



Statement in Opposition to HSB 324 Relating To Interchange Fees

April 9, 2025

Dear Chair Lundgren and Iowa House Ways & Means Subcommittee Members:

This letter is filed on behalf of the Card Coalition, the national trade association representing the payment card industry.¹ We appreciate the opportunity to share our views on the impact HSB 324 would have on payment card processing, consumers, and our retail partners in Iowa. As drafted, HSB 324 prohibits the collection of interchange on the sales tax portion of electronic transactions. We urge you not to move this bill forward.

In recent years, several states have considered legislation exempting sales and use taxes from interchange fee calculations. After considering the issue—with the exception of Illinois—all other states chose to reject these ill-conceived proposals.²

In 2024, Illinois enacted IL HB 4951, “the Illinois Interchange Prohibition Act,” now mired in litigation. The new law was challenged by a diverse group of bank and credit union associations with the support of the Office of the Comptroller of the Currency (the federal regulator of national banks), which filed an *Amicus* brief supporting the plaintiffs.

On December 20, 2024, a U.S. District Court ruling paused the implementation of the Illinois law for national banks and federal savings associations. On December 20, 2024, the Court determined that national banks and federal savings associations are legally exempt from the Act. The Court ordered additional briefs to determine whether federal credit unions and state-chartered banks are also exempt.

¹ The Card Coalition identifies, tracks and responds to state legislative and regulatory activities relating to the payment card industry to assist public officials in crafting sound policy on matters impacting payment card operations, consumer protection and other issues of concern. We are the only national organization devoted solely to the payment card industry and related legislative and regulatory activities in all 50 states. For more information, please visit www.cardcoalition.org.

² When a merchant accepts a card for payment, they pay a “merchant discount fee,” typically 2 – 2.5% of the transaction amount. One component, the “interchange fee,” is simply that portion of this fee received by the bank or credit union that issued the customer’s card. These fees typically average 1.75% of payment card transactions. Merchants pay this to access the global electronic payments network and gain opportunities for increased revenue and guaranteed payment provided by payment card acceptance.

Following Illinois by enacting HSB 324 could result in a two-tiered system where card issuers chartered in Iowa will be subject to the bill while their out-of-state national bank competitors are unscathed.

As in Illinois, those remaining subject to HSB 324 will face a daunting task. While some proponents argue compliance would require “a few lines of code,” the necessary infrastructure to exempt sales and use taxes from interchange fee calculation does not exist and would have to be created at a high cost to merchants, processors, networks, and financial institutions alike. The high cost would disproportionately fall on small merchants.

Electronic Payment Process in a Nutshell.

To more fully understand the bill’s implications, it is essential to know the behind-the-scenes steps in a typical three-party payment card transaction. When a consumer proffers a payment card at a retailer to make a purchase, the transaction follows a specific transaction flow.

Upon the card tap or swipe at the point-of-sale terminal, the data will be accessed by the merchant’s third-party payments processor, routed by the processor to the payment network (such as Visa, MasterCard, STAR, etc.), and to the financial institution that issued the consumer’s card (the card-issuing financial institution). This initial step in the payment process is called authorization. If the authorization request meets the card issuer’s requirements, a reply is returned to the merchant indicating that the request has been approved. If the authorization request does not meet the card issuer’s requirements, the merchant is informed that the requested transaction has been denied.

If the transaction is approved, the next step is “clearing.” In this phase, the payments processor obtains basic transaction data from the merchant, such as the amount, date, and merchant ID number, and sends the information to the card issuer.

The final step is the “settlement” process, in which funds are received in aggregate from the card issuer for all approved transactions occurring at merchants that received that card issuer’s cards for payments. Funds are then transmitted to the merchant to reimburse the merchant for the goods or services purchased.

Operational Challenges Excluding Sales Tax.

Compliance with HSB 324 would require payment processors to identify the taxable amount for each debit or credit card transaction and then exclude the sales tax. While sounding simple, in reality, this would require the wholesale creation of a payment regime unique to Iowa.

Payment processors and payment networks send and receive authorization messages as single units of code, typically routing only the card number and the total transaction amount (basically, only the necessary information required to authorize the transaction).

Because neither payment processors nor payment networks see details about the goods purchased, they cannot identify the appropriate sales tax that should be applied to the transaction.

To elaborate, when a customer purchases a product or service at the point-of-sale, the merchant's cash register software scans the purchased items and computes the local and state sales taxes that are applicable. If the customer elects to use a payment card for the purchase, the total sales amount is sent from the cash register system to a separate point-of-sale device, known as the point-of-sale terminal, which accepts the payment card.

Payment processors and payment networks only transmit the data received from the point-of-sale terminal, *i.e.*, the total transaction amount and select data obtained from an embedded chip or the magnetic stripe on the back of the payment card that is swiped. Neither processors nor networks delineate between goods and services purchased at the point-of-sale.

To process thousands of payments per second quickly, safely, and efficiently, it is critical to capture only the absolute minimum amount of data necessary to authorize, clear, and settle the transaction. For example, if the transaction was completed at a grocery store, the dollar amount that would be routed from the point-of-sale terminal through the payments chain would not indicate food items versus cosmetics, nor any individual purchased item, nor the amount of a sales tax. Payment processors and payment networks only see an aggregate number for the total amount of the transaction.

To accomplish the intent of HSB 324, significant programming changes would be required by merchants, processors, payment networks, and card issuers. Changes would be necessitated to capture data at the point-of-sale regarding the sale itself, including the detail of the item(s) purchased, prices, coupons applied, terms of delivery, purchaser's tax status, *etc.*, to apply sales tax and report and remit accurately.

The enormity of these programming changes is further underscored by the fact that all of the systems linked in the payments chain must be interoperable. Thus, changes must be coded, implemented and tested at retailers' point-of-sale terminals, payment processors, payment networks and card issuing financial institutions.

Changing the entire payment ecosystem will impact consumers and merchants alike.

Many retailers—especially small businesses—will need to purchase or lease new point-of-sale terminals. Along with the damage to small merchants, changing the payment system to accommodate one state will place a disproportionate burden on small banks and credit unions, which suffer most from increased compliance costs when new regulatory requirements are imposed.

Additionally, a financial institution would bear the credit risk for the entire transaction, including the tax portion. At the same time, merchants at the point-of-sale will need specialized terminals and software to itemize and communicate segmented data, or consumers could face paying two separate transactions per sale—one for the product or service and another for the tax portion—thereby slowing checkout.

Payment card networks are highly specialized and operate under national processing rules to facilitate almost instantaneous acceptance. These are based on universal acceptance, guarantee, and payment settlement, regardless of transaction type. To change this for solely one state and establishing a precedent of designating that certain types of payments must be handled uniquely will increase costs to the financial institution and consumer and has the potential to extend to other types of transactions beyond sales tax.

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For those reasons, we urge you to not to move HSB 324 forward. Thank you for the opportunity to present our views.

Sincerely,



Toni A. Bellissimo
Executive Director