

February 25, 2026

**The Honorable Chair Cummings
Senate Committee on Finance
115 State Street
Montpelier, VT 05633-5301**

Re: Opposition to Interchange Restrictions

Dear Chair Cummings and Distinguished Members of the Committee:

On behalf of the Electronic Transactions Association (ETA), the leading trade association representing the payments industry, I write to express our opposition to proposals that would prohibit interchange fees on the sales tax portion of electronic transactions.

ETA members process more than \$57 trillion annually, supporting a secure, efficient, and globally integrated payments system relied upon by consumers and businesses of all sizes. While well intentioned, interchange restrictions are:

- **Legally vulnerable**
- **Operationally unworkable**
- **Harmful to consumers and small businesses**

The Only Enacted Law Is Under Active Federal Litigation

Illinois is currently the only state to enact a law of this type, and it is being challenged in federal court in *Illinois Bankers Association v. Raoul*. The case presents fundamental questions regarding federal preemption under the National Bank Act and related statutes governing national banks and interstate payment networks.

Interchange is part of a nationally uniform payments framework operating across state lines. Courts have consistently held that states may not regulate core banking activities in ways that conflict with federal law or materially interfere with federally granted powers. By dictating how federally authorized financial institutions price and process transactions, interchange bans directly implicate these preemption principles.

The Illinois decision is now under appellate review, and the outcome will have nationwide implications. Enacting similar legislation would only invite immediate legal challenges, creating:

- Significant litigation costs
- Implementation delays and possible injunctions

- Regulatory uncertainty for merchants and consumers

Rather than providing clarity or relief, such measures risk years of costly legal dispute.

Operational and Economic Consequences

Beyond the serious legal concerns, interchange restrictions are technologically impractical. The current system calculates interchange on the final transaction amount and does not collect item-level or tax-specific data. Prohibiting interchange on sales tax would require new infrastructure and effectively create a state-specific overlay to the national payments system.

Consumers would likely experience higher prices, reduced rewards, slower checkout processes, and expanded data collection. Small businesses would face new hardware, software, compliance, and training costs that could exceed any potential savings.

Conclusion

For these reasons — particularly the substantial federal preemption concerns and the ongoing appellate litigation that may invalidate the only enacted law of this type — ETA respectfully urges you to oppose interchange restrictions. Advancing legislation subject to significant constitutional challenge would expose the state to protracted litigation and disrupt a payments system that consumers and small businesses rely upon every day. We encourage policymakers to pursue solutions that preserve legal certainty, competition, innovation, security, and consumer choice.

Thank you for your time and consideration.

Respectfully,

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