Taking Charge of Your Practice

Accepting Credit Cards for Payment

If your clients regularly ask if they can pay for your services with a credit card, and if you would like to increase the speed and efficiency of your payment collections, you may be interested in accepting credit card payments in your practice.

In recent years, new services and increased competition have made the option of accepting credit card payments more attractive for small businesses. However, accepting credit cards isn’t right for every practice. Businesses must consider the cost—usually between 2.5 percent and 5.5 percent of sales depending on the number of sales and the size of your transactions—and the administration involved.

Before you make a final decision, review the tips outlined in this article and talk to your accountant so that you can make the decision that’s best for you and your practice.

GETTING STARTED

To begin accepting credit cards in your practice, you will in most cases need the following:

A bank account – A credit card merchant account, which allows credit card payments to be transferred to the bank account you designate. Most merchant accounts let you accept MasterCard, Visa and bank ATM debit cards; additional fees may be required to accept American Express and Discover cards. You can obtain a merchant account from a bank or other lending institution. When you apply for the account, you may be asked to submit financial information about your business and your personal credit history. Some services do not require users to set up a merchant account, but will still request financial information from you.

A way to process payments – You may buy or lease a scanner terminal, receipt printer, computer processing software or other processing equipment. If you are not doing so already, consider using financial management/accounting software that allows you to enter credit card information, safely and securely submit the information over the Internet, and enter, track and reconcile payments.

SELECTING A VENDOR

Hundreds of banks and other lending institutions offer credit card merchant accounts. When comparing vendors—whether they were referred from your bank, a colleague or an Internet search—you should consider several important factors:

Fees – When comparing vendors, one of the most important factors to consider is cost. Shop around for the best rates and, before signing a contact, read the fine print and make sure you understand all potential fees.

Reputation – Check the vendor’s standing with the Better Business Bureau and other business and consumer groups. Ask your colleagues for feedback on the services they use to process credit cards.

Support – Determine the availability of customer and technical support. Ideally, look for a service that offers live, toll-free support during your hours of business.

Payment Schedule – Different vendors have different timelines for depositing funds in your account. In most cases, the money from credit card payments is deposited directly into your business checking account. However, the funds usually won’t be available for you to use for two to three business days or longer. Make sure to review how the payment schedule will affect your cash flow.

Security – Does the company offer safe and secure processing of your transactions?

THE COST OF ACCEPTING CREDIT CARDS

Unlike check or cash payments, all credit card payments incur processing fees. Small businesses—especially those that process few credit card payments in small dollar amounts—need to review potential fees closely and decide whether or not the benefits of offering credit card payments outweigh the costs. The fees associated with accepting credit cards may include the following:

Discount rate – The discount rate is the percentage of each sale that is deducted by the processing company. Discount rates usually differ for cards that are swiped through a card reader and cards that are manually typed into the credit card processing system. Most banks and credit card companies charge 1.5 percent to 3.5 percent of your sales, depending upon the number and average size of your sales. Generally, the larger the number and size of payments you process, the lower is the discount rate. For example, discount rates for Visa or MasterCard could range between 1.65 and 2.5 percent depending on your business, while American Express could charge up to 3.5 percent. When comparing vendors, be sure you understand how long the initial discount rate will exist, and when and by how much the rate will increase.

Cost of equipment – You may lease or purchase credit card processing equipment such as a scanner terminal and receipt printer. Leasing may cost $40 to $70—or more—per month for a four-year lease. Equipment may be purchased new or used. Before you buy, find out if you will incur extra charges connecting the equipment to your bank’s system. You may be able to save money by purchasing computer software that performs the same functions as the scanner equipment. However, before you purchase the software, make sure it will work with your bank’s system.

Monthly minimum requirement – You will be asked to provide the bank with an estimate of the amount of charges you will process each month. If you fall short of your estimate, you may be charged an additional fee.

Chargeback fees – If a credit card bill is not paid, usually due to consumer complaints or merchant error, you may be charged a penalty fee.

Additional Fees – Additional fees may include application fees, startup fees, transaction fees, transmission fees, monthly statement fees, annual account renewal or cancellation fees, and minimum sales fees.
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HOW CREDIT CARD PAYMENTS ARE PROCESSED

Following is an example of how a typical credit card transaction works.

A client hands you a credit card, which you swipe through an electronic terminal.

The credit card company automatically provides an authorization code allowing you to process the sale, and you collect the client’s signature on the receipt.

At the end of the day, you settle your accounts by electronically submitting the credit card sales receipt to your bank.

Your bank authorizes the charge and notifies the credit card company of the charge. The credit card company collects the money from the bank that issued the card, sends it to your bank and bills the client. Your bank deposits the money in your account and subtracts a processing fee, which is divided between your bank and your credit card company.

When your client pays the bill, the credit card company sends the money to the bank that issued the card, minus a processing fee.