



# LIZ ORTEGA

Assemblymember, District 20



## AB 1065 FACT SHEET

### Bill Summary

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The State of California requires that businesses collect, account for, and remit state and local sales taxes as a condition of operation and at no cost. But current law allows credit card companies to then charge businesses and their customers a swipe fee on the collection of those taxes. AB 1065 will end this obvious inequity. The bill will also prohibit credit card companies from charging swipe fees on tips.

### Background

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An interchange fee, also known as a swipe fee, is charged to a merchant by a bank or credit card company in exchange for processing credit and debit card payments. As credit and debit card usage has increased, interchange fees have nearly doubled in the last decade.<sup>1</sup> Retailers generally pay between 2% to 4% in swipe fees on a credit card transaction--fees that exceed the retail industry's own average profit margin and must be passed on to customers. In 2021, retailers' credit and debit card processing fees totaled \$137.8 billion, up 25% from the previous year.<sup>2</sup> Visa

and MasterCard are a market duopoly that account for over 80% of all payment processing<sup>3</sup>. Both companies have a net profit margin near 50% compared to the 3-9% average for US retailers and have collectively spent over \$20 million to lobby against any change.<sup>4</sup>

Retailers not only pay swipe fees on the base price of a transaction, but also on the sales tax they are collecting for the state and local government and on the tips they collect for employees. So, while retailers are collecting and remitting sales tax for the state and locality and gratuity for their employees, at the retailers' expense, the credit card companies are making *additional* profits from the tax and tip portion of the receipt. In 2023, California merchants paid \$1.7 billion in swipe fees on sales tax alone.<sup>5</sup>

### Need for AB 1065

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While the rate of inflation has slowed recently, the cost of goods and services continues to rise. The average cost of goods

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<sup>1</sup> [https://merchantspaymentscoalition.com/new-data-shows-banks-triple-dipping-increasing-credit-card-interest-annual-fees-and-swipe-fees#:~:text=Meanwhile%20credit%20card%20swipe%20fees,by%20over%20\\$1%2C000%20a%20ear.](https://merchantspaymentscoalition.com/new-data-shows-banks-triple-dipping-increasing-credit-card-interest-annual-fees-and-swipe-fees#:~:text=Meanwhile%20credit%20card%20swipe%20fees,by%20over%20$1%2C000%20a%20ear.)

<sup>2</sup> <https://www.bankingdive.com/news/retailers-merchants-oppose-banks-request-debit-routing-rule-delay/642862/>

<sup>3</sup> <https://quartr.com/insights/company-research/visa-and-mastercard-the-global-payment-duopoly>

<sup>4</sup> [2023-11-10-Credit-Card-Competition-Act-Opponent-Research-FINAL.docx-1 \(2\).pdf](https://www.opponentresearch.com/2023-11-10-Credit-Card-Competition-Act-Opponent-Research-FINAL.docx-1%20(2).pdf)

<sup>5</sup> [How much interchange was paid on sales tax in the U.S.?](https://www.opponentresearch.com/2023-11-10-Credit-Card-Competition-Act-Opponent-Research-FINAL.docx-1%20(2).pdf)



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and services is now 20% higher than pre-pandemic prices.<sup>6</sup>

Arbitrarily high swipe fees contribute directly to the cost of living and inflation with the average American family paying about \$1,100 per year in swipe fees.<sup>7</sup>

To address these predatory and inflationary swipe fees, AB 1065 will prohibit credit card companies from charging swipe fees on the tax amount or gratuity of an electronic payment transaction.

### **Support**

American Petroleum and Convenience Store Association (Co-sponsor)  
California Grocers Association (Co-sponsor)  
California Fuels and Convenience Alliance (Co-sponsor)

### **For More Information**

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<sup>6</sup> <https://calmatters.org/economy/2024/03/california-inflation/>

<sup>7</sup> <https://nrf.com/media-center/press-releases/retailers-tell-senate-credit-card-swipe-fees-are-adding-inflationary-pressure-to-the-u-s-economy->