

Elimination of the Penny: Cents-able Considerations



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JOE LIVINGSTON,

POLICY SPECIALIST, FISCAL AFFAIRS

BRIAN WANKO,

SENIOR LEGISLATIVE DIRECTOR, BUDGETS AND REVENUE,
STATE-FEDERAL RELATIONS

The National Conference of State Legislatures is the bipartisan organization dedicated to serving the lawmakers and staffs of the nation's 50 states, its commonwealths and territories.

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- Promote policy innovation and communication among state legislatures.
- Ensure state legislatures a strong, cohesive voice in the federal system.

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Overview

On Feb. 9, the [White House instructed the Department of the Treasury](#), which oversees the U.S. mint, to cease production of the penny. The stated impetus behind the move was based on the high costs of penny production (roughly 3.7 cents per penny) compared to their actual value. Quickly rising costs further precipitated the move. The [U.S. Mint announced](#) it would continue manufacturing the penny until it ran out of its supply of blanks. The [final regular minting](#) of the penny occurred in November, 2025, with future minting reserved only for ceremonial limited productions. It was not originally anticipated that shortages would quickly occur as more than 114 billion pennies are in circulation.

Notably, the federal government did not issue any regulations around the end of production, continued to treat the penny as legal currency and initially expected that the federal reserve would continue to accept and supply pennies while supplies last. Recently many federal reserve terminals have begun [experiencing shortages](#) and in numerous instances have ceased supplying and accepting pennies. This has required vendors to make spot decisions on how they will handle cash transactions.

States have largely refrained from legislating or issuing new regulations around how and at what point currency rounding decisions should occur. While the impacts of rounding are likely to have limited impacts on state revenue, retailers, and consumers, the lack of a regulatory environment carries significant legal risks and may additionally create confusion among stakeholders. This paper aims to address the fundamental economic, policy, and legal issues and to pave a way forward for potential state action.

As states navigate the transition away from the penny, they must resolve several critical policy questions to ensure clarity and fairness. Foremost is determining when and how rounding should be applied. States must also decide if electronic and cash payments will be treated differently, allowing electronic transactions to continue to the cent while rounding applies only to cash. The development of guidance to address strategic pricing and encourage clear rounding rules is essential, as is clear communication of new policies to both consumers and businesses. Effective outreach and guidance will be crucial to minimize confusion and ensure a smooth transition during this significant change. States will also need to consider a host of other logistical, technical, and legal questions, which will be addressed further on in the paper. Finally, states will need to consider whether federal guidance and/or regulation and legislation is necessary to meet their objectives.

Penny Wise

The elimination of the penny presents several considerations as states shape solutions. This policy brief from the NCSL State and Local Taxation (SALT) Task Force addresses the economic, legal, and operational implications of eliminating the penny and provides guidance for states navigating this transition.

Policy Considerations

- State legislatures may have to implement new legislation or work with state executive agencies on any regulation.
- The Penny remains a currency for non-cash transactions.
- States will lead the way as the federal government, barring congressional intervention, has left implementing policy to the states.
- While states may approach this issue differently due to their own unique circumstances, there is a growing consensus among retailers, economists, and other stakeholders, recognizing symmetrical rounding, (up or down) to the nearest nickel, as the fairest method to all parties when applying to cash transactions.

The paper concludes by addressing nine areas that may require state policy and/or legislative action:

- Rounding Clarity
- Federal Role
- Legal and Statutory Adjustments
- Revenue Impact and Allocation
- Refunds and Consumer Protections
- Forms, IT Systems, and Implementation
- Communication, Training, and Coordination
- Network Payment Rules and Compliance
- Policy Direction and Legislative Approach

Rounding Rules & Transaction Practices

As the production of pennies ceased and existing supplies dwindle, both sellers and buyers are facing or will soon face the need to round cash transactions to the nearest five cents, with the nickel assuming the role of the smallest denomination in circulation. This development has invited dialogue on the appropriate application of rounding and its potential impact on sales tax calculations and final prices. It is widely agreed that rounding practices should be consistent nationwide, fair to consumers, retailers and state tax revenue collection, and respect the autonomy of individual jurisdictions. To avoid unnecessary disruption and maintain administrative simplicity, most experts recommend that sales and excise taxes continue to be calculated and rounded to the nearest penny, as is current practice. The principal change would occur at the point of payment: for cash transactions, the total amount due, including all taxes and fees, will be rounded to the nearest nickel, ensuring compatibility with available currency.

■ CURRENT PRACTICE

Under current law, most states require that sales tax be rounded to the nearest penny. For example, gas prices are typically stated in fractions of a penny, and final sales prices once accounting for tax are often in fractions of a penny. Sellers are typically allowed to compute the tax either on an item-by-item basis or on the total invoice amount. While the method chosen may result in slight differences, the overall impact is generally minimal.

In the current context, tax calculations are typically carried out to the third decimal place. If the third decimal is greater than four, the amount is rounded up; if it is four or less, it is rounded down. This standard ensures consistency and fairness in tax collection.

For example, consider Seller A, who sells two taxable items priced at \$1.99 and \$2.39, and one non-taxable item priced at \$3.99. If Seller A calculates tax on an item-by-item basis with a 6% tax rate, the tax on the \$1.99 item is \$0.12 (since $\$1.99 \times 6\% = \0.119 , which rounds up), and the tax on the \$2.39 item is \$0.14 (since $\$2.39 \times 6\% = \0.143 , which rounds down). The non-taxable item incurs no tax. The total transaction amount is \$8.63, including \$0.26 in tax.

Alternatively, Seller B may choose to calculate tax on an invoice basis. The total of the taxable items is \$4.38, and applying the 6% tax rate yields \$0.2628, which rounds to \$0.26. Adding the non-taxable item results in the same total of \$8.63.

■ WHEN THE PENNY IS NO LONGER AVAILABLE

Once pennies are no longer in circulation, any cash transaction must result in a total ending in either zero or five cents. This ensures that the amount can be paid using available currency.

Customers who come bearing exact change, including the necessary pennies, would still be allowed to pay the exact amount since pennies remain currency.

To achieve this, rounding rules will be necessary. The most recommended form of rounding is symmetrical rounding whereby if the final digit of the total transaction amount (including taxes) is 1, 2, 6, or 7 cents, the amount is rounded down to the nearest multiple of five. If the final digit is 3, 4, 8, or 9 cents, the amount is rounded up. Transactions totaling exactly \$0.01 or \$0.02 might be rounded up to \$0.05. Rounding rules would not apply to payments made via electronic methods, checks, gift cards, or other non-cash instruments.

Applying these rules to the earlier example, if the customer pays with cash, the total of \$8.63 would be rounded up to \$8.65. This additional \$0.02 does not affect the amount of sales tax due; it is treated as additional income to the seller^[BO1]. Conversely, if a transaction is rounded down, the difference would be considered a loss for the seller for income tax purposes because the seller would still be required to remit the sales tax as calculated by statute even though it had not actually collected that amount from the consumer. Over time, these gains and losses are expected to mostly balance out on the assumption that a similar number of transactions will be rounded up or down, ultimately resulting in little to no net financial impact.

■ TAX CALCULATION

To maintain consistency and fairness in tax administration, rules and guidance may need to explicitly require that sales and excise taxes continue to be calculated on the actual sales price, prior to any rounding for cash transactions. A range of tax policy analysts and retailers largely agree that rounding should only be applied to the final transaction total—after all taxes and fees have been added—when payment is made in cash and pennies are unavailable. This ensures that the amount of tax owed remains accurate and unaffected by rounding, and that retailers remit the correct tax amount for both cash and electronic payments.

Economic Considerations

■ STRATEGIC PRICING AND ROUNDING: A LIMITED RISK

One potential issue is that retailers might engage in strategic pricing that leverages rounding rules to their advantage. While this concern is theoretically valid, the practical mechanisms for such pricing strategies appear limited.

There are two distinct methods used for rounding transactions:

- Item-level rounding: Rounding that occurs on each individual item within a basket of items in a transaction
- Final price rounding: Rounding that occurs on the sum of the basket of all items purchased in the transaction

In theory, retailers could benefit from item-level rounding, where each product is priced to exploit rounding outcomes. For example, pricing goods at \$X.98 could consistently yield a two-cent gain when rounded. Applied across many items, this could result in a meaningful aggregate benefit. This could be particularly true for item-level rounding and further suggests why final price rounding is a more principled practice to ensure fairness.

Even with final-price rounding, a single item priced at \$1.98 would round up to \$2.00, benefiting the retailer by two cents. This advantage, however, only materializes when the item is purchased alone. Retail environments such as convenience stores or liquor stores that frequently see single-item purchases might have adopted such pricing strategies. The benefit diminishes rapidly when multiple items are purchased, as rounding effects tend to average out across the transaction. Further, retailers would need to account for varying tax rates and item categories when setting prices to achieve consistent rounding outcomes. This level of precision is difficult to maintain and offers limited strategic value. Moreover, consumers can avoid rounding altogether by paying with exact change or using

electronic payment methods, which remain unaffected. As in other contexts, even a small amount of loss may encourage consumers to pay electronically.

Current retail pricing conventions already favor certain price endings. According to 2025 pricing psychology statistics, 60.7% of prices end in .99, 28.6% in .05, and 7.5% in .00. These conventions are deeply rooted in consumer behavior and marketing strategies, and their economic benefits may outweigh any marginal gains from penny rounding. In scenarios where rounding occurs post-tax, any potential benefit to the retailer would depend heavily on the specific tax structure applied to each item.

In sum, while some retailers may experiment with strategic pricing, the extent to which they do so will depend on the rounding system adopted, the sophistication of their pricing models, and the nature of their industry. In almost all theoretical cases, the benefits of strategic pricing is limited and consumers losses are limited to no more than two cents per transaction. From a tax perspective, states are unlikely to be significantly affected if rounding occurs on the final post-tax price.

Perhaps the most notable impact of strategic pricing is perceptual. Consumers and advocacy groups may express concern over perceived losses, even if the actual financial impact is negligible. Until detailed post-implementation analysis is available, public perception may outpace economic reality.

■ INFLATION

The inflationary effects of penny rounding are expected to be minimal, provided that rounding outcomes are evenly distributed. Inflation would only become a concern if strategic pricing leads to rounding up more than 50% of the time. In such cases, the cumulative effect could result in a slight upward pressure on prices.

However, several factors mitigate this risk. The limited use of the penny in current transactions, the relatively small value of rounding adjustments and the widespread adoption of electronic payments all serve to dampen inflationary potential. Electronic payments, which [accounted for an estimated 86.9%](#) of all U.S. transactions in 2024, are not subject to rounding and will continue to be processed to the exact cent. This high rate of digital payment usage significantly limits the scope for strategic pricing and inflationary impact.

Moreover, demographic trends and consumer preferences suggest that electronic payment adoption will continue to rise. The elimination of the penny may further accelerate this shift, reinforcing the move toward cashless transactions and reducing the relevance of rounding altogether.

■ OTHER IMPACTED ENTITIES: GOVERNMENT, UTILITIES AND FINANCIAL SERVICES

Additional industries affected by the elimination of the penny include financial services, e.g., check cashers, utility companies, and money service principals. These entities typically include both a base amount and a fee. If rounding occurs on the final settled amount, one of these components could be impacted, though, if symmetrical rounding is used, the under/over amounts should be nearly equal over a large number of transactions.

Penny elimination impacts entities besides retailers. Utility companies, government agencies and money services companies are among those transacting in cash who will be impacted.

■ ELECTRONIC PAYMENTS AND HYBRID PAYMENTS

It is assumed that rounding rules will not apply transactions in which payment is made by electronic means, check, or other non-cash methods. The rounding rules would only apply when a customer chooses to remit payment with coins and dollar bills.

It is possible that a customer will pay with a combination of cash and non-cash forms of remuneration (hybrid payment). In this case, specific rules will need to be developed to handle this scenario. For example, if an item's final value with tax is \$10.92 and the customer decides to pay \$10 by credit and the rest by cash, the rules would need to specify if the remaining 92 cents rounds down to 90 cents.



Certain industries are closely tied to cash. For example, the marijuana industry is severely restricted in the use of modern, electronic methods of payment. Consequently, this retail industry relies on cash. This includes not only how retailers are paid for the product they sell, but also how they remit tax payments to state revenue departments. Economic impacts to these cash specific industries might need further analysis to understand the full impact, though in practice the rounding rules would not likely be impacted.

Similarly, the average citizen who is unable to access or otherwise use forms of electronic payment will be more heavily affected by the decisions made in this area. These citizens tend to be those of limited means or the elderly.

Finally, rounding practices may encourage greater use of electronic payments, including credit cards, which generally result in transaction fees charged to retailers. Retailers routinely pass these transaction fees onto retail customers. There is a growing trend whereby the fee charged to the retail customer when a credit card is used exceeds the actual transaction fee incurred by the retailer. Treating cash transactions differently than non-cash transactions may therefore further inflate the out-of-pocket costs to the retail customer due to these surcharges.

International Experience

■ CANADA'S APPROACH

Canada stopped distributing pennies in 2012. The Canadian transition away from the penny offers a useful model for policymakers considering similar reforms. Notably, businesses were not required to update their cash registers or pricing systems. Prices and total payments continued to be calculated in one-cent increments, with rounding applied only at the final stage—after tax had been added. Importantly, [tax calculations](#) were based on the pre-tax amount, not the rounded total, preserving accuracy in tax reporting.

The Canadian government issued clear guidelines to ensure that rounding was conducted in a manner that was fair, consistent and transparent. Electronic payments remained unaffected by the change and continued to be processed to the exact cent, reinforcing the distinction between cash and digital transactions.

Canada adopted a symmetrical rounding system: totals ending in .01, .02, .06, or .07 were rounded down to the nearest \$0.05, while totals ending in .03, .04, .08, or .09 were rounded up. This approach helped maintain consumer confidence and minimized the perception of unfairness.

■ NATIONAL REMOVAL OF THE PENNY

A defining feature of Canada's experience was the federal government's active role in removing pennies from circulation. Beyond halting production, the government launched a [national campaign](#) to collect and recycle existing coins. Returned pennies were melted down, signaling a clear and coordinated effort to eliminate the coin from everyday use. This stands in contrast to the U.S. approach, where the Federal Reserve has not actively encouraged penny removal. Instead, the expectation is that the supply will gradually diminish over time. Canada's strategy created a sense of urgency and clarity, helping consumers and businesses adjust more quickly to the new system.

■ MINIMAL ECONOMIC IMPACT

While initial speculation suggested that eliminating the penny would have little effect on consumers, at least one study found a modest economic benefit for businesses. Christina Chang's analysis, "Eliminating the Penny in Canada: An Economic Analysis of Penny-Rounding on Grocery Items," estimated a net annual transfer of approximately \$3.27 million Canadian dollars from consumers to grocery vendors. This equated to about \$157 \$CA per grocery store per year.

The [study](#) attributed this benefit to pricing strategies such as \$0.99 pricing that tend to result in totals more frequently rounded up. However, this advantage was largely neutralized when multiple items were purchased, as rounding effects averaged out across the transaction. Even if the approximation holds, the impact on individual consumers was negligible-less than \$0.10 per Canadian annually, based on a population of over 37 million at the time of the study.

■ COMMUNICATION WAS KEY

Canada's experience with penny elimination demonstrates the critical importance of proactive and transparent communication. Despite early concerns that the change might confuse consumers or disrupt retail operations, the transition proceeded smoothly and without major incident. This success was largely due to the Canadian government's early and sustained outreach efforts. Clear guidance and educational materials, including brochures and public advisories, were widely disseminated well in advance of implementation. These resources helped set expectations, ensured that businesses were prepared, and reassured consumers about what to expect at checkout. The result was a well-orchestrated rollout that minimized friction and built public confidence.

■ EUROPEAN UNION DEVELOPMENTS

While the European Union has not formally abolished the 1-cent coin, several member states have taken steps to reduce its use in cash transactions. Countries such as Belgium, Estonia, Finland, Ireland, Italy, the Netherlands and Slovakia have implemented rounding rules that eliminate the need for 1- and 2-cent coins in everyday purchases. As of May 1, 2025, [eight EU countries legally require stores to round final bills](#), effectively phasing out the coins in practice.

Importantly, these coins remain legal tender and may continue to circulate due to imports from countries that still produce them. However, the trend toward rounding reflects a growing consensus across the eurozone. A 2024 Eurobarometer poll found that 61% of residents support discontinuing the use of 1- and 2-cent coins. As in Canada, [electronic payments remain unaffected](#) and continue to be processed to the exact cent, preserving precision in digital transactions.

■ LESSONS LEARNED

Several key lessons emerge from the Canadian and European experiences. First, clear and consistent guidance from the government to both the private sector and the public is essential. This includes not only the establishment of regulations but also an active public awareness campaign that explains the rationale, mechanics and consumer protections associated with rounding.

Second, while the risks of penny elimination are relatively low, some degree of analysis is warranted to ensure that rounding practices do not inadvertently disadvantage consumers. Transparency and fairness must be central to the design of any rounding system.

Finally, tax calculations should be handled carefully. Taxes should be added to the pre-rounded total and then the final amount should be rounded symmetrically. This approach ensures that the exact tax owed is always paid and that, over time, consumers and retailers each “win” roughly half the time. Such balance is critical to maintaining trust and avoiding perceptions of bias or manipulation.

Legal Risks

■ LITIGATION

Several litigation risks are involved with rounding solutions related to the elimination of the penny. The notable risks associated with adopting a rounding rule for cash purchasers only include: (i) a potential violation of the federal Internet Tax Freedom Act (ITFA)¹ by a state adopting a given rounding rule, to the extent such rule “discriminates” against persons using electronic payment methods in favor of cash purchases; (ii) *qui tam* or “whistleblower” lawsuits under state false claims acts against sellers for under-collection of sales tax from cash purchasers; and (iii) class action lawsuits against sellers for over-collection of sales tax. As explained below, these risks are neither material nor would they likely succeed against either a state adopting a rounding rule for cash payments only or sellers following adopting the rounding rule duly adopted by a state through legislation or, if permissible under state law, administrative rule.

■ INTERNET TAX FREEDOM ACT

ITFA prohibits states, via the U.S. Constitution’s Supremacy Clause, from imposing “discriminatory taxes.” The prohibition on discriminatory taxes states that: “No State or political subdivision thereof may impose . . . discriminatory taxes on electronic commerce.” “Electronic commerce” means “any transaction conducted over the Internet or through internet access, comprising the sale, lease, license, offer, or delivery of property, goods, services, or information, whether or not for consideration.” While a “discriminatory tax” means a tax imposed on electronic commerce that is not generally imposed “on transactions involving similar property, goods, services, or information accomplished through other means[.]”

Here, ITFA is potentially implicated when a state adopts a rounding rule, regardless of specific methodology, for cash payments that differs from the rounding rule applicable to electronic payments. However, the likelihood that an ITFA challenge would succeed is unlikely:

First, cash payments are not “similar” to electronic payments as the payment methods differ in terms of security, recordkeeping, acceptance and, importantly, the need to provide “change” to the purchaser.

Second, the rounding rule that applies to non-cash payments is the same, whether “online” point-of-sale systems (which are processed via access the public Internet) or “offline” or “one-premise” point-of-sale systems (which are processed via access to private networks or without the need for constant Internet connectivity). These point-of-sale systems are “similar” for ITFA purposes because they offer comparable security, recordkeeping⁺ and acceptance of such payments, as well as the lack of any requirement to provide change to a purchaser.

Third, should rounding be mandated by federal law, such a statute would have to be read in harmony with ITFA. Consequently, enactment of federal rounding legislation makes a successful ITFA claim almost non-existent.



UCG/GETTY IMAGES

Thus a statutory or administrative rounding rule likely would not be a “discriminatory tax on electronic commerce” because such rule would not be applied to a “similar” service that is not provided through the Internet. Indeed, a rounding rule adopted in contemplation of penny elimination would not be applied to similar payment processing services, regardless of whether those services are effectuated online, offline or through a private network.

■ QUI TAM/WHISTLEBLOWER SUITS

There are also litigation risks for under-collection of the sales tax in certain states that permit *qui tam* suits in tax matters. However, like the federal False Claim Act,¹ most states prohibit tax claims under their respective false claims acts.

In those states that permit *qui tam* actions for state tax under-collection, a private party (a “relator”) brings a lawsuit on the state government’s behalf to assist in recovering funds that have not been properly paid to the government. Said private party may assert that a company’s tax collection practices or failure to collect the correct amount of tax has resulted in the state being defrauded.

In those states that would permit *qui tam* suits for taxes in their respective false claims acts, such suit likely would be dismissed if the seller *correctly applies* the statutory or regulatory rounding rule because that action would not meet the “falsity” requirement under a typical false claims act. That is, compliance with duly enacted state law is a defense to improper under-collection of taxes because there would be no legally “false” action by the seller. In contrast, a seller may face *qui tam* litigation risk where the seller regularly *misapplies* a state’s statutory or regulatory rounding rule. However, the rules for these types of lawsuits can vary from state-to-state so the litigation risk can be higher in one state than another.

■ CLASS ACTION SUITS

There are two primary litigation risks related to rounding rules: *qui tam* actions, which are brought by private parties on behalf of the government for under-collection of tax, and class actions, which are brought by consumers on behalf of a group for over-collection of tax. Accordingly, if a company *correctly applies* a state's rounding rule, a class action suit against the seller would likely fail. But where a company *misapplies* the rounding rules and the misapplication results in an over-collection of the sales tax it can result in many customers seeking refunds either from the company or the state. Additionally, some customers may attempt to initiate a class action lawsuit on behalf of all similarly situated people to acquire the over-collected sales tax.

In such cases where a class action plaintiff, i.e., a representative purchaser, files suit for over-collected tax, sellers have a number of defenses to class actions, including but not limited to: (i) "certification" of the class, where the plaintiffs must generally meet numerosity, commonality, typicality, representation, and predominance (all legal terms of art beyond the scope of this summary); (ii) lack of a private cause of action that underlies the suit; (iii) requirement to arbitrate under the seller's terms and conditions or contract, acknowledged or executed by the purchaser; and (iv) the voluntary payment doctrine.

Like *qui tam* actions, the litigation risk will vary as states have different rules and case law about whether a class action can be maintained for a tax refund. Additionally, several states have statutes that expressly prohibit class actions for tax refunds.

Private Sector Considerations

Corporate stakeholders have raised several operational and implementation-focused concerns that merit attention as states and the federal government move forward with penny elimination and rounding rules.

■ SYSTEM CHANGES AND TIMELINES

Retailers anticipate that updating cash acceptance and reporting systems to accommodate rounding functionality will require a significant lead time, estimated at six to nine months. This process involves defining and designing new systems, clarifying distinctions between cash and digital costs, identifying operational risks, and ensuring integration with related systems such as tax and payroll. Engineering efforts will span back-end infrastructure, front-end user experience and compliance reviews. A comprehensive quality assurance program, including beta testing with sellers, is essential to identify real-world issues prior to a full system rollout. Alignment with the DOT timelines for the withdrawal or limitation of the penny is critical to ensure a smooth transition.

Some stakeholders emphasized the need for clear, authoritative guidance from the DOT regarding the impact of rounding on transactions, as well as a defined period for system updates. For example, clarification is needed on how to handle and display rounding differences on receipts—such as whether a \$3.96 total rounded up to \$4.00 requires remittance of the \$0.04 difference, or how to record and communicate amounts rounded down.

■ CREDIT CARD AND OTHER NETWORK PAYMENT RULES:

Attention is also drawn to potential interactions with network payment rules, such as those issued by [Visa](#) and Mastercard, which currently require equivalent treatment of cash and card transactions. Removing the penny may necessitate updates to these rules to maintain compliance and seamless transaction processing. Treasury engagement with payment networks may be needed to ensure that rounding requirements are appropriately addressed.

■ COMMUNICATION AND PUBLIC READINESS:

Stakeholders have also called for the DOT to communicate any recommended changes clearly and conspicuously ahead of implementation. Standardized guidance for customers and coordinated campaigns with financial services companies—especially point-of-sale providers—are suggested to ensure public awareness and preparedness.

■ FINANCIAL SERVICES CONSIDERATIONS:

Industries such as check cashers, utility companies, medical providers and money service principals may be uniquely affected by rounding, as their transactions often include both a base amount and a fee. If rounding is applied to the settled amount, one component may be shorted. States should consider specific recommendations to address these scenarios.

■ POINT OF SALE SYSTEM IMPLEMENTATION TIMELINE AND REQUIREMENTS –

The transition away from the penny will require substantial updates to point-of-sale (POS) systems, a process expected to take between six and nine months. The primary focus will be on modifying cash acceptance and reporting systems to incorporate the necessary rounding functionality for cash transactions. This timeline reflects several key steps: first, defining and designing new systems that clearly distinguish between cash and digital costs, while identifying operational risks and ensuring integration with related systems such as tax and payroll. Engineering teams will then build the required infrastructure, with backend developers implementing the logic and frontend teams enhancing the user experience. Compliance and legal teams will ensure that all changes adhere to relevant legal, regulatory, and contractual obligations. A comprehensive quality assurance program, including rigorous testing and a potential beta phase with select sellers, will help identify and resolve real-world issues. Finally, a full system rollout will be coordinated to align with Treasury timelines for the withdrawal or limitation of penny use.

Recent Events

■ PENNY SHORTAGES

There are numerous reports across the country of penny shortages at retail locations. Certain federal reserve distribution terminals including in Charlotte, Chicago, Cincinnati, Cleveland, Dallas, Denver, El Paso, Houston, Memphis, New York, Richmond, Seattle, and St. Louis, have ceased fulfilling penny orders, and in many cases will no longer take deposits of pennies. The Federal Reserve Bank notes, “The Federal Reserve will continue to fulfill orders of pennies as inventory allows. As a result of the DOT’s decision to end production of the U.S. penny coin, coin distribution locations accepting penny deposits and fulfilling orders will vary over time as [localized inventory is depleted](#) at certain coin distribution locations.”

■ DIFFERENT APPROACHES TO ROUNDING AT THE RETAIL LEVEL

We are seeing numerous different approaches by retailers in response to the penny elimination and a lack of current guidance. For example, [Rouses Markets announced](#) new penny rounding policies that would always round up the amount of change provided to a customer—in essence always rounding in favor of the consumer. [McDonald’s is rounding up or down](#) to the nearest nickel based on the final transaction cost. Retailers across the country are announcing varying rounding systems, mostly either rounding down or rounding symmetrically, while they await additional guidance. Some retailers are doing special limited-time promotions allowing consumers to turn in pennies for a promise of double the value in the form of gift card, a scheme that may temporarily increase the inventory of pennies by the retailer.

■ FEDERAL LEGISLATION: COMMON CENTS ACT INTRODUCED

[The Common Cents Act \(H.R. 3074\)](#) would direct the secretary of the treasury to cease minting one-cent coins (pennies) for general circulation within one year of enactment, while allowing continued production for numismatic (collector) purposes, provided sales cover production costs. All existing pennies remain legal tender. Given that the Treasury has already ceased minting the penny, except for ceremonial purposes, this aspect of the law would be largely designed to codify the status quo.

When initially introduced, Section 3 of the bill contained a provision mandating rounding. However, after consideration by the House Financial Services Committee, it was amended, and Section 3 was deleted. The Committee reported the bill out on September 4, 2025.

■ INDUSTRY CALL FOR ROUNDING RULES

On Sept. 30, 2025, a coalition of major trade associations, including the National Retail Federation, National Restaurant Association and others [sent a letter](#) to Senate Banking Chair Tim Scott (R-S.C.), House Financial Services Chair French Hill (R-Ark.) and Ranking Members Sen. Elizabeth Warren (D-Mass.) and Sen. Maxine Waters (D-Calif). The letter addresses a perceived operational crisis caused by the U.S. Mint’s cessation of penny production in June 2025, which they note have already led to widespread shortages reported by the Federal Reserve.

The associations requested Congressional action to allow nationwide rounding of cash transactions to the nearest nickel, noting that at least 10 states and localities currently prohibit this practice. They also highlighted the need for legislative clarity to ensure rounding does not violate Supplemental Nutrition Assistance Program (SNAP) equal treatment rules, and to permit rounding for check-cashing services at retail locations-critical for unbanked and low-income customers. The letter references the “Common Cents Act” (H.R. 3074/S. 1525) and urges that its rounding provisions be enacted without delay, warning that without swift action, businesses across every congressional district may soon be unable to legally complete cash transactions.

■ STATES AND LOCALITIES CONSIDER GUIDANCE

At the time of drafting, few states have taken direct action on the matter. The [Utah Division of Consumer Protection published “Essential Guidance on Cash Rounding”](#) informing businesses of its recommendation to use symmetrical rounding. It also published a flyer that businesses can post to inform consumers of how the system works. The guidance stipulated that all rounding occurs after all taxes are applied to the sale prices. Another state is considering similar guidance to be issued by the state comptroller.

The approach of issuing guidance demonstrates that some states may address the practical impacts of penny elimination through administrative guidance and operational adjustments, rather than new legislation, depending on their assessment of the core issues and statutory requirements.

[Local entities are also considering implementing their own rounding methods](#) for cash transactions such as a recent effort in Barton County, Kan., which is considering using a method that would require cash transactors to always round up to the nearest nickel.

State Policy Principles

With the penny no longer being minted but still recognized as legal currency, states, retailers, and consumers must navigate the transition to rounding cash transactions to the nearest five-cent denomination. The following considerations are intended to guide policy development, highlight practical challenges and frame the key questions that states will need to address. Failure to address these issues proactively may result in administrative confusion, legal disputes, inconsistent consumer experiences, and unintended fiscal consequences.

■ ROUNDING CLARITY

Evaluate how to ensure administrative simplicity in rounding practices. Without clear direction, inconsistent approaches could burden retailers and confuse consumers.

Rounding principals: Stakeholders including retailers, consumers, financial services and others transacting in cash will require clear guidance on exactly how to round. If symmetrical rounding is embraced, the rules should clearly articulate how the rounding of transactions occurs depending on the final digit of the sales transaction.

Point of rounding: Similar to articulating the technical aspect of rounding transactions, rules will need to determine when the rounding occurs, for example by clearly indicating that rounding should occur as the final transaction after tax and any fees have been applied. The rules must also specify whether rounding occurs after each item or after the final point of sale.

Key Questions

- **Uniformity across jurisdictions:** Coordinate with other states and stakeholders to determine if uniformity in addressing rounding is necessary. How can states promote consistent rounding practices to ensure customers have a predictable experience and retailers are not burdened by varying point-of-sale calculations?
- **System integration:** Should retailers be encouraged to use unified systems for cash and non-cash payments, or is there a case for allowing separate processes?
- **Tax calculation sequence:** Is it preferable to calculate tax before rounding, and should this be standardized to minimize confusion and administrative complexity?
- **Split tender transactions:** What guidance is needed to ensure that transactions involving both cash and non-cash payments are handled consistently and fairly?
- **Receipts:** What will retailers be required to reflect on receipts and record keeping to document rounding practices and final amounts transacted?

■ FEDERAL ROLE

Consider whether federal legislation and/or executive level guidance is necessary to or if these issues are best addressed at the state level. Lack of clarity here could result in a patchwork of rules, undermining both compliance and public confidence.

States may need to assess the benefits of national consistency against the advantages of state-level innovation and responsiveness.

Key Questions:

- Is there a need for a federal role either through Department of Treasury regulations or federal legislation? If so, how and what form would this take? Would federal legislation impact flexibility and local adaptation?

■ LEGAL AND STATUTORY ADJUSTMENTS

Assess whether legal frameworks are adequate for the transition. Failure to clarify statutory or regulatory authority could expose retailers and consumers to legal risk and complicate tax administration.

Key questions:

- **Statutory or regulatory change:** Will most states require legislative action to authorize rounding, or can regulatory adjustments suffice under existing law?
- **Home rule complications:** How should states address local jurisdictions with independent sales tax authority to avoid conflicting rules?
- **Trust fund nature of sales tax:** How can states ensure that all tax collected—rounded or not—is properly remitted, and that the transition does not become an opportunity to increase tax revenue?
- **Statutory clarity may be needed to protect both retailers and consumers, and to ensure compliance with existing tax obligations.**

■ REVENUE IMPACT AND ALLOCATION

Anticipate and plan for the fiscal impacts of rounding at both the aggregate and individual level. Neglecting these questions could result in disputes over tax liability and the allocation of gains or losses.

Key Questions:

- **Aggregate vs. individual impact:** While rounding may have little net effect at the macro level,



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what mechanisms should address the micro-level impacts on individual vendors or reporting periods?

- **Responsibility for differences:** Who should bear responsibility when rounding results in underpayment or overpayment of tax, and how should any financial benefit or loss be allocated?
- **De minimis rules:** Should states establish thresholds below which minor underpayments are disregarded, and how should overcollections be handled given the trust fund status of sales tax?

■ REFUNDS AND CONSUMER PROTECTIONS

Ensure that consumers have clear avenues for redress and that retailers are not unfairly penalized. Clear, accessible refund processes and robust consumer protections will be important to maintain public trust during the transition. Overlooking these protections could erode public trust and invite litigation.

Key Questions:

- **Refund processes:** Should procedures be in place for customers seeking refunds when rounding results in overpayment? |
- **Consumer protection laws:** Are clarifications needed to ensure that retailers are not penalized for being unable to provide pennies, and that consumers are protected from outcomes perceived or documented as unfair?

■ FORMS, IT SYSTEMS, AND IMPLEMENTATION

States can plan for the operational changes required to implement rounding. Delays or lack of support in updating forms and IT systems could disrupt tax collection and compliance.



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Key Questions:

- **Reporting and compliance:** What changes will be required to tax reporting forms and IT systems to accommodate rounding?
- **Timeline for updates:** What is a reasonable timeline for retailers and state agencies to update point-of-sale and reporting systems, and how can states support this transition?
- **State support:** Will it be necessary to provide technical assistance, standardized signage, and even grants or tax credits to offset the cost of system upgrades?

■ COMMUNICATION, TRAINING, AND COORDINATION

States have the opportunity to prioritize clear communication and training for both the public and retailers. Insufficient outreach could lead to confusion, errors and resistance to the new rules.

Key Questions

- **Public education:** What strategies will ensure that consumers and retailers are well-informed about new rounding rules and procedures?
- **Training:** How can states ensure that both government personnel and retailer staff are adequately trained to administer and explain revised rules?
- **Stakeholder coordination:** What forms of collaboration across federal, state and local governments, as well as with industry and consumer groups, will best support a smooth transition?

■ NETWORK PAYMENT RULES AND COMPLIANCE

States can consider the interaction between rounding rules and existing payment network requirements. Failure to coordinate with payment networks could result in operational or compliance challenges for retailers.

Key Questions:

- **Interaction with payment networks:** How will the removal of the penny interact with existing network payment rules (e.g., Visa, Mastercard), and what updates or carve-outs may be necessary to ensure compliance and operational continuity?
- States and federal agencies may need to engage with payment networks early to address these issues proactively.

■ POLICY DIRECTION AND LEGISLATIVE APPROACH

Weigh the options for rounding frameworks and legislative clarity. Ambiguity in policy direction could result in inconsistent practices and undermine the goals of fairness and administrative simplicity.

Key Questions:

- **Legislative clarity:** Is there a need for explicit legislation to mandate specific practices, or can guidance and administrative rules suffice?
- **Uniformity:** Is uniformity among states necessary to reduce consumer and retail confusion? If so, how is this uniformity best achieved?

CONCLUSION

As states and stakeholders confront the end of penny production, the questions outlined in this brief are not merely technical—they are critical crossroads with far-reaching implications for tax administration, legal risk and the everyday experiences of consumers and retailers. While there are multiple potential routes forward, the evidence suggests that clear, potentially uniform solutions are within reach—solutions that can preserve tax integrity, minimize legal exposure, and reduce undue burdens on all stakeholders. The experiences of Canada and the European Union demonstrate that proactive communication, thoughtful policy design and coordinated implementation can smooth the transition and build public confidence. However, the absence of timely action risks confusion, litigation and inconsistent practices. Policymakers have the opportunity to leverage best practices and stakeholder input to ensure that rounding rules are fair, transparent, and effective.

This policy report was developed by NCSL's State and Local Taxation (SALT) Task Force. The Task Force was created to analyze emerging tax issues and provide guidance to state legislators confronting the complexities of the 21st century economy and consists of legislators, legislative staff, and NCSL Foundation members. Acting in a bipartisan and balanced manner, the task force identifies critical issues legislatures need to address and provides practical guidance to states by developing principles and best practices for tax reform and modernization.

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NCSL Contact:

statefiscal-info@ncsl.org



7700 East First Place, Denver, Colorado 80230, 303-364-7700 | 444 North Capitol Street, N.W., Suite 515, Washington, D.C. 20001, 202-624-5400

ncsl.org

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