



Date: June 25, 2024

To: Members of the Pennsylvania Legislature

From: National Taxpayers Union

Re: Oppose HB 2394

On behalf of the National Taxpayers Union (NTU), the nation's oldest taxpayer advocacy organization, we strongly oppose HB 2394, a bill prohibiting financial institutions from charging interchange fees on Pennsylvania's sales tax portion of credit card and debit card transactions. While we acknowledge the well-meaning intent of this legislative effort to lower costs for businesses, its implementation would not serve the best interests of Pennsylvania business owners and consumers.

The bill aims to control costs by capping swipe fees through regulatory measures and arbitrary price controls. While the goal of making purchases more affordable during current inflationary pressures is commendable, such an approach may not effectively address these concerns and could lead to unintended consequences.

Interchange fees, determined by payment networks, are crucial to the broader financial ecosystem. Disrupting these fees could destabilize market dynamics, particularly since transaction systems typically recognize the total purchase amount without excluding components such as sales tax.

Moreover, state-level caps could introduce a complex regulatory landscape, posing business challenges and potentially resulting in inefficiencies.

While capping fees might initially appear beneficial by lowering merchant costs and thereby theoretically reducing prices for consumers, it could also diminish consumer benefits and options available on the market. For instance, scaling back credit card rewards programs could reduce consumers' incentives to use these payment methods.

It's crucial to note that interchange fees account for many critical benefits to both users of credit cards and business owners, like fraud prevention efforts, that ensure that consumers are protected from charges identity theft criminals put on their cards. Simply put, these safety measures cost money. Payment networks rely on interchange fees to fund further innovation and security enhancements that keep up with an ever-evolving digital

landscape. Capping these fees might constrain resources for developing new technologies and improving security measures, posing long-term risks to consumers and businesses.

Furthermore, such regulatory measures strain relationships between merchants and payment networks, potentially leading to reduced acceptance of specific payment methods or increased costs for other financial services.

The proposed legislation directly interferes with the free market by prohibiting credit card companies from charging fees on the sales tax portion of transactions – a form of government-imposed price control. While there may be legitimate reasons to regulate interchange fees to protect consumers and ensure fair competition, it is crucial for states to carefully weigh the broader implications and collaborate with federal regulators and industry stakeholders to achieve balanced outcomes. Lawmakers truly concerned about the cost of processing fees on a sales tax on affordability for businesses and consumers should consider finding ways to lower that tax instead of regulating how citizens pay for goods and their corresponding taxes.

We urge you to oppose this legislation and stand with Pennsylvania business owners and consumers. Thank you for considering NTU's perspective on this matter. Should you have any questions, please do not hesitate to contact our team.

Sincerely,

Jessica Ward
Senior Director of State Affairs
National Taxpayers Union