

Paying with a credit card will soon cost more as some businesses add transaction fees

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Businesses will be allowed by credit-card companies to add surcharges to their bills for customers who are paying by credit card, under new rules that come into effect this week. ALICE-PHOTO/ISTOCKPHOTO.COM

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An estimated one in five small businesses is planning to pass on credit-card transaction fees to their customers after new surcharge rules come into effect this week, according to a new survey from the Canadian Federation of Independent Business.

Starting Thursday, businesses will be allowed by credit-card companies to add surcharges to their bills for customers who are paying by credit card. The fees are not set, but would be around 1.4 per cent or more of the bill. Financial institutions use transaction fees in large part to fund loyalty programs.

The new rules are the result of a settlement in a long-running class-action legal battle between small merchants, Visa, MasterCard and financial institutions. Credit-card companies had long resisted allowing businesses to pass on these costs as it could lead consumers to switch payment methods to avoid paying the fees. Instead the cost is borne by merchants, many of whom feel they have to pay the fees to accommodate the many customers who want to pay by credit card.

CFIB president Dan Kelly said he is glad business owners now have the choice of making these fees transparent to their customers.

“Merchants have always had to pass on these fees to remain profitable; they’ve just buried them in the costs of goods,” he said.

According to the CFIB’s online survey of 3,914 members, conducted from Sept. 1 to 8, 19 per cent of respondents were planning to add the surcharges as soon as they could. Another 26 per cent said they would do so if their competitors did, 40 per cent said they were not sure yet and 15 per cent said they would not.

Those in consumer-facing businesses were the least likely to say they would pass on the costs. Only 12 per cent of retail, 17 per cent of personal services and 19 per cent of hospitality businesses said they were sure to add the surcharge.

On the other side, businesses that often sold to other businesses were more likely to want to pass on the transaction costs. Those sectors include: transportation (37 per cent); finance, insurance and real estate (32 per cent); and construction (31 per cent).

For those who did not want to pass on the fees, 79 per cent said it was because they thought it would alienate their customers.

Karl Littler, senior vice-president of public affairs at the Retail Council of Canada, said his group recently held an information session for members large and small, and while there was interest about the issue, he said he believes retailers will remain reluctant to begin surcharging.

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“I think it will land with a dull thud in the retail space,” he said.

Still, credit-card fees have led to disputes between card companies and retailers. In 2016, Wal-Mart Canada stopped accepting Visa cards at stores in Thunder Bay and Manitoba for several months. The two sides reached an agreement on fees in early 2017 and Wal-Mart resumed accepting Visa.

The federal government promised in its 2021 budget to put pressure on the card companies and financial institutions to lower the fee from its present average of 1.4 per cent, but has yet to take action on that pledge.

Credit-card transaction fees have become a growing concern for businesses because customers are increasingly using cards instead of cash. According to Payments Canada, there were six billion transactions made with personal credit cards in 2021, compared with 4.5 billion in 2016. The total value of those transactions rose to \$509-billion from \$408-billion.

Although this legal settlement was driven by small enterprises, larger enterprises have also complained about credit-card transaction fees.

Telus Corp. wrote to its industry regulator, the Canadian Radio-television and Telecommunications Commission, in August asking permission to charge customers a 1.5-per-cent transaction fee if they pay their bill with a credit card. Telus told The Canadian Press it expected the charge to amount to an average of \$2 a month.

Mr. Kelly said that large companies like Telus getting involved showed how much power credit-card companies have over all businesses. “It shows just how big the market imbalance is,” he said.