SB 126 by Sen. Billy Hickman (R-Statesboro), the "Consumer Inflation Reduction and Tax Fairness Act"

What does the bill do?

- Prohibits a payment card network, such as Visa, MasterCard, Discover, and American Express, from assessing an interchange fee on the sales, use or excise tax portion of a transaction.

What are the penalties for non-compliance?

- $1,000 per violation, plus a refund of interchange fee charges on the tax portion of the transaction.

How does the bill address future network price increases?

- It invites litigation alleging any increase in interchange fees is intended to circumvent the provisions of the Act even though the price increases could be for unrelated reasons such as to cover higher network operating costs or increasing fraud losses. As written, the bill essentially fixes prices at today's levels.

What is interchange?

- Interchange (or swipe) fees are charged to merchants by card networks for every credit or debit card transaction to cover the merchants' fair share of the costs to run the complex network that allows consumers and businesses to use cards universally. The fees are the price for the service of making the transactions possible.
- Card companies (Visa, Mastercard, Discover, and American Express) set, collect and distribute interchange fees
- Fees vary by card network and by the type of transaction. The typical interchange rate is 1.7% - 2% for credit cards and 0.5% for debit cards.
- In general, the level of fraud risk is what determines the interchange fee. Transactions with a higher risk of fraud have higher interchange rates.
- Fees collected are distributed among a number of parties – the local bank or credit union that issued the card, the merchant's local bank, and the card networks (a significant Georgia industry processing 7 of 10 transactions in the world).

What's behind the bill?

- Merchants collect and remit sales, use and excise taxes on applicable transactions to the State of Georgia
- Their position is that they do not benefit from the tax portion of a transaction as that money goes to the State
- Therefore, their contention is that they should not have to pay an interchange fee to the card networks on the tax portion of each transaction.

Aren't retailers paid to collect sales, use and excise taxes?

- Yes, retailers retain 3% of the first $3,000 of taxes collected, and 0.5% of any amount collected over $3,000, before remitting the tax to the State monthly as vendor compensation for their services.
- The retailers are saying that doesn't cover their costs.

Why shouldn't the card networks cover that cost?

- Just like the merchants are being paid to collect and remit taxes, the card network participants (banks, credit unions, transaction processors, and the card companies) are being paid through interchange fees for services rendered – issuing cards to consumers and businesses, keeping the network working, and servicing the merchant's account.
- Significant benefit to retailers are the issuing bank or credit union guarantees the payment to the retailer and absorbs most fraud losses
- Money should not be taken from these private sector businesses comprising the complex transaction processing system and simply given to retailers to boost their income supposedly to cover costs the State isn't covering.

So, what does interchange have to do with retailers collecting taxes for the state anyway?

- Nothing. The retailers are simply looking for a way to pay less to access the payment processing system to increase their bottom lines.

What's an alternative approach to help the retailers without putting the Legislature in the position of choosing between two important constituencies?

- Revisit the vendor compensation percentage.