INTERCHANGE WORKS:

Stop Proposals to Change How Pennsylvania Consumers do Business!

The existing interchange system provides a safe and reliable method for conveniently transacting business. OPPOSE proposal to prohibit interchange on sales tax!

Removing sales tax from interchange calculations would be a major interruption in a system that works well.

- 58 bills have been introduced (without success) over almost two decades to remove sales tax from the calculation of interchange fees on credit card transactions.
- Current systems do not have the capability to identify and remove the sales tax percentages from the total transaction cost for the different sales tax jurisdictions in Pennsylvania.
- Creating a system to uniquely account for the sales tax percentage of various jurisdictions in Pennsylvania will take years and increase the cost of operating an electronic payment point of sale terminal – a cost of doing business that retailers routinely pass along to consumers.
- Research shows 93% of consumers are happy with their credit and debit cards. These requirements put at risk customer benefits such as airline miles, cash back, and travel points.
- Consumers use cards because they are quick, convenient, and significantly reduce the opportunity for fraud as compared to cash or check transactions. These card benefits are all compromised with the proposed change to the card processing system – a change that would set Pennsylvania apart from every other state in the nation.

Why put Pennsylvania consumers at risk? There is NO benefit to the state in removing sales tax from the interchange fee calculation. For decades special interest groups advocating for increased profits to retailers have argued for this change that governments across the United States have repeatedly been denied.

How much will technological development and implementation cost and who will pay for it? The cost of implementation only in Pennsylvania is one of many unknowns, which is why the interchange discussion deserves more time and consideration. It's uncertain card processors can develop the necessary technology infrastructure to exempt sales tax from interchange fee calculations or how long it will take.

Before a requirement is mandated, careful consideration must be given to the enormous investment to develop and implement a novel technological infrastructure for Pennsylvania that will justify the additional costs for retailers, consumers, and card issuers.

What *is* certain is that Pennsylvania consumers will ultimately pick up the tab, as businesses seek to recoup the massive costs of research, development, and implementation.

Keep card transactions safe and convenient and OPPOSE prohibiting interchange on sales tax!

crossstate
Credit Union Association

PA Bankers
ASSOCIATION

PACB
Pennsylvania Association
of Community Bankers

AMERICAN EXPRESS

America's Credit Unions

AFSA
AMERICAN FINANCIAL SERVICES ASSOCIATION

AMERICAN TRANSACTION PROCESSORS COALITION
atpc

Capital One

CardCoalition

citi

DISCOVER

DCUC
DEFENSE CREDIT UNION COUNCIL

EPC
Electronic
Payments
Coalition

eta

JPMorganChase

PNC

USHCC
UNITED STATES HISPANIC CHAMBER OF COMMERCE

WELLS
FARGO

VISA

Electronic Payments Coalition

Expected legislation in the Pennsylvania State House announced in a co-sponsorship memorandum would prohibit the levying of any portion of the merchant discount fee, including interchange, on the sales tax portion of a credit or debit card transaction.

This proposal will increase operational burdens and administrative costs for Pennsylvania retailers

- When a retailer makes a sale using a customer's electronic payment card, the system that processes the transaction recognizes only the final purchase amount, on which the merchant discount fee is based.
- In order to realize the sales tax portion of each item purchased – noting that some items are not even subject to tax – retailers would be required to create and implement new systems and operational mechanisms to ensure compliance with the legislation. Implementing such systems and operations would impose significant burdens to retailers and increase their administrative costs.
- Because the card issuer bears the credit risk for the entire transaction, retailers may see their costs increase for the underlying transaction.
- Smaller businesses that require the lowest overhead costs would be burdened most. In turn, these added overhead costs would likely raise overall prices for consumers.

Pennsylvania consumers will be harmed

- The creation of new operational systems will result in higher fees for retailers, which will result in higher costs at the register – something for which the consumer ultimately will have to pay.
- Consumers will be required to pay for a separate transaction— one for the sale of the product or service and the other for the tax portion of the sale.
- A separate cash or check transaction for the tax portion of a sale will be a huge burden to consumers when paying for large ticket items, such as computers and electronics.
- The increased costs associated with the requirements imposed by the legislation would lead small businesses to reconsider accepting electronic payments, thus reducing payment options for consumers.

Pennsylvania will lose sales tax revenue

- Consumers frustrated with having to pay cash for sales taxes may shift their purchases to merchants outside the state.
- The state would lose an important audit trail to ensure that merchants are remitting the proper amount of sales tax owed.

What the real plan is

- This legislation is nothing more than an appeal for government price controls on the electronic payments industry, including community banks and credit unions.
- Some retailers are attempting to shift the debate by making it look like interchange is a fee that consumers pay.
- The reality is that interchange is a retailer's cost of doing business—the cost of accepting payment cards.

Why Pennsylvania lawmakers should reject this plan

- Retailers reap huge benefits from accepting payment cards, including more sales, less fraud, and faster payment.
- Retailers welcome the opportunity to offer consumers the convenience of electronic payments, but now they want to shift their business costs to bolster their profits.
- The fact is that some retail groups are trying to use the government to shift costs from one industry to another, and in the end the consumer will lose.

Electronic Payments Coalition

The Truth about Interchange and Card Acceptance

There are a lot of misconceptions about card acceptance, interchange fees, and the electronic payments system. It's important that legislators have the facts – straightforward and up front – in order to make the best decisions that will impact the people of Pennsylvania. Below, we take a look behind the curtain and reveal the truth behind some of the top myths about interchange fees and electronic payments.

Merchant Myth #1: Merchants can't negotiate their interchange fees.

FACT: Merchants can – and do – directly negotiate with the networks to lower their interchange costs through a variety of incentive arrangements, including deals in which the savings are rebated to the merchant. Some merchants prefer to handle the negotiation through their association or other group arrangement. Entire categories of merchants have obtained lower interchange rates based on their particular business needs.

> →For example, Visa and MasterCard capped interchange on gasoline sales and established lower interchange rates for categories of merchants such as grocery stores, utilities, and convenience purchases. Also, merchants routinely switch processors for a better package and price – and, therefore, have a much greater ability to negotiate card acceptance costs than they do for most other business services, such as electricity, postage, water, or trash collection.

Merchant Myth #2: Merchants can't offer a cash discount.

FACT: There is nothing prohibiting merchants from offering a cash discount. In fact, federal law allows merchants to offer cash discounts, and the card networks all make very clear in their rules that discounts for cash, checks, debit, or other credit cards are also allowed.

Merchant Myth #3: Merchants prefer all customers to pay with cash.

FACT: Merchants are increasingly moving away from cash and check acceptance because of the many benefits electronic payments offer over other forms of payment, including increased sales opportunities, higher profit, guaranteed payment and cash flow. Airlines, grocery stores[1], restaurants, and other industries have adopted this cashless model with success.

For instance, by accepting cards, the Salvation Army "cashless kettles" average donations went from $2 to around $15 when using credit or debit, a 650% increase. New York City cab drivers saw overall ridership and revenue increase and tips double over "pre-plastic" days.

Recent studies also show that many merchants prefer electronic payment over cash payment due to the high costs of handling cash. For instance, in 2017 alone, $96 billion was spent in the U.S. and Canada on cash-handling activities, greater than the annual GDP of Ukraine.[2] Simply closing out cash drawers cost $38.5 billion in 2017. The average cost of cash is 9.1% per transaction across all retail segments. In contrast, credit and debit cards cost approximately only 1% - 2.5% per transaction.[3]

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[1] *The News Observer.* "No Checks at the Checkout." October 20, 2011.

[2] IHL Group. 2018.

[3] Ibid.

Merchant Myth #4: Interchange fees are higher in U.S. than in any other country

FACT: The **total** amount merchants pay for the benefit of accepting credit or debit cards – the merchant discount fee – is, in fact, roughly the same in the U.S. and Europe. In some countries, the "interchange" portion of the merchant discount fee might be lower, but the total amount merchants pay still remains about the same. In some countries, these fees are lower than in the U.S. because the government has interfered with the market and imposed price controls on interchange. These countries consequently have less innovative debit systems – often relying on PIN debit, making online debit purchases impossible or at a merchant without a PIN pad.

Merchant Myth #5: The Durbin amendment impacted only large banks because small banks and credit unions are exempt from the fallout from these price controls on debit interchange fees.

FACT: The so-called "exemption" for small financial institutions does not work. In fact, studies have shown that credit unions have suffered erosion in their interchange revenues, as these smaller financial institutions were not exempted from the routing and exclusivity portions of the Durbin amendment – only the price caps. The cost of providing multiple networks falls most heavily on smaller institutions.

Electronic Payments Coalition

The Truth about Interchange Proposals

Retailer groups have made numerous erroneous claims about the proposal to prohibit the collection of interchange on the sales tax portion of electronic transactions. Such dissembling is especially unfortunate given the seriousness of the issue. It's essential for Pennsylvania lawmakers to separate fact from fiction to enact wise and beneficial public policy.

Merchant Myth #1: Similar proposals to prohibit interchange on the sales tax portion of electronic transactions have been implemented elsewhere by state governments.

> **FACT:** Nothing could be further from the truth. The fact is that no state has implemented such a proposal. Ever. In fact, literally *scores* of similar proposals have been considered in numerous states over the past 17 years. After careful consideration, *none* has successfully passed due to prohibitive operational hurdles, unjustified government interference in the market, predictable harmful unintended consequences, and the harm that would hit consumers and small businesses hardest.

Merchant Myth #2: Merchants lose money.

> **FACT:** As with any cost of business (for example electricity, payroll, etc.), the cost of electronic acceptance is already built into existing merchant pricing structure. And to put costs into perspective, assuming a sales tax rate of 6% and a processing fee of 2.5%, merchants pay only $0.0015 for every $1 in sales.
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> What's more, the average cost of cash is 9.1% per transaction across all retail segments. In contrast, credit and debit cards cost approximately only 1% - 2.5% per transaction.[1] Merchants are *saving* money when customer use credit or debit cards.
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> Finally, it's important to note that costs for acceptance are 100% tax deductible for merchants. And if Pennsylvania wishes to offer additional relief to merchants, it has the option to adjust the merchant compensation rate, joining numerous states that have done so.

Merchant Myth #3: Pennsylvania loses money.

> **FACT:** The fact is that electronic collection of sales tax is one of the most reliable ways to ensure full and timely remittance of sales tax collected by merchants. The third-party data created by electronic acceptance provides the taxing authorities with one of the most reliable and tamper-proof third-party audit trails imaginable.

Merchant Myth #4: Such a proposal would be easy to implement.

> **FACT:** The operational hurdles to implementing such a proposal are unimaginable. Furthermore, card networks and banks have no visibility into bifurcated transactions; i.e., how much of the total was cost of goods sold, sales tax, etc. They see only one final number, which is the total cost of the transaction. This lack of visibility also serves as an important consumer privacy protection.

Again, it's important to have accurate facts when making important public policy decisions. It's time to set the record straight on these important issues.

[1] IHL Group. 2018. IHL is a retail consultancy.

Expected Legislation Risks Exposing Private Consumer Spending

Say “NO” to harmful interchange legislation

Expected legislation announced in a Pennsylvania State House co-sponsorship memorandum would prohibit the collection of interchange on the sales tax portion of electronic transactions. These types of proposals claim to save merchants money but would disrupt the retail shopping experience in the state and may allow businesses and governments to track taxpayers’ personal spending habits.

Such legislation seeks to remove interchange fees from the sales tax portion of a transaction without considering the long-term cost, inefficiencies, and frustration its implementation would create.

The current payment system does not have the capability to implement this legislation. If it becomes law, **merchants will have two options for complying with the new rules:**

Option 1: Merchants collect sales tax as a separate transaction. This means every time people buy something in the state of Pennsylvania they will complete two transactions at the register – one using cash or check only.

- First, they pay for the items they’re buying, using any preferred payment method, including cards and mobile payments.
- Then they pay sales tax as a separate transaction – via cash or check.
  - What happens if a valued customer doesn’t have cash on hand to cover the sales tax? Does the merchant pay it for the customer? Does the state lose the money? Does the customer have to return the items they just bought?
- With the average cost of cash at 9.1%[1] across retail industries, many businesses will see an increase in their overall operating costs.
- At the gas station, sales tax could no longer be charged as part of the payment at the pump. Customers would have to go inside to pay sales tax – cash or check in hand – requiring around-the-clock, onsite staff.
  - This would dramatically change the customer experience at gas stations and increase costs for fuel merchants.
- No longer a line item on a larger receipt, the amount of sales tax Pennsylvanians pay every time they are out shopping will suddenly be under a microscope.

Speed and efficiency of sales are critical to merchants and consumers. Legislation that would double the time it takes at the checkout counter – or more, given the challenges with handling cash – will only slow down business, add operational costs, and frustrate consumers every time they make a purchase.

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[1] Cash Multipliers - How reducing the costs of cash handling can enable retail sales and profit growth - IHL Group (ihlservices.com) p. 10.

Option 2: Merchants send payment companies every detail of a person's shopping habits.

The global payment system is designed so that payment networks need very little of a consumer's personal information to process a payment. The newly announced legislation could fundamentally change that, requiring the tracking of every detail of a person's shopping habits: **where you shop, exactly what you buy, how often you buy it, how much you spend.**

Current PA Process for Paying Sales Tax	Under Announced Legislation
Today, the only information transmitted from merchants to payment companies is: • How a customer is paying • The total amount of the transaction	To calculate and refund sales tax expenses – which differ by county, city, and item – merchants would also need to send payment companies: • Name of store • Exact location of store • Exact items purchased • Price of each item

To comply with the law, payments companies would suddenly be able to tell if Pennsylvanians were buying healthy food, for example. Or how much alcohol they buy – and how often. How long until your health insurance company asks for this information? Or your employer?

Private companies should not be in the business of tracking the intimate details of where people shop and what they buy.

Such proposals relating to interchange are disconnected from the way our global payments ecosystem works. They require a bespoke statewide system that will be less efficient, more costly, and a disincentive for businesses to offer or expand services in Pennsylvania. They would require an entirely new and less efficient system for Pennsylvania and be more expensive for businesses in the state.

They would cost hundreds of millions, perhaps billions, of dollars to create a state-specific overhaul of a global payment ecosystem and would put Pennsylvania out of step with the rest of the country and the rest of the world.

EPC Electronic Payments Coalition

Electronic Payments Coalition

A Long Line of Rejected Legislation

Expected legislation announced in a Pennsylvania State House co-sponsorship memorandum unwisely proposes to prohibit the levying of interchange fees on any portion of a credit card or debit card sale representing any state or local taxes.

Following is a list of similar proposals that have been carefully considered in previous years in other states. Each proposal was uniformly rejected due to harm to consumers, loss of sales tax revenue, legal deficiencies, and operational hurdles.

2006
Kentucky HB 592
New York AB 11193

2007
Florida SB 1724
Kansas SB 348
New York AB 1020
Washington SB 5884
Washington SB 5885

2008
Kansas HB 2862
Louisiana HB 673
Louisiana SB 516
New Jersey SB 1138
New Jersey AB 2261
Rhode Island HB 7509

2009
Connecticut HB 6311
Massachusetts HB 1025
Nebraska LB 186
New Jersey SB 1138
New Jersey AB 2261
North Carolina HB 1576

2010
New Jersey SB 1631

2011
New Jersey SB 1631

2012
Iowa HSB 666
New Jersey SB 944

2013
Arkansas SB 607
New Jersey B 944

2014
Nebraska LB 991

2015
Arkansas HB 1775
Colorado HB15-1154

2016
Minnesota HF 302

2017
Nebraska LB 559

2018
New Jersey SB 2577

2019
New Jersey SB 2577

2020
Tennessee HB 2500

2021
Alabama SB 316
Illinois SB 2083
Indiana HB 1493
Iowa HF 627
Maine LD 1544
Mississippi HB 1076
Mississippi SB 2856
Oklahoma HB 2181
Oklahoma SB 798
Tennessee HB 375
Tennessee SB 880
Wisconsin SB 572

2022
Idaho SB 1293
Mississippi HB 1428
Mississippi SB 2742
Virginia HB 152

2023
Alabama SB 125
Florida SB 564
Florida HB677
Georgia SB 126
Idaho SB 1066
North Dakota SB 2217
Tennessee SB 132
Tennessee HB 615
Texas SB 1541
Texas HB 3395