



## Can You Afford to Run a Cash-Only Business?

High credit-card fees and other hassles make it tempting to pocket all your company's money, but there are also a number of downsides to only accepting cash. A look at the pros and cons.

By **JULIA L. ROGERS**

Posted 6/ 29 11 at 12:30 PM | [Business Trends](#), [Money](#), [Sales](#), [Management](#), [Taxes & Accounting](#), [Legal Issues](#), [Business Products & Services](#), [Consumer Products & Services](#), [Financial Services](#), [Food & Beverage](#), [Retail](#)

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Cash, it seems, is still king, at least for some small businesses. In a world overrun by plastic -- and even the slow march toward digital payments -- plenty of retailers across the nation still pledge their allegiance to the good old fashioned greenback.

One of the biggest reasons these businesses continue to resist credit cards is the dreaded "interchange" or "swipe" fee, which averages 2 to 4 percent for credit cards and 1 to 2

percent for debit cards. The [National Retail Federation](#) estimates that small businesses pay \$50 billion a year in swipe fees -- triple the amount paid in 2001. In fact, U.S. small-business owners pay higher swipe fees than business owners in any other country, which prompted the [Dodd-Frank Wall Street Reform and Consumer Protection Act](#) to reduce swipe fees starting October 1 (though retailers suffered an 11th hour setback when the banking lobby convinced the Federal Reserve to almost double the cap on swipe fees from the initially proposed 12 cents to 21 cents).

Due to these mounting swipe fees, many [entrepreneurs](#) -- from restaurateurs to doctors to [auto repair shop](#) owners -- have been offering discounts for customers who pay in cash. And websites like [Discount with Cash](#) have cropped up to help customers locate businesses in their area that will give them special rewards for using paper money.

On the flip side, however, businesses that deal only in cash can turn away customers -- and actually see some [banks](#) turn down their business because of regulations the Bank Secrecy Act and other laws designed to stop the flow of illegal funds. [Banks](#) that don't follow standards can be penalized severely.

Sure, accepting credit cards is more convenient for customers, but those fees can definitely take a chunk out of your bottom line. Should you consider going cash-only? Here's a look at the pros and cons.

### The Benefits of Cash

One of the primary benefits of cash? It's all yours. "When you get cash, every penny you get, you keep," says small-business tax expert [Barbara Weltman](#). "You don't have to share it with your bank, merchant processor, credit-card companies, and you avoid some of the problems you can run into with credit card charge backs." You also eliminate credit card fees and fallout from bounced checks, according to Weltman.

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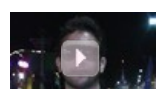
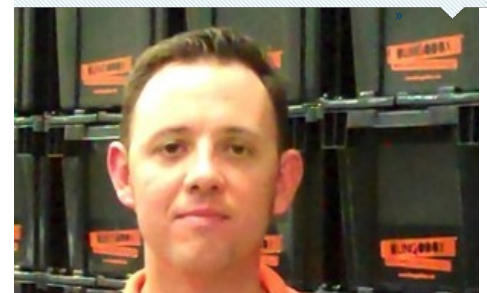
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Robert Livingstone, president of Ideal Cost, a small- and midsize business credit-consulting firm based in West Palm Beach, Fla., agrees that there can be big problems and expenses attached to accepting credit card. "Not only do you have the 2 to 4 percent fee attached to accepting cards, but customers can fraudulently dispute a charge after services have been rendered. Also, the credit and payments industry generally lacks transparency, which creates confusion when keeping track of business and income. This has caused many merchants to avoid the system entirely."

And some business owners take advantage of the -- shall we say -- tax benefits that come with cash. "On occasion, some businesses prefer cash payments because they pocket the cash to avoid **taxes** rather than declaring the income," Livingstone notes. Legally, as Weltman points out, "just because you're getting paid in cash doesn't relieve you of the responsibility of paying taxes on that income." And because of the strict regulations placed on financial institutions, companies that move a lot of cash are often more susceptible to audits than those that have a lot of credit and debit card transactions.

Doug Sohn, owner of **Hot Doug's**, a 20-year-old, Chicago-based "Sausage Superstore and Encased Meat Emporium," has always followed a strict cash-only policy with his customers. "We only accept cash for a number of reasons, the main one being that it's astronomically expensive for us to take credit cards, since we have so many transactions, a majority of which are for a very small amount," he says. "The fees at the end of the month would be more than my rent. For small businesses, the rates are astronomical. Maybe I'm a contrarian or an old-school curmudgeon, but I like the idea of just paying cash. I believe you should have \$20 on you at all times. Your mother was right when she told you not to leave the house without it!"

Even as a consumer, Sohn has always believed in paying cash whenever possible. "I pay cash as often as I can because I feel like no one needs to know where I've been, what I've eaten or what I've bought," he says. Yet, he has resisted putting an ATM in his store. "I can't in good conscience watch someone be charged \$5 to access their own money."

**Ben's Chili Bowl**, a Washington, D.C., institution, also still considers itself cash-only, although the restaurant has recently started to veer toward acceptance of company checks and, on occasion, credit cards. "Technically, we are cash-only, though we now have the ability to accept other forms of payment, manager Sonya Ali says. "Some of the reason for being only cash was just that we didn't have the systems in place before. However, we see it as just as easy for our customers to pay cash, because we have an ATM right in the store."

While the owners of Ben's Chili Bowl would prefer to stay cash-based because of the high transaction fees and generally low average amount spent per person, they recognize that eventually this practice won't be practical and will potentially alienate customers. "We've been moving toward credit cards every year for a while," Ali says. "I think at some point the economy will be paperless, so you'll be less likely to take cash."

### The Downside of Cash

Some small-business owners say that despite high swipe fees, they're getting to the point where they can no longer afford not to accept plastic.

Mike Arman started **M Arman Publishing**, an Ormond Beach, Fla.-based publishing company, in 1977 and has always seen credit cards as a necessary evil for any serious **entrepreneur**. "My number-one rule of business is 'always make it easy for people to give you money,'" he says. "I've been running businesses for 40 years, and you never know how someone is going to want to pay you. Credit cards, debit cards, checks, letters of credit, cash -- I don't care. I'll take it all."

Above all, Arman believes you need to cater to the needs of your customers if you want to run a successful business. "Turning down credit cards is stupidity squared," he says. "Customers sometimes don't have cash and will invariably buy more on plastic than they will for cash. Would you rather have 100 percent of nothing, or 97 percent of \$1,000 because you took a credit card?"

And statistics do support the idea that customers will spend more when plastic is involved. According to Livingstone, "Customers spend up to 50 percent more with a card rather than cash, as they aren't limited by what they have in their wallet." With cash, the consumer tends to feel the pain of paying, whereas a credit card can feel more like Monopoly money -- when using credit cards, people tend to be more frivolous and focused on what they're getting instead of what they're losing.

Livingstone adds that credit cards can actually make a company more attractive to potential customers for other reasons. "Customers feel they can trust businesses that accept credit cards, as it gives them a sense of legitimacy," he says. "And customers shopping around will be more drawn to companies that accept credit cards, even if they aren't the cheapest."

Another problem with running a cash-only operation is that it leaves business owners with a lot of cash

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in their store, making them potentially more susceptible to theft by employees or robberies than a business owner who accepts credit. At the very least, there are large quantities of bills and coins to deposit at the end of the day, which means **investing** in an armored car service or running the risk of getting robbed on the way to the bank. "No one will stick a gun in my face for a stack of checks and credit card slips," Arman says. "But if the word gets out that I have lots of cash lying around my business, that's another story."

Sohn admits that despite his preference for cash at Hot Doug's, he does have some concerns about theft, although probably not much more than any small-business owner. "I'm not that worried because of the number of people who are usually here," he says. "We're only here during the day, it's not dark, we don't see a lot of drunk people and we've never had a problem before. Could it happen? Of course. But that's the nature of being a small business."

And Sohn acknowledges that one day soon, he may be forced to transition into the world of credit cards. "I know that most small-business owners do accept credit cards -- most have to," he says. "I'm not ignorant, and I'm well-aware that things are changing, and we're veering away from cash. But it's so expensive for small-business owners like myself, and in many cases, it's just money that is probably going to the head of the big credit card companies."

However, Weltman says there are a few ways for Sohn and other small-business owners to accept credit cards and avoid swipe fees. "Many very small businesses can easily accept credit cards by going through payment services like PayPal, so they don't have to get a swipe machine and can still accept all the major credit cards," she notes. "The downside of not doing this is that you may be discouraging certain customers who don't want to pay in cash, which can hurt your sales."

Ultimately, according to credit experts, the pros of accepting plastic generally outweigh the cons. "Businesses across the board have an easier time collecting on outstanding bills if their customers pay by credit card," Livingstone says. "And having a variety of ways for customers to pay maximizes cash flow."

Isn't that what it's all about?

**Tags:** [accepting credit cards](#), [Business Trends](#), [cash business](#), [credit card fees](#), [credit cards](#), [retail](#), [retailers](#), [small business credit cards](#), [swipe fees](#)

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**Jerry Wimberly** 6-30-2011 4:43PM

We the people need to move back to cash and get away from credit cards. Start banking at credit union and write checks to pay bills. This remove the cash from the very banks and wall street that gambled it way and then recieved our forced tax payer bailout. This would teach them a lesson but as history proves They will lobby congress to pass law forbiding this !!! Criminals every one of them !

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**Brian Seelos** 6-30-2011 5:05PM

Myself and others I have talked with have no desire to walk around with a wallet or purse full of cash. Life is too valuable. As a retailer I have to add the expence to a product, but when the customer asks for a discount, I discount the card fee. As someone else said. 97% of \$1000 is a lot better than \$0. And I don't carry a wad in my wallet. I've been Robbed!

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**Glovercpa** 6-30-2011 5:19PM

If the idiots in Government would enforce the tax laws against the illegal cash economy, there would be NO deficits, no spending cuts, and no tax increases. How, you may ask? By issuing a new currency and enforcing existing laws.

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**Rboto07** 7-01-2011 3:21PM

Over 30+ years I've learned that for many small businesses, cash is king. Most still take cards, etc., but if you want a small discount pay the bill in cash. And many will happily take two trips to the bank to keep their risk down. It probably would not work for everyone, but if does work for you then what could be better. And if you have someone stealing from the till, then you likely have even more problems in your business. Install a strict daily audit. It becomes routine after a while, and let everyone know the consequences of stealing. And if you have an inclusive incentive program involving everyone's participation then you also can gain everyone's eyes helping watch out for the business. It really works.

Cash is the only way a small business can make any money and keep everyone out it's pockets.

Chitowncdplaya69 7-03-2011 12:33AM

If you do not want to accept plastic and also not lose any customers than you should consider putting an ATM machine in your store. If the customer does not have cash, they can use the ATM and you get paid from the transaction instead of you paying the bank.

Chitowncdplaya69 7-03-2011 12:37AM

glovercpa 6-30-2011 5:19PM

If the idiots in Government would enforce the tax laws against the illegal cash economy, there would be NO deficits, no spending cuts, and no tax increases. How, you may ask? By issuing a new currency and enforcing existing laws.

How about closing loopholes for fat cats on Wall Street? Force the uber rich to pay their fair share of taxes.

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