

THE ECONOMIC IMPACT OF RESTRICTING INTERCHANGE FEES IN IOWA

AN ANALYSIS OF IOWA'S HSB 324

AUTHORS: ZACHORY MILNE, ANDRZEJ WIECIORKOWSKI, AND BEN MURREY

Prohibiting interchange fees on the tax portion of transactions would deliver small, uneven savings concentrated among large retailers while imposing system-wide implementation costs, reducing cardholder benefits, and producing net losses to Iowa jobs, GDP, and personal income.



What Restricting Interchange Would Do in Iowa

Iowa House Study Bill 324 prohibits issuers, payment card networks, acquirer banks, and processors from receiving or charging interchange fees on the tax portion of electronic payment transactions. This includes sales and use taxes, hotel and motel taxes, local option taxes, automobile rental taxes, equipment taxes, water service taxes, fuel excise taxes, and cigarette and tobacco taxes. Violations carry a \$1,000 per-transaction civil penalty against payment card networks.

Key Findings

Savings are small. On approximately \$57.4 billion in Iowa taxable sales in 2025, prohibiting interchange on the tax portion yields roughly **\$36.2 million** in total statewide merchant savings—just 0.06% of total taxable sales.

Benefits concentrate among large retailers.



Average annual savings total just **\$220** per location when spread across the 165,156 Iowa businesses that collect sales taxes.



A retailer must make at least **\$344,000** in annual taxable sales to see average savings.



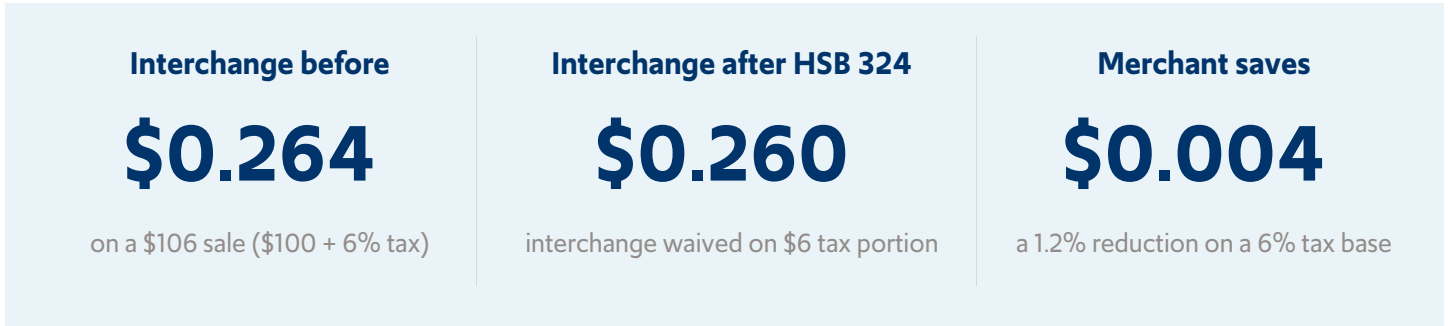
CSI estimates 8.5% of retailers would realize about 65% of the savings from the bill.

Implementation costs exceed the savings. At an estimated \$500 per location to upgrade POS hardware and back-end systems, total merchant implementation costs approach **\$82.6 million** in Iowa.

The economic impact exceeds the cost. In its first year, the economic output loss of \$67 million is nearly double the \$36.2 million in annual interchange savings merchants would realize under the law.

Merchant Savings Are Concentrated among Big Businesses

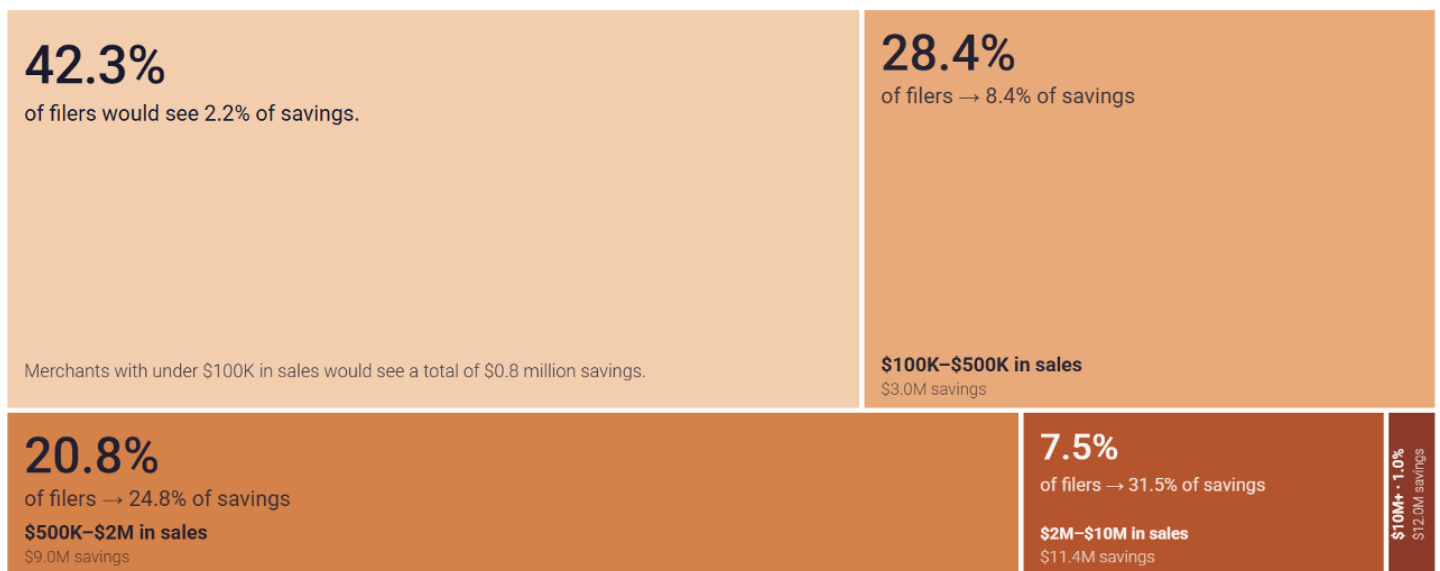
Interchange schedules include both a percentage component and a fixed per-transaction fee. HSB 324 would prevent only the percentage-based component of an interchange fee from being charged on the tax portion of a card transaction. A standard \$106 transaction (\$100 purchase plus 6% sales tax) illustrates the effect:



The 1.2% reduction in merchant interchange costs is far smaller than the 6% tax rate being exempted. Because the fixed per-transaction fee dominates the interchange bill for smaller tickets, savings concentrate among the largest retailers:

Projected Annual Merchant Savings from Interchange Exemption, by Retailer Size

Share of Iowa sales-tax filers by annual taxable sales tier · Area proportional to filer count



■ \$10M+ ■ \$2M-\$10M ■ \$500K-\$2M ■ \$100K-\$500K ■ Under \$100K

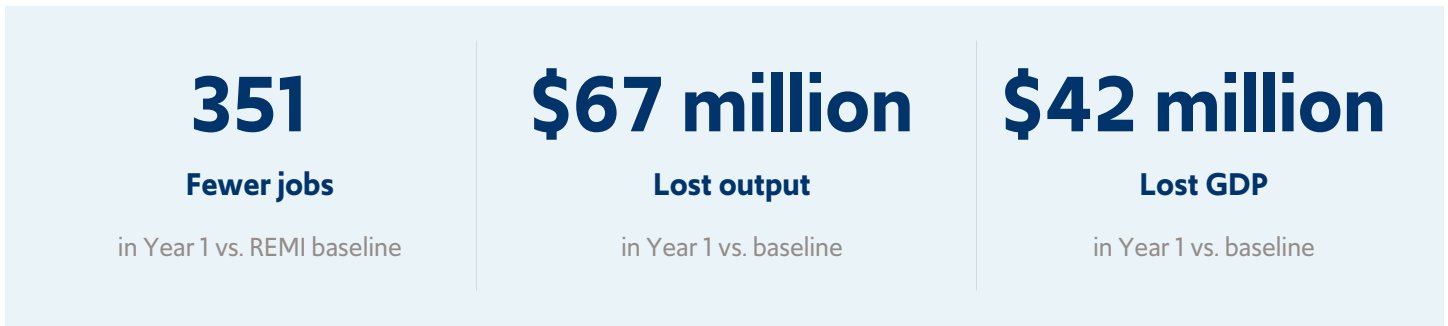
Bottom 2 tiers: 71% of filers, capture only 11% of savings

Source: Iowa Dept. of Revenue, Retail Sales and Use Taxes Annual Report FY 2025 (Table 5), Feb. 2026. Savings shares allocated proportionally to taxable sales against \$36.2M total statewide savings estimate using the regulated debit interchange rate (\$0.21 + 0.05% of transaction value).

HSB 324 would benefit a few large retailers the most. CSI estimates 8.5% of retailers would realize about 65% of the savings from the bill. The 42.3% of filers with less than \$100,000 in annual taxable sales would collectively receive only 2% of the savings. The merchant with \$100,000 in taxable sales would save an estimated \$64 annually.

Projected Economic Impacts on Iowa in Year 1

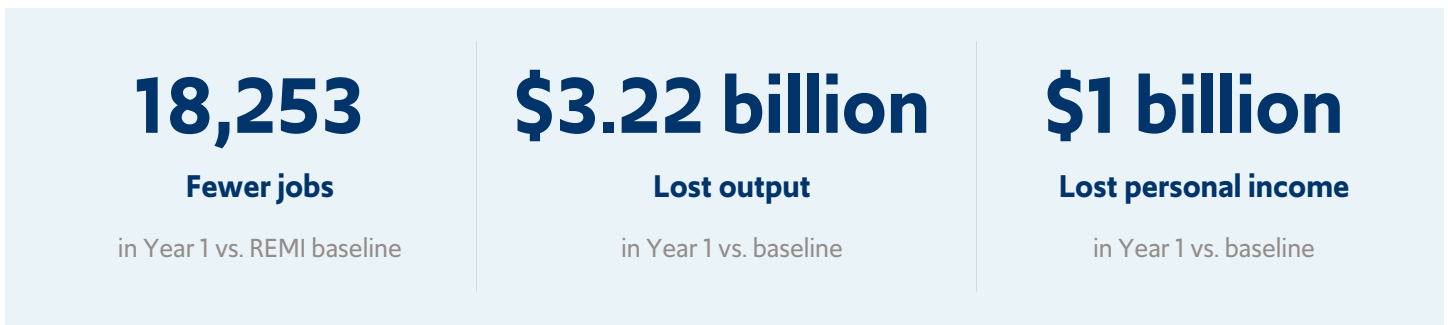
Using REMI Tax-PI+ dynamic macroeconomic modeling, CSI projects the following first-year impacts of a HSB 324-style restriction on Iowa's economy, relative to the model's baseline:



Personal income declines by \$26 million in year 1 relative to baseline, with losses concentrated in industries tied to consumer spending and business investment. The single-year output loss alone exceeds \$36.2 million—the total annual savings merchants would realize under the bill.

Projected Impact If the Bill Proves Unworkable

The first simulation assumes the bill can be implemented as written and that the payment ecosystem adapts at the assumed costs. That is a generous assumption. HSB 324 imposes state-specific requirements on a payment system engineered to operate globally. If compliance proves infeasible, card issuers and networks may curtail services in Iowa rather than reengineer their systems for a single state. Applying a 5% reduction to card-based personal consumption expenditure and shifting the remaining 95% to other payment methods produces the following first-year impact:



The labor force would shrink by 4,210 and population would fall by 6,007 as workers relocate. First-order merchant savings of \$36.2 million annually are trivial compared to the losses Iowa would sustain if card acceptance were meaningfully disrupted.