



Date: June 5, 2024

To: Members of the Pennsylvania House Finance Committee

From: PA Bankers Association
PA Association of Community Bankers
CrossState Credit Union Association

Subject: Oppose Excluding Swipe Fees on Sales Tax

Dear House Finance Committee Members:

We urge you to oppose legislation that would prohibit interchange fee/swipe fees on the sales, use and excise tax (sales tax) portion of a transaction when a retailer chooses to accept a debit/credit card for payment.

This proposal, discussed in a December hearing and being prepared for introduction, essentially seeks to allow retailers to use the electronic payment card network to provide services (collection of taxes) free of charge. Implementation of such a proposal would harm small business, raise serious privacy concerns for consumers, and threaten the dynamic electronic payment system.

This legislation transfers an already tax-deductible cost of doing business from retailers to financial institutions, and ultimately consumers.

Because of consumer demand, merchants are moving away from cash and checks, adopting cashless models, like credit and debit cards, or mobile payments — with great success. Small businesses rely on credit and debit cards for the ease, security and benefits they offer, and for the instant, guaranteed payments they receive. Consumers like the convenience and peace of mind that come with using their credit card, plus the frequent flyer miles, loyalty points, cash back rewards and other incentives that credit card companies offer.

Currently, when a retailer makes a sale, the system recognizes only the final purchase amount on which interchange fees are based. The payment is completed without transmitting information regarding the product sold nor the amount of sales tax collected. Interchange fees, which average about 1.8% and has been flat for nearly a decade, covers essential card servicing expenses like fraud prevention and protection, card statements, card issuance, customer service, credit monitoring, and the rewards and incentives that families and mom-and-pop businesses use to help make ends meet or grow their businesses.

Now, the nation's largest corporate mega-stores and retailers want to change the way we do business in Pennsylvania. Proposals to exclude interchange fees on the sales tax portion of transactions have been consistently rejected in state legislatures nationwide due to the significant threats they pose to the electronic payment system, recognizing the costly impact it would have on small businesses and the inconvenience and privacy concerns it would impose on consumers. Pennsylvania should stand with the other states that have refused such a change.

If these fee changes are enacted in Pennsylvania, it could force merchants to process sales tax as a separate transaction, inconveniently requiring consumers to pay sales tax with cash or check. Despite retailer group false claims to the contrary; neither the software nor POS hardware exists to safely and efficiently separate out sales tax from the underlying costs of goods or services sold.

Additionally, merchants would send payment companies additional information about a person's shopping habits, creating an enormous consumer privacy issue. The current system is designed so that payment networks see very little of a consumer's personal information to process a payment. This proposal would fundamentally change that, exposing consumer's private purchases through both intentional sharing — and worse — accidental exposure of sensitive consumer data through increasingly common data breaches. That's hardly consumer protection!

Should this proposal be enacted, both merchants and consumers would be negatively impacted. Merchants would need new, yet-to-be developed, specialized terminals and software to itemize and communicate segmented data to the card networks at the time of sale. This would especially burden small businesses that do not have sufficient volume to offset the costs of any new system, while the largest corporate mega-stores stand to pocket billions in savings.

Furthermore, this proposal would disrupt a nationwide system designed for interoperability nationwide, at tremendous cost for one state to solely benefit mega-stores that stand to profit handsomely from the change.

Government intervention in our payments systems undermines how electronic payments serve and protect consumers while also disrupting a complex ecosystem crucial for the economy to operate and thrive. We urge you once again to support small businesses and safeguard consumers by opposing changes to the interchange system and avoiding credit card chaos in Pennsylvania.