

# Payment Processing Fees Continue to Burden Small Businesses, Sellers Lose Out on Refunds

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Small Businesses Struggle with Non-Refundable Merchant Payment Fees as Consumer Returns Surge

In the world of online retail and small businesses, where everyone is competing with Amazon in one way or another, returns and refunds are inevitable. However, many business owners are facing a harsh reality: even when they process a refund to a customer, they are still on the hook for the original credit card processing fees. This often-overlooked issue is having a profound impact on small business profitability, particularly in an era where consumers increasingly expect hassle-free returns, the Amazon effect.

For many years, merchant payment providers have charged a standard fee for every transaction processed via credit card or digital payment, typically around 2.9% of the transaction amount. While this fee is common knowledge, what remains less



Family Clothes Shopping



Buyer Paying with CC

publicized is that merchants must eat this cost even when an order is fully refunded to a customer. The customer receives their full refund, but the business is still out the 2.9% fee on the original transaction—leading to growing frustration among small businesses and sellers.

This burden is felt acutely in industries such as fashion, where return rates can be as high as 30%, particularly for formalwear items like [boys suits](#), where sizing is a big issue among retailers and their clientele. Companies in this sector often need to absorb significant financial losses for each return, adding up to substantial amounts over time. Sellers are now speaking out, urging both regulators and merchant payment providers to rethink these policies.

### The Impact on Small Businesses: Unseen Costs Add Up

The retail landscape has shifted dramatically in recent years, with small businesses and e-commerce stores striving to compete against giant platforms like Amazon. These businesses often rely on platforms such as Shopify, WooCommerce, or Etsy to manage their payments. When a customer purchases an item, the merchant payment provider charges a percentage-based fee, typically 2.9%, plus a flat fee of around \$0.30. At this time, Etsy still refunds the processing fee, but how long will that last?

However, when that same customer returns the item, the seller refunds the full amount to the buyer, but the payment processor still keeps the fee. For small businesses, where profit margins are already slim, this adds a hidden layer of financial strain. According to recent surveys, some small retailers report losing thousands of dollars annually simply from refund processing fees.

As consumer returns continue to rise, particularly in the clothing and accessories sector, this problem is only set to worsen. Return rates for online purchases can range from 20% to 40% depending on the industry, with formalwear—such as [boys suits for weddings](#) and special occasions—often at the higher end of that range. For a small online shop selling high-ticket items, the loss of 2.9% per refund on frequent returns can significantly cut into the bottom line.

One such business owner, of a company specializing in children's special occasion wear including boys suits and baptism outfits, states, "We pride ourselves on providing high-quality products and exceptional customer service. But when we have to refund an order, we lose more than just the sale—we also lose the processing fee, which really adds up. It feels unfair that we're being penalized for making things right for our customers."

### The Role of Merchant Payment Providers

Most small businesses operate using third-party merchant payment providers like PayPal, Stripe, Square, or even traditional banks' payment processing services. These providers streamline the payment process and integrate seamlessly with e-commerce platforms. While the convenience is invaluable, the policies around fees can be frustrating and detrimental for businesses when handling returns.

Historically, some providers like PayPal offered fee reimbursements when a refund was issued.

However, this policy changed in 2019 when PayPal announced that it would no longer return the 2.9% processing fee to merchants on refunded transactions. The change sparked outrage among small businesses, but it quickly became an industry standard, with other providers following suit. Today, nearly all major merchant payment providers retain their processing fees even if a refund is initiated.

A spokesperson from Stripe, one of the leading payment processors, said in a statement: "Payment processing is a service that incurs costs regardless of the outcome of a transaction. The fees we charge help us cover the operational expenses of handling the payment, ensuring fast, secure, and reliable transactions for both merchants and consumers."

While this reasoning makes sense from a business perspective, small business owners argue that it places an unfair financial burden on them. In industries with higher return rates, the 2.9% fee can account for significant losses, especially for businesses with low margins.

#### Shopify's Policy on Non-Refundable Fees

One of the most widely used e-commerce platforms, Shopify, has also adopted the practice of not refunding processing fees on returned orders. Shopify's payment system charges a fee of 2.9% plus a small flat rate for each transaction. Like other merchant payment providers, Shopify retains this fee when sellers process refunds.

For the thousands of small businesses and independent sellers using Shopify, this policy adds another financial challenge. The platform, known for its user-friendly features and seamless integration for online stores, has become a go-to option for businesses selling products like clothing, accessories, and other fashion items. However, the non-refundable fee practice is forcing merchants to rethink their return policies and pricing strategies.

"Shopify has been instrumental in growing our business, but the fees on refunds are becoming a significant issue," says Sarah Johnson, a Shopify seller specializing in adults clothing. "For every return we process, we are losing not just the cost of shipping, but also the transaction fee, which makes it hard to stay competitive. Amazon is creating a false impression of being an online retailer."

While Shopify provides a robust platform for growth, small businesses feel the pinch when frequent returns erode their margins. Like other merchant payment providers, Shopify could potentially reconsider its stance on refunding these fees, especially as more businesses demand fairness in fee structures.

#### Customer-Centric Return Policies: A Double-Edged Sword

One of the main selling points for consumers shopping online is the flexibility to return items with ease. Many retailers, both large and small, offer generous return policies to attract customers and build loyalty. In fact, consumer studies show that 96% of shoppers are more likely to buy from a retailer that offers easy returns.

However, these return policies have created a double-edged sword for businesses. On one hand, they help boost sales, particularly for products where fit and appearance are critical, such as boys suits for formal events. On the other hand, they lead to a high volume of returns, with sellers often footing the bill for shipping costs, restocking, and the non-refundable payment processing fees.

"Every time we process a refund, it's like paying to lose money," says Margaret Smith, owner of an online store selling wedding attire. "We want to offer great service, but it's becoming unsustainable. We're losing on average \$25 per return just in payment processing fees and shipping costs, and that doesn't even account for the return shipping we often cover."

Many small businesses like Margaret's are now forced to reconsider their return policies, charging restocking fees or shortening the return window to mitigate losses. However, these measures can alienate customers in an ultra-competitive e-commerce space, where convenience and flexibility often dictate purchasing decisions.

#### Potential Solutions: Industry and Legislative Change Needed

The issue of non-refundable payment processing fees has not gone unnoticed by industry groups and advocacy organizations. In recent years, small business associations have been calling for more transparency and fairness in the payment processing industry.

One potential solution being proposed is for merchant payment providers to offer partial refunds of the processing fees in cases of full or partial order returns. This would allow providers to recoup the fixed costs of handling the payment while providing some financial relief to businesses.

Another idea is for regulatory bodies to step in and set industry standards around refunds and transaction fees. Several countries, including the UK and Australia, have begun looking into how payment processors charge fees and whether refund policies need to be more transparent and equitable for merchants.

"There is a growing push to address the imbalance in how payment fees are structured," says Mary Davis, a financial services policy analyst. "With more and more small businesses relying on e-commerce, these hidden costs are no longer sustainable. It's time for both industry players and policymakers to step up and create a fairer system."

#### What Can Small Businesses Do Now?

While broader changes may be on the horizon, small businesses need immediate solutions to manage the burden of non-refundable processing fees. Experts recommend the following strategies:

**Review Your Payment Processor's Policies:** Some merchant payment providers may offer more

favorable terms for refunds. Take the time to compare policies and switch providers if necessary.

**Factor in Fees When Setting Prices:** Although increasing prices may seem risky, it can help offset the cost of potential returns. Be transparent with your customers about why prices are changing to maintain trust.

**Consider a Restocking Fee:** Charging a small restocking fee can help cover the costs of processing returns, including non-refundable payment fees. Make sure your return policy clearly outlines any restocking fees upfront.

**Negotiate with Providers:** If your business processes a high volume of transactions, reach out to your payment processor to see if you can negotiate a better rate on refunds. Larger businesses often have more leverage to reduce fees.

**Educate Customers:** Let customers know that returning items costs your business money. While not all customers will change their behavior, some may be more mindful of their purchases, reducing return rates.

**Conclusion: The Call for Change in Payment Processing Policies**

As the retail landscape continues to evolve, it's clear that current payment processing policies are putting small businesses at a disadvantage. Whether selling high-return items like boys suits or everyday goods, merchants are losing money on refunds they are obligated to process in good faith.

The issue of non-refundable processing fees is gaining more attention, but significant change requires both industry reform and regulatory action. In the meantime, small businesses must adapt their pricing strategies, return policies, and consumer education efforts to mitigate the impact of this ongoing challenge.

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