MD|DC Credit Union Association

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January 21, 2025

Chairman CT Wilson
Room 231
House Office Building
Annapolis, Maryland 21401

Bill – HB29 - Electronic Payment Transactions - Interchange Fees - Calculation and Use of Data
Organization – MD|DC Credit Union Association
Position - **Opposed**

Chairman Wilson, Vice-Chair Crosby, and Members of the Committee,

The MD|DC Credit Union Association, on behalf of the 70+ Credit Unions and their 1.9 million members that we represent in the State of Maryland, appreciates the opportunity to testify on this legislation. Credit Unions are member-owned, not-for-profit financial cooperatives that prioritize the financial well-being of their members. **We respectfully oppose this bill.**

Interchange Fees Are Critical to Payment Security and Efficiency
Excluding taxes and tips from interchange fees would introduce unnecessary complexity, raise privacy and fraud risks, and burden merchants with additional costs—all without providing meaningful benefits to consumers. The current system ensures that interchange fees support a secure, efficient, and reliable payment infrastructure that benefits all stakeholders.

Increased Complexity and Cost for Merchants
Excluding taxes and tips from interchange fees would significantly increase the complexity of payment processing. Merchants would need to invest in upgraded point-of-sale systems capable of separating and itemizing taxes and tips from the total transaction amount. Small businesses may struggle with the cost and operational challenges of implementing such changes.

Consumers Don't Benefit
Proponents of the bill claim that excluding taxes and tips from interchange fees would lead to savings for consumers, but there is little evidence to support this assertion. In fact, an examination of states without sales tax—such as New Hampshire, Oregon, and Delaware—shows that retail prices in these states remain comparable to those in states that impose sales tax. This strongly suggests that retailers are unlikely to pass any savings from the proposed exemption on to consumers.

Privacy Concerns for Consumers
To exclude taxes and tips from interchange fees, payment processors, financial institutions and potentially third parties would need detailed transaction-level data to verify the breakdown of purchases. Such access raises serious privacy concerns, as it could expose sensitive details about consumer purchases, habits, and preferences.

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Reduced Revenue for Fraud Prevention and Security
Interchange fees fund critical infrastructure, including fraud detection, cybersecurity, and secure payment systems. Excluding taxes and tips would reduce the revenue that financial institutions and payment networks rely on to maintain and enhance these protections. This could increase the risk of fraud and data breaches, ultimately harming consumers and businesses alike.

No Compelling Public Interest
The bill lacks a compelling state interest to justify such a significant change to the payment system. Over the past two decades, 31 other states have considered similar legislation, all of which failed to gain traction. The only instance where such a measure has passed—in Illinois, through a budget amendment—has been met with a federal lawsuit challenging its legality.

Even the Office of the Comptroller of the Currency (OCC) has filed an amicus brief opposing the Illinois law, describing it as “ill-conceived, highly unusual, and largely unworkable.” The OCC further cautioned that allowing the law to stand could “significantly increase fraud risk, constrain consumers, and erode public trust.” Moreover, the OCC warned that if other states adopted similar measures, it would result in “a fractured, highly inefficient, and unworkable payment system that would materially affect interstate commerce.”

Interchange fees are a small percentage of the transaction total, and their structure has been effective in supporting the secure and efficient functioning of the payments ecosystem. Excluding taxes and tips disrupts this balance without delivering measurable public benefits.

Negligible Benefits for Small Businesses
The proposed legislation offers negligible benefits for small businesses. Consider a typical Maryland small business with $1 million in annual taxable sales:

- **Annual sales tax collected:** $60,000
- **Percentage of credit and debit card transactions:** 66% of total sales
- **Interchange fees on sales tax:** $1,800 per year
- **Monthly “savings” from the exemption:** $150
- **Added admistrative costs:** Unknown

These marginal savings fail to justify the significant disruptions that small businesses would face. In stark contrast, large retailers such as Home Depot could save an estimated $1.89 million annually in Maryland. This disparity underscores that the primary beneficiaries of this bill are not small businesses but large, big-box retailers.

Conclusion

We urge the committee to report this bill unfavorably. This legislation would impose undue costs and complexities on financial institutions, small businesses, and consumers, while disproportionately benefiting large retailers. We remain committed to fostering a secure, efficient, and inclusive financial system and look forward to working with stakeholders to achieve these goals.

Thank you for your consideration. I am happy to answer any questions the committee may have.
Respectfully submitted,

Sincerely,

John Bratsakis
President/CEO
MD|DC Credit Union Association

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