate the transaction rates that you pay: interchange-plus, flat-rate and tiered pricing. The best pricing model for your company depends on the monthly volume of card transactions, the average ticket size of your transactions and which type of cards you accept most.

### Interchange-plus pricing

Also called cost-plus (or cost+) pricing, interchange-plus pricing adds a markup of a set percentage above the interchange rate to each transaction. The processor takes that markup as its payment. This pricing model shows you exactly what percentage of your costs are going to the processor, no matter what type of card you accept or how the transaction is processed. Industry experts recommend this pricing model as the most cost-effective option, and it's the best pricing model for most small businesses.

Even though interchange plus is offered by most credit card processing companies (the best processors offer it to all of their customers), you may have to ask for it when you're calling for quotes, as many companies prefer to set you up with tiered pricing.

Additionally, some companies mandate that you meet certain requirements before you can process cards with interchange-plus pricing. For example, you may have to process a certain dollar amount of sales each month, or you may have to be a customer of that processor for a certain period of time.

### Flat-rate pricing

This pricing model is commonly used by mobile credit card processors but often isn't offered by traditional credit card processors. You're charged a flat percentage of each transaction, regardless of the type of card used. This means that while a premium card, such as a rewards credit card, has a smaller markup, other cards, such as regular debit cards, have a higher markup. If you're looking for simplicity, if your sales tickets are small or if you process a low volume of sales each month, look for flat-rate pricing when looking for a processor.

As a variation of flat-rate pricing, some processors charge a flat rate plus a per-transaction fee. Usually, the percentage rate for these plans is lower than the services that charge a flat percentage only.

However, before you choose a payment plan, calculate which option is more cost-effective for your business. If you process a high volume of small sales tickets, the pricing model with the per-transaction fee may be more expensive, even if the discount rate is lower.

## **Tiered pricing**

Tiered pricing, also known as bucket pricing, arranges rates on the interchange tables into tiers, and then sets a price for each tier. Processors typically have between two and six tiers, often with separate tiers for debit and credit cards.

The most common tier structure has three tiers each for credit and debit cards, and these are usually categorized as "qualified," "midqualified" or "nonqualified." These terms don't imply whether a card is or is not valid for processing; instead, it refers to the type of card and how the card is processed and verified.

- **Qualified:** A transaction is qualified if the customer swipes or dips the card and either signs or enters a PIN to authorize the transaction. It is typically a credit or debit card with no rewards attached to it.
- **Midqualified:** If you manually key in a transaction and use an address verification service (AVS) to verify the address of the cardholder, it may be considered midqualified. This tier may include rewards credit or debit cards, although some processors categorize rewards cards as nonqualified transactions, particularly those with premium rewards.
- **Nonqualified:** Transactions that you manually key in without using an AVS service are considered nonqualified, as are transactions made using international, corporate, and government-issued credit and debit cards. Additionally, some processors categorize rewards credit and debit cards as nonqualified transactions, especially premium rewards cards.

Qualified rates are temptingly low, particularly for debit cards, and if your business accepts a high percentage of regular debit cards, this type of pricing model can be a good choice for your business.

However, if your clientele tends to use high-end rewards credit cards or if you key in a lot of sales, such as for phoned-in orders, you may pay expensive nonqualified rates. For this reason, it's important to understand what kind of cards your customers use and how your processor categorizes them.

## **Recurring credit card processing fees**

In addition to the processing rates you pay for each sales transaction, most companies charge fees for account maintenance. The best processors charge very few fees, and the best mobile credit card processors don't charge any additional fees.

Typical fees include a monthly fee, a PCI compliance fee, and, if you accept credit cards online, a monthly gateway fee.

Here are the most common credit card processing fees.

### **Monthly fee**

Sometimes called a statement fee, processors charge monthly fees for preparing your statements and providing customer service. Some processors include the cost of printed statements with the monthly fee, others charge an additional fee if you opt to receive printed, mailed statements.

### **Gateway fee**

A payment gateway is the online equivalent of a credit card terminal. Processors may have their own proprietary system or may work with a third-party provider such as Authorize.net. If you sell your products online through your company's website, you need payment gateway access. Most companies charge a separate monthly fee for this service, though some include it in the monthly fee.

### **Monthly minimum fee**

Many card processors expect you to process a certain amount of credit card transactions each month. Some companies require a monthly minimum to ensure your account stays active, and they apply the full dollar amount of your transactions to the monthly minimum. However, most processors use it to guarantee that they generate at least a certain dollar amount of transaction fees from your account each month and apply only the processing costs to the monthly minimum.

What this means is that a \$25 monthly minimum can be calculated very differently. If your business is small or seasonal, it's important that you are clear about the dollar amount you have to process in order to meet the minimum. If you fail to meet the monthly minimum, processors charge you the difference rather than the full fee, so to avoid surprises on your bill, ask your processor in advance about this fee.

### **PCI compliance fee**

The payment card industry has data security regulations all merchants must adhere to in order to process credit cards. These regulations help prevent fraud and protect you, your customers and the credit card company from costly security breaches.

To certify as compliant, you're required to complete a self-assessment questionnaire, though depending on your business, you may need to meet additional requirements. Most traditional credit card processors charge this fee, though not all do. Most aggregators, or mobile credit card processing companies, don't charge PCI-related fees.

This fee may be charged monthly, quarterly or annually. It isn't always disclosed when you call processors for quotes, so ask if there is a PCI compliance fee, how much it is, how often it's charged and what services the processor provides to help you meet PCI compliance. If you're already PCI compliant or if you handle PCI compliance in house, ask to have this fee waived.

### **PCI noncompliance fee**

When you sign up with a processor, you usually have a few months to establish PCI compliance. However, if you fail to comply or if you don't reestablish compliance annually, you may incur a monthly fine. The amount of the fine varies by processor and can be quite expensive; for this reason, check your statements monthly for notices that state your compliance renewal is coming due or if new fees appear on your statement.

### **Batch fee**

This is a nominal fee charged whenever you post a batch of transactions, which is usually once or twice a day. It's normally the same amount as the per-transaction fee, which ranges from 10 to 25 cents.

### **Incidental credit card processing fees**

You may occasionally encounter incidental fees, which are only charged for qualifying transactions. Here's more about incidental fees.

### **Address Verification Service fee**

You're charged this fee when you use AVS to verify the billing address of the cardholder. AVS is a fraud-prevention tool frequently used with e-commerce credit card processing, but you may use this service when you manually key in a card. This fee varies between processors but is typically lower if you use the automated touchtone service and more expensive if you require operator assistance.

### **Voice authorization fee**

As a fraud-prevention measure, your terminal may instruct you to call the voice authorization center to provide the cardholder's bank with additional information before it authorizes a transaction. Although voice authorization is rarely required, you're charged

for each occurrence. This fee varies by processor and may be charged as either a flat fee or a percentage of the transaction.

### **Retrieval fee (retrieval request fee)**

If a customer questions a charge, his or her bank may ask for a copy of the sales draft so they can verify the authenticity of a purchase. This request may also be made if a customer needs a copy of a sales draft for his or her records or if purchase documentation is needed for legal proceedings, such as bankruptcies or divorce settlements. The cost of this fee varies by processor.

### **Chargeback fee**

Every business aspires for 100% customer satisfaction, but there are times when customers want their money back and ask their bank to cancel the transaction and return the funds. When this happens, you pay a fee to cover the processing costs involved in crediting the customer's account with the amount of the purchase.

E-commerce businesses experience more [chargebacks](#) than companies that accept credit cards in person since common reasons for chargebacks include delivery failures, technical errors, customer dissatisfaction and fraud. It also happens if your merchant name differs from your store name and your customer doesn't recognize the charge on his or her credit card statement. The amount of this fee varies by processor.

### **Nonsufficient Funds (NSF) fee**

This may also be called a return draft fee. If you don't have enough money in your business bank account to pay the fees you owe your processing company, you are charged a fee.

### **Various card network fees**

The card networks charge a variety of nonnegotiable fees, which are passed on to you from your processor. Some processors may overcharge you for network fees by adding a markup rather than passing the fees straight through to you.

### **APF/NABU/Data Usage fees**

These are fees for using the card brands' networks. Visa charges a Network Acquirer Processing Fee (APF), Mastercard charges a Network Access and Brand Usage (NABU) fee, and Discover charges a Data Usage fee.

### **Visa's Fixed Acquirer Network Fee (FANF)**

Since 2012, Visa has charged this nonnegotiable monthly fee as a result of the Durbin Amendment. It applies to all businesses that accept Visa-branded cards. The rate varies

depending on your processing volume, the number of locations your business operates in and how your business accepts payments. Visa's FANF fee is more expensive for businesses that process online versus those that accept credit cards in person.

### **Mastercard's Merchant Location fee**

This is an annual fee that MasterCard implemented mid-2016 and increased to \$15 per location in 2017. Your processor may pass it on to you as a single annual fee or prorate it on your monthly statement to spread out the cost.

### **Cross-border fees**

If you're a U.S.-based merchant and accept an international card, the card networks charge a fee (or two) to offset currency exchange costs. American Express charges an International Assessment fee. Discover charges an International Processing Fee and an International Service Fee. Mastercard charges a Cross-Border Assessment Fee and an Acquirer Program Support Fee. Visa charges an International Acquirer Fee and an International Service Assessment Fee.

### **Nonstandard credit card processing fees to avoid**

Besides the standard fees listed above, some processors charge miscellaneous fees. These [additional fees are uncommon and should be avoided](#) if possible. When evaluating a credit card processor, review every fee the processor plans to charge you so you're not hit with any hidden fees. The best credit card processors don't charge the below fees. If it does, negotiate with your account rep to eliminate the fees.

The following fees can often be negotiated or waived.

### **Cancellation fees**

There are two types of cancellation fees you need to watch. The first is for the credit card processing service; the second is for the credit card processing equipment if you lease or accept "free" equipment.

Some sales representatives may use alternate terms (e.g., early termination fee, early deconversion fee, exit fee or lost profit fee) rather than an early cancellation fee, but ask the sales rep and carefully review your contract, including the application, the terms and conditions, and the program guide.

The best way to avoid paying expensive cancellation fees is by signing up with a company that offers month-to-month service and purchasing the equipment outright.

## **Liquidated damages**

Some cancellation policies have a liquidated damages clause that allows the processor to charge you for the revenue it expected to earn during the life of your contract; in some cases, this amount could add up to thousands of dollars.

## **Annual fee**

This is a fee you pay each year for maintenance on your merchant account. Like the application fee, the best processors don't charge it. Sometimes credit card processors waive the first year, but it's best to choose a processor that doesn't charge it at all.

## **IRS reporting fee**

In 2008, the IRS mandated that credit card processors report income passing through credit cards. What this means for you is that if you process more than 200 transactions annually totaling more than \$20,000, you'll receive an IRS 1099-K form from your processor.

Some processors charge a fee for preparing and supplying this form, although, again, the best processors don't charge this fee. Those that do charge this fee may call it an "IRS Fee," a "Reporting Fee," "Regulatory Fee," "Regulatory Comp Fee" or "IRS 1099-K Fee."

## **Club or membership fee**

Some processors roll all of the standard fees (including monthly, gateway and PCI compliance) into a single membership fee to simplify their fee structure; others charge a membership fee on top of their standard fees. (Membership fees can be billed monthly or annually.)

Inquire with the processor about what exactly you get for your membership; often, it's rolls of paper for your terminals. Ask your rep if you can opt out and, what, if any fees, you'll be charged if you do.

## **Additional services**

If your contract includes an "Additional Services" clause, often what this means is the processor automatically signs you up for various unnamed services (fees undisclosed) unless you opt out within a set time frame, usually 30 days after you sign up with the company.

You may find information in the program guide about what the additional services are and what they cost, but more than likely, you'll have to contact your sales rep for this information.

## **Semiannual postage and handling fee**

If you're already paying a statement fee or if you receive your statements and other correspondence electronically, ask to have this fee removed.

## **Access fee**

If you're charged an access fee in addition to APF/NABU/data usage and FANF fees, ask the processor what the fee is for and if it can be removed from your bill.

## **Foreign transaction fee**

Although card networks charge nonnegotiable fees if you accept foreign credit cards, some processors tack on a markup or a fee of their own.

If you're charged more than two fees for a single foreign transaction, such as an International Acquirer Fee, International Service Access Fee and a Foreign Handling Fee, ask your credit card processor which fees are charged by the card network and which is their markup or surcharge, and if they'll waive it for you.

## **Monthly (or quarterly) regulatory compliance fee**

This fee may replace, or be charged in addition to, the PCI compliance fee or the IRS reporting fee. This is a fee you should question if you find it on your contract.

## **Other nonstandard fees**

Below is a sampling of nonstandard fees to look for as you review a contract before signing up with a credit card processing company. Like the other nonstandard fees on our list, the best processors don't charge the following:

- Application or setup fee
- Audit fee
- Bill back fee
- Conversion fee
- Customer service fee
- EBT network access fee
- Excessive transaction fee
- File fee
- Interchange-compliance adjustment fee
- Liquidated damages fee
- Next-day funding fee
- Online reporting (online transaction reporting) fee
- Over-limit fee
- Quarterly technology fee
- Security fee

## How to negotiate credit card processing fees

Before you sign up with a processing company, bear in mind that most rates and fees are negotiable, especially if you have stellar credit and a solid business history. Don't hesitate to ask for discounts and waivers, especially for the nonstandard fees listed above. Also, shop for the best deal; competition is fierce among credit card processors, and many are willing to waive or reduce fees to win your business.

The only fees that are non-negotiable are the card network fees; everything else may be flexible.

Here are three tips to help you as you negotiate with companies.

- 1. Give yourself plenty of time to call for pricing quotes to get the best deal.** Doing so allows you to gather all of the information you need, read the contracts and ask questions. **[Our in-depth reviews of processors like [National Processing](#) and [ProMerchant](#) is a good place to start.]**
  - Call several weeks before you need to start processing, so you have time to contact several companies.
  - Plan to spend 20 to 30 minutes on the phone with each sales rep.
  - Call multiple companies so you can find the best pricing and best terms.
- 2. Don't provide your Social Security number, give any bank account information or sign the application until you're ready to sign up with a processor.** If you provide this information and sign the application, you've essentially signed the contract, and signed up with the service. Use your information and your signature as leverage; let the rep know that you're not providing these until you're convinced this processor is the best fit for your business. And to make this decision, you need a complete pricing quote and a full contract to review (the application, the terms and conditions and the program guide).
- 3. Ask detailed questions about pricing models, rates, fees and terms.** Sales reps are usually forthcoming with the information you specifically request, but most don't volunteer information that doesn't help them make the sale. They generally don't tell you about fees you don't ask about. There are good credit card processing companies out there that charge reasonable rates and minimal fees; choosing the right one for your business saves you money and frustration.

By understanding how the different pricing models work and which fees you should expect and which ones you don't have to pay, you can confidently navigate the market and choose the processor that is the best fit for your business.