

Alert | Financial Regulatory & Compliance



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California AG Publishes FAQs on California's 'Junk Fee' Law

Go-To Guide:

- California's new "Hidden Fees Statute," SB 478, is effective July 1, 2024, and will generally ban so-called "junk fees" by prohibiting "drip pricing," which the legislation describes as "advertising a price that is less than the actual price that a consumer will have to pay for a good or service."
- SB 478 generally requires that advertised prices encompass all fees consumers will pay, prohibiting the addition of most mandatory fees not included in the advertised price. With certain exceptions, businesses must present the total consumer cost upfront.

On May 8, 2024, the California Attorney General released a [list of frequently asked questions \(FAQs\)](#) to help businesses comply with [SB 478](#), California's soon-to-be effective "Hidden Fees Statute," a law intended to address so-called "junk fees" by prohibiting "drip pricing."

"Our price transparency law is about clear and honest communication with consumers, so consumers can make the financial choices that are best for them and their families. This new guidance provides information for businesses across California to ensure that clear answers are available, particularly for small businesses," Attorney General Rob Bonta said in a separate [press release](#). "The law is simple: the price you see is the price you pay. Laws work when everyone can comply. I am pleased that we can offer

this guidance to help facilitate compliance with the law and make a more fair and level marketplace for businesses and consumers."

SB 478

SB 478 is a law designed to address hidden fees, particularly targeting "drip pricing," which the legislation describes as "advertising a price that is less than the actual price that a consumer will have to pay for a good or service." The bill amends the California Consumers Legal Remedies Act (CLRA) to ensure that advertised prices include all mandatory fees, except in certain regulated transactions and transactions not covered by the CLRA.

Key takeaways from the FAQ include:

- **Pricing and fee transparency.** The FAQ clarifies that SB 478 is *not* a pricing law. Businesses retain the freedom to set prices for goods or services as they see fit. They can also offer a breakdown of included fees or charges in their advertised prices. The listed price, however, must encompass the total amount consumers are obligated to pay, without limiting the types of fees businesses can charge.
- **Total price disclosure.** The FAQ clarifies that the price presented to consumers must be the full amount they are obligated to pay, without any additional, mandatory fees disclosed *before or after* the consumer is required to pay. The FAQ also makes clear that the law prohibits businesses from initially advertising one price and subsequently adding variable service fees later in the transaction.
- **Restaurant pricing compliance.** The FAQ takes the position that businesses, including restaurants, must include all mandatory charges in the advertised or listed price, except for reasonable shipping costs and government-imposed taxes or fees. Although businesses can provide a breakdown of these fees that are included in their advertised price, they cannot exclude mandatory charges from the advertised price, including those related to business costs like security, salary, or employee benefits. For example, voluntary tips or gratuities left by restaurant customers are unaffected by the law, but the FAQ states that an automatic gratuity is a mandatory fee that must be incorporated into the listed price. On the other hand, the FAQ explains that fees for food delivery ordered directly from a restaurant are fees for delivery, i.e., an optional service, that do not need to be included in the advertised price of food as a mandatory fee. While this legislation affects various businesses impacting consumers, restaurants should note its potential implications. As highlighted by GT Shareholder Tim Butler in the [LA Times](#), the law is likely to change how restaurants charge service fees.

Takeaways

To date, the efforts to curb "junk fees" generally have been carried out primarily by federal agencies, including the Consumer Financial Protection Bureau (CFPB) and the Federal Trade Commission (FTC), but states, like California, are also ramping up their efforts.

We have provided ongoing analysis and commentary on this issue as it has developed. See below more context on legislative and regulatory efforts to curb "junk fees":

- [Tim Butler Quoted in LA Times Article on California 'Junk Fees'](#)
- [California Bans Hidden Fees, Effective July 1, 2024](#)
- [CFPB Releases Report Highlighting Junk Fees on Mortgage Servicing](#)
- [CFPB Unveils Final Rule Banning 'Excessive' Credit Card Late Fees](#)

- CFPB Issues Proposed Rule to Stop ‘Junk Fees’ on Bank Accounts
- CFPB Issues Advisory Opinion on ‘Illegal Junk Fees’ By Large Financial Firms
- FTC Proposed Rule Targeting ‘Junk Fees’

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