

Understanding Electronic Payments

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Credit and debit cards are fast, secure, convenient and affordable payment methods

PAYMENT FORMS: CONSUMER & MERCHANT BENEFITS



For merchants and consumers, when it comes to the costs and benefits of choosing a form of payment, credit and debit cards are the clear-cut winner.

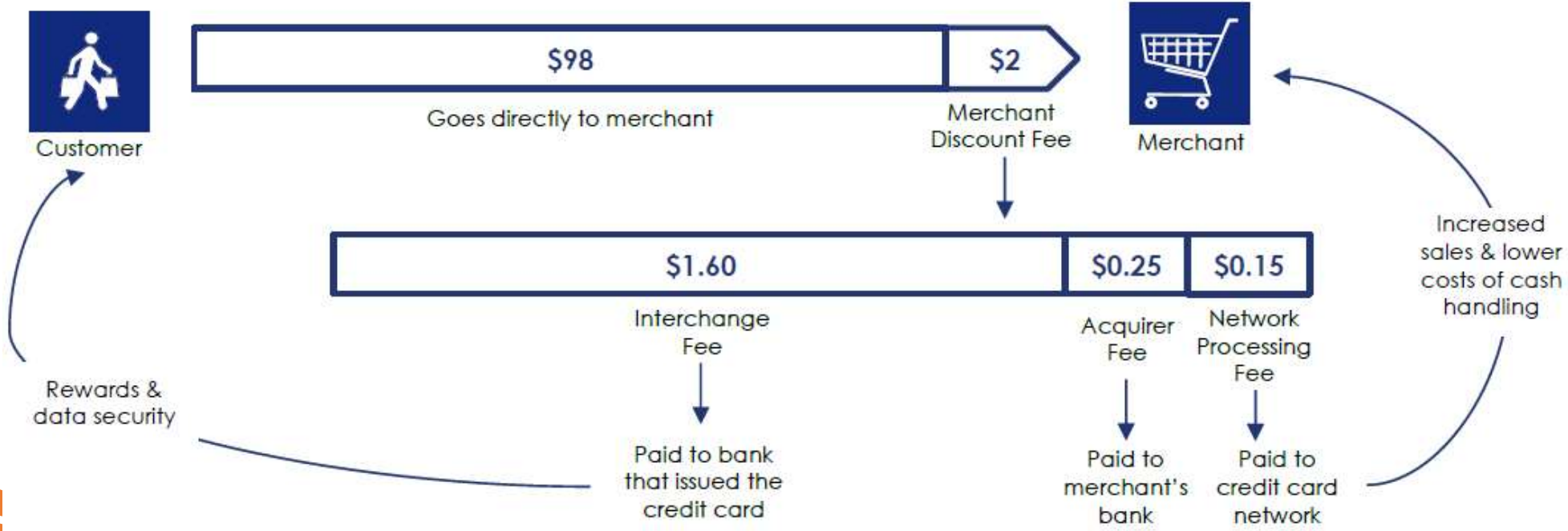
Consumer Benefits				Merchant Benefits			Cost of Merchants	
Digital Access	Security & Fraud Protection	Access to Liquidity	Rewards/ Benefits	E-Commerce Digital Channels	Guaranteed payment	Higher Sales & Faster Checkout	Average Merchant Cost of a \$10 Transaction	
✓	✓	✓	✓	✓	✓	✓	\$1.43-\$2.40	
✓	✓	✓	✓	✓	✓	✓	\$2.50-\$3.50	
✓			✓	✓	✓	✓	\$3.20-\$4.40	
✓			✓	✓	✓	✓	\$3.20-\$3.90	
✓	✓		✓	✓	✓	✓	\$1.43-\$3.50	
✓		✓		✓	✓		\$4.21-\$6.00	
✓		✓		✓	✓		\$3.59-\$5.99	
					✓		\$4.70	
					✓		\$8.30	
					✓		\$9.10	

Note: Apple pay merchant costs are calculated assuming users access the service with either a Visa, Mastercard or Amex branded card. Assuming this, merchants are liable to a cost range between the lowest and highest estimated charge of the three networks

¹IHL Group: Cash Multipliers – How reducing the costs of cash handling can enable retail sales and profit growth (January 8, 2018) <https://www.ihlservices.com/product/costofcash/>

What is interchange?

Interchange is what merchants pay to accept and process credit and debit cards. This amount, ~2% of a credit card purchase, pays for the services credit cards offer, including zero-liability fraud protection, rewards, and instant, hassle-free payments. Interchange is essential to operating the global payments ecosystem. Financial institutions re-invest interchange revenue to ensure continued innovation, efficiency, and safety for customers and businesses, cover fraud and nonpayment risk, and fund popular rewards programs.



Options already exist to recoup this business expense

Offsetting Interchange Expense

- Incorporate into pricing, promotions, sales, etc.
- Cash Discount
- Surcharge for Credit
- Interchange is tax deductible

Recouping Sales Tax Remittance Costs

- 30 Day Float (retailer holds onto sales tax and can earn interest on it)
- Income tax deduction for accounting expenses, software, etc.
- Vendor Collections Allowance / Retailer Discount

▶ Illinois recently changed its “Retailer Discount” from an unlimited 1.75% allowance to 1.75% capped at \$1,000/month. A retailer would need ~\$11MM* in annual taxable sales to reach the cap. That is not a “small” business

* Example is for an Illinois jurisdiction with no local sales tax, i.e. only collecting 6.25% state sales tax. (\$10,971,428 sales @ 6.25% = \$685,714 tax collected. 1.75% holdback is \$12,000 (\$1,000 / month)
For a Chicago business (10.25%) sales tax, cap kicks in at ~\$6.7MM / taxable sales. IL State + local combined average sales tax rate is 8.85%. At 8.85%, cap kicks in at ~\$7.75MM/taxable sales

Unsatisfied with their existing tools, big box retailers are pushing state legislation to exempt sales tax from interchange



State Sales Tax Legislation

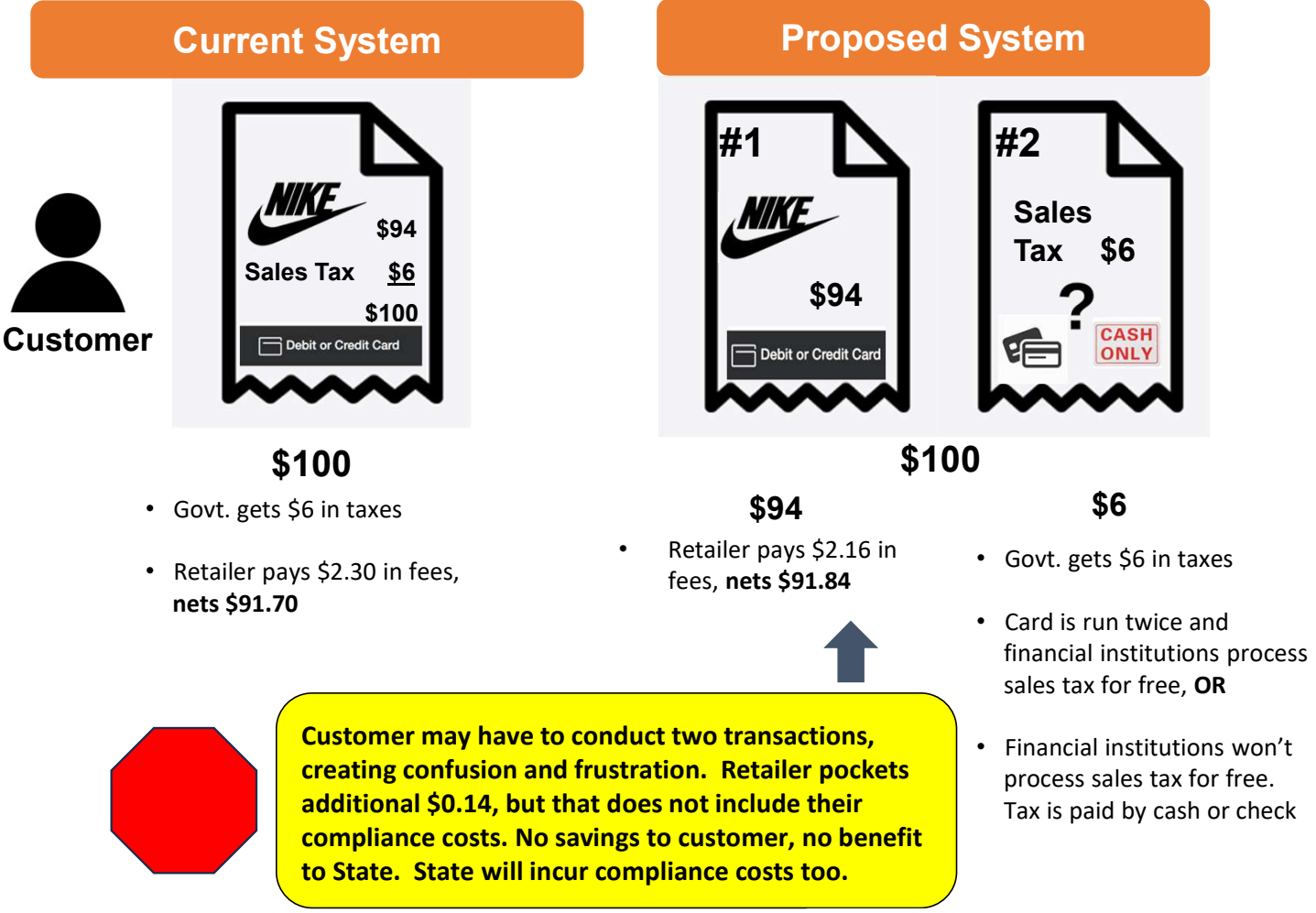


Interchange Fees on Taxes

Legislation would:

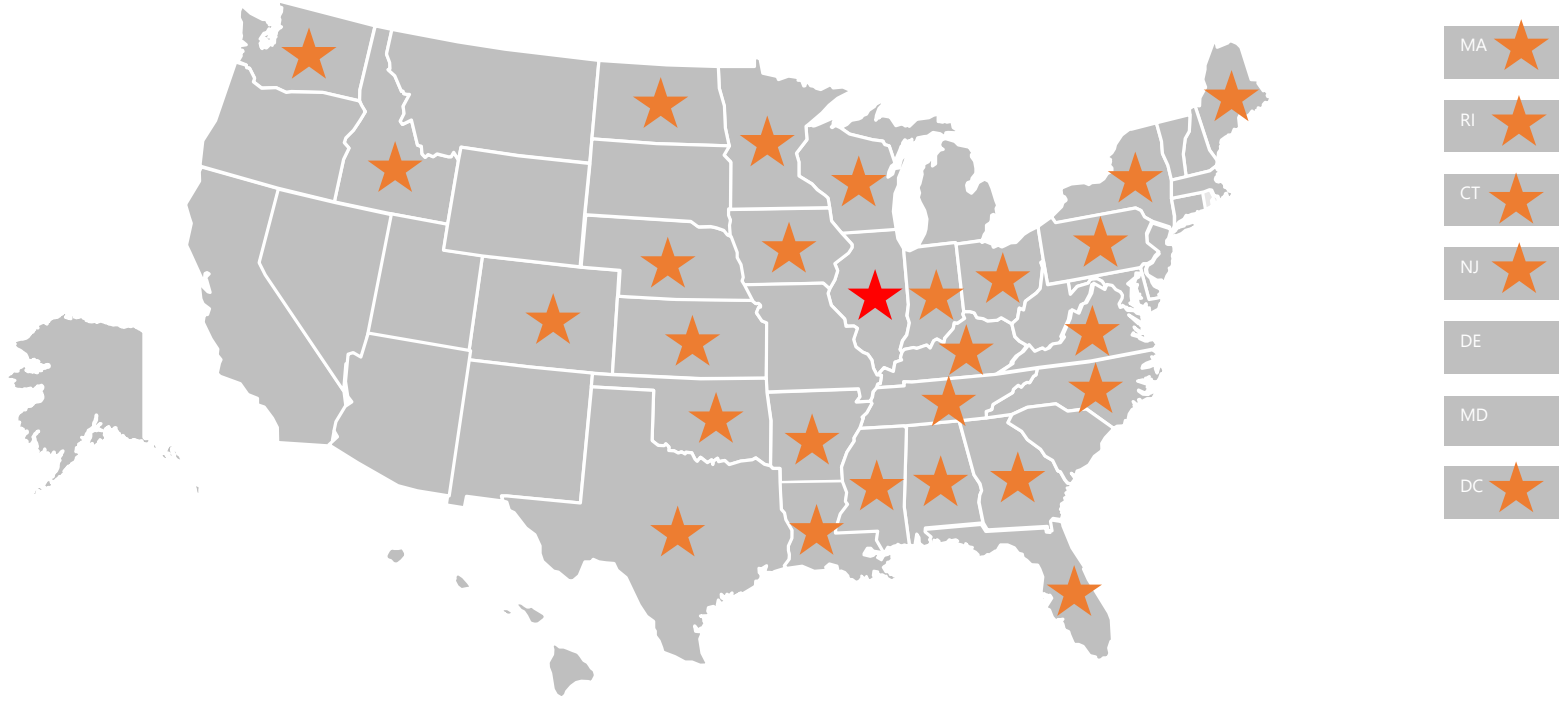
- Prohibit collection of interchange on the state and local tax portions of credit and debit card transactions
- Require a processor to credit back to merchant the interchange fees on taxes
- Extend settlement time for a card transaction to up to 210 days: 180 days for retailer to submit tax documentation, 30 days for card issuer to refund interchange. *Transactions currently settle daily*
- Assess significant and disproportional fines (\$1,000 per occurrence) for minor violations, e.g. failure to refund \$0.01.

Exempting sales tax from interchange creates confusion, inconvenience and costs for customers and small businesses, and only benefits big box retailers



This idea has never become law as stand-alone legislation or in an open and transparent process

States where interchange legislation has failed since 2006: over 60 versions in 31 states



★ Only time this was signed into law (7/1/25 effective date) was when it was inserted into a 1,275-page revenue bill as part of an end of session budget deal made without key stakeholders or legislative process and deliberation.

Avoid Credit Card Chaos: What's at Stake?

1

YOUR PRIVATE PURCHASES ARE NO LONGER PRIVATE

Additional information about your purchases will be shared, reducing the privacy consumers have today.



2

CHAOS AND HASSLE WITH EVERY PURCHASE

Under the proposal, consumers could be forced to pay sales tax in cash or check. Purchases will require two transactions - one for the goods or services and another for taxes. As retailers look to eliminate the hassle of multiple transactions or filing for monthly refunds, some may be forced to require that tax be paid in cash.



3

NEW COSTS FOR SMALL BUSINESSES

Small businesses will bear the cost burden of complying with the new law, whether through the purchase of new equipment or additional time spent collecting paperwork to track transactions.



4

EASY ONLINE SALES NO LONGER AVAILABLE

Vendors selling online could decide doing business in the state is not worth the hassle and expense of complying with this radical change to commerce.



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