

TOIRMA Update

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Credit Cards vs. Debit Cards

GROWING UP I loved the “Back to the Future” trilogy. Time travel has always been of interest to me, and these movies are always so much fun ... even today. There is a scene in *Back to the Future Part II* where an aging Marty McFly gets fired by his boss. The notice comes to Marty via fax, not only through one fax machine but three. At the time of the movie’s release, in 1989, it seemed inconceivable that a person would have multiple fax machines located in a single residence. Well fast forward to 2022. Although a typical person does not

have multiple fax machines, we do indeed have multiple devices that receive email or text messages. Sometimes in my house you can hear message or email notifications coming from all corners. Like *Back to the Future*, at times these messages are negative, i.e., from credit card companies informing you that your card may have been compromised.

During the East Central Highway Commissioners meeting in late March of this year, one of the highway commissioners in attendance asked a question that sparked a conversation about using credit

cards in township government. It was pointed out to participants that you cannot even book a hotel, rent a car, or make many purchases in today’s world without the help of our friends at “Visa, Mastercard, American Express, or Discover.” In fact, back in 2016 I drafted an article for this publication outlining the benefits of using a credit card over a debit card. After reviewing both past and up to date information and this article has been written to help township officials better understand the advantages of using a credit card rather than a debit card.

Question: What is the difference between a credit card and a debit card?

Answer: Although a credit card and debit card look the same, they are not. When using a credit card, the purchase is charged to your preapproved line of credit. You are borrowing the money. When using a debit card, the payment for the transaction is pulled directly from your checking account.

Question: Are there fees associated with credit and debit cards?

Answer: Typically, your financial institutions offer debit cards for your use if you have a checking account, and most banks do not charge for usage. Financial institutions partner with major credit providers such as Visa, Mastercard, Discover etc. so that debit cards can be used at locations accepting cards from these providers.

Most credit card companies do not charge for the usage of their cards. However, if a payment is not made in-full by the due date, there is an interest charge, and if a minimum payment is not made a fee may be charged as well.

Question: What happens when using a debit card if there are not enough funds in the checking account to cover the transaction?

Answer: If there are not enough funds in the applicable checking account to pay for transaction, the card will not process.

Question: What are the advantages of a credit card over a debit card if it is stolen?

Answer: When a debit card is stolen or compromised, funds are be taken from your checking account just as if you were using it. When a credit card is stolen or compromised, no funds are actually removed from your checking account.

Question: What protections are afforded to us when your debit card is lost or stolen?

Answer: According to the Federal Trade Commission, if your debit card is lost or stolen your maximum loss is \$50 if reported within two business days after you learn of the loss or theft. After

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two business days, and within 60 calendar days, of you learning about the loss or theft, your loss limit is increased to \$500. After 60 days of you learning of the loss or theft, you may be liable for the full amount. Remember, when this happens, money has already been removed from your checking account.

Question: What protections are afforded to us when your credit card is lost or stolen?

Answer: According to the Federal Trade Commission, if your credit card is stolen your liability caps out at \$50. You are not responsible for charges you did not authorize. Remember, when this happens money has not been taken from your checking account.

Credit cards offer clearly offer more protections during fraud to users.

Question: Is a debit card or credit card usage more in-line with the Township Code?

Answer: Credit card usage is more in-line with the spirit of the Township Code. Statute requires that prior to bills being paid that township board audit each proposed expenditure (except for payroll and general assistance). If the proposed bill is being drawn from a proper fund consistent with the adopted budget and appropriation ordinance, and there are funds available to pay the expenditure, it should be paid. Bills should be audited by the township board prior to being paid.

When using a credit card for a township or road district expenditure, no payment is actually made until the bill is paid to the credit card company. Following state statute, once the credit card bill is received, the township board should then examine the transactions prior to paying the bill. When using a debit card, the expenditure is actually paid for immediately, not affording the township board an opportunity to audit the bill prior to payment. Therefore, the most conservative approach would be for a township or road district to utilize a credit card over a debit card.

In the ever-expanding age of digital or cyber liability issues, please consider the above when making forthcoming financial decisions.

Thank you for your attention to these matters.

As always, if you have any additional questions, please feel free to contact me toll-free at (888) 562-7861 or by email at jdonelan@toirma.org.

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Building and running a Township Website is easy through TOI's Website Program.



Contact Kayla Jeffers at (217) 744-2212 or kayla@toi.org for more information