Proposed Tennessee Bill to Remove Sales Tax in Calculation of Interchange Fees

Jan 29, 2021

Categories:

Blockchain and Digital Assets
Blogs

Authors:

Courtney Rogers Perrin
Blake C. Bars

In most cases, Tennessee merchants – and customers – pay processing fees on the total amount of a credit or debit card transaction, including the sales tax. However, a recent bill could change that.

Under House Bill 0375, state and local taxes and fees are excluded from the calculation of interchange fees collected by payment card networks for credit and debit card transactions. This means that processing fees would be calculated only on the sales portion of the transaction, and the state and local taxes and fees would not be included in the processing fee calculation.

Under the proposed bill, a payment card network would have two choices:

- Deduct the amount of any tax imposed on the calculation of interchange fees at the time the transaction settles; or
- Rebate the amount attributable to the interchange fee assessed on the tax or fee.

In either case, the deduction or rebate is intended to occur simultaneously with the transaction settlement. In the event the merchant is unable to capture and transmit tax or fee amounts when the sale occurs, the payment card network must provide a rebate promptly upon receiving proof of the tax or fee amounts from the merchant. The bill also provides that any violation of these provisions by a payment card network could be assessed a fine of up to $1,000 per violation.

If passed, the Tennessee bill will take effect July 1, 2021. Similar bills are pending in Mississippi and Oklahoma. If you have questions about the proposed legislation and how it could impact your business, please contact Howard Herndon or Courtney Rogers Perrin at Frost Brown Todd.