~~Myth~~ vs. Fact:

Understanding the Impact of **AB 1065** on Payment Processing

FACT

~~Myth #1:~~ **Credit card companies unfairly profit from interchange fees on sales tax and gratuities.**

MYTH

~~Fact:~~ Interchange fees support the entire payment infrastructure, including fraud prevention, cybersecurity, and transaction processing. Taxes and tips are part of the total transaction amount ~~and processing~~ them carries the same risks and costs as the rest of the purchase. Interchange fees are ~~not~~ ~~a~~ "profit grab" but a necessary part of maintaining a secure, efficient, and widely accepted payment system. ~~Sales tax~~ and gratuities are processed as part of the total transaction amount, which incurs the same risks and costs as the base purchase. Eliminating interchange on portions of a transaction ignores the operational reality of how electronic payments work. Card networks and banks assume financial risk on every transaction, whether it's the product cost, tax, or tip. Chargebacks, fraud, and payment reversals affect the full amount processed. Interchange funds fraud prevention, cybersecurity, dispute resolution, and infrastructure maintenance—all of which apply to every dollar in a transaction, including taxes and gratuities. Card networks and banks assume financial risk on every transaction, whether it's the product cost, tax, or tip. Chargebacks, fraud, and payment reversals affect the full

FACT

~~Myth #2:~~ **Interchange costs are arbitrarily high and drive inflation.** 80% PROFIT MARGIN FOR VISA + MASTERCARD

MYTH

~~Fact:~~ Interchange fees have been the same for the past decade while inflation has increased. The rate is based on market factors, transaction risk, and the need for secure payment processing. These fees enable consumers to enjoy fraud protection, zero-liability policies, and the convenience of electronic payments. The primary drivers of inflation are supply chain costs, labor shortages, and economic conditions—not card processing costs. For the seven years, interchange fees have remained flat, while consumer prices have increased. Interchange fees have nothing to do with inflation.

FACT

~~Myth #3:~~ **Interchange fees have skyrocketed in recent years, burdening merchants and consumers.** ← $1,200/YR PER FAMILY

MYTH

~~Fact:~~ While total interchange revenue has increased due to the rise in electronic payments, the actual interchange rates have remained relatively stable over time. The increase in total payment processing cost paid by merchants is largely due to the higher volume of credit and debit card transactions and increase in cost, not rising rates. More consumers are choosing digital payments over cash, and businesses benefit from the security and convenience of accepting cards. The average interchange rate has been approximately 2 percent over the past 10 years. If merchants are paying more in fees it is because their prices have increased- 2 percent of a $4.00 carton of eggs is .08 cents but 2 percent of a $7.00 carton of eggs is .14 cents. The interchange fee is still 2 percent in either scenario. Compared to the average cost of handling cash for transactions which is 9.1 percent, credit card usage actually saves merchants' money.

2% = $ BILLIONS

FACT

~~Myth #4:~~ **Small businesses are being exploited by interchange fees.**

MYTH

~~Fact:~~ Small businesses benefit from electronic payments, which reduce cash-handling risks, minimize fraud, and attract more customers who prefer digital transactions. A well-regulated interchange system ensures that businesses of all sizes have access to secure, reliable payment processing services. ~~Some retailers choose to offer~~ cash discounts or minimum purchase requirements to offset card processing costs. Merchant's can encourage debit card transactions, or tap-to-purchase transactions to reduce fraud cost. ~~Additionally~~, these businesses can NOT negotiate lower pricing with their payment processors to reduce their cost! The payment processing industry is competitive, with multiple card networks, banks, and fintech companies offering various pricing models. NOT Merchants who are unhappy with their costs can move to a different payment processor- there are hundreds of payment processors that provide businesses with the necessary infrastructure to accept card payments.?

VISA + MASTERCARD OWN 80% OF THE MARKET

CALIFORNIA BANKERS ASSOCIATION

California CREDIT UNION LEAGUE

CCBN California Community Banking Network