New Credit Card Surcharges Become Legal on January 27th

January 22, 2013 - Starting this coming Sunday, consumers nationwide need to begin looking closely at their receipts when making purchases with a credit card. That's when it becomes legal for merchants to start passing their processing charges - commonly referred to as "swipe fees" on to consumers. The change is thanks to a $7.25 Billion settlement over these fees reached with Visa and MasterCard last July. But there are some rules that merchants will have to follow in this process, and the fees are illegal in ten states. In all likelihood, it will be up to consumers to police the system and to protect themselves.

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The battle over credit card swipe fees has raged on for years. Merchants have long complained that they were being overcharged by credit card companies for processing charges. Swipe fees typically cost somewhere between 1.5% and 3% of the purchase price.

Both Visa and MasterCard required merchants to sign an agreement that forbid them from charging more for merchandise purchased using a credit card. Their agreements also forbid merchants from offering discounts to consumers who made purchases with cash. Those restrictions meant that merchants had to increase their prices to cover swipe fees and that any customer who used cash was essentially subsidizing the customers who used credit cards. This eventually led to a law suit, which in turn led to the settlement.

Under the terms of the settlement, merchants can add the cost of "swipe fees" to the price of anything purchased with a credit card. This change is not limited to just Visa and MasterCard. It applies to all credit card purchases.

Any merchant that decides to pass these charges on to consumers will have to follow some rules:

- The charges must be clearly displayed on printed receipts.

- The charges must be limited to the same amount that the merchant is charged by the credit card company. They can't be market up.

- Merchants can only pass on swipe fee charges for credit card transactions. They can't pass these charges on for debit card purchases.

- Swipe fee surcharges are illegal in 10 states: California, Colorado, Connecticut, Florida, Kansas, Maine, Massachusetts, New York, Oklahoma and Texas.

It is quite likely that many merchants will elect not to pass these charges to consumers because doing so could place them at a competitive disadvantage. Some may decide that they are better served by offering discounts for cash purchases rather than increasing prices for credit card purchases.

The most likely places for surcharges to be passed to consumers will come with the purchase of essential services. Anyone paying for medical procedures, utility bills, groceries and other necessities with a credit card needs to be look at their bills closely. Often, there is limited competition for these products and services. As a result, any merchant selling these items is going to be more likely to include surcharges on their bills.

Consumers who reside in the ten states where surcharges remain illegal are also going to want to be vigilant; especially with regard to online purchases from out of state merchants. In most cases, the law for the state that you reside in will govern what the merchant can legally charge you. Even so, many small online merchants may be unaware of the law in your state.

byJim Malmberg
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