

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.