



THE MARYLAND HOUSE OF DELEGATES ANNAPOLIS, MARYLAND 21401

Testimony in Support of HB29 Electronic Payment Transactions - Interchange Fees - Calculation and Use of Data

January 21, 2025

Good Afternoon Chair Wilson, Vice-Chair Crosby and Esteemed Members of the Economic Matters Committee:

Today, I present a bill that I believe will capture attention. While last session might have been known for fee increases, this bill seeks to chart a different course—it introduces a fee *decrease*.

The issue at hand revolves around interchange fees, commonly referred to as "swipe fees." These are the charges imposed whenever a credit card is used for a transaction, affecting both businesses and consumers. For credit card companies and banks, it is big business. In 2023 alone, swipe fee revenues reached a staggering \$135.75 billion. I have added a link to a CSPAN clip from a recent U.S. Senate hearing on fees and profit margins: [Sen. Josh Hawley to Visa & Mastercard: "This is classic monopolistic behavior." | C-SPAN.org](#) from Visa and Mastercard in my written testimony for your viewing.

My bill, quite simply, proposes to eliminate swipe fees on *sales tax* and *tips*. It may sound straightforward, but this idea has stirred significant debate. During the holiday season, some might view me as the Grinch or even the Grim Reaper targeting the industry.

To put things into perspective, Maryland businesses collectively paid \$156,911,373.55 in swipe fees on sales tax alone in 2023, according to CMSPI, a prominent research group ([How much interchange was paid on sales tax in the U.S.?](#)). That is a massive burden—and it does not even account for tips.

Let us consider everyday scenarios: How many of you use cash versus credit cards? More importantly, how many have encountered surcharges for paying with a card? Swipe fees typically hover around 3%. While 3% may seem small, in aggregate, it becomes a significant expense. Most people today do not carry substantial amounts of cash. Raise your hand if you regularly carry more than \$100.

It is also important to note that swipe fees are not uniform. Large corporations like Walmart, Target, and Home Depot can negotiate favorable rates. Meanwhile, online merchants often face higher fees due to additional variables.

Critically, this bill will not reduce Maryland's sales tax revenue or impact the state's coffers. It is here to support our citizens. Here is how it works: when a card transaction occurs, the sales tax is applied, and merchants remit it to the state as usual. However, the swipe fee charged on the *tax* portion—let us say 18 cents on a \$100 bill—would no longer apply. That savings would go back to the merchant and, ultimately, the consumer. These small amounts add up quickly.

Now, to acknowledge the other side of the equation: Credit card companies and banks do provide value through “float”—the gap between a purchase and when the bill is due, often up to 50 days. While there is risk involved, such as default on payments, the profit margins in this industry remain substantial.

Consider the holiday season as an example. If a consumer spends \$1,000 on gifts but can only pay \$400 when the bill is due, the remaining \$600 accrues interest at an average rate of 18%. For those consumers, points and perks offered by credit cards become less valuable as debt piles up. As of Q3 2024, total U.S. credit card debt reached \$1.17 trillion, with the average American owing \$6,671.

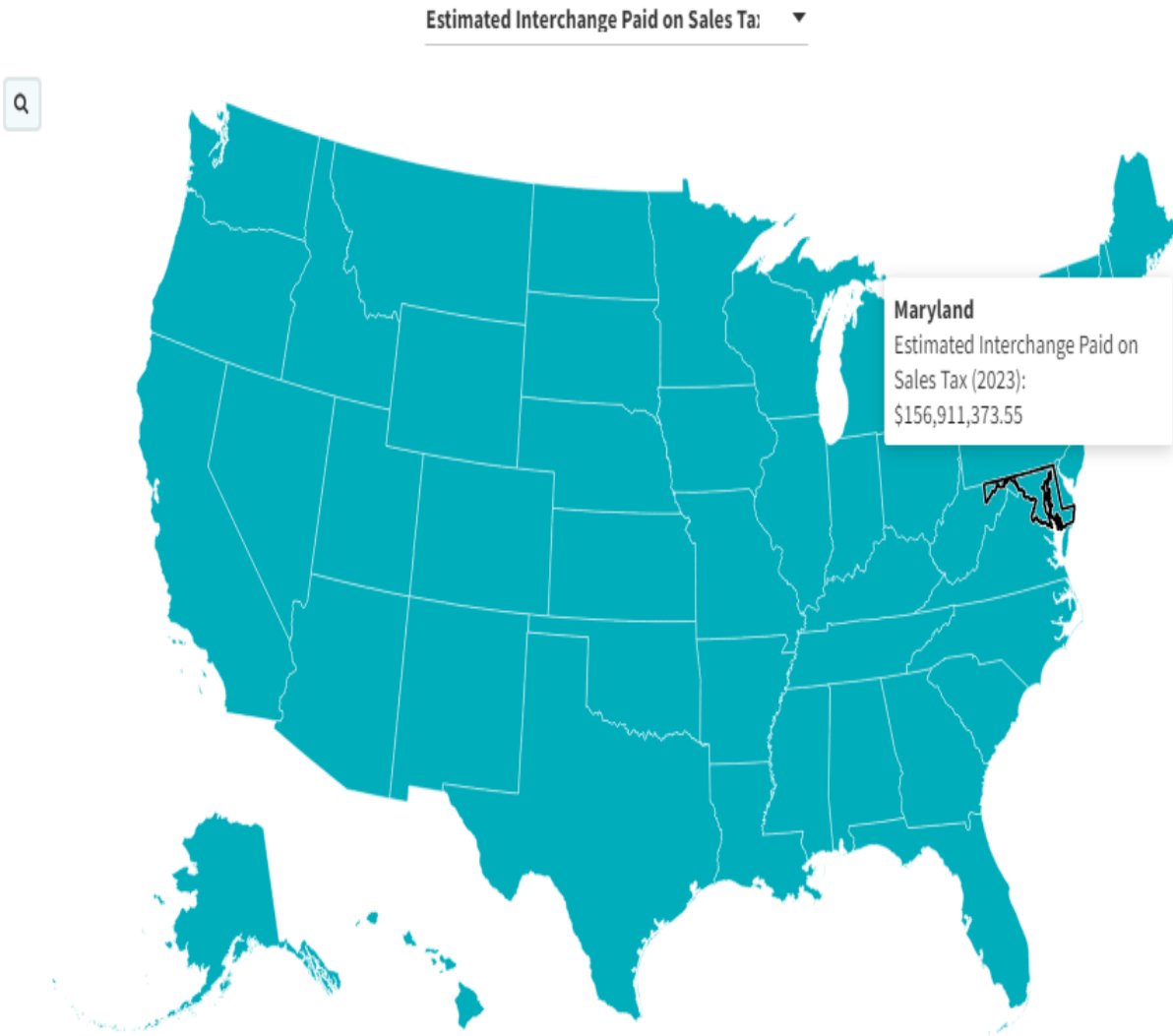
Is there precedent for this bill? Yes, it was introduced and passed by the Illinois State Legislature. It is being challenged by the banking industry and is now in court. I have asked our Attorney General for their opinion on this proposed legislation.

Finally, I acknowledge this bill presents challenges, particularly for the banking industry, which would need to revamp its systems. This is no small task. Interchange fees are broken up, so in so many words, everybody gets a bite of the apple. It will not be resolved by a lone coder in a basement. It will require significant resources. However, given the substantial profits being generated, I believe it is both feasible and necessary.

Thank you for considering this important issue. I look forward to hearing from our expert panel and engaging in further discussion.

Estimated Interchange Paid on Select State-Level Taxes

Hover your cursor over a state to see interchange paid



Note: Delaware, Oregon, Montana, and New Hampshire don't have applicable sales tax

Methodology

Please note: Estimates have been updated for 2023 to reflect the total card fee estimates provided in CMSPI's State of the Industry Report. Gas and Diesel excise tax estimates have also been updated to reflect the impact of state excise taxes rather than federal.

Consumption numbers have been modeled using state specific growth metrics around number of new vehicles on the road between 2021 and 2023.

Interchange Estimates

Total interchange fees charged on credit and debit cards have been analyzed using CMSPI estimates and analysis of published credit card interchange fee schedules and Federal Reserve data on debit card interchange fees.

Interchange Paid on Sales Tax

We have taken the sales tax data from [\(source 1\)](#) to show total sales tax paid by state, and then using public financial reports from Visa and Mastercard, ascertained the total volume through debit and credit cards, which have been split by state by GDP [\(source 2\)](#).

Interchange Paid on Gasoline and Diesel Excise Tax

Using state-by-state gasoline and diesel consumption data [\(source\)](#) and state-by-state excise tax rates for diesel and gasoline [\(source\)](#) from the EIA, we're able to estimate the total excise tax expenditure by state.

Interchange Paid on Alcohol Excise Tax

Sourcing [beer](#), [wine](#), and [spirit](#) consumption by state, we calculate the total excise tax expenditure by state using the excise tax rate by state as reported by the [Tax Policy Center](#).

NOVEMBER 19, 2024 | CLIP OF SENATE HEARING ON COMPETITION IN THE CREDIT CARD MARKET

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Sen. Josh Hawley (R-MO) to Visa & Mastercard: "This is classic, classic monopolistic behavior. Yet you're testimony...is you don't want any ... [read more ▼](#)

