How Do Credit Card Refunds Work?

No matter how careful you may be when it comes to making decisions regarding credit card spending, mistakes and mishaps can still happen. You could purchase something that turns out to be defective or simply change your mind about the item. Regardless of the circumstances, you should be able to seek out a credit card refund from the merchant. It's a relatively easy process that credits your account the purchase amount of the item.

What is a credit card refund?

When you make a purchase on a credit card, then request a refund for that purchase, you won't be able to receive cash. Instead, you'll receive a credit on your account that is equal to the amount of the original purchase. The process usually begins after the merchant agrees to refund you for the item. If the merchant refuses to or is unable to, however, then you may be able to rely on return protection instead. Consult with your credit card issuer for information on whether your situation meets the requirements to enact a return protection policy.

How does a credit card refund work?

To fully understand how refunds are granted to your credit card account, it's important to know how the transactions are actually processed. When you make a purchase with a credit card, your credit card company is who pays the merchant. The available credit on your account goes down after your card issuer approves the transaction. Then, you pay them back for the purchase when you make payments to your account. Credit card networks are the companies that process the transactions between your credit card issuer and the merchants where you make purchases. So, the merchant has to send your refund back to your credit card issuer before they can credit your account for the purchase. That is why credit card refunds often take several days to process and you can only receive a refund in the original payment method. If you are making a return in-store, the merchant can sometimes pull your card details from the receipt, otherwise you will need to have the same card with you. Also, your card issuer may not refund any foreign transaction fees because it costs them money to process an international purchase, so consult with customer service to know for sure.

How long does a credit card refund take?

Since return transactions have to go through the credit card networks, it often takes several days to see the credit returned to your account. The exact time can vary depending on your return method, the card issuer, and the merchant. If you have returned the item in person, some merchants can credit your account quickly, but generally it will take 5 to 14 business days. Also, if the return isn't processed by your card's closing date, it won't appear on that month's statement. If you have mailed your return, you will also have to take shipping time into account. The best way to get an idea of how long a refund will take is to find more information on the merchant's website. If you would prefer the refund to happen immediately, you can ask for store credit instead, but the purchase balance would then stay in your account.

What's the difference between a credit card refund and a chargeback?

A credit card refund occurs after you make a purchase and then have the purchase amount credited back to your account. A chargeback reverses the original charge and can only occur after you have filed a billing dispute with your credit card company. You may file a billing dispute within 60 days for something you didn't purchase or something you purchased and never received. A current example may be getting a chargeback for an event that was canceled due to COVID-19. The refund process, unless you are enacting your card issuer's return protection, is initiated by the merchant, while a chargeback is initiated by your credit card company. A chargeback can also take much longer because your card company has 90 days to resolve the issue and up to 150 days to complete the charge reverse process.

Credit card refunds: FAQ

Do credit card refunds affect your credit?

A credit card refund may boost your credit score if it reduces the credit utilization ratio on your account. Using 30 percent or less of your card's total credit limit will help avoid any negative impact on your credit score. The purchase amount of a returned item that hasn't yet been processed and pushes your credit utilization above 30 percent may harm your score until the refund is complete.

What happens to rewards earned from the purchase?

Spending incentives are a great benefit of making purchases with credit. Many people specifically choose certain credit cards for the types of rewards they offer. Any rewards that you may have earned on a purchase that was returned will unfortunately be subtracted after the refund is processed. This applies to cash back credits, sign-up bonuses, or any other incentives that are granted by spending. This policy was put in place to prevent people from taking advantage of the system. If you would like to keep the rewards you earned from an item you'd like to return, you can ask the merchant to refund you in store credit. Receiving store credit, however, does mean that you would still be responsible for paying the balance on your credit card account.

Does a credit card refund go toward your required payment?

Money refunded to your account is not considered a payment or a partial payment toward your monthly required minimum. Also, if you incurred any interest from the purchase, but don't receive your refund within the statement period, it is unlikely to be refunded. So, don't forget to still pay any minimum required payment in full regardless of any refunds.

What happens if my account has a zero balance after a credit card refund?

If the purchase amount of the item you are returning is the only balance on your account, then your balance will return to zero after the refund is processed. If you have paid your card down to a zero balance, and *then* receive your refund, you will have a negative balance on your credit account. Any future purchases will be applied to the negative balance first. If it’s a card that you don’t use often or if the negative balance is quite large, you may want to request the amount in the form of a check if your card issuer doesn’t automatically send one.

The bottom line

Rewards and purchase protections are great incentives to buy items on credit. Refunding any of your purchases to your credit account doesn’t need to be a hassle, even for big-ticket items. Credit card refunds are quite simple to accomplish and are generally processed within two weeks. You may be stuck with interest charges or fees depending on the circumstances, but it helps if you initiate a refund as soon as possible.