

# What is an ACH debit & how can they benefit businesses?

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September 4, 2023

Automated Clearing House (ACH) debits are electronic transactions that “pull” funds from the payer’s account and move it to the payee’s account. Unlike ACH credits, ACH debits are initiated by the payee, not the payer.

In an ACH debit payment, both parties must authorize the transaction, meaning the payer (usually a customer) must give the payee (usually a business) permission to pull funds from their account. These types of payments are common, offering a secure and cost-effective way for businesses to accept payments.

For example, businesses and government agencies regularly use ACH debits to accept recurring monthly payments, such as subscriptions or loan repayments. As they’re automated, ACH debits can also reduce the risk of late or unsuccessful payments.

## How does ACH debit work?

Also known as “autopay”, ACH debits involve the payee initiating an authorized transaction that pulls funds from the payer’s account, moving funds across the ACH network.

For ACH debits to work, the payer must provide information to the payee, including routing and bank account numbers, and then agree to be billed by the business. ACH debits usually take two to five business days to clear, but you can pay extra for same-day processing.

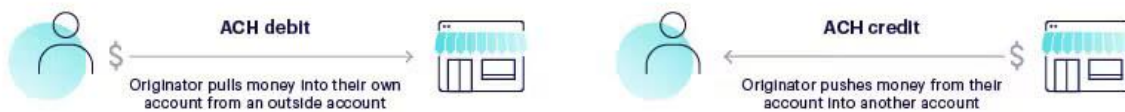
ACH debits are beneficial for both parties. For customers, it’s a secure and easy way to pay automatically, removing the need to enter credit card details for every purchase. For

businesses, ACH debits enable them to automatically receive recurring payments, saving the business time and money on collecting late or missed payments.

## ACH debit vs. credit: What's the difference?

ACH debits are “pull” transactions initiated by the payee, withdrawing funds from the payer’s account – after authorization from the payer. [ACH credits](#) are “push” transactions initiated by the payer, moving money from one account to another.

[ACH payments](#) are governed by the National Automated Clearing House Association (NACHA), offering a secure way to transfer funds electronically.



## Common types of ACH debit

The ACH network supports different types of debit payments, including:

### Recurring payments

Many businesses accept recurring payments, such as utility bills, subscriptions, and loan repayments, via ACH debit. ACH debits are ideal for recurring payments because the amount and due date are agreed in advance. With automated ACH debits, businesses can spend less time chasing late or missed payments.

### ARC (Accounts Receivable Entry)

When your business receives a paper check, it gets processed as an e-check and appears as an ACH transaction on the payer’s statement. This is an accounts receivable entry.

### POS (Point-of-Sale Entry)

This is when your POS system debits the customer's bank account for each card payment on the electronic terminal.

### **MTE (Machine Transfer Entry)**

This is when the payee initiates a pull transaction from an electronic terminal, usually an ATM. This type of entry can be either an ACH credit or debit, depending on whether you're pushing or pulling funds.

### **WE (Web-Initiated Entry)**

This is when you use the internet to authorize a pull transaction, which can be a one-off or recurring payment. This type of ACH debit entry is commonly used by credit card companies, government agencies, online retailers and nonprofits, offering the cheapest way for businesses to complete ACH debits.

## **How do ACH debits differ from similar payment methods?**

ACH debits are one of the most secure and cost-effective ways for businesses to receive funds. But how do they compare to other popular methods?

### **ACH vs. eCheck**

ACH payments and [eChecks](#) are technically the same. Since almost any [electronic funds transfer](#) could be called an 'eCheck', the only difference between the two is the categorization.

An eCheck is a type of ACH payment because it's categorized as a direct deposit, while ACH payments encompass a variety of electronic payment methods. For example, electronic transfers could happen via the ACH network, or sent by wire transfer.

### **ACH vs. direct deposit**

A "direct deposit" is an informal term for an ACH credit. In both cases, the payer initiates a funds transfer to another bank account, with businesses and government agencies using ACH-based direct deposits to pay salaries, benefits and tax refunds.

These ACH deposits are quick, easy, and come with low transaction fees, making them ideal for businesses handling high-value transactions.

However, not all ACH deposits are direct deposits. For instance, peer-to-peer transfers and online utility bill payments made through banking portals would come under different names, not a direct deposit.

## **ACH vs. wire transfer**

ACH payments are made through a clearing house and are used to process direct payments or deposits. On the other hand, wire transfers involve moving money from one account to another, but usually for a fee ranging from \$25 to \$50. Wire transfers can be sent internationally, but ACH payments are for domestic transfers only.

Read more: [ACH vs wire transfers](#)

## **Use cases for businesses**

Businesses use ACH debits for their security, convenience and low transaction fees. Below, we'll explain how and when your business can use them, too.

### **Recurring payments**

ACH debits are ideal for [recurring payments](#), offering a secure and easy way to receive funds on time. Subscription-based businesses, and firms charging insurance premiums, regularly use ACH debits for this reason.

### **High-value payments**

ACH debits have lower fees than credit or debit card payments, making them cost-effective for high-value transactions.

### **B2B ACH debit payments**

Many businesses now use ACH debits for B2B transactions. Due to economic strains, wait times for paper checks to clear have become too long to bear, with ACH debits offering a quicker and more reliable alternative for businesses to pay each other.

NACHA, the governing body of ACH, reported that B2B ACH use [grew 19% year-on-year](#) in Q3 2021.

Read more: [A guide to payment processing for B2B companies](#)

## **Paying taxes**

The IRS (Internal Revenue Service) [allows businesses to use ACH debits](#) to pay taxes, offering a cheaper way for businesses to pay tax bills than by traditional methods, such as wire transfers or paper checks.

## **Benefits of ACH debits for businesses**

We've already touched on how ACH debits can help your business save time and money, but let's dive further into the key benefits.

### **Customer preference**

Customers prefer ACH debits because it means they don't have to write and mail paper checks. Check payments are often victims of fraud, too. Meanwhile, ACH debits are just as convenient as credit card payments and offer a way to transfer funds without incurring credit card debt. All of these customer-focused benefits should improve the customer experience and encourage repeat purchases.

### **Lower costs**

Credit and debit card transactions come with various fees, including processing and interchange fees. For businesses processing lots of high-value payments, these fees can rack up a significant sum. ACH debits are far cheaper, with flat-fees starting from just \$0.20 per transaction.

### **Less chance of missed payments**

ACH debit payments are generally more reliable than credit card payments, reducing the risk of late or missed payments. This is because ACH debits automatically pull funds from your customers' accounts, once the customer has authorized the recurring transactions.

The average lifespan of a credit card is three years, because they're often lost, stolen, or become expired. This can cause delays on transactions. In contrast, ACH debits simply need access to a bank account, which has a lifespan of approximately 14 years.

## **Provide more options**

ACH's security and simplicity make it a popular choice for peer-to-peer payments, especially compared to wire transfers and paper checks. For example, the popular money transfer app Venmo uses ACH payments, offering businesses more ways to move funds.

## **Does Checkout.com support ACH payments?**

Yes. With Checkout, you can start [accepting ACH payments](#) and make your business more versatile. By enabling ACH payments, your business can transfer funds without using paper checks, wire transfers, cards or cash.

ACH payments also have lower fees than credit and debit card payments, making them a cost-effective solution, especially for businesses handling high-value payments. To get started, simply contact our sales team.