

March 23, 2026

ETA Opposition to RI SB 2344

Dear Chair Britto and Distinguished Members of the Committee on Commerce,

On behalf of the Electronic Transactions Association (ETA), the leading trade association representing the payments industry, I appreciate the opportunity to express our concerns regarding SB 2344. Collectively, ETA members process over \$57 trillion annually, operating within an efficient and effective payments system. In Rhode Island, the payments industry provides 5,800 jobs and contributes nearly \$900 million to state GDP. Significant changes, such as those required by SB 2344, are unworkable, pre-empted by federal law, and pose risks to innovation and system security.

The unworkable nature of the proposal is emphasized by over 70 similar proposals to prohibit interchange on the sales tax or gratuity portion of electronic transactions have been considered between 2006 and 2025 and all but one bill, Illinois, has failed to pass their respective state legislature. The Illinois law is currently the subject of a lawsuit being considered by the U.S. Court of Appeals for the Seventh Circuit. It resulted in immediate legal challenges and continued costly litigation.

Examples from other states are outlined further below. The unintended consequences of such a policy change are not fully known but will clearly harm consumers and small businesses. If there are any monetary benefits, it will only accrue to large retailers. In addition, regulating the card networks does not change the fact that this legislation directly interferes with how banks are paid for providing essential payment and credit services.

The Bill Would Harm Consumers: There are numerous ways in which SB 2344 would harm consumers:

- **Impact to Rewards:** Consumers risk losing valuable benefits, such as airline miles, cashback, and loyalty program rewards, which are funded in part by interchange fees.
- **Loss of Privacy:** Implementing this would mandate the acquisition and storage of detailed transaction data, including SKU-level information, by the payments industry. This level of granularity, currently not collected, raises significant privacy concerns for consumers. Each transaction would need to be itemized and audited to ensure compliance with state and local tax requirements, eroding the privacy of individual purchases.
- **Service Disruptions:** Consumers would experience immediate inconveniences and inefficiencies resulting from the disruption of an otherwise efficient and secure payments ecosystem.
- **Checkout Complications:** Consumers may face challenges such as:
 - Inability to use their card for certain transactions.
 - Requirement to pay taxes separately, potentially in cash.

- Slower checkout times and reduced satisfaction, particularly for purchases with varying tax rates (e.g., groceries)
- Although proponents argue that removing sales tax from interchange fees would save consumers money, the opposite is likely. There will be significant costs associated with implementation—such as compliance and technology updates—which are likely to flow directly to consumers through increased prices.

Small Businesses Will be Harmed: The challenge of attempting to comply with the requirements will be felt most by small merchants who need new software and, in most cases, new hardware, requiring a significant investment in order to comply. The ability for small businesses to offer a multitude of payment options is critical to their ability to compete with big-box retailers, give their customers the options they desire, and remain flexible in times of crisis. The state's small businesses would need to spend hundreds of dollars for equipment, testing and reprogramming to comply – time and money that they simply can't afford – dwarfing any reduction in interchange fee.

- **Administrative Costs:** Compliance would require new processes, increased audits, and extensive employee training, further straining small businesses financially and operationally.
- **New Technology:** The current interchange fee model is based on the final purchase amount, without specific data on goods, services, or applicable tax rates. While payment networks have developed advanced tools to aid merchants such as POS systems that calculate and apply tax rates for specialty items, SB 1940 would require entirely new technology and new separate Rhode Island-based payment network separated from the global payment network to capture state sales tax, gratuity amounts, and itemized receipt data.
- **Out-of-State Transactions:** Small businesses would also face additional challenges developing systems to accommodate transactions originating from outside the state.
- **Benefits of Interchange:** Currently, interchange fees support fraud detection and prevention, ensure system reliability, and provide access to critical services that drive customer convenience and satisfaction.
- **Rate Determination:** Interchange rates are market-driven, competitive, and negotiable, enabling businesses to secure terms suited to their needs. Over time, competition has naturally lowered interchange costs, ensuring affordability while supporting the infrastructure necessary for a robust and secure payment system.

Impact to Local Banks and Credit Unions: SB 2344 would hurt Rhode Island chartered banks and credit unions by limiting the amount they can charge to process credit and debit card transactions. The federal court preliminary injunction referenced above resulted in approximately 90% of credit card transactions being excluded from the scope of these legislative bills. The court preliminary injunction means that state-chartered banks and credit unions must comply with the Illinois law, however, putting them at unique disadvantage against their national and out-of-state competitors – a disadvantage these small state financial institutions cannot afford.

Recent State Rejections

- **Colorado:** On April 28, 2025, the Senate Judiciary Committee unanimously rejected HB25-1282, a bill aimed at banning interchange fees on tax portions.
- **California:** On April 21, 2025, the Assembly Banking & Finance Committee voted 0-6 against AB 1065, which included similar provisions.
- **Arizona:** On March 6, 2025, the House of Representatives rejected HB 2629, which included similar restrictions.
- In 2025, similar bills were introduced and rejected in 23 states/territories, including: Alaska, Connecticut, Georgia, Idaho, Indiana, Iowa, Kansas, Louisiana, Maryland, Missouri, New Mexico, New York, North Carolina, Oklahoma, Rhode Island, Tennessee, Texas, Vermont, Washington, Washington, D.C, and Puerto Rico.
- **State Commissions Recommend Alternatives:** After detailed analysis in 2024, the Georgia House of Representatives and the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) concluded that vendor compensation reform, not interchange bans, was the appropriate path forward.

Conclusion: The creation of a Rhode Island-based payment network separated from the global payment network under the requirements would have significant adverse effects on both small businesses and consumers. Small business owners would face substantial financial and operational burdens to comply with the new mandates, while consumers would likely bear the cost of these changes through increased prices and diminished benefits.

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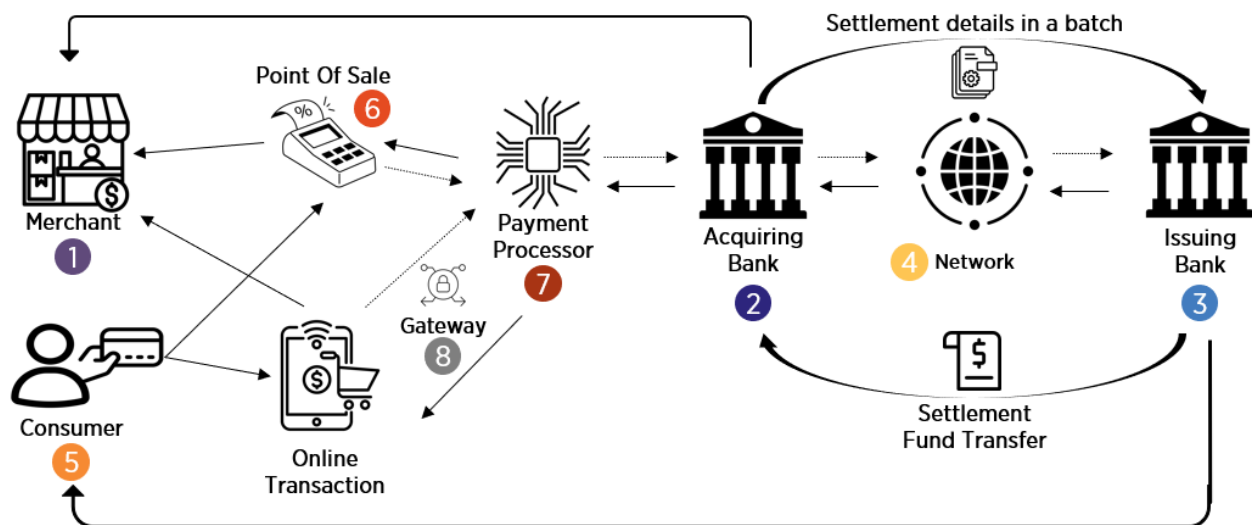
We appreciate you taking the time to consider this important issue. More information on the payments system is located on the next page. If you have any questions or wish to discuss further, please contact me.

Respectfully,

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Overview of The Payments Ecosystem

Summary: The payments industry has remained at the forefront of developing innovative payment technology, providing merchants and consumers with safety, security, speed, and ease for transacting electronic payments, not to mention increasingly numerous options for doing so. These developments are a result of many stakeholders acting seamlessly and in unison across a complex ecosystem that processes payments. Each of the stakeholders below provides valuable and essential services to merchants and/or consumers.



- 1 **Merchants:** provide goods or services and agree to accept credit and/or debit cards according to their merchant and processing agreements with their acquirer; receive payment details through point of sale systems, or online; when a merchant makes a sale using a customer's electronic payment card, the system that processes the transaction recognizes only the final purchase amount on which interchange is based.
- 2 **Merchant acquirers:** provide access to payment networks and presents transaction information from merchants to payment networks.
- 3 **Issuing entities:** financial institution or commercial entity that provides consumers with a payment instrument (such as a credit or debit card).
- 4 **Payment networks:** exchange data between card issuing entities and merchant acquiring entities and settles payments.
- 5 **Consumers:** hold payment instruments and participate in the marketplace.
- 6 **Point of Sale (POS) systems:** electronic equipment used for pricing and recording transactions, which can be in the form of software, hardware, or combination; these systems DO NOT provide detailed transaction information, (e.g., items bought, tax rate), to neither acquirers or card networks.
- 7 **Processors:** provide payment processing across the payment network; may be an acquirer, and may, in some cases, serve both the acquiring and issuing sides of a transaction.
- 8 **Gateways:** an internet-based service that transports credit card information from a computer terminal or website to a credit card processor.