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## Proposed Texas Law Will Create Windfall for the Largest Retailers – at the Expense of Everyone Else

*More than 40 percent of any savings from a potential card processing law in Texas will be given away to 20 of the largest retailers in the country — while raising net costs for small businesses.*

### Overview

Interchange, or the amount merchants pay to process credit and debit card transactions, is essential to the secure, smooth operations of the global card payment ecosystem. Interchange enables credit card companies to invest in fraud protection strategies to keep electronic payments secure. Interchange also funds generous reward programs that credit card issuers provide to customers. Laws and proposals that restrict interchange fees on sales taxes are often framed as an opportunity to help businesses of all sizes tasked with collecting sales taxes on behalf of the state. Were Texas to move forward banning interchange on sales tax, a revamped proposal will likely apply to all businesses. These restrictive payment policies reward big retailers, while raising substantial costs for small business that pay state taxes in Texas (of which there are hundreds of thousands). Even if, the proposed legislation created marginal savings for small businesses, it would impose significant implementation costs to upgrade their payment systems – creating net costs – not savings. Consumers are also unlikely to be helped and ultimately may be worse off.

### Methodology & Results

- The calculations base is reported taxable sales by the Texas Comptroller for the most recent trailing twelve months, which is the fourth quarter of 2023 and the first three quarters of 2024, for Retail, Arts & Entertainment, and Leisure & Hospitality, a conservative sizing of overall consumer activity. The combination of these three sectors totaled \$316.4 billion in taxable sales for the twelve-month period.
- The State sales tax rate of 6.25 percent and an effective municipal tax rate of 1.95 percent are applied against the \$316.4 billion taxable sale number to derive total sales tax collections in these sectors of \$25.9 billion.
- National data on share of retail transactions paid by credit and debit cards are applied, followed by average credit and debit interchange percentage fees. The net result is just under \$252 million in total potential savings.
- The determination of the share of sales tax paid by the largest retailers is based on the National Retail Federation's 2024 list of top 100 retailers, narrowed to retailers with operations in Texas and publicly available financial information on domestic sales. Additionally, the calculation relies on data from The Nilson Report and the Federal Reserve to estimate credit and debit interchange fees paid



on sales taxes. The analysis assumes that each company's share of national revenue generated in Texas is proportional to the number of stores within the state. For e-commerce retailers, the assumption is that each company's share of national revenue generated in Texas is proportional to Texas' share of national GDP (9.4 percent).

### **Sales Taxes Collected and Potential Interchange Fee Savings in Retail, Arts & Entertainment, and Leisure & Hospitality**

Total Sales Taxes Collected (billions)	\$25.943	Credit Interchange Fee	1.80%
U.S. Consumer Payment Volume Mix - Credit	39.94%	Debit Interchange Fee	0.73%
US Consumer Payment Volume Mix - Debit	34.46%	All Taxpayers: Credit Interchange Paid off Sales Taxes (millions)	\$186.51
Value of Sales Taxes Made by Credit in (billions)	\$10.36	All Taxpayers: Debit Interchange Paid off Sales Taxes (millions)	\$65.26
Value of Sales Taxes Made by Debit in (billions)	\$8.94	All Taxpayers: Total Interchange Paid off Sales Taxes (millions)	\$251.77

Out of the estimated \$251.8 million reduction in interchange paid by those who pay applicable sales taxes to the State of Texas, twenty of the largest retailers in the country, including Walmart, Amazon, Target, and Home Depot, would receive over 40 percent of the savings, averaging over \$5 million apiece. Large retailers like these would reap most of the interchange savings, leaving a very modest average amount of \$243 for true mom-and-pop style businesses the legislation claims to be helping.

Moreover, because a processing system to comply with the new requirements does not exist, many small firms will face higher costs due to this legislation because they will need to invest in new point-of-sale payment systems (hardware and software) capable of separating the sales tax portion of a transaction from the remaining transaction value (this capability is necessary to charge interchange on one component but not the other). An AI summary via Google of the search term "POS fees comparison 2025" yielded:

#### **POS System Software and Hardware Costs:**

- **Software:**
  - POS software can be offered on a monthly subscription basis (ranging from \$10 to \$250 per month) or as a one-time purchase.
- **Hardware:**
  - Hardware costs can range from \$20 to \$2,000, depending on the complexity and features of the system. This can include POS registers, card readers, and other peripherals.
- **One-time Costs:**
  - Some POS systems have a one-time purchase fee for both hardware and software, ranging from



\$2,000 to \$10,000 or more.

**Other Potential Costs:**

- **Setup and Installation Fees:**
  - Some POS vendors may charge for software installation, hardware setup, and initial employee training.
- **Additional Features:**
  - Businesses may incur additional costs for features like customer loyalty programs, online ordering integration, or advanced inventory management.

**Factors Influencing Costs:**

- **Business Size and Sales Volume:**
  - Larger businesses with higher sales volumes may be eligible for lower transaction fees through bulk discounts or negotiated rates.
- **Number of Locations:**
  - Businesses with multiple locations may need multiple licenses or devices, increasing overall costs.
- **Type of Business:**
  - Different industries may have different pricing structures for POS systems, with restaurants, for example, often needing specialized features and software. Some providers may offer leasing options or bundle hardware with software subscriptions.

**Anticipated Cost of Implementation Will Likely Outweigh Potential Savings for Small Businesses**

Total State Interchange Savings	\$251,767,543
Top 20 Firms Total Savings (40.7 percent)	\$102,143,929
Top 20 Savings per Firm	<b>\$5,107,196</b>
Remaining Savings	\$149,623,613
Remaining TX Sales Taxpayers	614,607
Average Savings per Remaining TX Sales Taxpayer	<b>\$243</b>
Estimated Cost per Remaining TX Sales Taxpayer	<b>(\$2,340)</b>
Net Average Cost per Remaining TX Sales Taxpayer	<b>(\$2,097)</b>

At the largest firms, the additional cost is essentially meaningless to their bottom line given their size. For smaller firms, however, upgrading payment systems and training staff to operate them is a more significant additional financial expense and operational headache. For the sake of argument, assume a smaller retailer takes advantage of a free hardware upgrade in return for a software subscription that accommodates the separation of sales tax, at a cost of \$195 per month. On an annual basis, that translates to an additional cost of \$2,340, just about ten times the average potential savings outlined above.



## Additional Considerations

### *Unlikely Retail Customers Will See Savings*

Beyond the impact outlined above, there should be no expectation that a prohibition on interchange from sales tax will push retailers to pass on savings to their customers in the form of lower prices. After debit card interchange fees were capped in 2011 via the Durbin Amendment, only one percent of merchants reduced their prices in response.<sup>1</sup> Meanwhile, consumers suffered in a variety of ways: the disappearance of debit card rewards programs, decreased availability of free checking accounts, higher minimum balance requirements, and higher fees as banks took steps to offset the impact of the regulation.<sup>2</sup> There is no reason to believe retailers will respond differently if this type of legislation became law in Texas, but issuers would have less revenue from interchange payments to fund rewards programs and other critical services. Currently, pending legislation in Texas (HB 4061 and SB 2056) could create additional challenges for small businesses throughout the state. At present, every small business has one agreement that provides universal access to all credit cards used by consumers. However, these bills would require each business to negotiate individual agreements with each of the 280 banks worldwide subject to the proposed law whose credit cards are accepted in Texas, costing time and money. Not only does this impact Texans, but also tourists or anyone traveling through Texas. For example, this would also mean the clerks at every store would have to know whether their business had the ability to do business with certain credit card holders. While large businesses probably have the manpower and resources to negotiate these, small mom and pop businesses will suffer.

## Conclusion

These interchange restrictions clearly reward large retailers, not small businesses or Texas consumers. A proposed Texas law that restricts interchange on sales taxes would be a windfall for large retailers that would receive a disproportionate share of the benefits. Some small firms could eventually see modest savings, but only after absorbing significant new costs well beyond the savings, and all would be forced to navigate an untested and unnecessarily complicated payment processing system. Further, the loss of interchange revenue that results from this law may trigger pricing changes elsewhere in the electronic payments industry that ultimately harm small businesses, similar to what happened after the Durbin Amendment was implemented. On balance, the benefits are highly concentrated, at the expense of the vast majority of small firms in consumer sectors that pay State of Texas sales tax.

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<sup>1</sup> Federal Reserve Bank of Richmond (2014), "[The Impact of the Durbin Amendment on Merchants: A Survey Study](#)."

<sup>2</sup> Ibid