



House of Representatives
Study Committee on Credit Card Fees on State Sales and
Excise Tax and Their Impact on Georgia Merchants and
Consumers

Final Report

Chairman Will Wade
Representative, 9th District

The Honorable Terry Cummings
Representative, 39th District

The Honorable Todd Jones
Representative, 25th District

The Honorable Noel Williams
Representative, 148th District

Mr. Wayne Akins

Mr. Kevin Carroll

Ms. Laura Lanier

Ms. Gina McCollum

Dr. Joe Ruhland

Mr. Chandra Yadav

January 2025

Prepared by the House Budget and Research Office

Introduction

With the passage of House Resolution 1135, the Georgia House of Representatives created the House Study Committee on Credit Card Fees on State Sales and Excise Tax and Their Impact on Georgia Merchants and Consumers. The committee is charged with evaluating the effects of transaction fees on Georgia's merchants and consumers, as well as examining the application of the state sales tax on the transaction process.

On June 26, 2024, Speaker of the House Jon Burns appointed four members of the House of Representatives and six non-legislative members to serve on the Committee. Representative Will Wade (9th District) was appointed to be the chairman of the Committee, and Representative Terry Cummings (39th District), Representative Todd Jones (25th District), and Representative Noel Williams (148th District) were appointed as members. The following non-legislative members were appointed: Wayne Akins, Kevin Carroll, Laura Lanier, Gina McCollum, Joe Ruhland, and Chandra Yadav.

Committee Meetings

The committee held the following two meetings at the Georgia State Capitol in Atlanta, Georgia:

First Meeting

Date: August 28, 2024

Location: State Capitol, Atlanta, Georgia

Participants:

- Julian Morris, Senior Scholar, International Center for Law and Economics
- Bill Sheedy, Senior Advisor, Visa
- Kelsey Finn, Director of Tax Policy, Georgia Department of Revenue

Second Meeting

Date: October 15, 2024

Location: State Capitol, Atlanta, Georgia

Participants:

- Ken Odum, Vice President of Payment Acceptance, Fiserv
- Deron Hicks, Senior Vice President of Government Relations, Global Payments
- Tripp Cofield, President and CEO, Georgia Bankers Association
- Lori Godfrey, Chief Operating Officer, Community Bankers Association of Georgia
- Sydney Seral, Chief Advocacy Officer, Georgia Credit Union League
- Doug Kantor, General Counsel, National Association of Convenience Stores
- Scott Bierman, Vice President of Government Affairs, Georgia Restaurant Association
- Ben Cowart, Vice President of Government Affairs, Georgia Retailers
- Hunter Loggins, State Director, National Federation of Independent Business

Background Information and Committee Findings

Transaction Fees

The two primary fees collected in a standard transaction are a swipe fee and a processor fee. Swipe fees contain two components: an interchange fee and a network, or assessment, fee. The issuing bank and card network receive the proceeds from the interchange fee while payment processors receive processor fees. The amount assessed for swipe fees can vary depending on a number of factors, including the card networks and the type of rewards for a card.

For a standard transaction, a consumer pays the purchase price of an item plus sales tax to a merchant. The transaction information is sent to the acquiring bank, which in turn sends the information to the issuing bank via the card network. The transaction is either authorized or declined by the issuing bank and ultimately settled with the card network debiting the issuing bank and disbursing the funds, minus interchange fees, to the acquiring bank. The merchant receives the purchase price of the item minus the swipe fees. Table 1 provides a basic example of the collection and distribution of funds during a transaction.¹²

TRANSACTION BREAKDOWN EXAMPLE	
<ul style="list-style-type: none">Transaction Amount: \$100.00Fees:<ol style="list-style-type: none">Swipe Fee (Interchange Fee + Network Fee): 2% + \$0.10Processor Fee: Varies, but we'll include it as a flat \$0.10 per transactionCalculating Fees<ol style="list-style-type: none">Percentage Fee: 2% of \$100.00 = \$2.00Payment Processor Fee: \$0.10Total Swipe Fee: \$2.00 + \$0.10 = \$2.10Amount Received by Merchant<ul style="list-style-type: none">Total Fees: \$2.10 (Swipe Fee) + \$0.10 (Processor Fee) = \$2.20Amount Received by Merchant: \$100.00 - \$2.20 = \$97.80	<p>In this \$100 transaction:</p> <ul style="list-style-type: none">Cardholder: Pays \$100.00.Merchant: Receives \$97.80 after fees.Issuing Bank (part of Swipe Fee): Receives a portion of the \$2.10 from the swipe fee.Card Network (part of Swipe Fee): Receives a portion of the \$2.10 from the swipe fee.Payment Processor: Receives \$0.10 as the processor fee.

Table 1: "Swipe Fees and Administration". Slide 8. Finn, Kelsey. Georgia Department of Revenue. August 28, 2024.

Beyond compensation for all entities involved in the transaction process, swipe fees, specifically interchange fees, fund some of the following: incentives offered by issuing banks; maintenance and improvements, including advances in fraud prevention and card technology; and the cost of issuing and replacing cards.³

¹ "Swipe Fees and Administration". Finn, Kelsey. Georgia Department of Revenue. August 28, 2024.

² "Interchange Overview". Sheedy, Bill. Visa. August 28, 2024.

³ "Interchange 101". Morris, Julian. International Center for Law and Economics. August 28, 2024.

The Application of Swipe Fees on Sales Tax

Currently, swipe fees are calculated using a total that includes the transaction amount as well as sales tax. In doing so, the amount a merchant receives at the end of a transaction is the transaction amount minus a swipe fee that has been applied to both the transaction amount and the related sales tax. Using the example provided by the Georgia Department of Revenue in Table 1, a merchant would pay an interchange fee of \$2.20 on the initial transaction amount of \$100, as well as an additional \$0.14 on the \$7 of sales tax. The amount the merchant would receive is the \$100 from the initial transaction amount less \$2.34, which was calculated using a total of \$107.⁴

Vendor's Compensation

Per O.C.G.A. 48-8-50, vendors may retain a certain amount of collected sales tax, known as Vendor's Compensation, provided the vendor meets all filing and remittance requirements. Currently, the rate is set to 3% of the first \$3,000 of sales and use tax collected and 0.5% on any amount collected over \$3,000.

According to the FY 2025 Georgia Tax Expenditure Report, vendors retained approximately \$107 million in FY 2024 and are projected to retain \$111 million in FY 2025.⁵

Fraud

According to the Federal Trade Commission's 2023 Consumer Sentinel Network, which collected over 5.4 million consumer complaints related to fraud and consumer protection, Georgia ranks highest in the nation for per capita identify theft reports, of which 44% were credit card-related thefts.

The Federal Reserve released "2021 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions" in October 2023, which analyzed, among other things, debit transaction fraud. Though it did not take into account credit card transaction fraud, it found the losses borne by entity from fraud related to debit card transactions has shifted in the 10-year period. From 2011 to 2021, the share of fraud losses incurred by cardholders rose from 1.8% to 19.5% and by 38.4% to 47% for merchants; for the same time period, the losses absorbed by issuers fell from 59.8% to 33.5%.

⁴ "Swipe Fees and Administration". Slide 8. Finn, Kelsey. Georgia Department of Revenue. August 28, 2024.

⁵ "Georgia Tax Expenditure Report for FY 2025". Fiscal Research Center of the Andrew Young School of Policy Studies – Georgia State University. December 2023. <https://opb.georgia.gov/document/tax-expenditure-reports/fy-2025-tax-expenditure-report-0/download>.

Committee Recommendations

In light of the testimony provided, the committee, with 7 in approval and 3 in opposition, offer the following recommendations:

1. **Increase Georgia's Vendor's Compensation rate.** The General Assembly should consider legislation that increases the Vendor's Compensation rate from 3% of the first \$3,000 collected to 3% of the first \$10,000 collected beginning on January 1, 2026. Starting on the same date, the rate assessed to any amount over \$10,000 should be 0.5% and increase a quarter percentage annually until reaching 1.5% on January 1, 2030.
2. **Study how any changes made to the card transaction process and related fees impact state revenues.** The General Assembly should identify and consider the state revenue impact imposed by any proposed legislation that makes changes to the card transaction process and related fees, including, but not limited to, changes to the Vendor's Compensation rate and swipe fees.
3. **Study and implement best practices to prevent card transaction fraud.** As fraud surges nationally, with Georgia appearing particularly susceptible, it should be noted that the losses related to fraud are increasingly shouldered by Georgia consumers and merchants, as well as financial institutions. The General Assembly, in collaboration with law enforcement and industry experts, should study and encourage the adoption of policies and best practices related to the prevention of transaction fraud to better protect Georgia's customers and businesses.

Mr. Speaker, these are the findings and recommendations of the Study Committee on Credit Card Fees on State Sales and Excise Tax and Their Impact on Georgia Merchants and Consumers.

Respectfully submitted,

**The Honorable Will Wade
Representative, 9th District
Chairman**

Prepared By:
David Hartman
Senior Budget and Policy Analyst
House Budget and Research Office