

## **Illinois Interchange Fee Prohibition Act FAQs**

**Q1: Fraud – Don't credit card companies need swipe fees on taxes to cover fraudulent charges?**

**NO. Retailers pay for significant amounts of credit card fraud. They don't receive "Guaranteed Payment."**

**1. Retailers pre-pay for fraud through interchange fees and they far exceed what is needed to cover banks' fraud losses.**

- Swipe fees on purchases far exceed the credit card industry's fraud costs. Merchants paid \$172 billion in swipe fees last year and payment card fraud was \$11 billion.
- In addition, merchants pay networks to cover mandated fraud solutions. And, card companies require merchants to invest in costly equipment to prevent card fraud (i.e., EMV chip readers).

**2. On top of that, retailers pay for fraud in chargebacks.**

- A chargeback is when the retailer is charged back the cost for the stolen product/service by the bank who issued the card.
- When fraudulent purchases happen, the merchants lose the product, which was purchased fraudulently, must still remit tax on the goods to the state, and generally has to pay "chargebacks" to the bank card issuer (as well as fees to the networks) to cover the cost of the fraud.

The idea that retailers should pay limitless fees to the giant credit card companies because payment is "guaranteed" makes no sense when most fraud costs simply get charged back to retailers.

**Q2: Technology – Does existing equipment and technology need to be replaced to ensure the law can go into effect?**

**NO. The law does not require any new systems – for banks or retailers.**

- While the processors and banks keep saying they would need to build new systems to recognize tax amounts at the point of sale, that isn't true.
- Today merchants pass 3 data fields –(1) purchase amount, (2) tax amount, and (3) total – to processors, which send that data to the card networks, which determine the swipe fees to be paid.
  - Banks receive settlement of funds, including swipe fees from the network or processor.
- It is possible to stop charging swipe fees on tax amounts at the point of sale much more easily than the financial services industry suggests. And if they can't, the law provides for swipe fees on sales and excise taxes to be refunded to the retailer after the fact through a reimbursement process

- To support tax-exempt business-to-business sales, banks already require that merchants collect sales tax data.<sup>1</sup> In fact, the “Level 2” data transmitted with each transaction already has sales tax separated from the purchase amount. Visa and Mastercard mandate system updates twice per year already, so any changes to do this would be part of the regular process of doing business.
- Not only do the card companies collect this and other Level 2 data, they also try to sell it back to merchants (Visa now calls this service “Visa Spend Clarity”).<sup>2</sup> It was formerly “IntelliLink” and has included local tax support.
- In the event that a retailer is unable to separate sales tax information at the point of sale, the law allows the retailer to send the tax information to the card company after the sale and allows the card network to refund the swipe fees to the retailer after the fact. This means no investments in new systems are necessary. Retailers can just send the tax information and get a rebate later.

**Q3: What if a retailer’s system is outdated or can’t handle this change? Will they have to pay a lot to upgrade?**

**NO. This is voluntary for retailers and the law allows for a simple, after-the-fact reimbursement process if the change can’t happen at the point of sale.**

- The bill was written to allow for flexibility. It provides a simple alternative in that retailers can submit their tax or tip information later and get a reimbursement of the fees on those transactions.
- Those after-the-fact processes already exist. In fact, the credit card companies use them to take billions more dollars away from retailers months after transactions happen. They shouldn’t be able to complain that a small fraction of that money may come back the other way.

**Q4: Won’t consumers lose convenience because they will need to “swipe twice” in order to pay for a product if swipe fees can’t be collected on taxes?**

**NO. Consumers will not need to swipe their cards two times in order to make a purchase.**

- There is no need for two transactions – and claiming a card will need to be swiped twice just doesn’t make sense.
- Do customers pay in two transactions when they leave a tip at restaurants? No, they don’t. The card is only swiped one time.
- When swipe fees are collected on state-mandated taxes, what consumers actually lose is money because they have to pay higher retail prices to cover the billions of dollars in swipe fees that merchants pay each year.

<sup>1</sup> For example, sales tax data is on track 2 of credit card transaction data (sometimes referred to as Level 2 data). Visa specified this in their own document written for petroleum retailers at page 13, footnote 3, but moved the document when merchants pointed it out during discussion of state legislation.

<sup>2</sup> <https://usa.visa.com/run-your-business/commercial-solutions/solutions/intellilink.html>



**Q5: When a fraudulent transaction occurs and a merchant gets “charged back” (and has lost the goods), does the state still get to keep the sales tax that the merchant has remitted to them?**

**YES.**

**Q6: Don’t financial institutions need to recover swipe fees on the product and the taxes paid on that product because they are financing the total amount of the purchase plus tax? Isn’t the swipe fee a form of cost recovery for the “guarantee” they provide for the total purchase?**

**NO.** Financial institutions in the United States collect the highest swipe fees rates in the world – and will still be the highest in the world even if fees aren’t collected on tax amounts. Financial institutions are well compensated for the service they provide to purchase a product with a payment card. Recovering swipe fees on the taxes is just additional windfall profit.

- A PIN debit transaction is “real time” with zero risk to funds, despite the swipe fee associated with a PIN debit transaction, the bank is guaranteed payment.
- A signature debit transaction is guaranteed payment since it is drawn from actual funds in an account.
- A credit payment is payment extended on credit. Banks evaluate a consumers’ risk before extending them a credit card, and they protect against that risk by charging consumers high rates of interest. In the U.S., the average credit card interest rate is more than 20%.<sup>3</sup>
- Finally, in addition to the interchange fee, merchants pay a fee for “fraud” that covers the risk of nonpayment.

**Q7: Won’t Visa/Mastercard just raise their rates to recoup lost profits once the law takes effect?**

**NO, they will change their rates anyway – by as much as they think they can get away with. Even if the law didn’t exist, the networks routinely raise their rates.**

- In fact, the networks raised their rates each of the last two years in spite of inflation. They did this despite a bipartisan group of federal lawmakers writing to them to ask them not to do so.<sup>4</sup>

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<sup>3</sup> “Current credit card interest rates” Bankrate.com (June 20, 2024) ([Current Credit Card Interest Rates | Bankrate](#)).

<sup>4</sup> See <https://www.durbin.senate.gov/newsroom/press-releases/durbin-marshall-welch-van-duyne-urge-visa-and-mastercard-to-call-off-planned-swipe-fee-increases-on-vulnerable-american-families-and-businesses>.

- In early 2022, Visa's CEO and CFO stated on earnings calls that, "historically, inflation has been positive for us."<sup>5</sup>

**Q8: If the law takes effect, will banks/processors need to have specific transaction level data to know what tax to charge? Won't this be a privacy violation because retailers will need to tell banks that a customer is purchasing something like eggs, milk, or gasoline?**

**NO. Tax information is already passed today and does not include any product level data.**

As stated above all they have to do is pass an existing data field of the tax amount to networks, which calculate interchange.

**Q9: Is it a better solution for retailers to be paid back through vendor compensation?**

**NO. Shifting money to taxpayers isn't a fair solution.**

- Swipe fees are hidden fees that consumers end up paying. Shifting these costs onto taxpayers would only perpetuate the problem and create bad incentives for the credit card companies to raise fees even higher.
- Banks who issue these cards should not swipe the taxable portion of the transaction from merchants. It shouldn't be up to the taxpayer to right their wrong. Period.

**Q10: It's a global system, how can this change be made to only one state?**

- Visa and Mastercard already charge more than 600 different swipe fee rates to merchants. They have made the system incredibly complex. Illinois making this change does not add to that complexity in any real way.
- Processing systems already handle varying taxes by states.
- As stated above, if a retailer cannot separate this information at the point of sale, they can receive reimbursement after the fact – just like the other after-the-fact settlement processes that the card industry has already put in place.

<sup>5</sup> Q2 April 26, "And then, the last thing I'd say, net-net, historically, inflation has been positive for us." Al Kelly – CEO; <https://investor.visa.com/events-calendar/Event-Details/2022/Q2-2022-Visa-Inc-Earnings-Conference-Call/default.aspx>; Q1 Jan 25<sup>th</sup>, "So, net-net, we're a beneficiary of inflation" Vasant Prabhu - Vice Chairman and Chief Financial Officer, <https://investor.visa.com/events-calendar/Event-Details/2022/Q1-2022-Visa-Inc-Earnings-Conference-Call/default.aspx>



## Understanding Swipe Fees

**Q11: How much of the fee on the sales or excises tax actually trickles down to a local bank or credit union?**

100% of interchange goes to the bank or credit union that gave the consumer the credit card. The law is only addressing the tax and tip portion of the interchange fee. These banks and credit unions will continue to collect the highest interchange fees in the industrialized world.

**Q12: Won't this legislation ultimately hurt small businesses?**

**No. This legislation will reduce the costs that small businesses pay to collect taxes for the state.**

**Q13: Will this change threaten credit card rewards programs?**

**No. This is a scare tactic from the banks.**

- Banks use rewards to attract customers to their products, it's disingenuous for banks to say that rewards will go away because banks are no longer making interchange on sales tax when they are still making interchange on the transaction amount.
- In countries around the world where fees are much lower than they are here, the banks still offer customers rewards. It is simply a marketing expense for them which they will continue like other businesses do to attract customers.
- Retailers offer rewards programs and operate on far thinner margins (avg. retail profit margin is 2.5%, money center banks is 27%).

**Q14: Why do I see gasoline offered for a cash discount?**

- Merchants fully understand their cost of goods sold and offer prices to consumers based on these costs.
  - Fuel retailers know it costs them a lot to accept plastic payments. Thus, many retailers will offer a cash discount, which accounts for the lower cost of processing a cash transaction compared with a payment card, in order to incentivize consumers to pay with the less expensive payment option (i.e., cash).

## Final Thoughts

- Credit card companies argue the "sky is falling" every time someone wants to make common-sense changes to the world of swipe fees.
- They argued that debit cards would go away when the U.S. Congress decided to regulate them. That was more than 12 years ago – do you still have a debit card?

- They argued credit cards would enter a “death spiral” when the Reserve Bank of Australia and the European Competition Commission investigated them and limited swipe fees. Nonetheless, credit card usage is up in both locations and credit card rewards are still plentiful.
- When simple facts are against them, credit card companies have nothing left to sell but fear.