June 3, 2024

The Honorable J. B. Pritzker

Dear Governor Pritzker:

We write to you today to request an Executive branch review of Section 150 of H.B. 4951, commonly referred to as the "prohibition of interchange on sales and excise taxes." While this section of great concern does not impact the revenue of the State of Illinois, it does include significant ramifications on Illinois consumers and small business owners.

As passed, this section requires the electronic payment industry to "look inside" all Illinois customer electronic transactions to separate elements of the transaction and distinguish between merchandise or services being purchased and taxes that are legally being imposed by the State of Illinois on those transactions, as well as a narrowly-defined class of gratuities added to transactions.

Although the electronic payment system is remarkably robust, fast, safe, and adaptable, the system has never been used to analyze the separate elements of a customer's purchase. For the system to determine what is taxable, the appropriate rate of that tax, and store that data for system settlement and audit, plus the added element of gratuity data, would require new programing and involve costs in the millions of dollars. **In no jurisdiction in the U.S. or in the world does the electronic payment system differentiate the internal, private elements of a purchase.**

A change to the payment system of this magnitude involving and impacting more than seven million Illinois card holders, hundreds-of-thousands of Illinois merchants, and thousands of card-issuing banks, credit unions, and processors cannot be implemented in a mere 13 months.

Implementation of this act is completely unknown, as it has never been tested anywhere else. A study of this proposal found that implementing a daily sales tax collection system would cost businesses in that state about $1.2 billion in one-time, non-recurring costs and an additional $28 million in annual recurring costs.

The potential implications to the consumer could include requiring two separate transactions, one to pay for merchandise with a credit card and the second to pay taxes with cash or check only. Potential implications to the business owner involve having to install ATM machines for customers to obtain cash in order to comply with this new law. The unknowns are vast and put Illinois consumers and business owners down a dangerous path.

Given these complications, it is quite possible – perhaps even likely – that some card issuing institutions may choose to accept only the merchandise or service portion of purchases and require tax and gratuities to be settled by cash or check. The $1,000.00 per incident penalty will be seen as an unacceptably high risk for inadvertent non-compliance.

As you may be aware, the burden of this revenue reduction falls on issuing institutions, many of which are small and medium-size Illinois banks and credit unions. At a time when they are seriously stressed by decisions made by the Federal Reserve, they will be harmed by this revenue reduction and will be reluctant or unable to help pay for a massive special system for Illinois.

The interchange provisions of this legislation have far-ranging effects on Illinois consumers and businesses, along with Illinois' financial sector. These changes do not raise revenue for our state, and they credit unnecessary barriers to commerce and economic investment in Illinois. For these reasons, we respectfully request a veto of Section 150 of Illinois H.B. 4951.

Sincerely,

ILLINOIS BANKERS®

America's Credit Unions

Illinois Credit Union League

CardCoalition

Community Bankers Association of Illinois®
One Mission. Community Banks.®

EPC Electronic Payments Coalition

IPA
INNOVATIVE PAYMENTS ASSOCIATION