



Date: June 17, 2024

To: Members of the Pennsylvania House of Representatives

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

Subject: Oppose HB 2394 – Exclusion of interchange on sales tax portion of electronic payments

Dear House Member:

We strongly urge you to oppose HB 2394, which prohibits interchange fees on the sales tax portion of credit and debit card transactions and would require separating sales tax from the total transaction amount for electronic payments. This significant change in transaction processing poses substantial challenges for small businesses, consumers, and financial institutions and has been implemented in no other jurisdiction in the world.

Merchants are increasingly and successfully shifting from cash and checks to cashless payment methods like credit, debit cards and mobile transactions. Small businesses particularly rely on credit and debit transactions for their simplicity, security, and immediate, guaranteed payments. Consumers also benefit from the ease and assurance of using credit cards along with perks like airline miles, loyalty points, cash back offers, and other incentives offered by credit card companies.

Interchange fees (which are one element of the merchant discount), averaging 1.8% and stable for the last decade, cover essential card services like fraud prevention and protection, card statements, card issuance, customer service, credit monitoring, and the rewards that benefit both consumers and main street businesses. Merchants can negotiate lower merchant discount costs with their processors, that can include options for rebates and group arrangements. Entire categories of merchants have obtained lower merchant discount rates based on their business needs.

HB 2394 will likely force merchants to process sales tax as a separate transaction, allowing the nation's largest corporate mega-stores and retailers to change the way we do business in Pennsylvania. Currently, when a retailer makes a sale, the electronic payment system recognizes only the final purchase amount on which interchange fees are based. Payments are processed requiring minimal personal information from consumers, and without transmitting details about the sold product or the amount of collected sales tax.

Because of audit requirements HB 2394 will require card networks and financial institutions to obtain more detailed information about a consumer's purchasing behavior. This will result in the collection and sharing of private purchase data, increasing the risk of accidental disclosure of sensitive consumer information. Contrary to its intended purpose, this legislation does not adequately protect consumers and instead jeopardizes their privacy.

In addition, electronic payment processors would need to create specialized terminals and software to itemize and communicate segmented data through the card networks to the issuing financial institution at the time of sale. This would especially burden small businesses which lack the necessary resources and sufficient transaction volume to offset the costs of investing in new systems, nor the time to request refunds for interchange fees. A new operational system will likely require consumers to pay in separate transactions for the sale of the product or service and the sales tax. An additional, separate cash or check transaction for the taxable amount will be a huge burden to consumers when paying for large ticket items or frequenting cashless venues.

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 to support small businesses and safeguard consumers by opposing changes to the interchange system. Please vote against HB 2394 to prevent credit card chaos in Pennsylvania.