

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.

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
<p>Today, the only information transmitted from merchants to payment companies is:</p> <ul style="list-style-type: none">• How a customer is paying• The total amount of the transaction	<p>To calculate and refund sales tax expenses – which differ by county, city, and item – merchants would also need to send payment companies:</p> <ul style="list-style-type: none">• 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.