



payarc

Navigating Cash Discounts and Dual Pricing Regulations

Summary

03 Introduction

The Difference Between Cash Discounts and Surcharges

Explanation of Cash Discount

Understanding and Complying with Regulations

06 Rules and Regulations

Federal Regulations

State Regulations

Compliance Requirements

Non-discrimination

09 Benefits of Compliance

Avoiding Penalties

Building Trust with Customers

Maintaining a Good Reputation

11 Best Practices

12 Conclusion

13 About PAYARC

14 Bibliography

Introduction

As the payment processing industry continues to evolve, the need to find ways to cut costs and improve profits increases. Thin margins like a small percentual fee per transaction can add up for business owners and are especially hard on small or new businesses. Businesses are now seeking to streamline payment processes and reduce costs, making dual pricing a popular solution.

For merchants, dual pricing is applied as a cash discount – a price reduction offered to customers paying with cash. **Dual pricing and cash discounts** are also sometimes referred to as zero-cost processing. The discounted amount would be subtracted from the total, reducing the amount that the customer owes.

Cash discounts are popular because they offer a lower-cost option for the customer while offering businesses a way to cut down credit card processing costs. On the downside of cash discounts, there is the potential for merchants to abuse the system, or they may need to spend the money to invest in a new POS system. It can also cause confusion and dissatisfaction in customers who don't want to pay more for using a credit card.

There are also federal and state laws in place regarding dual pricing; therefore, compliance is necessary for any business using these payment strategies. Failure to comply can result in legal issues and financial penalties. Laws aside, there are a handful of benefits for businesses that follow transparent business practices in regulation with federal and state laws. Businesses can enjoy this pricing model by working with payment processing companies, such as **PAYARC**, to ensure they're offering compliant payment strategies.



Explanation of Cash Discount

A cash discount is offered to customers when they pay with cash instead of using a credit or debit card. This discount is typically a percentage of the total purchase price and is meant to cover the transaction fees for the merchant. Although **80%** of consumers prefer to pay with card over cash, **88%** still use cash, making it increasingly important to offer this option.

For example, a restaurant might offer a 4% cash discount to customers who pay with cash. Meaning, if one of their tables run up a \$100 bill and pay with cash, they receive \$4 off their total check. Dual pricing has been popular at gas stations for some time now and it can also be found in different iterations such as online vs brick and mortar.

Since up to 183 million Americans have credit cards, it's important for businesses to cut down on their transaction fees to save money as much as possible. Implementing a cash discount program is wise for businesses as credit card companies continue to increase their rates. In 2022, Visa and Mastercard raised their credit card fees even more for merchants. The cash discount pricing strategy is not only ideal for businesses, but for customers too. As inflation hits a record high, 70% of households are cutting back on unnecessary purchases to cover the high costs of basics and having a discounted price option can benefit those trying to minimize their spending.

80% of consumers prefer to pay with card



88% of consumers still use cash



The Difference Between Cash Discounts and Surcharges

It's easy to confuse **cash discounts** and **dual pricing** with surcharges, but they are different pricing models. A surcharge, compared to a cash discount, is an additional fee that businesses charge customers who use credit cards to pay for their purchases. This fee is meant to offset the transaction fees that the business pays in processing the card payment.

For example, if a business has to pay a 3% transaction fee, they might add a 3% surcharge to the total purchase price for customers who use credit cards.



Cash discounts are legal in all 50 states, while surcharges are only legal in some.

Currently, credit card surcharges are illegal in Connecticut and Massachusetts.



Understanding and Complying with Regulations

Businesses that offer cash discounts or surcharges must understand and comply with the policies related to these pricing strategies otherwise, they can be penalized. For example, businesses that offer surcharges must abide by the **Dodd-Frank Wall Street Reform and Consumer Protection Act**. This act requires that any surcharges be disclosed to customers in advance and that the surcharge amount be reasonable and not exceed the cost of the transaction fee.

Rules and Regulations

Federal Regulations

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires businesses that offer surcharges to comply with certain disclosure requirements. Specifically, businesses must disclose any surcharge to customers in advance and must limit the surcharge to the amount that the business pays in transaction fees. Additionally, businesses that offer cash discounts must ensure that the discount is clearly communicated to customers and does not discriminate against customers who choose to pay with credit.

Electronic Funds Transfer Act

The Electronic Funds Transfer Act (EFTA) is a federal law that establishes the rights and liabilities of consumers and financial institutions when electronic fund transfers are made. The EFTA allows businesses to offer discounts to customers who pay with cash, or other non-electronic methods of payment. However, the EFTA also prohibits businesses from charging customers extra fees for using electronic payment methods.

Truth in Lending Act

The Truth in Lending Act (TILA) is a federal law that requires lenders to disclose the terms and conditions of credit to borrowers. When businesses offer discounts for cash payments, they must ensure that the terms and conditions of the discount are clearly disclosed to customers in compliance with TILA.

State Regulations

Specific State Laws

Some states have specific laws related to cash discounts. For example, in California, a business must provide customers with a written notice of any cash discount program that is being offered, and the notice must include the amount of the discount and the price charged to customers who don't pay with cash. Additionally, California law prohibits businesses from charging a higher price for goods or services to customers who pay

with a credit card compared to those who pay with cash.

In Texas, businesses are required to provide customers with written notice of any cash discount program and must also prominently display signs indicating that a cash discount is being offered. The notice must specify the amount of the discount and the price charged to customers who aren't paying with cash. Other states, such as Florida, In-

diana, and Oklahoma, have similar requirements for cash discount programs.

It's important for businesses to be aware of state-specific regulations regarding cash discounts. This is especially important if they operate in multiple states or have an online presence that serves customers across state lines.

Licensing Requirements

Other states require businesses that offer cash discounts to obtain a special license or permit. For example, in California, businesses must register with the state's Department of Business Oversight if they want to offer a cash discount program. The registration process involves completing an application, paying a fee, and providing certain information about the business and its cash discount program.

Similarly, in Texas, businesses that want to offer a cash discount program must obtain a permit from the state's Office of Consumer Credit Commissioner. The permit application requires the business to provide information about its cash discount program, including the amount of the discount and the price charged to customers who don't pay with cash.

Other states may have similar licensing or registration requirements for cash discount programs. Therefore, it's important for businesses to research the requirements in their specific state(s) and ensure that they're properly licensed or registered before offering a cash discount program.

Compliance Requirements

Compliance requirements remain simple to follow and it's important that businesses do so as card companies (especially Visa) often deploy secret shoppers to make sure merchants are complying with regulations. Merchants found to not be complying will then be assessed with penalties and fined. Two important compliance regulations they might be looking for can be known as disclosures and transparency:

Disclosures

Businesses that offer cash discounts must disclose the Terms and Conditions of the discount to customers in a clear and conspicuous manner. This includes disclosing the percentage of the discount, any limitations on the discount, and any fees or charges that may apply. Additionally, businesses that offer surcharges must disclose the surcharge amount to customers in advance as well.

Transparency

Transparency is a key requirement for businesses when offering cash discounts. Customers must be able to easily understand how the cash discount works and how it'll affect their total transaction cost. Businesses must also ensure that their pricing practices are transparent and don't mislead or deceive customers. For example, a business can do this by having a sign in plain sight by the cash register with all necessary information about their dual pricing.

Ensuring disclosures and transparency in cash discount programs isn't only a regulatory requirement but also a way for businesses to build trust with their customers. By providing clear and honest information, businesses can create a positive reputation and increase customer loyalty.

Non-discrimination

Non-discrimination is an important aspect of compliance when offering cash discounts. Businesses must ensure that they don't discriminate against customers who choose to pay with credit. This means that the cash discount must be offered to all customers who pay with cash, or other non-electronic methods of payment.

For example, if a business offers a 3% cash discount, the discount must be available to all customers who pay with cash. The discount cannot be used as a way to charge credit card customers an additional fee or to discourage customers from using credit cards. Non-discrimination is required by federal regulations, such as EFTA, which prohibits businesses from charging extra fees for using electronic payment methods.

Benefits of Compliance

Avoiding Penalties

Compliance with regulations related to cash discounts is crucial for businesses to avoid legal issues and penalties. For example, violations of the Electronic Funds Transfer Act (EFTA) can result in fines of up to \$1,000 per violation for individuals and up to \$500,000 per violation for organizations. Violations of the Truth in Lending Act (TILA) can result in fines of up to \$5,000 per day for each violation. Additionally, businesses may be required to refund any overcharges to customers and pay legal fees associated with a lawsuit or enforcement action.

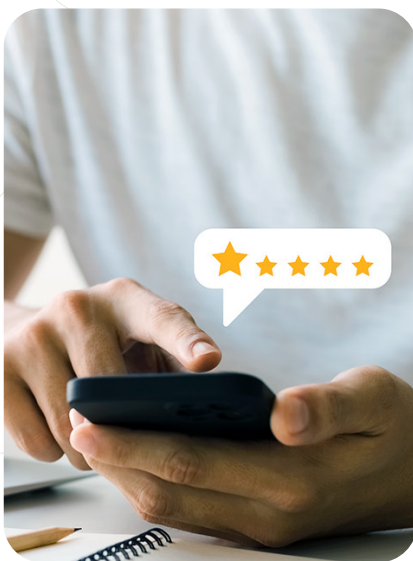
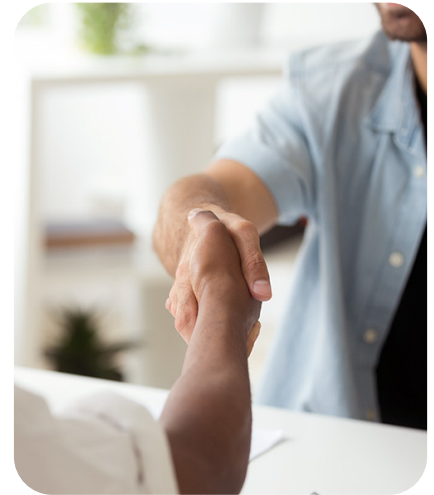
Violation Fines



- Electronic Funds Transfer Act (EFTA)
- Truth in Lending Act (TILA)

Building Trust with Customers

Compliance with regulations helps businesses build trust with their customers. Customers are becoming increasingly aware of pricing practices and are more likely to do business with companies that are transparent and fair in their pricing. When businesses demonstrate their commitment to clarity and honest pricing practices, it increases customer satisfaction and loyalty, leading to repeat business and positive word-of-mouth referrals. In addition, by providing clear and honest information about cash discounts, businesses can avoid misunderstandings and disputes with customers.



Maintaining a Good Reputation

Another benefit of compliance is it helps businesses maintain a good reputation, an important way for businesses to attract and retain customers. By complying with regulations related to cash discounts, businesses can also avoid negative publicity and word of mouth about their business.

Overall, compliance with regulations related to cash discounts is crucial for businesses to avoid legal issues, build trust, and maintain a good name. Compliance also helps businesses ensure that they're treating customers equally, which leads to increased customer satisfaction and loyalty.

Best Practices

1. Provide clear and conspicuous disclosures

It's crucial that businesses clearly disclose the terms and conditions of the cash discount to customers in a way that's easy to understand. This includes disclosing the amount of the discount, any fees associated with the payment method, and any other relevant information.

2. Ensure non-discriminatory pricing

Cash discounts should be applied equally to all customers, regardless of the payment method they choose. Businesses must avoid practices that discriminate against customers who make the choice to pay with credit.

3. Keep accurate records

Businesses should maintain accurate records of all cash discount transactions, including the amount of the discount, the payment method, and any associated fees. This can help businesses demonstrate compliance with regulations if they're audited or face any legal challenges.

4. Partner with a payment processor

Working with a payment processing partner can help businesses ensure compliance with regulations related to cash discounts. Payment processors can provide guidance on regulatory requirements and best practices for cash discount programs, as well as handle the technical aspects of implementing the program.

5. Train employees

Employees should be trained on the rules and regulations related to cash discounts. This can help ensure that they understand how to apply discounts correctly and how to communicate with customers about the program.

By following these best practices, businesses can ensure that their cash discount programs are transparent, fair, and compliant with regulations. This will help them avoid legal issues and penalties, build trust, and maintain a positive reputation.

Conclusion

In conclusion, compliance with cash discount regulations is crucial for businesses that offer this pricing strategy. Clear and conspicuous disclosures, non-discriminatory pricing, and accurate record-keeping are some of the best practices that businesses should follow to ensure compliance.

It's important for businesses to work with a reputable payment processing company, such as PAYARC, to ensure that they're offering compliant cash discounts. PAYARC's Cash Discount program is designed to help businesses offer cash discounts in a compliant manner, while also ensuring that customers are treated fairly and transparently. By working with PAYARC, businesses can enjoy the benefits of offering cash discounts while avoiding legal issues and penalties.



About PAYARC

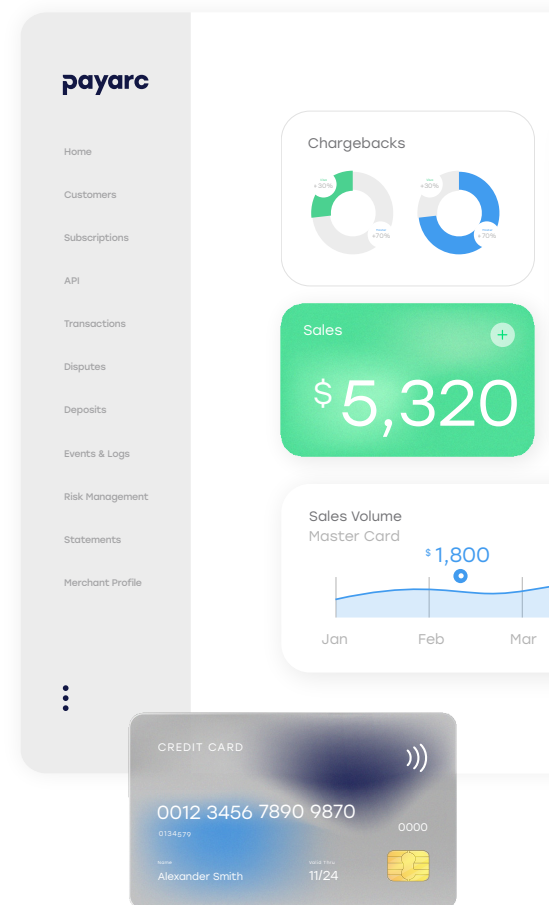
At PAYARC, we understand the importance of compliance with regulations related to dual pricing. That's why we offer a Cash Discount program that helps businesses offer cash discounts in a compliant manner while also ensuring that customers are treated fairly and transparently. Our team of experts can help businesses implement dual pricing and comply with regulations while reaping the benefits of this payment strategy.

We're a technology-driven company. We built our business with the purpose of empowering people and improving their organizations, one payment at a time.

We know the challenges of starting and managing a business, so we started our journey by providing smart and simple payment processing tools and products – but haven't stopped there. We're backed by a team of world-class experts and the best technology talent, and we're committed to helping more new businesses get started, increase the revenue of our customers, and bridge the gap between online merchants and payment solutions.

We're here to help businesses of all sizes start, manage, and scale their business – we're here to help you succeed.

For general inquiries including partnership opportunities, please email: support@payarc.com



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