

# INTERCHANGE FEES: HOW PAYMENT NETWORKS ARE CASHING IN ON TAXES AND TIPS

## THE ISSUE: BANKS AND CARD NETWORKS ARE PROFITING OFF RESTAURANTS' LEGAL OBLIGATION TO COLLECT TAXES AND EMPLOYEE TIPS

Restaurants are a cornerstone of Rhode Island's economy. In FY25, Rhode Island restaurants collected \$45.9 million in Meals & Beverage Tax and \$366.9 million in Sales Tax.

Credit card use in the United States is skyrocketing. More than two-thirds of restaurant transactions are made using plastic. Behind the scenes, restaurants are being charged 2-4% in interchange fees assessed by banks and card networks just to process those electronic payments

Overall, **interchange fees are one of the highest costs for restaurants** -often just behind food and labor expenses



## What is an interchange fee?

An interchange fee is the amount paid by a merchant to the consumer's card-issuing bank for every single transaction, and this fee amount is dictated by the two dominant card networks.

## The nitty gritty

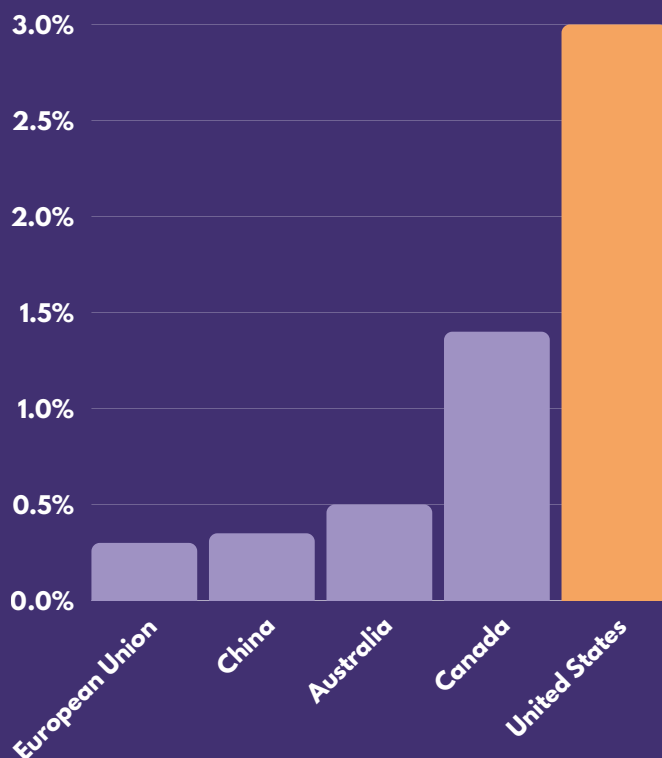
The interchange fees collected on the processing of state and local taxes alone cost businesses an estimated \$7.4B annually, according to CMSPI. However, restaurants remit 100% of taxes to state and local governments as required by law. Since swipe fees are calculated as a percentage of the entire transaction—including taxes—financial institutions are making an unfair commission on the fees they assess on taxes while restaurants often don't recoup any portion of the taxes they collect on behalf of the state.

## It doesn't have to be this way.

Swipe fees are capped at 0.3% in the European Union, 0.35% in China, and 0.5% in Australia, and 1.5% in Canada.

In each of these markets, credit cards are still widely used, fraud protections remain strong, and consumers continue to receive rewards and benefits. Lower interchange caps have not eliminated security or innovation. They have simply created a fairer balance between financial institutions and the businesses that accept their cards.

### Swipe Fees by Country



## Just the facts

Credit card companies argue that the “sky is falling” any time Congress or state legislatures seek to make common-sense changes to swipe fees, and they often offer disingenuous explanations for why things can't change.

### Fact: Customers will see no change in the payment process – still only having to swipe their card once.

The card companies only need to know the total transaction amount including the tax and the tip amounts. From that, they simply subtract the tax and tips and calculate the proper interchange fee. The current processing systems already have the ability to do this. Nothing in the legislation changes the customer experience.

### Fact: Credit card companies and the business owners already have the technology to handle the change in this legislation.

Most states have laws that require state and local sales taxes be separately stated on a customer's invoice, receipt, or charge slip. Therefore, nearly every POS system currently used by restaurant operators contains the software to separately calculate the sales taxes, and of course, tips.

### Fact: This legislation will help small businesses by letting them keep more of their hard-earned profits.

This legislation will not impose significant costs on merchants and will ultimately allow them to keep more of their own revenue. Restaurant POS systems already separate sales and tips, and state law requires sales tax to be itemized on receipts. If necessary, businesses can recover any applicable fees through a rebate or credit process. Ultimately, the choice to pursue these savings rests with the business owner — not the credit card company.

### Fact: This legislation will not be a burden for credit card companies or other financial sector entities.

Credit card companies already provide corporate accounts with the ability to separately report and track “level 2” data, including taxes. In fact, Visa offers a service known as “Visa Spend Clarity” (formerly known as “IntelliLink”) that sells this level 2 data back to merchants. Visa makes clear to merchants that “no special hardware or software is required” for their existing service