

Chapter 4 – Bank and Purchase Card Transaction Fees

Authoritative Sources

[FAR 31.205-27](#) Organization Costs

[FAR 31.205-20](#) Interest and Other Financial Costs

Administrative costs associated with short-term borrowings for working capital may be classified as “bank fees.” These administrative costs are allowable under FAR 31.205-27, Organization costs.

Many contractors allow purchasers, including the Government, to pay for purchases through the use of a purchase card (such as the IMPAC card). When a contractor accepts a purchase card for payment of goods and services, the contractor is charged for transaction costs, generally referred to as “merchant fees”. Merchant fees include fees paid by the contractor to the contractor’s bank, the credit card company (i.e., VISA or MasterCard), and the card-issuing bank for processing payment through the credit card network. Auditors should not assume these fees represent unallowable interest costs merely because the fee is usually expressed as a percentage of the amount of the transaction. The transaction fees associated with the use of the purchase card represent a charge for administrative processing and do not represent interest on borrowings.

Some banks offer financial agreements which grant lines of credit at less than the prime interest rate. The bank may classify this difference as a bank fee which the contractor may be claiming as an allowable cost under Government contracts. However, the difference between the agreement’s rate and the prime rate should be considered unallowable under FAR 31.205-20, Interest and other financial costs, which specifically disallows interest on borrowings, however represented. Accordingly, bank fees claimed by contractors should be carefully reviewed to determine whether they are, in fact, interest costs.

Where contractors have entered into agreements similar to that discussed in paragraph c. above, and claim the costs under Government contracts, the procedures in CAM Section 4-702 should be followed as applicable.