

InterPayments Surcharging and Sales Tax Recommendations

Please note: InterPayments is not a certified tax specialist. We recommend you speak with your tax specialist before implementing any tax compliance advice.

In many US states, surcharge amounts are subject to sales tax.

In many states, the surcharge amount should be included in the sales tax calculation. Your sales tax provider should be able to accurately and automatically determine in which states this applies. If you do not have an automated sales tax provider, InterPayments recommends you speak with a tax professional.

SCENARIO A: PAYMENT MADE PRIOR TO PRODUCT/SERVICE FULFILLMENT

Merchants who authorize payment prior to delivering products/services will calculate the surcharge and sales tax on the entire order at the time of payment. InterPayments recommends two options for properly calculating the sales tax.

InterPayments recommends Option 1, but offers 1 of 2 payment workflows to ensure you properly account for the sales taxes on the surcharged amount. The differences are minimal. **However you decide to account for sales taxes, surcharging mitigates expensive credit card fees.**

Option 1*: Subtotal equals Product Price plus Shipping less Discounts, Promotions, Coupons. Calculate the surcharge amount on the Product Price plus Shipping less Discounts, Promotions, Coupons. Then, calculate the sales tax on the Subtotal plus the Surcharge Transaction Fee.

Option 2: Subtotal equals Product Price plus Shipping less Discounts, Promotions, Coupons plus Sales Tax. Then, calculate the Surcharge Transaction Fee on that Subtotal. Now, calculate sales tax specifically on the Surcharge Transaction Fee amount only. Add that additional sales tax to calculate the Total.

		OPTION 1 Sales tax AFTER Surcharge Calculated	OPTION 2 Sales Tax BEFORE and AFTER Surcharge Calculated
Product Price		\$ 98.00	\$ 98.00
Shipping/Handling		\$ 3.00	\$ 3.00
Discounts/Promotions		\$ (1.00)	\$ (1.00)
Sales Tax	5.00%	\$ -	\$ 5.00
Subtotal		\$ 100.00	\$ 105.00
Surcharge Transaction Fee	2.00%	\$ 2.00	\$ 2.10
Sales Tax	5.00%	\$ 5.10	\$ 0.11
CUSTOMER TOTAL		\$ 107.10	\$ 107.21
Difference	0.10%		\$ 0.11
Merchant Net Proceeds			
Customer Total		\$ 107.10	\$ 107.21
Less: Sales Taxes		\$ (5.10)	\$ (5.11)
Less: Credit Card Fees		\$ (2.10)	\$ (2.10)
Merchant Net w/ Surcharging		\$ 99.90	\$ 100.00
Merchant Net w/o Surcharging		\$ 98.00	\$ 98.00

SCENARIO B: PAYMENT MADE AFTER PRODUCT/SERVICE FULFILLMENT

Merchants who deliver products/services and then invoice later will already include sales taxes in the invoiced amount. Because the payment is made after sales tax calculation, the sales tax must be calculated on the surcharge. There are several options for calculating the sales tax on the surcharge.

	Calculate Sales Tax	Add Sales Tax	Account for Sales Tax
RECOMMENDED! MERCHANT ABSORBS SALES TAX ON SURCHARGE AMOUNT	<u>AFTER TRANSACTION IS COMPLETED:</u> Merchant requests sales tax calculation on specific transactions from its chosen sales tax vendor. This requires merchant to call the sales tax vendor's API with relevant data (amount, product type, shipping zip code) for each transaction.	N/A - merchant absorbs sales tax on the surcharge amount	AFTER TRANSACTION IS COMPLETED: Merchant accounts for the surcharge on the sales tax in its accounting system using the sales tax calculation. Merchant remits sales tax to appropriate authorities.
INTERPAYMENTS ADDS FIXED SALES TAX % TO EACH SURCHARGE	<u>BEFORE TRANSACTION IS AUTHORIZED:</u> Merchant configures a state-by-state fixed sales tax percentage to apply to a surcharge within that state. This works only if merchant is comfortable with a fixed percentage sales tax for certain states.	InterPayments adds sales tax amount to the surcharge amount and presents it to the customer.	InterPayments' portal will have the sales tax amount as a separate line item. Merchant would have to create a manual download of transaction data and total the sales tax amounts by state. Merchant remits sales tax to appropriate authorities.
MERCHANT CALCULATES SALES TAX ON SURCHARGE AMOUNT AT TIME OF PAYMENT <i>Direct InterPayments API Integration</i>	<u>BEFORE TRANSACTION IS AUTHORIZED:</u> Merchant calls its sales tax calculator on the surcharge amount. Merchant passes surcharge, with its applicable sales tax, to the customer at payment.	Merchant adds sales tax amount to the surcharge amount and presents it to the customer.	Merchant would have a record of the sales tax in their system.
INTERPAYMENTS CALCULATES SALES TAX ON SURCHARGE AMOUNT AT TIME OF PAYMENT <i>PayLink users; InterPayments relies upon merchant's sales tax provider</i>	<u>BEFORE TRANSACTION IS AUTHORIZED:</u> InterPayments' calls the merchant's sales tax calculator within PayLink to calculate the sales tax on the surcharge amount. InterPayments passes it along to the customer.	InterPayments' adds sales tax amount to the surcharge amount and presents it to the customer.	InterPayments' portal (separate from PayLink) will have the sales tax amount as a separate line item. Merchant would have to create a manual download of transaction data and total the sales tax amounts by state. Merchant remits sales tax to appropriate authorities.