



Monday, March 23, 2026

Members of the Iowa General Assembly,

I write to respectfully urge you to oppose House Study Bill 324, which would prohibit payment card networks from applying interchange fees to the sales tax portion of electronic transactions.

I offer this perspective both in my role with the National Taxpayers Union and as a small business owner who relies on reliable, seamless payment systems every day. While concerns about rising costs are understandable, HSB 324 creates more problems than it solves.

Supporters of the bill frame it as relief for merchants. In reality, it imposes a government mandate on private payment networks and injects unnecessary regulation into a system that currently works well. Payment systems are designed to process transactions as a single, secure exchange. Forcing the separation of the sales tax portion adds complexity to the process and creates operational burdens for businesses and financial institutions alike.

That complexity will not be absorbed evenly. Large national retailers may be able to adapt to new system requirements, but small businesses will face real costs. Point-of-sale systems, payment processors, and accounting software would all need to be updated to comply with the mandate. For many local businesses, that means new expenses, vendor changes, and operational disruptions that cut directly into already thin margins.

It is also important to recognize that the interchange fee is not arbitrary. It supports the infrastructure that enables modern payments, including fraud protection, cybersecurity, and transaction processing systems. It also helps fund credit card rewards programs, which many small business owners rely on to manage expenses, purchase inventory, and maintain cash flow. Reducing interchange revenue risks weakens these benefits or eliminates them altogether.

There is also no such thing as a “free” transaction. Restricting interchange on one portion of a purchase does not eliminate costs; it merely shifts them. Financial institutions and payment networks will adjust pricing elsewhere, likely through higher fees, reduced rewards, or tighter access to credit. In practice, that means consumers and small businesses will bear the cost.

HSB 324 would also introduce significant operational challenges for payment networks. Current systems are not designed to isolate sales tax in real time across all transactions. Requiring that

capability would necessitate costly software system overhauls, further increasing costs that will ultimately be passed on to consumers.

At its core, HSB 324 represents government interference in a competitive, private payments market. Conservatives have long supported policies that allow markets to function without government dictating how private systems must operate. Establishing a precedent for state-level price controls on electronic payments opens the door to broader regulatory overreach.

Iowa has long benefited from a stable, free-market approach to economic policy. HSB 324 moves in the opposite direction by introducing unneeded complexity, shifting costs, and risking unintended harm to small businesses and consumers.

For these reasons, I respectfully urge you to oppose HSB 324.

Thank you for your time and consideration.

Sincerely,

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