

## Acceptance of Credit Cards (1999 and 2002)

Background. In the last two decades, credit card acceptance as a payment method via nationally recognized credit cards has become virtually universal within the private sector. Such cards are now accepted at a point of sale (POS) for even the smallest transaction. There are advantages and disadvantages to accepting credit card payments which governmental entities need to weigh when deciding whether to accept payments by credit cards.

Recommendation. The Government Finance Officers Association (GFOA) recommends that, subject to state and local law and regulation, governmental entities evaluate whether acceptance of credit cards as a payment option is reasonable and appropriate for the type of charge or fee being paid and the customer service level desired. The evaluation should consider the following:

1. Merchant discount fees. The costs charged by the credit card issuer per transaction typically vary between one and three percent of the value of the transaction. Governmental entities should negotiate the lowest possible fee to minimize the financial impact to the government or to the consumer, whichever party will ultimately pay the fee. When negotiating fees, consolidate all potential users to get the best price. With adequate controls in place, discount fees may be recovered by using a third party to process the payment.
2. Type of payment. Governments should consider whether they want to utilize credit cards for mandatory charges for which citizens must pay (such as taxes, utility bills), or for discretionary charges which citizens elect to pay (such as recreation fees, performing arts admissions). Acceptance of credit cards as a method of payment for mandatory charges may not significantly increase the amount of revenue received by the government, and may actually reduce net expected revenues as a result of paying the merchant discount fee. Acceptance of credit cards as a method of payment for discretionary charges and absorption or payment of the related merchant discount fees may facilitate collection of such charges. The volume of Internet transactions may increase as a result of the acceptance of credit cards.
3. Administrative costs. The costs of equipment and the associated personnel necessary to process credit card transactions.
4. Benefits to government may include:
  - Increased certainty of collection
  - Reduced return check processing costs
  - Accelerated payments and the availability of funds
  - Improved audit trail
  - Reduced cashiering costs
  - Enhanced customer convenience

5. Government entities should weigh the cost of paying the credit card fee versus the cost of processing cash, checks and checks returned for insufficient funds.

6. Third-party processors, such as commercial automated services capable of processing credit card transactions seven days per week, 24 hours per day, should be considered as part of the evaluation because they may prove to be essential in recovering discount fees. GFOA further recommends that a credit card acceptance agreement be made as a bank services agreement administered by the public official in charge of the treasury function.

### **References**

- *An Introduction to Treasury Management Practices*, GFOA, 1998.
- *An Introduction to Electronic Commerce: Government Cash Management Programs*, GFOA, 1998.

Approved by the Committee on Cash Management, June 15, 2002.

Approved by the Executive Board, October 25, 2002