Fees for Credit Card Processing Explained

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Credit card payments are a standard payment method for many merchants and service providers. But as the legal industry joins in, and with many law firms now accepting credit payments from their clients, one important consideration remains: fees for credit card processing.

Credit card processing fees can eat into the profits of a business more than the owners realize. These fees typically range from 1.5% to 3.75% of each purchase amount. While there are obvious benefits to accepting credit cards, business owners and law firms should understand these fees before deciding to do so themselves.

This post will explore what credit card processing fees are, including the different types of fees and where they go. We will also discuss how to best minimize these fees. With these pointers in mind, a law firm or other business can select the best technology for making credit card payments a reality.

What are credit card fees?

Credit card processing fees, or transaction fees, are fees a business pays to authorize and complete card transactions. These fees are paid to the financial institutions and financial service providers involved in the transaction. Typically, the entities charging credit card processing fees are the card issuer, the card network, and the payment processor.

Other fees can arise beyond processing fees. For example, many credit card processors will charge a PCI compliance fee, which is a fee for complying with security standards imposed by the payment card industry, often imposed on a monthly or annual basis. Processors may also assert chargeback fees for credit card payments reversed by the cardholder's bank after the cardholder disputes a charge.

What is the average fee for credit card processing?

Typical credit card processing fees range from 1.5%-3.75% of the total transaction. The exact amount will vary, depending on the:

- Payment network
- Type of credit card
- Company's merchant category code (MCC)

Credit card processing fees will also depend on the fee structure. We cover what that looks like for law firms, specifically, below.

Who pays credit card transaction fees?

Credit card transaction fees are typically paid by the merchant (business) that accepts the credit card as payment. These fees, usually range from 1.5% to 3.5% per transaction and are split between the credit card network (Visa, Mastercard, etc.), the issuing bank, and the payment processor.

Some businesses pass these fees to customers through surcharges or minimum purchase requirements, but this practice is regulated in certain regions.

Can you pass credit card processing fees on to legal clients?

Many law firms will want to know whether they can pass credit card processing fees on to their clients. The general answer? Sometimes yes, sometimes no—but it is not recommended.

Some states expressly forbid surcharges for credit card processing fees, instead requiring law firms to accept these charges as overhead costs or costs of doing business. Other states explicitly permit these surcharges for processing fees, although law firms should disclose these surcharges in the written fee agreement.

Other jurisdictions adopt more of a grey area on the issue, especially if they adopted the language of the American Bar Association's (ABA) 1974 legal ethics opinion.

The 1974 opinion provides that attorneys who accept credit card payments must not:

(1) increase legal fees for services paid for by credit card; or

(2) charge by credit card for anything besides legal services rendered or cash paid on behalf of the client.

Passing credit processing fees to clients could be considered an increased fee or a fee for something besides services rendered or expenses paid, thus making the practice unethical under the 1974 opinion. Even in jurisdictions where these surcharges are allowed, many ethics opinions advise against imposing them on clients.

The best practice for law firms continues to be absorbing the processing fees as an overhead cost.

Types of credit card processing fees

When paying credit card processing fees, it is important to understand where your money is going. Processing fees for credit card transactions can be broken down into different types charged by different entities, as summarized below.

Interchange fees

Issuing banks typically charge interchange fees, including major issuing banks like Citi, Bank of America, and Chase. It is important to discern between the card issuer and the card network. For example, for a Bank of America Visa card, Bank of America is the issuer and Visa is the network. However, it should be noted that for Discover or American Express cards, Discover and American Express act as both the issuer and the network.

These fees can vary depending on the type of transaction. For example, banks may increase their interchange fees for online transactions to compensate for the increased risk of fraud when the physical card is not presented. The interchange fee may also vary depending on the total charge amount or type of card used.

Assessment fees

Assessment fees are charged based on total monthly transactions, instead of on a per-transaction basis. The assessment fee goes to the credit card network. The major networks are American Express, Discover, Mastercard, and Visa. For the Bank of America Visa card example above, the assessment fee would go to Visa.

Payment processor fees

The payment processor fee goes to the company that manages the logistics of credit card payment processing for your firm, such as Square. Depending on the processor, these fees may include per-transaction fees, monthly fees, or the cost of the equipment used to process transactions.

How to minimize fees for credit card processing

Fortunately, there are ways that businesses can minimize the fees paid for credit card processing. We summarize these methods below.

Consider whether credit card payments are right for your business

The primary consideration is whether accepting credit card payments is the right move for your business. Depending on the type of business, it may be better not to accept credit cards and avoid the processing fees. In addition, there are the ethical considerations of credit card payments for some professions, like lawyers, which you will need to take into account. On the other hand, the implementation of credit card payments could be a huge driver for business.

Shop around for the lowest credit card processing fees

Credit card processing fees will vary from processor to processor. Looking at different payment processors may help you find a more cost-effective solution. In addition, a quote from a more affordable processor may help you negotiate a better rate with your current processor. Also note that the more credit card transactions you enter into in any given month, the more attractive a customer you are to your current processor—giving you more leverage when negotiating rates.

Assess your credit card processing fee structure

Credit card processing fees also vary widely based on the processing fee structure. The main types of fee structures are

- interchange-plus,
- flat rate,
- subscription, and
- tiered.

Be sure to assess if your fee structure serves your business well based on the nature of its credit card payment activity.

Interchange plus

Interchange plus fees occur on a per-transaction basis. Interchange plus fees consist of a percentage of the pricing and a set transaction fee for the processor. While this is often the least expensive pricing option, it also has the most variability. This variation is due to the variability of interchange fees, as noted in the section above.

Flat rate

The flat rate pricing model occurs on a per-transaction basis, but you are charged the same amount per transaction. This method makes processing fees both simple and predictable. The downside is that overall fees can end up being higher.

Subscription

Under the subscription model, your firm pays a monthly fee to the processor in exchange for a "membership." Then the per-transaction fees only consist of a very small processor fee and the base costs of the transaction. While the monthly subscription fees may be relatively high, the transactional fees will be lower.

Tiered

As with flat rate pricing, tiered pricing occurs on a per-transaction basis and consists of a percentage plus a flat fee. The difference is that this system relies on different rates for different card tiers. Rates are highest for non-qualified cards, which include corporate cards, and lowest for qualified cards, such as debit cards and cards without rewards programs.

Let your credit card payment processor do the hard work for you

Between the processing fees, pricing structures, and other considerations, accepting credit card payments can feel like a difficult choice. This is why finding a credit card processing system that can do the hard work for you and integrate seamlessly with other tools is so important.

Clio Payments, for example, is online credit card payment software for law firms that automates the collection process. It offers simple and transparent rates for credit card payments—2.95% for each transaction and 3.5% for American Express. Clio Payments

also handles billing and integrates well with other legal tech tools while taking the guesswork out of accepting credit card payments.

Sounds great, right? To hear more about Clio Payments in action, read how The Strategic Legal Group uses Clio Payments to save time and focus on helping clients.

Final thoughts on credit card processing fees

Accepting credit card payments could be an excellent move for your business as long as you understand the ramifications of fees for credit card processing. In addition to understanding the types of pricing for these fees, you should also consider methods of reducing them.

Check out Clio's guide to legal payment processing solutions for more tips, and explore why Clio Payments is the best tool to implement credit card payments for your firm—not only does it make accepting debit, credit, and eCheck payments a breeze, it allows for split billing (allowing for multiple payers), payment schedules, and more! Save money by streamlining your billing process into one solution, eliminating the cost and time required when working with a third party app.

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