



## **Don't disrupt Iowa's payments system: Please hold HSB 324 relating to interchange & sales tax**

March 5, 2026

*Dear Chair Lundgren and Representatives Gjerde, and Willis:*

The Card Coalition, the national trade association representing the payment card industry, wishes to express our opposition to HSB 324.<sup>1</sup> We appreciate the opportunity to share our views on the detrimental impact HSB 324 would have on payment card processing, consumers, and our retail partners in Iowa.

HSB 324 prohibits the collection of interchange on the sales tax portion of electronic transactions. Several states have considered and rejected similar ill-conceived proposals.<sup>2</sup>

The infrastructure to exempt sales and use taxes from the interchange fee does not exist and contrary to the claims of proponents cannot be realized with “a few lines of code”. Creating the payments infrastructure would come at a high cost to merchants, processors, networks, and financial institutions alike, the impact of which would disproportionately fall on small merchants in Iowa.

### ***Local banks and credit unions may be negatively impacted***

Illinois, the only state to have enacted this measure, is mired in what is likely to be protracted litigation in the federal Seventh Circuit Court of Appeals. Passed in 2024, the Illinois law was immediately challenged by a diverse group of bank and credit union trade associations with the Office of the Comptroller of the Currency (the federal regulator of national banks) filing an *Amicus* brief in support of the plaintiffs. Early rulings from the U.S District Court determined national banks and federal savings

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<sup>1</sup> 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](http://www.cardcoalition.org)

<sup>2</sup> 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.

associations are entitled to federal preemption, leaving state-chartered institutions in the law's crosshairs. Stating "*This is a close case*"—the Judge then held federal preemption did not apply resulting in the plaintiffs' announcing an appeal to the Seventh Circuit.

Enacting HSB 324 during the uncertainty of litigation may likewise leave Iowa state-chartered institutions on the hook for the onerous impacts of the bill while their out-of-state national bank competitors may likely to be found legally out of scope.

### ***Excluding sales tax poses major operational challenges***

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.

The Judge in the Illinois litigation put it this way: "*There is no doubt that the IFPA presents complicated compliance challenges... preparing for the deadline is extraordinarily expensive... And... Compliance could theoretically be possible, but might take months if not years to achieve, be extraordinarily expensive, and require system-wide modifications.*"

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. 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, computes and applies the local and state sales taxes. For an electronic 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.

HSB 324 would require significant programming changes by merchants, processors, payment networks, and card issuers to capture and report point-of-sale data needed to

implement the bill's requirements. The details of the item(s) purchased, prices, coupons applied, terms of delivery, purchaser's tax status, etc., would be required to allow processors, payment networks, and card issuers to ensure sales tax was applied and remitted accurately.

The enormity of these programming changes must be viewed through the lens that all the systems linked in the payments chain must be interoperable. Thus, changes must be coded, implemented and compatibility tested at retailers' point-of-sale terminals, payment processors, payment networks and the 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 to meet the technological requirements of this bill. Further, changing the payment system to accommodate a single state would place a disproportionate burden on the small banks and credit unions operating within the state.

Consumers are not without significant adverse impact. Consumers could face paying two separate transactions per sale—one for the product or service and another for the tax portion. Further, transaction reconciliation between merchants, processors, payment networks, and card issuers will lead to the capture and communication of consumer data that does not currently exist—eroding consumer privacy in transactions accomplished by electronic means.

Financial institutions bear the credit risk for the entire transaction, including the tax portion. Payment card networks are highly specialized and operate under national processing rules to facilitate near instantaneous acceptance. Establishing a precedent of handling transactions uniquely by state or type of transaction should be resisted.

For these reasons, we urge you to suspend further action on HSB 324.

Sincerely,



Toni A. Bellissimo  
Executive Director