

**Testimony of Linda Smith**  
**Payments Manager, Sheetz, Inc.**

**Before the**  
**House Finance Committee**

**At the Public Remote Hearing on “Excluding from ‘Swipe Fees’ the amount of  
Sales & Use Tax related to electronic payment transactions processed by  
merchants and sellers”**

**December 6, 2023**

As a retailer that collects taxes on behalf of Pennsylvania, I appreciate the opportunity to testify today in support of a policy that would exclude swipe fees from state sales and use tax.

I am testifying today on behalf of Sheetz, where I lead their payments team. Founded more than 70 years ago in Altoona, our mission at Sheetz has always been to meet the needs of our customers and the communities in which we operate. At Sheetz, we want to accept whatever payment method our customers choose to use, however, credit card acceptance is costly for us. Swipe fees represent our second highest operating cost, only second to labor. In fiscal year 2023, Sheetz processed approximately 357MM credit card transactions across our more than 700 locations in six states. The credit card fees associated with these transactions totaled approximately 187MM dollars, with 41.4% of that coming from Pennsylvania, at 78.2 MM dollars. Sheetz estimates the total amount of collected sales tax subjected to swipe fees in 2023 was 157.8MM dollars, with approximately 66.4MM dollars coming from Pennsylvania. The sales tax portion of swipe fees from credit card sales equates to 3.2MM dollars and 1.3MM in from Pennsylvania. So in a nutshell, from our sales in Pennsylvania alone we have paid \$78.2 million in swipe fees this past year, and of that total \$1.3 million was simply from processing sales tax. This does not include the huge sums that come from our fuel transactions.

Before discussing the specific issue at hand, I want to first highlight the broader problem. Retailers in the United States pay the highest swipe fees in the industrialized world, seven times higher than in Europe. This is because the credit card market in our country is fundamentally flawed. There are two dominant payment networks – Visa and Mastercard – who centrally fix the swipe fees their issuing banks charge retailers, like Sheetz. The issuing banks, which compete with each other on other fees and services, will not set their own swipe fees, and instead all of them use the same schedules of prices that are set by Visa and Mastercard. Without the pressures of a competitive marketplace, these fees increase at an astonishing rate year over year, and retailers like Sheetz are powerless to negotiate them.

Ultimately, this system hurts our customers, most of whom are unaware these fees even exist. With retail profit margins on average around 2.5% and swipe fees on average more than 2.2%, retailers cannot afford to absorb these fees and have no option but to pass them through in the form of price. Since credit card swipe fees are a percentage of the total transaction amount, these fees multiply with every cent of inflation – and are charged on every cent of taxes built into transactions. Last year alone, these fees cost households more than \$1,000.

One of the most obvious failures of the current system is the fact that retailers are charged swipe fees on the sales tax portion of the transaction, meaning we pay swipe fees on funds that we do not keep. Sheetz provides a service to the state by collecting taxes, yet the swipe fee system penalizes us for performing this service. When a customer uses a credit card in one of our stores, the bank who issued the card collects a swipe fee from Sheetz off of the total amount, including the sales tax. Since we fully remit sales tax to state and local government, this means we must go into our own pockets to make up for the sales tax that the credit card industry takes away from us during the transaction process.

I believe legislation is needed to help deal with the problems of swipe fees, and you as state lawmakers can make a difference. Prohibiting the charging of swipe fees on the sales tax portion of a transaction makes sense because the electronic processing of a transaction carries the same cost to administer regardless of the total amount of that transaction – they are still just moving electronic messages.

At this point, I would be happy to answer any questions or if time allows, I can address some of the frequent misconceptions and misinformation we have seen associated with this issue.

## **Fraud**

As it relates to fraud, Sheetz and other retailers already pay for the majority of fraudulent transactions that take place. That makes clear that fraud is not a reason to allow the credit card industry to siphon fees off of the tax portion of the transaction. If it turns out that fraud was committed, more often than not, we are paying for it – not the bank.

Retailers cover fraud in the form of “chargebacks” when fraud occurs. A chargeback occurs when the money we were supposed to receive on the transaction is taken away (in other words, charged back). For up to 90 days after a transaction has been approved, the bank can reverse that approval and “chargeback” the funds from the merchant. This happens on the majority of fraudulent credit and debit card transactions. When this happens, Sheetz is out the funds from the bank plus they are out the product that was purchased fraudulently. In addition, Sheetz pays for fraud solutions and spent very large dollars to upgrade our point-of-sale systems to be chip-card compliant. If fraud enters into your consideration of this legislation, it should be because you think the banks should pay merchants because they not only take much more than the cost of

fraud away from merchants in the form of up front swipe fees, but also take those dollars away from the merchant again, after the fact, when fraud occurs. All of this is, in fact, a strong reason to support legislation to prevent fees being charged on taxes. Sheetz already pays multiple times to cover fraud. That should not be a profit center for the credit card industry.

## **Technology**

Arguments you may hear about how difficult it would be to not charge fees on taxes are empty and wrong.

We should be clear that this policy change would not require any new systems or hardware – for banks or retailers. While the processors and banks have said they would need to build new systems to recognize tax amounts at the point of sale, that simply isn't true.

How it works today is that merchants pass 3 data fields – (1) purchase amount, (2) tax amount, and (3) total – to processors, which send that data to the card networks, which determine swipe fee rates. Banks receive settlement of funds, including swipe fees from the network or processor. The networks are receiving the tax amount data because they are determining the swipe fee to charge, meaning it is possible for them to stop charging swipe fees on that amount. Frankly, not charging fees on the tax portion would reduce the steps they take today to complete the transaction.

It's also important to note that this could happen without any effect on the customer. Customers' privacy would be maintained as the only information being passed along is the existing data field provided to the networks which calculate interchange. Item-level data is not shared.

And, if somehow the systems were complicated to implement, legislation addressing this issue could allow the credit card companies to reimburse the fees charged on taxes after the fact as another alternative. This is much like the way a merchant needs to send tax funds to the state after the fact. The credit card companies can certainly do this – and have no problem with after the fact reimbursements when they use it to take money away from merchants (which they do quite often). Settling those amounts later would be perfectly consistent with the way credit card companies already operate.

For more than 70 years, Sheetz has been a valued partner with the state collecting sales tax. However, with the proliferation of credit card payments and under the current swipe fee system, we are now penalized for it. We should not be charged a swipe fee on funds we are not keeping as a business, particularly where those funds are being collected and remitted as a service to Pennsylvania. It is fundamentally unfair, and we hope the Committee will address this longstanding issue through legislation.

Thank you for your time.

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